

ILLINOIS TOOL WORKS INC  
Form 10-K  
February 17, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 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 No.)**

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3600 W. Lake Avenue, Glenview, Illinois  
(Address of Principal Executive Offices)

60026-1215  
(Zip Code)

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---------------------|---|
| Common Stock        | New York Stock Exchange                   |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

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

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. (Check one):

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 aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2011 was approximately \$23,100,000,000 based on the New York Stock Exchange closing sales price as of June 30, 2011.

Shares of Common Stock outstanding at January 31, 2012: 483,773,784.

**Documents Incorporated by Reference**

Portions of the 2012 Proxy Statement for Annual Meeting of Stockholders to be held on May 4, 2012.

Part III

**PART I**

**ITEM 1. Business**

**General**

Illinois Tool Works Inc. (the Company or ITW ) was founded in 1912 and incorporated in 1915. The Company is a multinational manufacturer of a diversified range of industrial products and equipment with operations in 58 countries. These businesses are internally reported as 52 operating segments to senior management. The Company's 52 operating segments have been aggregated into the following eight external reportable segments:

**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:

plastic and metal 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.

**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.

**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.

**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.

**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.

**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.

**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.

**All Other:** This segment includes 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

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

### **80/20 Business Process**

A key element of the Company's business strategy is its continuous 80/20 business process for both existing businesses and new acquisitions. The basic concept of this 80/20 business process is to focus on what is most important (the 20% of the items which account for 80% of the value) and to spend less time and resources on the less important (the 80% of the items which account for 20% of the value). The Company's operations use this 80/20 business process to simplify and focus on the key parts of their business, and as a result, reduce complexity that often disguises what is truly important. The Company's operations utilize the 80/20 process in various aspects of their business. Common applications of the 80/20 business process include:

Simplifying product lines by reducing the number of products offered by combining the features of similar products, outsourcing products or, as a last resort, eliminating low-value products.

Segmenting the customer base by focusing on the 80/20 customers separately and finding alternative ways to serve the 20/80 customers.

Simplifying the supplier base by partnering with 80/20 suppliers and reducing the number of 20/80 suppliers.

Designing business processes, systems and measurements around the 80/20 activities.

The result of the application of this 80/20 business process is that the Company has over time improved its long-term operating and financial performance. These 80/20 efforts can result in restructuring projects that reduce costs and improve margins. Corporate management works closely with those businesses that have operating results below expectations to help those businesses better apply this 80/20 business process and improve their results.

### **Acquisitions and Divestitures**

As part of the Company's ongoing strategy, the Company acquires businesses with complementary products and services as well as larger acquisitions that represent potential new platforms. Refer to the Acquisitions note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's acquired businesses.

The Company periodically reviews its operations for businesses which may no longer be aligned with its long-term objectives. Refer to the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

### **Current Year Developments**

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.



## Financial Information about Segments and Markets

Segment and operating results are included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Segment Information note in Item 8. Financial Statements and Supplementary Data.

The principal end markets served by the Company's eight segments by percentage of revenue are as follows:

| End Markets Served            | Power Systems & Electronics |             | Industrial Packaging | Food Equipment | Construction Products | Polymers & Fluids |          | Decorative Surfaces | All Other | Total Company |
|-------------------------------|-----------------------------|-------------|----------------------|----------------|-----------------------|-------------------|----------|---------------------|-----------|---------------|
|                               | Transportation              | Electronics |                      |                |                       | Fluids            | Surfaces |                     |           |               |
| Commercial Construction       | 1%                          | 4%          | 6%                   |                | 22%                   | 11%               | 55%      | 1%                  | 8%        |               |
| Residential Construction      |                             |             | 2                    |                | 44                    | 2                 | 14       |                     | 6         |               |
| Renovation Construction       |                             |             |                      |                | 26                    | 2                 | 30       |                     | 5         |               |
| General Industrial            | 4                           | 43          | 26                   | 1              | 4                     | 31                | 1        | 22                  | 18        |               |
| Automotive OEM/Tiers          | 56                          | 4           | 1                    |                |                       | 3                 |          | 4                   | 12        |               |
| Automotive Aftermarket        | 31                          | 1           |                      |                |                       | 7                 |          |                     | 6         |               |
| Food Institutional/Restaurant |                             |             |                      | 43             |                       | 1                 |          |                     | 5         |               |
| Food Service                  |                             |             |                      | 36             |                       | 2                 |          | 3                   | 5         |               |
| Food Retail                   |                             |             | 1                    | 16             |                       |                   |          | 3                   | 2         |               |
| Consumer Durables             | 1                           | 3           | 3                    |                | 2                     | 4                 |          | 15                  | 4         |               |
| Food & Beverage               |                             |             | 13                   |                |                       | 2                 |          | 21                  | 6         |               |
| Electronics                   |                             | 17          | 1                    |                |                       | 1                 |          | 2                   | 3         |               |
| Primary Metals                |                             | 3           | 21                   |                |                       | 1                 |          | 2                   | 4         |               |
| Other                         | 7                           | 25          | 26                   | 4              | 2                     | 33                |          | 27                  | 16        |               |
|                               | 100%                        | 100%        | 100%                 | 100%           | 100%                  | 100%              | 100%     | 100%                | 100%      |               |

Other includes several end markets, some of which are maintenance, repair and operations, or MRO, paper products, and printing and publishing.

The Company's businesses primarily distribute their products directly to industrial manufacturers and through independent distributors.

## Backlog

Backlog generally is not considered a significant factor in the Company's businesses as relatively short delivery periods and rapid inventory turnover are characteristic of most of its products. Backlog by segment as of December 31, 2011 and 2010 is summarized as follows:

| In Thousands                | 2011                | 2010                |
|-----------------------------|---------------------|---------------------|
| Transportation              | \$ 373,000          | \$ 315,000          |
| Power Systems & Electronics | 245,000             | 180,000             |
| Industrial Packaging        | 151,000             | 117,000             |
| Food Equipment              | 213,000             | 204,000             |
| Construction Products       | 32,000              | 33,000              |
| Polymers & Fluids           | 55,000              | 60,000              |
| Decorative Surfaces         | 31,000              | 26,000              |
| All Other                   | 391,000             | 366,000             |
| <b>Total</b>                | <b>\$ 1,491,000</b> | <b>\$ 1,301,000</b> |

Backlog orders scheduled for shipment beyond calendar year 2012 were not material as of December 31, 2011.



The information set forth below is applicable to all industry segments of the Company unless otherwise noted:

### **Competition**

With operations in 58 countries, the Company offers a wide range of products in a myriad of markets, many of which are fragmented, and we encounter a variety of competitors that vary by product line, end market and geographic area. Our competitors include many regional or specialized companies, as well as large U.S. and non-U.S. companies or divisions of large companies. Each of our segments generally has several main competitors and numerous smaller ones in most of their end markets and geographic areas. In addition to numerous smaller regional competitors, the welding business in the Power Systems & Electronics segment competes globally with Lincoln Electric and the Decorative Surfaces segment competes globally with the Formica Group.

In virtually all segments, we compete on the basis of product innovation, product quality, brand preference, service delivery and price. Technical capability is also a competitive factor in most of our segments. We believe that for each of our segments, our primary competitive advantages derive from our decentralized operating structure, which creates a strong focus on end markets and customers at the local level, enabling our businesses to respond rapidly to market dynamics. This structure enables our business units to drive operational excellence utilizing our 80/20 business process and leverages our product innovation capabilities. We also believe that our global footprint is a competitive advantage in many of our markets, especially in our Transportation and Decorative Surfaces segments.

### **Raw Materials**

The Company uses raw materials of various types, primarily steel, resins, chemicals and paper, that are available from numerous commercial sources. The availability of materials and energy has not resulted in any significant business interruptions or other major problems, and no such problems are currently anticipated.

### **Research and Development**

Developing new and improved products, broadening the application of established products, and continuing efforts to improve and develop new methods, processes and equipment all contribute to the Company's organic growth. Many new products are designed to reduce customers' costs by eliminating steps in their manufacturing processes, reducing the number of parts in an assembly or by improving the quality of customers' assembled products. Typically, the development of such products is accomplished by working closely with customers on specific applications. Research and development expenses were \$242,979,000 in 2011, \$213,339,000 in 2010 and \$191,859,000 in 2009.

### **Intellectual Property**

The Company owns approximately 3,800 unexpired U.S. patents and 8,500 foreign patents covering articles, methods and machines. In addition, the Company has approximately 1,700 applications for patents pending in the United States Patent Office and 5,000 pending in foreign patent offices, but there is no assurance that any of these patents will be issued. The Company maintains an active patent department for the administration of patents and processing of patent applications.

The Company believes that many of its patents are valuable and important; however, the expiration of any one of the Company's patents would not have a material effect on the Company's results of operations or financial position. The Company also credits its leadership in the markets it serves to engineering capability; manufacturing techniques; skills and efficiency; marketing and sales promotion; and service and delivery of quality products to its customers.

In addition to patents, many of the Company's products and services are sold under various owned or licensed trademarks, which are important to the Company in the aggregate. Some of the Company's more significant trademarks include ITW, which is also used in conjunction with many of its businesses; Deltar and Shakeproof in the Transportation segment; Signode in the Industrial Packaging segment; Miller in the Power Systems & Electronics segment; Hobart in the Food Equipment segment; Paslode in the Construction Products segment; and Wilsonart in the Decorative Surfaces segment.

### **Environmental**

The Company believes that its manufacturing plants and equipment are in substantial compliance with all applicable environmental regulations. Additional measures to maintain compliance are not expected to materially affect the Company's capital expenditures, competitive position, financial position or results of operations.

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Various legislative and administrative regulations concerning environmental issues have become effective or are under consideration in many parts of the world relating to manufacturing processes and the sale or use of certain products. To date, such developments have not had a substantial adverse impact on the Company's revenues or earnings. The Company has made considerable efforts to develop and sell environmentally compatible products.

## Employees

The Company employed approximately 65,000 persons as of December 31, 2011 and considers its employee relations to be excellent.

## International

The Company's international operations include subsidiaries and joint ventures in 57 foreign countries on six continents. These operations serve such end markets as construction, general industrial, automotive, food institutional/restaurant and service, food and beverage, electronics, consumer durables, primary metals, and others on a worldwide basis. The Company's revenues from sales to customers outside the United States were approximately 59% of revenues in 2011, 58% of revenues in 2010 and 58% of revenues in 2009.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Segment Information note in Item 8. Financial Statements and Supplementary Data for additional information on international activities. International operations are subject to certain risks inherent in conducting business in foreign countries, including price controls, exchange controls, limitations on participation in local enterprises, nationalization, expropriation and other governmental action, and changes in currency exchange rates. Additional risks of our international operations are described under Item 1A. Risk Factors.

## Executive Officers

Executive Officers of the Company as of February 17, 2012 were as follows:

| Name                   | Office   | Age |
|------------------------|--|-----|
| Sharon M. Brady        | Senior Vice President, Human Resources             | 61  |
| Timothy J. Gardner     | Executive Vice President                           | 56  |
| Maria C. Green         | Senior Vice President, General Counsel & Secretary | 59  |
| Craig A. Hindman       | Executive Vice President                           | 57  |
| Ronald D. Kropp        | Senior Vice President & Chief Financial Officer    | 46  |
| Roland M. Martel       | Executive Vice President                           | 57  |
| Steven L. Martindale   | Executive Vice President                           | 55  |
| Sundaram Nagarajan     | Executive Vice President                           | 49  |
| Christopher O. Herlihy | Executive Vice President                           | 48  |
| David C. Parry         | Vice Chairman                                      | 58  |
| E. Scott Santi         | Vice Chairman                                      | 50  |
| Randall J. Scheuneman  | Vice President & Chief Accounting Officer          | 44  |
| David B. Speer         | Chairman & Chief Executive Officer                 | 60  |
| Juan Valls             | Executive Vice President                           | 50  |
| Jane L. Warner         | Executive Vice President                           | 65  |

The executive officers of the Company serve at the pleasure of the Board of Directors. Except for Ms. Green, Ms. Warner and Messrs. Gardner, Martindale, Nagarajan, O. Herlihy, Scheuneman and Valls, each of the foregoing officers has been employed by the Company in various elected executive capacities for more than five years. Ms. Green was elected Senior Vice President, General Counsel & Secretary of the Company in February 2012. She joined the Company in 1997 as an Associate General Counsel and Assistant Secretary, became Deputy General Counsel and Assistant Secretary in 2008, and was elected Vice President, General Counsel & Secretary in August 2011. Ms. Warner was elected Executive Vice President in 2007. Prior to joining the Company in 2005 as President of the worldwide finishing businesses, she was President of Plexus Systems and a Vice President of EDS. Mr. Gardner was elected Executive Vice President in 2009. He joined the Company in 1997 and has held various sales and management positions in the consumer packaging businesses. Most recently, he served as Group President of the consumer packaging businesses. Mr. Martindale was elected Executive Vice President in 2008. Prior to joining the Company in 2005 as President of the test and measurement businesses, he was Chief Financial Officer and Chief Operating Officer of Instron. Mr. Nagarajan was elected Executive Vice President in 2010. He joined the Company in 1991 and has held various engineering and management positions in the welding businesses. Most recently, he served as Group President within the welding businesses. Mr. O. Herlihy was elected Executive Vice President in 2010. He joined the Company in 1989 and has held various operational, management and leadership positions of increasing responsibility. Most recently he served as President, international food equipment businesses. Mr. Scheuneman was appointed Vice President and Chief Accounting Officer in 2009. Prior to joining the Company in 2009, he held several financial leadership positions at W.W. Grainger, Inc., including Vice President, Finance, for the Lab Safety Supply business from 2006 to 2009, and Vice President, Internal Audit, from 2002 to 2006. He was appointed Principal Accounting Officer in 2009. Mr. Valls was elected Executive Vice President in 2007. Prior to this, he was Vice President and General Manager of ITW Delfast International. He joined the Company in 1989 and held various management positions in the European automotive businesses.



## Available Information

The Company electronically files reports with the Securities and Exchange Commission (SEC). The public may read and copy any materials the Company has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are also available free of charge through the Company's website ([www.itw.com](http://www.itw.com)), as soon as reasonably practicable after electronically filing with or otherwise furnishing such information to the SEC, and are available in print to any shareholder who requests them. Also posted on the Company's website are the following:

Statement of Principles of Conduct;

Code of Ethics for CEO and key financial and accounting personnel;

Charters of the Audit, Corporate Governance and Nominating, and Compensation Committees of the Board of Directors;

Corporate Governance Guidelines;

Global Anti-Corruption Policy;

Corporate Citizenship Statement; and

Government Affairs Information.

### **ITEM 1A. Risk Factors**

The Company's business, financial condition, results of operations and cash flows are subject to various risks, including, but not limited to those set forth below, which could cause actual results to vary materially from recent results or from anticipated future results. These risk factors should be considered together with information included elsewhere in this Annual Report on Form 10-K.

**The Company's results are impacted by global economic conditions. Weakness or downturns in the markets served by the Company could adversely affect our business, results of operations or financial condition.**

During 2010 and 2011, many of our end markets showed improvement in general economic conditions, but European economic conditions slowed in the second half of 2011. We cannot be assured that we will not experience adverse effects from broad economic trends in Europe or other geographies. Instability in global economic conditions could have an adverse effect on the Company's business, results of operations or financial condition.

**The global nature of our operations subjects the Company to political and economic risks that could adversely affect our business, results of operations or financial condition.**

The Company currently operates in 58 countries. In 2011, approximately 59% of the Company's revenues were generated from sales to customers outside of the U.S. As the Company continues to expand its global footprint, these sales may represent an increasing portion of the Company's revenues. The risks inherent in our global operations include:

fluctuation in currency exchange rates;

limitations on ownership or participation in local enterprises;

price controls, exchange controls and limitations on repatriation of earnings;

transportation delays and interruptions;

political, social and economic instability and disruptions;

acts of terrorism;

government embargoes or foreign trade restrictions;

the imposition of duties and tariffs and other trade barriers;

import and export controls;

labor unrest and current and changing regulatory environments;

the potential for expropriation or nationalization of enterprises;

difficulties in staffing and managing multi-national operations;

limitations on its ability to enforce legal rights and remedies; and

potentially adverse tax consequences.

If the Company is unable to successfully manage these and other risks associated with managing and expanding its international businesses, the risks could have a material adverse effect on the Company's business, results of operations or financial condition.

**Our acquisition of businesses could negatively impact our profitability and return on invested capital.**

As part of our business strategy, we acquire businesses in the ordinary course. Our acquisitions involve a number of risks and financial, accounting, managerial and operational challenges, including the following, any of which could adversely affect our growth and profitability:



Any acquired business, technology, service or product could under-perform relative to our expectations and the price that we paid for it, or not perform in accordance with our anticipated timetable.

Acquisitions could cause our financial results to differ from our expectations in any given fiscal period, or over the long term.

Acquisition-related earnings charges could adversely impact operating results.

Acquisitions could place unanticipated demands on our management, operational resources and financial and internal control systems.

We may assume unknown liabilities, known contingent liabilities that become realized or known liabilities that prove greater than anticipated. The realization of any of these liabilities may increase our expenses or adversely affect our financial position.

As a result of our acquisitions, we have recorded significant goodwill and other identifiable intangible assets on our balance sheet. If we are not able to realize the value of these assets, we may incur charges relating to the impairment of these assets.

**We may incur fines or penalties, damage to our reputation or other adverse consequences if our employees, agents or business partners violate anti-bribery or other laws.**

We cannot provide assurance that our internal controls will always protect us from reckless or criminal acts committed by our employees, agents or business partners that would violate U.S. and/or non-U.S. laws, including anti-bribery laws, competition, and export and import compliance. Any such improper actions could subject us to civil or criminal investigations in the U.S. and in other jurisdictions, could lead to substantial civil or criminal monetary and non-monetary penalties against us or our subsidiaries, and could damage our reputation.

**A significant fluctuation between the U.S. Dollar and other currencies could adversely impact our operating income.**

Although the Company's financial results are reported in U.S. Dollars, a significant portion of our sales and operating costs are realized in other currencies, with the largest concentration of foreign sales occurring in Europe. The Company's profitability is affected by movements of the U.S. Dollar against the Euro and other foreign currencies in which we generate revenues and incur expenses. Significant long-term fluctuations in relative currency values, in particular an increase in the value of the U.S. Dollar against foreign currencies, could have an adverse effect on our profitability and financial condition.

**Diminished credit availability could adversely impact our ability to readily obtain financing or to obtain cost-effective financing.**

The Company may utilize the commercial paper markets for a portion of its short-term liquidity needs. If conditions in the financial markets decline, there is no assurance that the commercial paper markets will remain available to us or that the lenders participating in our revolving and long-term credit facilities will be able to provide financing in accordance with the terms of our credit agreements. A failure of one or more of the syndicate members in our credit facilities could reduce the availability of credit and adversely affect our liquidity. If we determine that it is appropriate or necessary to raise capital in the future, funds may not be available on cost-effective terms.

**Raw material price increases and supply shortages could adversely affect results.**

The supply of raw materials to the Company and to its component parts suppliers could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect the Company's results of operations and profit margins. Due to pricing pressure or other factors, the Company may not be able to pass along increased raw material and components parts prices to its customers in the form of price increases or its ability to do so could be delayed. Consequently, its results of operations and financial condition may be adversely affected.

**If the Company is unable to successfully introduce new products or adequately protect its intellectual property, its future growth may be adversely affected.**

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The Company's ability to develop new products based on innovation can affect its competitive position and often requires the investment of significant resources. Difficulties or delays in research, development or production of new products and services or failure to gain market acceptance of new products and technologies may reduce future revenues and adversely affect the Company's competitive position.

Protecting the Company's intellectual property is critical to its innovation efforts. The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights under patents owned by others. The Company's intellectual property may be challenged or infringed upon by third parties, particularly in countries where property rights are not highly developed or protected, or the Company may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. Unauthorized use of the Company's intellectual property rights or inability to preserve existing intellectual property rights could adversely impact the Company's competitive position and results of operations.

**An unfavorable environment for making acquisitions may adversely affect the Company's growth rate.**

Suitable acquisitions can be difficult to complete due to high valuations for attractive acquisitions, competition among prospective buyers, the need for antitrust or other regulatory approval and the availability of affordable financing. Changes in regulatory or accounting requirements or instability in the credit markets could adversely impact our ability to consummate acquisitions. Our ability to grow through acquisitions depends on our ability to identify and successfully complete suitable acquisitions at appropriate prices. There can be no assurance that the Company will be able to find attractive businesses to purchase or that it will be able to acquire such businesses on acceptable terms. If the Company is unsuccessful in its efforts, its growth rate could be adversely affected.

**Unfavorable tax law changes and tax authority rulings may adversely affect results.**

The Company is subject to income taxes in the United States and in various foreign jurisdictions. Domestic and international tax liabilities are based on the income and expenses in various tax jurisdictions. The Company's effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets or tax laws. The amount of income taxes and other taxes are subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts recorded, future financial results may include unfavorable tax adjustments.

**Our defined benefit pension plans are subject to financial market risks that could adversely affect our results of operations and cash flows.**

The performance of the financial markets and interest rates impact our funding obligations under our defined benefit pension plans. Significant changes in market interest rates, decreases in the fair value of plan assets and investment losses on plan assets may increase our funding obligations and adversely impact our results of operations and cash flows.

**Potential adverse outcome in legal proceedings may adversely affect results.**

The Company's businesses expose it to potential toxic tort and other types of product liability claims that are inherent in the design, manufacture and sale of its products and the products of third-party vendors. The Company currently maintains insurance programs consisting of self insurance up to certain limits and excess insurance coverage for claims over established limits. There can be no assurance that the Company will be able to obtain insurance on acceptable terms or that its insurance programs will provide adequate protection against actual losses. In addition, the Company is subject to the risk that one or more of its insurers may become insolvent and become unable to pay claims that may be made in the future. Even if it maintains adequate insurance programs, successful claims could have a material adverse effect on the Company's financial condition, liquidity and results of operations and on its ability to obtain suitable, adequate or cost-effective insurance in the future.

**Forward-Looking Statements**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as believe, expect, plans, strategy, prospects, estimate, projection, target, anticipate, guidance, forecast, and other similar words, including, without limitation, statements regarding the expected acquisition or disposition of businesses, the availability of raw materials and energy, the expiration of any one of the Company's patents, the cost of compliance with environmental regulations, the continued growth in North American and Asia Pacific markets and slower growth in European markets in 2012, the adequacy of internally generated funds and credit facilities, the meeting of dividend payout objectives, the ability to fund debt service obligations, the likelihood of future goodwill or intangible asset impairment charges, the Company's portion of future benefit payments related to pension and postretirement benefits, the availability of additional financing, the outcome of outstanding legal proceedings, the impact of adopting new accounting pronouncements 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 those risks described above. These risks 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.

Any forward-looking statements made by ITW speak only as of the date on which they are made. ITW is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, subsequent events or otherwise.

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

content of the statement or report.

**ITEM 1B. Unresolved Staff Comments**

Not applicable.

**ITEM 2. Properties**

As of December 31, 2011, the Company operated the following plants and office facilities, excluding regional sales offices and warehouse facilities:

|                             | Number<br>Of<br>Properties | Floor Space                  |        | Total |
|-----------------------------|----------------------------|------------------------------|--------|-------|
|                             |                            | Owned                        | Leased |       |
|                             |                            | (In millions of square feet) |        |       |
| Transportation              | 99                         | 4.0                          | 2.3    | 6.3   |
| Power Systems & Electronics | 110                        | 5.5                          | 2.0    | 7.5   |
| Industrial Packaging        | 134                        | 6.4                          | 4.2    | 10.6  |
| Food Equipment              | 48                         | 3.7                          | 0.7    | 4.4   |
| Construction Products       | 94                         | 2.9                          | 1.5    | 4.4   |
| Polymers & Fluids           | 93                         | 3.5                          | 1.6    | 5.1   |
| Decorative Surfaces         | 9                          | 4.1                          |        | 4.1   |
| All Other                   | 193                        | 5.1                          | 2.9    | 8.0   |
| Corporate                   | 43                         | 4.3                          | 0.2    | 4.5   |
| Total                       | 823                        | 39.5                         | 15.4   | 54.9  |

The principal plants and office facilities outside of the U.S. are in Australia, Belgium, Brazil, Canada, China, Czech Republic, Denmark, France, Germany, Ireland, Italy, Netherlands, Spain, Switzerland and the United Kingdom.

The Company's properties are primarily of steel, brick or concrete construction and are maintained in good operating condition. Productive capacity, in general, currently exceeds operating levels. Capacity levels are somewhat flexible based on the number of shifts operated and on the number of overtime hours worked. The Company adds productive capacity from time to time as required by increased demand. Additions to capacity can be made within a reasonable period of time due to the nature of the businesses.

**ITEM 3. Legal Proceedings**

Not applicable.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Common Stock Price and Dividend Data** The common stock of Illinois Tool Works Inc. was listed on the New York Stock Exchange for 2011 and 2010. Quarterly market price and dividend data for 2011 and 2010 were as shown below:

|                | Market Price Per Share |          | Dividends<br>Declared<br>Per<br>Share |
|----------------|------------------------|----------|---------------------------------------|
|                | High                   | Low      |                                       |
| 2011:          |                        |          |                                       |
| Fourth quarter | \$ 49.92               | \$ 39.12 | \$ 0.36                               |
| Third quarter  | 59.27                  | 40.82    | 0.36                                  |
| Second quarter | 58.79                  | 52.09    | 0.34                                  |
| First quarter  | 56.36                  | 52.42    | 0.34                                  |
| 2010:          |                        |          |                                       |
| Fourth quarter | \$ 53.89               | \$ 45.57 | \$ 0.34                               |
| Third quarter  | 47.67                  | 40.33    | 0.34                                  |
| Second quarter | 52.72                  | 41.05    | 0.31                                  |
| First quarter  | 50.15                  | 41.94    | 0.31                                  |

The approximate number of holders of record of common stock as of January 31, 2012 was 9,459. This number does not include beneficial owners of the Company's securities held in the name of nominees.

**ITEM 6. Selected Financial Data**

| In Thousands (except per share amounts)             | 2011          | 2010          | 2009          | 2008          | 2007          |
|---|---------------|---------------|---------------|---------------|---------------|
| Operating revenues                                  | \$ 17,786,583 | \$ 15,415,692 | \$ 13,572,996 | \$ 16,544,281 | \$ 15,549,806 |
| Income from continuing operations                   | 2,017,014     | 1,452,438     | 968,638       | 1,623,963     | 1,764,678     |
| Income from continuing operations per common share: |               |               |               |               |               |
| Basic   | 4.10          | 2.90          | 1.94          | 3.13          | 3.20          |
| Diluted   | 4.08          | 2.89          | 1.93          | 3.12          | 3.17          |
| Total assets at year-end                            | 17,983,514    | 16,412,311    | 15,811,432    | 15,203,551    | 15,525,862    |
| Long-term debt at year-end                          | 3,488,198     | 2,542,087     | 2,861,304     | 1,247,883     | 1,888,839     |
| Cash dividends declared per common share            | 1.40          | 1.30          | 1.24          | 1.18          | 0.98          |

Certain reclassifications of prior years' data have been made to conform to current year reporting, including the elimination of the one month lag for the reporting of the Company's international operations outside of North America (fiscal years 2010 and 2009 only), and discontinued operations as discussed below.

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 fiscal periods 2010 and 2009. Refer to the International Reporting Lag note in Item 8. Financial Statements and Supplementary Data for discussion of this change in accounting principle.

The Company periodically reviews its operations for businesses that may no longer be aligned with its long-term objectives. For businesses 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. Income (loss) from discontinued operations was \$54,370,000, \$50,514,000, \$4,059,000, \$(104,960,000), and \$105,184,000 in the years 2011, 2010, 2009, 2008, and 2007, respectively. Refer to the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

On January 1, 2009, the Company adopted new accounting guidance related to business combinations. The new accounting guidance requires an entity to recognize assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. This new guidance also requires prospectively that (1) acquisition-related costs be expensed as incurred; (2) restructuring costs generally be recognized as post-acquisition expenses; and (3) changes in deferred tax asset valuation allowances and income tax uncertainties after the measurement period impact income tax expense. Refer to the Acquisitions note in Item 8. Financial Statements and Supplementary Data for discussion of this change in accounting principle.

On January 1, 2009, the Company adopted new accounting guidance on fair value measurements for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The new accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and provides guidance for measuring fair values and the necessary disclosures. Refer to the Goodwill and Intangible Assets note in Item 8. Financial Statements and Supplementary Data for discussion of this change in accounting principle.

On January 1, 2008, the Company adopted new accounting guidance related to defined benefit plans which required the Company to change its measurement date to correspond with the Company's fiscal year-end. The Company previously used a September 30 measurement date. As allowed under the provisions of this new guidance, the Company elected to remeasure its plan assets and benefit obligation as of the beginning of the fiscal year. Upon adoption, the Company recorded an after-tax charge of \$12,788,000 to beginning retained earnings and an after-tax gain to accumulated other comprehensive income of \$3,573,000 related to the three months ended December 31, 2007.

Information on the comparability of results is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**INTRODUCTION**

Illinois Tool Works Inc. (the Company or ITW) is a multinational manufacturer of a diversified range of industrial products and equipment with operations in 58 countries. These businesses are internally reported as 52 operating segments to senior management. The Company's 52 operating segments have been aggregated into the following eight external reportable segments: Transportation; Power Systems & Electronics; Industrial Packaging; Food Equipment; Construction Products; Polymers & Fluids; Decorative Surfaces; and All Other.

Due to the large number of diverse businesses and the Company's decentralized operating style, the Company does not require its businesses to provide detailed information on operating results. Instead, the Company's corporate management collects data on several key measurements: operating revenues, operating income, operating margins, overhead costs, number of months on hand in inventory, days sales outstanding in accounts receivable, past due receivables and return on invested capital. These key measures are monitored by management and significant changes in operating results versus current trends in end markets and variances from forecasts are discussed with operating unit management.

The results of each segment are analyzed by identifying the effects of changes in the results of the base businesses, newly acquired companies, restructuring costs, goodwill and intangible asset impairment charges, and currency translation on the operating revenues and operating income of each segment. Base businesses are those businesses that have been included in the Company's results of operations for more than 12 months. The changes to base business operating income include the estimated effects of both operating leverage and changes in variable margins and overhead costs. Operating leverage is the estimated effect of the base business revenue changes on operating income, assuming variable margins remain the same as the prior period. As manufacturing and administrative overhead costs usually do not significantly change as a result of revenues increasing or decreasing, the percentage change in operating income due to operating leverage is usually more than the percentage change in the base business revenues.

A key element of the Company's business strategy is its continuous 80/20 business process for both existing businesses and new acquisitions. The basic concept of this 80/20 business process is to focus on what is most important (the 20% of the items which account for 80% of the value) and to spend less time and resources on the less important (the 80% of the items which account for 20% of the value). The Company's operations use this 80/20 business process to simplify and focus on the key parts of their business, and as a result, reduce complexity that often disguises what is truly important. The Company's operations utilize the 80/20 process in various aspects of their businesses. Common applications of the 80/20 business process include:

Simplifying product lines by reducing the number of products offered by combining the features of similar products, outsourcing products or, as a last resort, eliminating low-value products.

Segmenting the customer base by focusing on the 80/20 customers separately and finding alternative ways to serve the 20/80 customers.

Simplifying the supplier base by partnering with 80/20 suppliers and reducing the number of 20/80 suppliers.

Designing business processes, systems and measurements around the 80/20 activities.

The result of the application of this 80/20 business process is that the Company has over time improved its long-term operating and financial performance. These 80/20 efforts can result in restructuring projects that reduce costs and improve margins. Corporate management works closely with those businesses that have operating results below expectations to help those businesses better apply this 80/20 business process and improve their results.



**INTERNATIONAL REPORTING CHANGE**

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 now reports both North American and international results on a calendar year basis. Prior to this, the international fiscal reporting period began on December 1st and ended on November 30th. The Company has applied this change in accounting principle retrospectively to all prior period financial statements presented. Refer to the International Reporting Lag note in Item 8. Financial Statements and Supplementary Data for discussion of the international reporting change.

**DISCONTINUED OPERATIONS**

The Company periodically reviews its operations for businesses that may no longer be aligned with its long-term objectives. For businesses 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. Refer to the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

**CONSOLIDATED RESULTS OF OPERATIONS**

The Company's consolidated results of operations for 2011, 2010 and 2009 are summarized as follows:

| Dollars In Thousands | 2011          | 2010          | 2009          |
|----------------------|---------------|---------------|---------------|
| Operating revenues   | \$ 17,786,583 | \$ 15,415,692 | \$ 13,572,996 |
| Operating income     | 2,731,008     | 2,254,017     | 1,382,963     |
| Margin %             | 15.4%         | 14.6%         | 10.2%         |

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

|  | 2011 Compared to 2010 |                  |                             | 2010 Compared to 2009 |                  |                             |
|--|-----------------------|------------------|-----------------------------|-----------------------|------------------|-----------------------------|
|  | % Increase (Decrease) | Operating Income | % Point Increase (Decrease) | % Increase (Decrease) | Operating Income | % Point Increase (Decrease) |
| Base business:                                 |                       |                  |                             |                       |                  |                             |
| Revenue change/Operating leverage              | 7.5%                  | 21.0%            | 1.9%                        | 10.1%                 | 40.7%            | 2.8%                        |
| Changes in variable margins and overhead costs |                       | (4.9)            | (0.7)                       |                       | 2.4              | 0.2                         |
|  | 7.5                   | 16.1             | 1.2                         | 10.1                  | 43.1             | 3.0                         |
| Acquisitions and divestitures                  | 4.8                   | 2.3              | (0.4)                       | 3.2                   | 2.2              | (0.2)                       |
| Restructuring costs                            |                       | (0.6)            | (0.1)                       |                       | 8.7              | 0.8                         |
| Impairment of goodwill and intangibles         |                       |                  |                             |                       | 7.5              | 0.7                         |
| Translation                                    | 3.1                   | 3.4              | 0.1                         | 0.4                   | 1.5              | 0.1                         |
| Other  |                       |                  |                             | (0.1)                 |                  |                             |
|  | 15.4%                 | 21.2%            | 0.8%                        | 13.6%                 | 63.0%            | 4.4%                        |

**Operating Revenues**

Revenues increased 15.4% in 2011 versus 2010 primarily due to higher base revenues, revenues from acquisitions, and the favorable effect of currency translation. Base revenues increased 7.5% in 2011 versus 2010 as worldwide economic conditions strengthened. However, European economic conditions slowed in the second half of the year. North American and international base revenues increased 9.0% and 5.7%, respectively, in 2011 versus 2010. Base revenues in Europe and China increased 5.6% and 14.2%, respectively, in 2011 versus 2010. End markets associated with welding, transportation and test and measurement businesses showed strength in 2011. In 2012, the company anticipates

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continued growth in North American and Asia Pacific markets with European markets expected to be relatively flat as compared to 2011.

Revenues increased 13.6% in 2010 versus 2009 primarily due to higher base revenues and revenues from acquisitions. Base revenues increased 10.1% in 2010 versus 2009 as the Company saw improvement in macroeconomic indices across many geographies as worldwide end markets began to recover from the global recession. North American and international base revenues increased 11.2% and 9.1%, respectively, in 2010 versus 2009. End markets associated with transportation, welding, industrial packaging, PC board fabrication and electronics showed improvement in 2010.

## Operating Income

Operating income increased 21.2% in 2011 versus 2010 primarily due to the increase in base revenues, the favorable effect of currency translation and income from acquisitions. Base margins increased 120 basis points 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. Additionally, acquisitions and divestitures diluted margins by 40 basis points primarily due to amortization expense related to intangible assets.

Operating income increased 63.0% in 2010 versus 2009 primarily due to the increase in base revenues, lower restructuring expenses, and 2009 goodwill and intangible asset impairment charges. Base margins increased 300 basis points primarily due to the positive leverage effect of the increase in base revenues. Additionally, benefits from restructuring projects were partially offset by unfavorable selling price versus material cost comparisons. Lower restructuring expenses in 2010 versus 2009 reflect the Company's 2009 efforts to reduce costs in response to weak economic conditions. In 2009, the Company recorded impairment charges of \$90.0 million and \$15.6 million against goodwill and intangibles, respectively, compared to \$1.0 million in intangible asset impairment charges in 2010.

## 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:

plastic and metal 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.

In 2011, this segment primarily served the automotive original equipment manufacturers and tiers (56%) and automotive aftermarket (31%) markets.

The results of operations for the Transportation segment for 2011, 2010 and 2009 were as follows:

| Dollars In Thousands | 2011         | 2010         | 2009         |
|----------------------|--------------|--------------|--------------|
| Operating revenues   | \$ 3,108,349 | \$ 2,522,226 | \$ 2,092,249 |
| Operating income     | 474,592      | 369,454      | 155,373      |
| Margin %             | 15.3%        | 14.6%        | 7.4%         |

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

| 2011 Compared to 2010 |            | 2010 Compared to 2009 |            |
|-----------------------|------------|-----------------------|------------|
|                       | % Point    |                       | % Point    |
| % Increase            | Increase   | % Increase (Decrease) | Increase   |
| (Decrease)            | (Decrease) |                       | (Decrease) |

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|  | Operating<br>Revenues | Operating<br>Income | Operating<br>Margins | Operating<br>Revenues | Operating<br>Income | Operating<br>Margins |
|--|-----------------------|---------------------|----------------------|-----------------------|---------------------|----------------------|
| Base business:                                 |                       |                     |                      |                       |                     |                      |
| Revenue change/Operating leverage              | 10.1%                 | 25.1%               | 2.0%                 | 18.0%                 | 85.6%               | 4.2%                 |
| Changes in variable margins and overhead costs |                       | (7.0)               | (0.9)                |                       | 19.0                | 1.2                  |
|  | 10.1                  | 18.1                | 1.1                  | 18.0                  | 104.6               | 5.4                  |
| Acquisitions and divestitures                  | 10.6                  | 8.6                 | (0.3)                | 2.5                   | 7.4                 | 0.2                  |
| Restructuring costs                            |                       | (1.3)               | (0.2)                |                       | 16.1                | 1.0                  |
| Impairment of goodwill and intangibles         |                       |                     |                      |                       | 9.1                 | 0.6                  |
| Translation                                    | 2.6                   | 3.1                 | 0.1                  | 0.1                   | 0.7                 |                      |
| Other  | (0.1)                 |                     |                      |                       | (0.1)               |                      |
|  | 23.2%                 | 28.5%               | 0.7%                 | 20.6%                 | 137.8%              | 7.2%                 |

### **Operating Revenues**

Revenues increased 23.2% in 2011 versus 2010 primarily due to the increase in base business, revenues from acquisitions and the favorable effect of currency translation. The increase in acquisition revenue was primarily due to the purchase of a North American automotive aftermarket business in the first quarter of 2011. Worldwide automotive base revenues increased 10.0%. International automotive base revenues increased 10.2% primarily due to growth in European auto builds of 5% and increased product penetration. Additionally, Asian automotive base revenues increased 20.8% primarily due to improved product penetration and higher auto builds in China and India of 2% and 10%, respectively. North American automotive base revenues increased 9.8% in 2011 versus 2010 primarily due to an increase in auto builds of 10%. The truck remanufacturing and related parts and service business increased 19.7% over the prior year due to increased demand in North America and Canada related to oil and gas exploration. Automotive aftermarket base business increased 4.5% over the prior year with growth in both transportation materials and consumer-based businesses.

Revenues increased 20.6% in 2010 versus 2009 primarily due to the increase in base revenues and revenues from acquisitions. The increase in acquisition revenue was primarily due to the purchase of a North American automotive aftermarket business in the second quarter of 2010. Worldwide automotive base revenues increased 28.4%. North American automotive base revenues increased 37.8% in 2010 versus 2009 primarily due to an increase in auto builds of approximately 39%. International automotive base revenues increased 21.2% primarily due to an increase in European auto builds of approximately 16% and increased product penetration. The automotive aftermarket businesses, which were less impacted in 2009 by the economic downturn, were virtually flat over the prior year. Base revenues for the truck remanufacturing and related parts and service business declined 5.3% over the prior year.

### **Operating Income**

Operating income increased 28.5% in 2011 versus 2010 primarily due to the increase in base revenues, income from acquisitions and the favorable effect of currency translation. Base margins increased 110 basis points primarily due to the positive leverage effect of the increase in base revenues described above, partially offset by the negative impact of selling price versus material cost comparisons. In addition, acquisitions diluted total operating margins by 30 basis points.

Operating income increased 137.8% in 2010 versus 2009 primarily due to the increase in base revenues, lower restructuring expenses, 2009 goodwill and intangible asset impairment charges, and income from acquisitions. Base margins increased 540 basis points primarily due to the positive leverage effect of the increase in base revenues described above, benefits from restructuring projects and favorable inventory obsolescence expense comparisons. During the third quarter of 2009, a \$12.0 million goodwill impairment charge was recorded in the truck remanufacturing and related parts and service business.

### **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.

In 2011, this segment primarily served the general industrial (43%), electronics (17%), construction (4%) and automotive original equipment manufacturers (4%) markets.

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The results of operations for the Power Systems & Electronics segment for 2011, 2010 and 2009 were as follows:

| Dollars In Thousands | 2011         | 2010         | 2009         |
|----------------------|--------------|--------------|--------------|
| Operating revenues   | \$ 2,872,161 | \$ 2,409,204 | \$ 2,004,402 |
| Operating income     | 580,674      | 469,244      | 198,673      |
| Margin %             | 20.2%        | 19.5%        | 9.9%         |

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

|  | 2011 Compared to 2010    |                     |                                   | 2010 Compared to 2009 |                     |                                   |
|--|--------------------------|---------------------|-----------------------------------|-----------------------|---------------------|-----------------------------------|
|  | % Increase<br>(Decrease) |                     | % Point<br>Increase<br>(Decrease) | % Increase (Decrease) |                     | % Point<br>Increase<br>(Decrease) |
|  | Operating<br>Revenues    | Operating<br>Income | Operating<br>Margins              | Operating<br>Revenues | Operating<br>Income | Operating<br>Margins              |
| Base business:                                 |                          |                     |                                   |                       |                     |                                   |
| Revenue change/Operating leverage              | 12.5%                    | 26.2%               | 2.4%                              | 18.5%                 | 74.8%               | 4.7%                              |
| Changes in variable margins and overhead costs |                          | (2.8)               | (0.5)                             |                       | 4.6                 | 0.4                               |
|  | 12.5                     | 23.4                | 1.9                               | 18.5                  | 79.4                | 5.1                               |
| Acquisitions and divestitures                  | 4.3                      | (1.1)               | (1.0)                             | 1.1                   | 0.8                 | (0.1)                             |
| Restructuring costs                            |                          | (0.7)               | (0.1)                             |                       | 10.3                | 0.9                               |
| Impairment of goodwill and intangibles         |                          |                     |                                   |                       | 44.7                | 3.7                               |
| Translation                                    | 2.4                      | 2.2                 | (0.1)                             | 0.6                   | 1.0                 |                                   |
| Other  |                          |                     |                                   |                       |                     |                                   |
|  | 19.2%                    | 23.8%               | 0.7%                              | 20.2%                 | 136.2%              | 9.6%                              |

### Operating Revenues

Revenues increased 19.2% in 2011 versus 2010 due to growth in base business, revenues from acquisitions and the favorable effect of currency translation. Worldwide welding base business revenues increased 21.0% in 2011 versus 2010. North American welding base business revenues increased 24.6% due to improvements in a number of industrial-based end markets. In particular, increased sales in the oil and gas end market as well as sales to heavy equipment OEMs and other manufacturers helped drive base revenues. Base business revenues for the international welding businesses increased 12.3% in 2011 versus 2010 primarily due to growth in European and Asian oil and gas and infrastructure-related end markets. Base revenues for the electronics businesses increased 1.7% mainly due to base growth of 6.3% in the PC board fabrication businesses, though end markets significantly slowed for these businesses in the fourth quarter of 2011. The other electronics businesses were virtually flat due to weakening end markets and softer consumer demand. Acquisition revenue was primarily due to the purchase of a thermal processing and environmental equipment manufacturer in the third quarter of 2011 and an automated welding systems business in the fourth quarter of 2010.

Revenues increased 20.2% in 2010 versus 2009 primarily due to growth in base business. Worldwide welding base revenues increased 11.0%. North American welding base business revenues increased 16.0% as end markets began to experience recovery, particularly for heavy equipment OEMs and general manufacturers. Base business revenues for the international welding businesses increased 0.6% in 2010 versus 2009 primarily due to increased oil and gas end market activity, partially offset by declines in Asian shipyard activity. Base revenues for the electronics businesses increased 34.3% due to growth in the PC board fabrication businesses of 71.0% and other electronics businesses of 20.2% as demand for consumer electronics and capital equipment increased significantly.

### Operating Income

Operating income increased 23.8% in 2011 versus 2010 primarily due to the favorable leverage effect of the growth in base revenues and the favorable impact of currency translation. Base margins increased 190 basis points primarily due to the favorable leverage effect of the growth in base revenues, partially offset by the negative impact of selling price versus material cost comparisons. Acquisitions diluted total operating

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margins by 100 basis points versus the prior year.

Operating income increased 136.2% in 2010 versus 2009 mainly due to the favorable leverage effect of the growth in base revenues, 2009 impairment charges and lower restructuring expenses. During the first quarter of 2009, a \$60.0 million goodwill impairment charge was recorded against the pressure sensitive adhesives business and \$24.7 million of goodwill and intangible asset impairment charges were recorded against the PC Board fabrication and welding accessories businesses. Base margins increased 510 basis points in 2010 versus 2009 primarily due to the favorable leverage effect of the growth in base revenues, the cumulative benefits of restructuring projects and favorable product mix, partially offset by unfavorable selling price versus material cost comparisons.



**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.

In 2011, this segment primarily served the general industrial (26%), primary metals (21%), food and beverage (13%) and construction (8%) markets.

The results of operations for the Industrial Packaging segment for 2011, 2010 and 2009 were as follows:

| <b>Dollars In Thousands</b> | <b>2011</b>  | <b>2010</b>  | <b>2009</b>  |
|-----------------------------|--------------|--------------|--------------|
| Operating revenues          | \$ 2,612,108 | \$ 2,272,059 | \$ 1,940,887 |
| Operating income            | 273,342      | 231,303      | 95,128       |
| Margin %                    | 10.5%        | 10.2%        | 4.9%         |

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

|  | <b>2011 Compared to 2010</b>     |  |  | <b>2010 Compared to 2009</b>  |  |  |
|--|----------------------------------|--|--|-------------------------------|--|--|
|  | <b>% Increase<br/>(Decrease)</b> | <b>% Point<br/>Increase<br/>(Decrease)</b> | <b>% Point<br/>Increase<br/>(Decrease)</b> | <b>% Increase (Decrease)</b>  | <b>% Point<br/>Increase<br/>(Decrease)</b> | <b>% Point<br/>Increase<br/>(Decrease)</b> |
|  | <b>Operating<br/>Revenues</b>    | <b>Operating<br/>Income</b>                | <b>Operating<br/>Margins</b>               | <b>Operating<br/>Revenues</b> | <b>Operating<br/>Income</b>                | <b>Operating<br/>Margins</b>               |
| Base business:                                 |                                  |  |  |                               |  |  |
| Revenue change/Operating leverage              | 8.4%                             | 31.6%                                      | 2.2%                                       | 13.9%                         | 110.0%                                     | 4.1%                                       |
| Changes in variable margins and overhead costs |                                  | (18.8)                                     | (1.8)                                      |                               | (5.3)                                      | (0.2)                                      |
|  | 8.4                              | 12.8                                       | 0.4  | 13.9                          | 104.7                                      | 3.9  |
| Acquisitions and divestitures                  | 3.0                              | 2.9  |  | 2.3                           | 3.3  | (0.1)                                      |
| Restructuring costs                            |                                  | (2.1)                                      | (0.2)                                      |                               | 31.3                                       | 1.3  |
| Impairment of goodwill and intangibles         |                                  |  |  |                               | (0.8)                                      |  |
| Translation                                    | 3.6                              | 4.6  | 0.1  | 0.9                           | 4.6  | 0.1  |
| Other  |                                  |  |  |                               | 0.1  | 0.1  |
|  | 15.0%                            | 18.2%                                      | 0.3%                                       | 17.1%                         | 143.2%                                     | 5.3%                                       |

**Operating Revenues**

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Revenues increased 15.0% in 2011 versus 2010 due to the increase in base revenues, the favorable effect of currency translation and revenues from acquisitions. Base revenues for the North American strapping and equipment businesses increased 12.2% in 2011 largely due to higher steel and plastic strapping prices and increased equipment sales. Base revenues for international strapping and equipment businesses grew 7.2% primarily due to higher strapping prices and higher equipment sales. Base revenues for stretch packaging worldwide increased 10.2% in 2011 versus 2010 and worldwide protective packaging grew 7.1% over the prior period. The increase in acquisition revenue is primarily due to the purchase of a protective packaging business in the second quarter of 2011.

Revenues increased 17.1% in 2010 versus 2009 due to the increase in base revenues, revenues from acquisitions and the favorable effect of currency translation. Base revenues increased 23.1% for the North American strapping and equipment businesses in 2010 largely due to an increase in steel and plastic strap volume driven by improved industrial production demand in key industries including primary metals and general industrial. Base revenues for the international strapping and equipment businesses increased 10.1% while worldwide protective packaging increased 16.6% and worldwide stretch packaging increased 12.3% over the prior period. Acquisition revenue increased primarily due to the purchase of a North American protective packaging business in the fourth quarter of 2009.

## Operating Income

Operating income increased 18.2% in 2011 versus 2010 primarily due to the increase in base revenues, the favorable impact of currency translation and income from acquisitions, partially offset by higher restructuring expenses. Base operating margins increased 40 basis points primarily due to leverage from the increase in base revenues, partially offset by unfavorable selling price versus material cost comparisons.

Operating income increased 143.2% in 2010 versus 2009 primarily due to the increase in base revenues and lower restructuring expenses. Base operating margins increased 390 basis points primarily driven by leverage from the increase in base revenues and restructuring benefits, partially offset by unfavorable selling price versus material cost comparisons. Lower restructuring expenses compared to 2009 increased total operating margins by 130 basis points.

## 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.

In 2011, this segment primarily served the food institutional/restaurant (43%), service (36%) and food retail (16%) markets.

The results of operations for the Food Equipment segment for 2011, 2010 and 2009 were as follows:

| Dollars In Thousands | 2011         | 2010         | 2009         |
|----------------------|--------------|--------------|--------------|
| Operating revenues   | \$ 1,982,187 | \$ 1,857,051 | \$ 1,862,950 |
| Operating income     | 303,771      | 255,060      | 255,891      |
| Margin %             | 15.3%        | 13.7%        | 13.7%        |

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

| 2011 Compared to 2010    |                        | 2010 Compared to 2009    |                        |
|--------------------------|------------------------|--------------------------|------------------------|
|                          | % Point                |                          | % Point                |
| % Increase<br>(Decrease) | Increase<br>(Decrease) | % Increase<br>(Decrease) | Increase<br>(Decrease) |

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|  | Operating Revenues | Operating Income | Operating Margins | Operating Revenues | Operating Income | Operating Margins |
|--|--------------------|------------------|-------------------|--------------------|------------------|-------------------|
| Base business:                                 |                    |                  |                   |                    |                  |                   |
| Revenue change/Operating leverage              | 2.8%               | 8.9%             | 0.8%              |                    | 0.1%             | 0.1%              |
| Changes in variable margins and overhead costs |                    | 10.6             | 1.4               |                    | (4.7)            | (0.7)             |
|  | 2.8                | 19.5             | 2.2               |                    | (4.6)            | (0.6)             |
| Acquisitions and divestitures                  | 1.2                | (0.4)            | (0.2)             | 0.7                | 0.2              | (0.1)             |
| Restructuring costs                            |                    | (3.0)            | (0.4)             |                    | 4.4              | 0.6               |
| Impairment of goodwill and intangibles         |                    |                  |                   |                    |                  |                   |
| Translation                                    | 2.7                | 3.0              |                   | (1.1)              | (0.4)            | 0.1               |
| Other  |                    |                  |                   | 0.1                | 0.1              |                   |
|  | 6.7%               | 19.1%            | 1.6%              | (0.3)%             | (0.3)%           |                   |

## Operating Revenues

Revenues increased 6.7% in 2011 versus 2010 due to the growth in base business, the favorable effect of currency translation and revenues from acquisitions. North American food equipment base revenues increased 3.9% in 2011 versus 2010 as equipment revenues increased 4.6% and service revenues grew 2.7%. Equipment revenues increased primarily due to better, but still modest growth in the casual dining restaurant category, partially offset by weakness in institutional categories where government budgets were constrained. International base revenues increased 1.7% for the period as equipment revenues increased 1.0% and service revenues increased 3.3%. Growth in Asian and Latin American revenues was partially offset by lower European sales in 2011 versus 2010. The acquired revenues were attributable to the acquisition of a European food equipment business in the third quarter of 2010.

Revenues decreased 0.3% in 2010 versus 2009 as the unfavorable effect of currency translation was partially offset by acquisition revenues. North American base revenues declined 1.4% in 2010 versus 2009 primarily due to declines in equipment sales for end markets including the lodging and casino markets. North American base revenues in the service portion of the business increased 1.5% as customers continued to maintain existing equipment. International base revenues increased 2.4% for the period largely due to increased Asian and Latin American revenue offset by lower European equipment sales in 2010 versus 2009. The acquired revenues were attributable to the acquisition of a European food equipment business in the third quarter of 2010.

## Operating Income

Operating income increased 19.1% in 2011 versus 2010 primarily due to the increase in base revenues and lower operating expenses. Base business margins increased 220 basis points primarily due to the positive leverage effect of the increase in base revenues, lower operating expenses and adjustments related to a European business in 2010. Higher restructuring expenses in 2011 versus 2010 decreased total operating margins by 40 basis points.

Operating income decreased 0.3% in 2010 versus 2009. Base business margins decreased 60 basis points primarily due to higher overhead expenses and adjustments related to a European business in 2010, partially offset by favorable selling price versus material cost comparisons and benefits from restructuring. Lower restructuring expenses in 2010 versus 2009 increased total operating margins by 60 basis points.

## 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.

In 2011, this segment primarily served the residential construction (44%), renovation construction (26%), and commercial construction (22%) markets.

The results of operations for the Construction Products segment for 2011, 2010 and 2009 were as follows:

| Dollars In Thousands | 2011         | 2010         | 2009         |
|----------------------|--------------|--------------|--------------|
| Operating revenues   | \$ 1,958,370 | \$ 1,753,485 | \$ 1,547,365 |
| Operating income     | 225,448      | 192,070      | 104,795      |

|          |       |       |      |
|----------|-------|-------|------|
| Margin % | 11.5% | 11.0% | 6.8% |
|----------|-------|-------|------|

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

|  | 2011 Compared to 2010 |                  |                             | 2010 Compared to 2009 |                  |                             |
|--|-----------------------|------------------|-----------------------------|-----------------------|------------------|-----------------------------|
|  | % Increase (Decrease) |                  | % Point Increase (Decrease) | % Increase (Decrease) |                  | % Point Increase (Decrease) |
|  | Operating Revenues    | Operating Income | Operating Margins           | Operating Revenues    | Operating Income | Operating Margins           |
| Base business:                                 |                       |                  |                             |                       |                  |                             |
| Revenue change/Operating leverage              | 2.7%                  | 10.7%            | 0.9%                        | 4.1%                  | 24.4%            | 1.3%                        |
| Changes in variable margins and overhead costs |                       | (7.4)            | (0.8)                       |                       | 50.8             | 3.3                         |
|  | 2.7                   | 3.3              | 0.1                         | 4.1                   | 75.2             | 4.6                         |
| Acquisitions and divestitures                  | 3.0                   | 0.1              | (0.3)                       | 5.4                   | (0.5)            | (0.6)                       |
| Restructuring costs                            |                       | 4.4              | 0.5                         |                       | (4.1)            | (0.3)                       |
| Impairment of goodwill and intangibles         |                       |                  |                             |                       |                  |                             |
| Translation                                    | 6.0                   | 9.5              | 0.3                         | 3.8                   | 12.6             | 0.4                         |
| Other  |                       | 0.1              | (0.1)                       |                       | 0.1              | 0.1                         |
|  | 11.7%                 | 17.4%            | 0.5%                        | 13.3%                 | 83.3%            | 4.2%                        |

### Operating Revenues

Revenues increased 11.7% in 2011 versus 2010 primarily due to the favorable effect of currency translation, revenues from acquisitions and an increase in base revenues. European base revenues increased 6.9% due to improved conditions in commercial construction in the first half of the year; however, the rate of growth moderated in the second half of the year compared to early 2011. North American base revenues increased 2.3% primarily due to price increases implemented to offset higher steel prices, partially offset by the one-time licensing agreement settlement in the commercial construction business that positively impacted revenues in 2010. In North America, renovation base revenue growth was 5.5%, residential base revenue growth was 2.7% and commercial construction base revenue declined 3.0%. North American base revenue was impacted by 1% growth in remodeling expenditures, 3% annualized growth in U.S. housing starts as well as a 2% decline in commercial construction square footage activity. Base revenues for the Asia-Pacific region declined 1.8% as market conditions in the Australian residential construction market progressively softened throughout the year. Acquisition revenue was primarily the result of the purchase of a European retail distribution business in the second quarter of 2010 and a North American fastener business in the second quarter of 2011.

Revenues increased 13.3% in 2010 versus 2009 primarily due to revenues from acquisitions, an increase in base revenues and the favorable effect of currency translation. European base revenues increased 7.5% in 2010 primarily due to improved market conditions. Base revenues for the Asia-Pacific region increased 2.4% as market conditions in the Australian residential construction market improved. North American base revenues increased 1.8% primarily due to modest inventory restocking and a one-time licensing agreement settlement in the second quarter of 2010 in the commercial construction business. The North American base business was negatively impacted by an 8% decline in U.S. housing starts on an annualized basis and an 18% decline in commercial construction square footage activity. Acquisition revenue was primarily the result of the purchase of a European retail distribution business in the second quarter of 2010.

### Operating Income

Operating income increased 17.4% in 2011 versus 2010 primarily due to positive leverage from the increase in base revenues described above, the favorable effect of currency translation, and lower restructuring expenses. Base margins increased 10 basis points versus the prior year primarily due to the favorable leverage effect of the increase in base revenues, partially offset by a one-time licensing agreement settlement in the commercial construction business that favorably affected margins in 2010 and the negative impact of selling price versus material cost comparisons.

Operating income increased 83.3% in 2010 versus 2009 primarily due to positive leverage from the increase in base revenues described above, lower operating expenses and the favorable effect of currency translation, partially offset by higher restructuring expenses. Base margins increased 460 basis points versus the prior year primarily due to the favorable leverage effect of the increase in base revenues, favorable selling price versus material cost comparisons, favorable inventory obsolescence expense comparisons, benefits from restructuring projects and a

favorable one-time licensing agreement settlement in the second quarter of 2010 in the commercial construction business.



**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.

In 2011, this segment primarily served the general industrial (31%), construction (15%), MRO (17%) and automotive aftermarket (7%) markets.

The results of operations for the Polymers & Fluids segment for 2011, 2010 and 2009 were as follows:

| Dollars In Thousands | 2011         | 2010         | 2009       |
|----------------------|--------------|--------------|------------|
| Operating revenues   | \$ 1,364,004 | \$ 1,106,025 | \$ 980,305 |
| Operating income     | 208,873      | 188,696      | 150,065    |
| Margin %             | 15.3%        | 17.1%        | 15.3%      |

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

|  | 2011 Compared to 2010    |                     |                                   | 2010 Compared to 2009    |                     |                                   |
|--|--------------------------|---------------------|-----------------------------------|--------------------------|---------------------|-----------------------------------|
|  | % Increase<br>(Decrease) | Operating<br>Income | % Point<br>Increase<br>(Decrease) | % Increase<br>(Decrease) | Operating<br>Income | % Point<br>Increase<br>(Decrease) |
| Base business:                                 |                          |                     |                                   |                          |                     |                                   |
| Revenue change/Operating leverage              | 4.5%                     | 11.6%               | 1.2%                              | 6.0%                     | 17.3%               | 1.6%                              |
| Changes in variable margins and overhead costs |                          | (8.4)               | (1.4)                             |                          | (2.0)               | (0.3)                             |
|  | 4.5                      | 3.2                 | (0.2)                             | 6.0                      | 15.3                | 1.3                               |
| Acquisitions and divestitures                  | 15.1                     | 8.0                 | (0.9)                             | 6.4                      | 3.8                 | (0.5)                             |
| Restructuring costs                            |                          | (4.2)               | (0.7)                             |                          | 5.4                 | 0.8                               |
| Impairment of goodwill and intangibles         |                          |                     |                                   |                          |                     |                                   |
| Translation                                    | 3.8                      | 3.6                 |                                   | 0.4                      | 1.3                 | 0.1                               |
| Other  | (0.1)                    | 0.1                 |                                   |                          | (0.1)               | 0.1                               |
|  | 23.3%                    | 10.7%               | (1.8)%                            | 12.8%                    | 25.7%               | 1.8%                              |

**Operating Revenues**

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Revenues increased 23.3% in 2011 versus 2010 primarily due to revenues from acquisitions, an increase in base revenues and the favorable effect of currency translation. Acquisition revenue was primarily the result of the purchase of a Latin American fluids business and a European polymers business in the fourth quarter of 2010. End market demand was stronger in North America and Asia Pacific but weaker in Europe. Total base revenues for the polymers businesses increased 4.3% while the fluids businesses increased 4.7% in 2011 versus 2010. North American base revenues increased 6.3% and European base revenues were relatively flat, while Asia-Pacific base revenues increased 9.3% primarily due to growth in China.

Revenues increased 12.8% in 2010 versus 2009 primarily due to an increase in base revenues and revenues from acquisitions. Acquisition revenue was primarily the result of the purchase of four Latin American adhesive businesses in 2009 and a Latin American polymers business in the third quarter of 2010. Total base revenues for the polymers businesses and fluids businesses increased 5.2% and 7.9%, respectively, due to recovery in most of the industrial based end markets served by the worldwide polymers and fluids businesses. Growth in the emerging markets of Brazil and China was particularly strong during 2010.

## Operating Income

Operating income increased 10.7% in 2011 versus 2010 primarily due to the increase in base revenues, income from acquisitions, and the favorable effect of currency translation, partially offset by higher operating costs and restructuring expenses. Base margins declined 20 basis points versus last year primarily due to the negative impact of selling price versus material cost comparisons and a loss on an international polymers contract, partially offset by the positive leverage effect of the increase in base revenues.

Operating income increased 25.7% in 2010 versus 2009 primarily due to the increase in base revenues described above, lower restructuring expenses and higher income from acquisitions. Base margins increased 130 basis points versus the prior year, primarily due to the positive leverage effect of the increase in base revenues. Lower restructuring expenses in 2010 versus 2009 increased total operating margins by 80 basis points.

## 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.

In 2011, this segment primarily served the commercial construction (55%), renovation construction (30%) and residential construction (14%) markets.

The results of operations for the Decorative Surfaces segment for 2011, 2010 and 2009 were as follows:

| Dollars In Thousands | 2011         | 2010       | 2009       |
|----------------------|--------------|------------|------------|
| Operating revenues   | \$ 1,083,157 | \$ 987,692 | \$ 971,900 |
| Operating income     | 132,394      | 117,333    | 113,227    |
| Margin %             | 12.2%        | 11.9%      | 11.7%      |

In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

|  | 2011 Compared to 2010 |                  |                             | 2010 Compared to 2009 |                  |                             |
|--|-----------------------|------------------|-----------------------------|-----------------------|------------------|-----------------------------|
|  | % Increase (Decrease) | Operating        | % Point Increase (Decrease) | % Increase (Decrease) | Operating        | % Point Increase (Decrease) |
|  | Operating Revenues    | Operating Income | Operating Margins           | Operating Revenues    | Operating Income | Operating Margins           |
| Base business:                                 |                       |                  |                             |                       |                  |                             |
| Revenue change/Operating leverage              | 7.2%                  | 24.7%            | 1.9%                        | 2.4%                  | 8.7%             | 0.7%                        |
| Changes in variable margins and overhead costs |                       | (18.3)           | (2.0)                       |                       | (8.8)            | (1.0)                       |
|  | 7.2                   | 6.4              | (0.1)                       | 2.4                   | (0.1)            | (0.3)                       |
| Acquisitions and divestitures                  |                       |                  |                             |                       |                  |                             |
| Restructuring costs                            |                       | 4.6              | 0.5                         |                       | 3.2              | 0.4                         |
| Impairment of goodwill and intangibles         |                       |                  |                             |                       |                  |                             |
| Translation                                    | 2.4                   | 1.9              | (0.1)                       | (0.8)                 | 0.6              | 0.2                         |

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|       |      |       |      |      |       |       |
|-------|------|-------|------|------|-------|-------|
| Other | 0.1  | (0.1) |      |      | (0.1) | (0.1) |
|       | 9.7% | 12.8% | 0.3% | 1.6% | 3.6%  | 0.2%  |

### **Operating Revenues**

Revenues increased 9.7% in 2011 versus 2010 primarily due to the increase in base revenues and the favorable effect of currency translation. Base revenues for the North American high-pressure laminate business increased 6.4% primarily due to new product introductions and improved product demand in the office furniture market. International base revenues increased 8.1% primarily due to growth in China and certain European end markets.

Revenues increased 1.6% in 2010 versus 2009 due to the increase in base revenues, partially offset by the unfavorable effect of currency translation. Base revenues increased 3.2% for the North American laminate business primarily due to improvement in the commercial construction sector, including office equipment. International base revenues increased 1.4% primarily due to improvements in Asian end markets, partially offset by modest declines in European end markets.

### **Operating Income**

Operating income increased 12.8% in 2011 versus 2010 primarily due to the increase in base revenues described above, lower restructuring expenses and the favorable effect of currency translation, partially offset by higher operating costs. Base margins decreased 10 basis points versus the prior year primarily due to unfavorable selling price versus material cost comparisons and higher overhead costs, partially offset by the positive leverage of the increase in base revenues.

Operating income increased 3.6% in 2010 versus 2009 primarily due to the increase in base revenues and lower restructuring expenses, partially offset by higher operating costs. Base margins decreased 30 basis points versus the prior year primarily due to unfavorable selling price versus material cost comparisons, partially offset by the benefits of restructuring projects and the positive leverage of the increase in base revenues.

### **ALL OTHER**

This segment includes 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

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

In 2011, this segment primarily served the general industrial (22%), food and beverage (21%), consumer durables (15%), food retail/service (6%) and automotive original equipment manufacturers (4%) markets.

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The results of operations for the All Other segment for 2011, 2010 and 2009 were as follows:

| <b>Dollars In Thousands</b> | <b>2011</b>  | <b>2010</b>  | <b>2009</b>  |
|-----------------------------|--------------|--------------|--------------|
| Operating revenues          | \$ 2,889,699 | \$ 2,598,475 | \$ 2,238,604 |
| Operating income            | 531,914      | 430,857      | 309,811      |
| Margin %                    | 18.4%        | 16.6%        | 13.8%        |

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In 2011 and 2010, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

|  | 2011 Compared to 2010 |           |           | 2010 Compared to 2009 |           |           |
|--|-----------------------|-----------|-----------|-----------------------|-----------|-----------|
|  | % Increase (Decrease) | Operating | % Point   | % Increase (Decrease) | Operating | % Point   |
|  | Operating             | Operating | Operating | Operating             | Operating | Operating |
|  | Revenues              | Income    | Margins   | Revenues              | Income    | Margins   |
| Base business:                                 |                       |           |           |                       |           |           |
| Revenue change/Operating leverage              | 7.0%                  | 18.9%     | 1.8%      | 9.7%                  | 31.9%     | 2.8%      |
| Changes in variable margins and overhead costs |                       | 1.3       | 0.2       |                       | (4.0)     | (0.5)     |
|  | 7.0                   | 20.2      | 2.0       | 9.7                   | 27.9      | 2.3       |
| Acquisitions and divestitures                  | 2.3                   | 0.9       | (0.3)     | 7.0                   | 2.8       | (0.7)     |
| Restructuring costs                            |                       | 0.1       |           |                       | 8.3       | 1.1       |
| Impairment of goodwill and intangibles         |                       | 0.2       |           |                       | 0.3       |           |
| Translation                                    | 1.9                   | 2.0       |           | (0.6)                 | (0.3)     | 0.1       |
| Other  |                       | 0.1       | 0.1       |                       | 0.1       |           |
|  | 11.2%                 | 23.5%     | 1.8%      | 16.1%                 | 39.1%     | 2.8%      |

### Operating Revenues

Revenues increased 11.2% in 2011 versus 2010 due to an increase in base business revenues, revenues from acquisitions and the favorable effect of currency translation. Acquisition revenue was primarily due to the purchase of a test and measurement business in the fourth quarter of 2010, a heat transfer business in the second quarter of 2011, and a plastics and security business in the second quarter of 2010. Base business revenues for the test and measurement businesses increased 15.7% due to increased equipment orders both internationally and in North America. Growing worldwide product regulatory standards contributed to growth in these businesses. Base revenues for the consumer packaging business increased 4.8% in 2011 versus 2010 due to growth in the beverage packaging solutions, decorating equipment and marking and labels businesses. Base revenues for the industrial fasteners and appliance businesses declined 0.7% due to prolonged construction-associated weakness in the appliance end market, partially offset by increased demand in the industrial fasteners end market.

Revenues increased 16.1% in 2010 versus 2009 primarily due to an increase in base business revenues and revenues from acquisitions. The acquisition revenue was primarily due to the purchase of a consumer packaging business in the fourth quarter of 2009. Base business revenues increased 9.5% for the test and measurement businesses due to increased demand for capital equipment, particularly in the Asia-Pacific region. Base revenues increased 8.2% in 2010 versus 2009 for the consumer packaging business due to improvement in decorating end markets. Base revenues for the industrial fasteners and appliance businesses improved 15.2% due to increased demand for domestic appliances.

### Operating Income

Operating income increased 23.5% in 2011 versus 2010 primarily due to the growth in base revenues. Base margins increased 200 basis points primarily due to the positive leverage effect from the increase in base revenues and benefits from past restructuring projects. In addition, acquisitions and divestitures diluted total operating margins by 30 basis points in 2011.

Operating income increased 39.1% in 2010 versus 2009 primarily due to the growth in base revenues and lower restructuring expenses. Base margins increased 230 basis points primarily due to the positive leverage effect from the increase in base revenues and benefits from past restructuring projects, partially offset by unfavorable selling price versus material cost comparisons. In addition, lower restructuring expenses increased total operating margins by 110 basis points. Acquisitions and divestitures diluted total operating margins by 70 basis points in 2010.

### AMORTIZATION OF INTANGIBLE ASSETS

Amortization expense increased to \$255.3 million in 2011 and \$207.4 million in 2010, versus \$197.5 million in 2009, due to intangible asset amortization for newly acquired businesses.





**IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS**

In 2011, the Company performed its annual goodwill and indefinite lived intangible asset impairment assessment which resulted in no goodwill or other intangible asset impairment charges. Total goodwill and other intangible asset impairment charges by segment for the years ended December 31, 2010 and 2009 were as follows:

| <b>In Thousands</b>         | <b>2010</b> | <b>2009</b> |
|-----------------------------|-------------|-------------|
| Transportation              | \$          | \$ 12,347   |
| Power Systems & Electronics |             | 85,043      |
| Industrial Packaging        |             | 386         |
| Food Equipment              |             | 53          |
| Polymers & Fluids           |             | 4,122       |
| All Other                   | 1,006       | 3,617       |
|                             | \$ 1,006    | \$ 105,568  |

The 2009 charges were primarily due to goodwill impairment charges related to the pressure sensitive adhesives reporting unit of \$60.0 million, the PC board fabrication reporting unit of \$18.0 million and the truck remanufacturing and related parts and service reporting unit of \$12.0 million. See the Goodwill and Intangible Assets note in Item 8. Financial Statements and Supplementary Data for further details of the impairment charges.

**INTEREST EXPENSE**

Interest expense increased to \$192.1 million in 2011 which includes interest expense on the 3.375% and 4.875% notes issued in late August 2011, versus \$175.2 million in 2010. Interest expense increased to \$175.2 million in 2010 versus \$164.6 million in 2009 primarily due to interest on the 6.25% and 5.15% notes which were issued in March 2009, partially offset by lower interest related to the 5.75% notes, which were repaid at maturity in March 2009, and lower commercial paper borrowings. The weighted-average interest rate on commercial paper was 0.1% in 2011, 0.2% in 2010 and 0.3% in 2009.

**OTHER INCOME (EXPENSE)**

Other income (expense) was income of \$53.8 million in 2011 versus \$10.0 million in 2010. This increase was primarily due to higher interest income of \$40.3 million (versus \$24.1 million in 2010), lower losses on foreign currency transactions of \$4.3 million (versus \$16.7 million in 2010) and gains on disposal of operating affiliates of \$1.8 million (versus losses of \$8.0 million in 2010).

Other income (expense) was income of \$10.0 million in 2010 versus expense of \$4.5 million in 2009. This increase was primarily due to higher income from investments of \$20.8 million (versus \$4.9 million in 2009).

**INCOME TAXES**

The effective tax rate was 22.2% in 2011, 30.5% in 2010, and 20.2% in 2009. The effective tax rate for 2011 was favorably impacted by the 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 2010 was unfavorably impacted by the discrete tax charge of \$21.9 million in the first quarter of 2010 related to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. The effective tax rate for 2009 was favorably impacted by discrete tax adjustments in the fourth quarter of \$85.5 million related to a global legal structure reorganization and \$77.5 million related to a favorable settlement reached with the German tax authorities. In the above mentioned reorganization, the Company reorganized its ownership structure in certain U.S. and foreign subsidiaries in the fourth quarter of 2009 and made an election regarding the U.S. tax treatment of a foreign subsidiary. The Company recorded a reduction in tax expense primarily for the effect of the resulting foreign tax credits. Also during the fourth quarter of 2009, the Company finalized a settlement with the German tax authorities primarily regarding the treatment of an intercompany financing transaction which resulted in the reversal of previously established tax reserves as a reduction of tax expense.

See the Income Taxes note in Item 8. Financial Statements and Supplementary Data for further details on these discrete tax adjustments and a reconciliation of the U.S. Federal statutory rate to the effective tax rate.

**INCOME FROM CONTINUING OPERATIONS**

Income from continuing operations in 2011 of \$2.0 billion (\$4.08 per diluted share) was 38.9% higher than 2010 income of \$1.5 billion (\$2.89 per diluted share). Income from continuing operations in 2010 was 49.9% higher than 2009 income of \$968.6 million (\$1.93 per diluted share).

**FOREIGN CURRENCY**

The weakening of the U.S. Dollar against foreign currencies in 2011 versus 2010 increased operating revenues by approximately \$460 million in 2011 and increased income from continuing operations by approximately 10 cents per diluted share. The weakening of the U.S. Dollar against foreign currencies in 2010 versus 2009 increased operating revenues by approximately \$70 million in 2010 and increased income from continuing operations by approximately 4 cents per diluted share.

**DISCONTINUED OPERATIONS**

Income from discontinued operations was \$54.4 million in 2011 versus \$50.5 million in 2010 primarily due to improved operating results in the held for sale finishing businesses partially offset by an after-tax loss on the sale of a discontinued operation in 2011 versus an after-tax gain in 2010. Income from discontinued operations was \$50.5 million in 2010 versus \$4.1 million in 2009 due to improved operating results in the held for sale finishing businesses and an after-tax gain on the sale of a discontinued operation in 2010 versus after-tax losses in 2009. See the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of 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' 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 three years ended December 31, 2011, 2010 and 2009 was as follows:

| In Thousands  | 2011         | 2010         | 2009         |
|---|--------------|--------------|--------------|
| Net cash provided by operating activities               | \$ 1,956,008 | \$ 1,488,313 | \$ 2,167,552 |
| Additions to plant and equipment                        | (353,408)    | (287,759)    | (255,739)    |
| Free operating cash flow                                | \$ 1,602,600 | \$ 1,200,554 | \$ 1,911,813 |
| Cash dividends paid                                     | \$ (680,280) | \$ (636,200) | \$ (619,681) |
| Acquisitions  | (1,308,164)  | (497,435)    | (281,404)    |
| Repurchases of common stock                             | (950,000)    | (350,000)    |              |
| Net proceeds (repayments) of debt                       | 1,147,533    | (190,085)    | (742,427)    |
| Other   | 243,740      | 236,433      | 128,927      |
| Effect of exchange rate changes on cash and equivalents | (63,921)     | 76,934       | 87,951       |

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|   |    |         |    |           |    |         |
|---|----|---------|----|-----------|----|---------|
| Net increase (decrease) in cash and equivalents | \$ | (8,492) | \$ | (159,799) | \$ | 485,179 |
|---|----|---------|----|-----------|----|---------|

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 16.3 million shares of its common stock at an average price of \$53.51 and approximately 8.1 million shares of its common stock at an average price of \$43.29 during the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, there were no authorized repurchases 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). Through December 31, 2011, the Company made repurchases of approximately 1.8 million shares of its common stock at an average price of \$43.20. As of December 31, 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 cash 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 period and at the end of each quarter. ROIC for the years ended December 31, 2011, 2010, and 2009 was as follows:

| Dollars In Thousands                         | 2011          | 2010          | 2009          |
|--|---------------|---------------|---------------|
| Operating income                             | \$ 2,731,008  | \$ 2,254,017  | \$ 1,382,963  |
| Taxes (22.2%, 30.5% and 20.2%, respectively) | (606,284)     | (687,475)     | (279,359)     |
| Operating income after taxes                 | \$ 2,124,724  | \$ 1,566,542  | \$ 1,103,604  |
| Invested Capital:                            |               |               |               |
| Trade receivables                            | \$ 2,818,892  | \$ 2,581,592  | \$ 2,349,056  |
| Inventories                                  | 1,715,859     | 1,634,856     | 1,343,002     |
| Net plant and equipment                      | 2,025,396     | 2,066,156     | 2,097,326     |
| Investments                                  | 408,906       | 440,760       | 451,069       |
| Goodwill and intangible assets               | 7,430,979     | 6,702,834     | 6,491,902     |
| Accounts payable and accrued expenses        | (2,132,379)   | (2,140,885)   | (1,969,928)   |
| Net assets held for sale                     | 279,476       |               |               |
| Other, net                                   | 299,321       | (31,358)      | (334,124)     |
| Total invested capital                       | \$ 12,846,450 | \$ 11,253,955 | \$ 10,428,303 |
| Average invested capital                     | \$ 12,619,928 | \$ 10,735,032 | \$ 10,400,945 |
| Return on average invested capital           | 16.8%         | 14.6%         | 10.6%         |

The 220 basis point increase in ROIC in 2011 versus 2010 was the result of after-tax operating income increasing 35.6%, primarily due to an increase in base business and a favorable tax rate, partially offset by an increase in average invested capital.

The 400 basis point increase in ROIC in 2010 versus 2009 was the result of after-tax operating income increasing 41.9%, primarily due to an increase in base business, partially offset by a less favorable tax rate and a slight increase in average invested capital.

**Working Capital**

Net working capital at December 31, 2011 and 2010 is summarized as follows:

| <b>Dollars In Thousands</b>           | <b>2011</b>         | <b>2010</b>         | <b>Increase<br/>(Decrease)</b> |
|---------------------------------------|---------------------|---------------------|--------------------------------|
| <b>Current Assets:</b>                |                     |                     |                                |
| Cash and equivalents                  | \$ 1,177,875        | \$ 1,186,367        | \$ (8,492)                     |
| Trade receivables                     | 2,818,892           | 2,581,592           | 237,300                        |
| Inventories                           | 1,715,859           | 1,634,856           | 81,003                         |
| Other                                 | 750,396             | 567,673             | 182,723                        |
| Assets held for sale                  | 386,324             |                     | 386,324                        |
|                                       | 6,849,346           | 5,970,488           | 878,858                        |
| <b>Current Liabilities:</b>           |                     |                     |                                |
| Short-term debt                       | 502,063             | 326,236             | 175,827                        |
| Accounts payable and accrued expenses | 2,132,379           | 2,140,885           | (8,506)                        |
| Other                                 | 235,437             | 555,731             | (320,294)                      |
| Liabilities held for sale             | 106,848             |                     | 106,848                        |
|                                       | 2,976,727           | 3,022,852           | (46,125)                       |
| <b>Net Working Capital</b>            | <b>\$ 3,872,619</b> | <b>\$ 2,947,636</b> | <b>\$ 924,983</b>              |
| <b>Current Ratio</b>                  | <b>2.30</b>         | <b>1.98</b>         |                                |

Cash and equivalents totaled approximately \$1.2 billion as of December 31, 2011 and December 31, 2010, primarily all of which was held by international subsidiaries and may be subject to U.S. income taxes and foreign withholding taxes if repatriated to the United States. Cash balances held internationally are typically used for international operating needs, reinvested to fund expansion of existing international businesses, or used to fund new international acquisitions. In the U.S., the Company utilizes cash flows from domestic operations to fund domestic cash needs which primarily consist of dividend payments, acquisitions, share repurchases, servicing of domestic debt obligations and general corporate needs. The Company also uses short-term credit facilities of \$2.5 billion for short-term liquidity needs. The Company believes cash generated domestically will continue to be sufficient to fund cash requirements in the U.S.

**Debt**

Total debt at December 31, 2011 and 2010 was as follows:

| <b>Dollars In Thousands</b>               | <b>2011</b>         | <b>2010</b>         | <b>Increase<br/>(Decrease)</b> |
|---|---------------------|---------------------|--------------------------------|
| Short-term debt                           | \$ 502,063          | \$ 326,236          | \$ 175,827                     |
| Long-term debt                            | 3,488,198           | 2,542,087           | 946,111                        |
| <b>Total debt</b>                         | <b>\$ 3,990,261</b> | <b>\$ 2,868,323</b> | <b>\$ 1,121,938</b>            |
| <b>Total debt to total capitalization</b> | <b>28.5%</b>        | <b>23.1%</b>        |                                |

The Company issues commercial paper to fund general corporate needs and to fund small and medium-sized acquisitions. The Company has committed lines of credit of \$2.5 billion in the U.S. to support the potential issuances of commercial paper. Of this amount, \$1.0 billion is provided under a line of credit agreement with a termination date of June 10, 2016 and \$1.0 billion is provided under a line of credit agreement with a termination date of June 11, 2013. The remaining \$500.0 million is provided under a revolving credit facility that terminates on June 15, 2012. No amounts are outstanding under these three facilities. The Company's foreign operations also have unused capacity on uncommitted

facilities of approximately \$329 million.

The Company had outstanding commercial paper of approximately \$192.5 million at December 31, 2011, which is included in short-term debt, and no outstanding commercial paper at December 31, 2010. The maximum outstanding commercial paper balance during 2011 was \$1.8 billion while the average daily balance was \$744.9 million.

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 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. The net proceeds from these issuances were used to repay outstanding commercial paper.

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. The Company's targeted debt-to-capital ratio is 20% to 30%, excluding the impact of any larger acquisitions.

**Total Debt to EBITDA**

The Company uses the ratio of total debt to EBITDA to measure its ability to repay its outstanding debt obligations. The Company believes that total debt to EBITDA is a meaningful metric to investors in evaluating the Company's long term financial liquidity and may be different than the method used by other companies to calculate total debt to EBITDA. The ratio of total debt to EBITDA represents total debt divided by income from continuing operations before interest expense, other income (expense), income taxes, depreciation, and amortization and impairment of goodwill and other intangible assets on a trailing twelve month basis.

Total debt to EBITDA for the years ended December 31, 2011 and 2010 was as follows:

| <b>(Dollars in thousands)</b>                                       | <b>2011</b>         | <b>2010</b>         |
|---|---------------------|---------------------|
| Total debt  | \$ 3,990,261        | \$ 2,868,323        |
| Income from continuing operations                                   | \$ 2,017,014        | \$ 1,452,438        |
| Add:  |                     |                     |
| Interest expense  | 192,133             | 175,163             |
| Other income (expense)  | (53,839)            | (9,984)             |
| Income taxes  | 575,700             | 636,400             |
| Depreciation  | 336,495             | 334,786             |
| Amortization and impairment of goodwill and other intangible assets | 255,338             | 208,433             |
| <b>EBITDA</b>   | <b>\$ 3,322,841</b> | <b>\$ 2,797,236</b> |
| Total debt to EBITDA ratio  | 1.2                 | 1.0                 |

**Stockholders' Equity**

The changes to stockholders' equity during 2011 and 2010 were as follows:

| <b>In Thousands</b>                        | <b>2011</b>   | <b>2010</b>  |
|--|---------------|--------------|
| Beginning balance                          | \$ 9,571,999  | \$ 8,699,122 |
| Net income                                 | 2,071,384     | 1,502,952    |
| Cash dividends declared                    | (685,146)     | (649,708)    |
| Repurchases of common stock                | (950,000)     | (350,000)    |
| Stock option and restricted stock activity | 220,554       | 186,818      |
| Currency translation adjustments           | (140,521)     | 153,230      |
| Other                                      | (54,206)      | 29,585       |
| Ending balance                             | \$ 10,034,064 | \$ 9,571,999 |



**CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

The Company's significant contractual obligations as of December 31, 2011 were as follows:

| In Thousands               | 2012       | 2013       | 2014         | 2015       | 2016       | 2017 and<br>Future Years |
|----------------------------|------------|------------|--------------|------------|------------|--------------------------|
| Total long-term debt       | \$ 262,343 | \$ 10,077  | \$ 1,776,211 | \$ 2,861   | \$ 675     | \$ 1,698,374             |
| Interest payments on notes | 186,011    | 183,840    | 153,893      | 87,482     | 87,432     | 961,324                  |
| Minimum lease payments     | 156,760    | 123,549    | 92,642       | 65,566     | 50,948     | 87,348                   |
|                            | \$ 605,114 | \$ 317,466 | \$ 2,022,746 | \$ 155,909 | \$ 139,055 | \$ 2,747,046             |

As of December 31, 2011, the Company has recorded noncurrent liabilities for unrecognized tax benefits of \$187.8 million. The Company is not able to reasonably estimate the timing of payments related to the liabilities for unrecognized tax benefits.

At December 31, 2011, the Company had open stand-by letters of credit of approximately \$213.0 million, substantially all of which expire in 2012 and 2013. The Company had no other significant off-balance sheet commitments at December 31, 2011.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company has six accounting policies which it believes are most important to the Company's financial condition and results of operations, and which require the Company to make estimates about matters that are inherently uncertain. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These critical accounting policies are as follows:

**Realizability of Inventories** Inventories are stated at the lower of cost or market. Generally, the Company's businesses perform an analysis of the historical sales usage of the individual inventory items on hand and a reserve is recorded to adjust inventory cost to market value based on the following usage criteria:

| Usage Classification | Criteria  | Reserve % |
|----------------------|---|-----------|
| Active               | Quantity on hand is less than prior 6 months usage                              | 0%        |
| Slow-moving          | Some usage in last 12 months, but quantity on hand exceeds prior 6 months usage | 50%       |
| Obsolete             | No usage in the last 12 months  | 90%       |

In addition, for approximately 44% of the U.S. inventories, the Company has elected to use the last-in, first-out ( LIFO ) method of inventory costing. Generally, this method results in a lower inventory value than the first-in, first-out ( FIFO ) method due to the effects of inflation.

**Collectibility of Accounts Receivable** The Company estimates the allowance for uncollectible accounts based on the greater of a specific reserve or a reserve calculated based on the historical write-off percentage over the last two years. In addition, the allowance for uncollectible accounts includes reserves for customer credits and cash discounts, which are also estimated based on past experience.

**Depreciation of Plant and Equipment** The Company's U.S. businesses compute depreciation on an accelerated basis, as follows:

|                            |                        |
|----------------------------|------------------------|
| Buildings and improvements | 150% declining balance |
| Machinery and equipment    | 200% declining balance |

The majority of the international businesses compute depreciation on a straight-line basis to conform to their local statutory accounting and tax regulations.



**Income Taxes** The Company provides deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. The Company's deferred and other tax balances are based on management's interpretation of the tax regulations and rulings in numerous taxing jurisdictions. Income tax expense and liabilities recognized by the Company also reflect its best estimates and assumptions regarding, among other things, the level of future taxable income, the effect of the Company's various tax planning strategies and uncertain tax positions. Future tax authority rulings and changes in tax laws, changes in projected levels of taxable income and future tax planning strategies could affect the actual effective tax rate and tax balances recorded by the Company.

**Goodwill and Intangible Assets** The Company's business acquisitions typically result in recording goodwill and other intangible assets, which are a significant portion of the Company's total assets and affect the amount of amortization expense and impairment charges that the Company could incur in future periods. The Company follows the guidance prescribed in the accounting standards to test goodwill and intangible assets for impairment. On an annual basis, or more frequently if triggering events occur, the Company compares the estimated fair value of its 52 reporting units to the carrying value of each reporting unit to determine if a potential goodwill impairment exists. 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. In calculating the fair value of the reporting units or specific intangible assets, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash flows, comparable transactions and other market data. There are inherent uncertainties related to these factors and management's judgment in applying them in the impairment tests of goodwill and other intangible assets.

As of December 31, 2011, the Company had total goodwill and intangible assets of \$7.4 billion allocated to its 52 reporting units. Although there can be no assurance that the Company will not incur additional impairment charges related to its goodwill and other intangible assets, the Company generally believes the risk of significant impairment charges is lessened by the number of diversified businesses and end markets represented by its 52 reporting units that have goodwill and other intangible assets. In addition, the individual businesses in many of the reporting units have been acquired over a long period of time, and in many cases have been able to improve their performance, primarily as a result of the application of the Company's 80/20 business simplification process. The amount of goodwill and other intangible assets allocated to individual reporting units range from approximately \$5 million to \$830 million, with the average amount equal to \$140 million.

Fair value determinations require considerable judgment and are sensitive to changes in the factors described above. Due to the inherent uncertainties associated with these factors and economic conditions in the Company's global end markets, impairment charges related to one or more reporting units could occur in future periods.

**Pension and Other Postretirement Benefits** The Company has various company-sponsored defined benefit retirement plans covering a substantial portion of U.S. employees and many employees outside the United States. Pension and other postretirement expense and obligations are determined based on actuarial valuations. Pension benefit obligations are generally based on each participant's years of service, future compensation, and age at retirement or termination. Important assumptions in determining pension and postretirement expense and obligations are the discount rate, the expected long-term return on plan assets and healthcare cost trend rates. See the Pension and Other Postretirement Benefits note in Item 8. Financial Statements and Supplementary Data for additional discussion of actuarial assumptions used in determining pension and postretirement health care liabilities and expenses.

The Company determines the discount rate used to measure plan liabilities as of the December 31 measurement date for the U.S. primary pension plan. The discount rate reflects the current rate at which the associated liabilities could theoretically be effectively settled at the end of the year. In estimating this rate, the Company looks at rates of return on high-quality fixed income investments, with similar duration to the liabilities in the plan. A 25 basis point decrease in the discount rate would increase the present value of the U.S. primary pension plan obligation by approximately \$32 million.

The expected long-term return on plan assets is based on historical and expected long-term returns for similar investment allocations among asset classes. For the U.S. primary pension plan, the Company's assumption for the expected return on plan assets was 8.0% for 2011 and will be 8.0% for 2012. A 25 basis point decrease in the expected return on plan assets would increase the annual pension expense by approximately \$3 million. See the Pension and Other Postretirement Benefits note in Item 8. Financial Statements and Supplementary Data for information on how this rate is determined.

**ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk****MARKET RISK****Interest Rate Risk**

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt.

The following table presents the Company's debt for which fair value is subject to changing market interest rates:

|  | 6.55%  |                                   | 5.25%                            |                                   | 4.88%                             |                           | 3.375%                    | 4.875% |
|--|--|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|---------------------------|---------------------------|--------|
|  | Preferred<br>Debt<br>Securities<br>Due<br>Dec 31, 2011 | 5.15%<br>Notes Due<br>Apr 1, 2014 | Euro Notes<br>Due<br>Oct 1, 2014 | 6.25%<br>Notes Due<br>Apr 1, 2019 | Notes Due<br>thru<br>Dec 31, 2020 | Notes Due<br>Sep 15, 2021 | Notes Due<br>Sep 15, 2041 |        |
| <b>In Thousands</b>                                  |  |                                   |                                  |                                   |                                   |                           |                           |        |
| As of December 31, 2011:                             |  |                                   |                                  |                                   |                                   |                           |                           |        |
| Estimated cash outflow by year of principal maturity |  |                                   |                                  |                                   |                                   |                           |                           |        |
| 2012   | \$ 250,000   | \$                                | \$                               | \$                                | \$ 10,233                         | \$                        | \$                        |        |
| 2013   |  |                                   |                                  |                                   | 4,312                             |                           |                           |        |
| 2014   |  | 800,000                           | 972,000                          |                                   | 2,664                             |                           |                           |        |
| 2015   |  |                                   |                                  |                                   | 1,018                             |                           |                           |        |
| 2016   |  |                                   |                                  |                                   | 131                               |                           |                           |        |
| 2017 and thereafter                                  |  |                                   |                                  | 700,000                           | 3,596                             | 350,000                   | 650,000                   |        |
| Estimated fair value                                 | 250,000  | 876,800                           | 1,064,218                        | 871,668                           | 24,362                            | 367,574                   | 760,533                   |        |
| Carrying value                                       | 250,000  | 799,693                           | 971,465                          | 699,912                           | 21,954                            | 348,476                   | 640,551                   |        |
| As of December 31, 2010:                             |  |                                   |                                  |                                   |                                   |                           |                           |        |
| Total estimated cash outflow                         | \$ 250,000   | \$ 800,000                        | \$ 1,002,750                     | \$ 700,000                        | \$ 21,954                         | \$                        | \$                        |        |
| Estimated fair value                                 | 263,750  | 882,480                           | 1,098,412                        | 816,200                           | 23,471                            |                           |                           |        |
| Carrying value                                       | 249,949  | 799,567                           | 1,002,016                        | 699,903                           | 21,954                            |                           |                           |        |

**Foreign Currency Risk**

The Company operates in the United States and 57 other countries. In general, the Company's products are primarily manufactured and sold within the same country. The initial funding for the foreign manufacturing operations was provided primarily through the permanent investment of equity capital from the U.S. parent company. Therefore, the Company and its subsidiaries do not have significant assets or liabilities denominated in currencies other than their functional currencies. As such, the Company does not have any significant derivatives or other financial instruments that are subject to foreign currency risk at December 31, 2011 or 2010.

In October 2007, the Company issued 750.0 million of 5.25% Euro notes due October 1, 2014. The Company has significant operations with the Euro as their functional currency. The Company believes that the Euro cash flows from these businesses will be adequate to fund the debt obligations under these notes.

**ITEM 8. Financial Statements and Supplementary Data**

**MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Illinois Tool Works Inc. (the Company or ITW ) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). ITW 's internal control system was designed to provide reasonable assurance to the Company 's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

ITW management assessed the effectiveness of the Company 's internal control over financial reporting as of December 31, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment we believe that, as of December 31, 2011, the Company 's internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company 's internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report herein.

/s/ David B. Speer

David B. Speer

Chairman & Chief Executive Officer

February 17, 2012

/s/ Ronald D. Kropp

Ronald D. Kropp

Senior Vice President & Chief Financial Officer

February 17, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Illinois Tool Works Inc.:

We have audited the accompanying statement of financial position of Illinois Tool Works Inc. and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related statements of income, income reinvested in the business, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management report on internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Tool Works Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in the International Reporting Lag note within the Notes to Financial Statements, on January 1, 2011, the Company elected to change its method of accounting to eliminate a one-month lag for reporting its international operations outside of North America, which was retrospectively adjusted in the Company's 2010 and 2009 consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Chicago, Illinois

February 17, 2012



## Statement of Income

## Illinois Tool Works Inc. and Subsidiaries

| In Thousands except for per share amounts                      | For the Years Ended December 31 |               |               |
|--|---------------------------------|---------------|---------------|
|  | 2011                            | 2010          | 2009          |
| Operating Revenues   | \$ 17,786,583                   | \$ 15,415,692 | \$ 13,572,996 |
| Cost of revenues   | 11,517,885                      | 9,996,668     | 8,953,380     |
| Selling, administrative, and research and development expenses | 3,282,352                       | 2,956,574     | 2,933,616     |
| Amortization of intangible assets                              | 255,338                         | 207,427       | 197,469       |
| Impairment of goodwill and other intangible assets             |                                 | 1,006         | 105,568       |
| Operating Income   | 2,731,008                       | 2,254,017     | 1,382,963     |
| Interest expense   | (192,133)                       | (175,163)     | (164,589)     |
| Other income (expense)   | 53,839                          | 9,984         | (4,454)       |
| Income from Continuing Operations Before Income Taxes          | 2,592,714                       | 2,088,838     | 1,213,920     |
| Income taxes   | 575,700                         | 636,400       | 245,282       |
| Income from Continuing Operations                              | 2,017,014                       | 1,452,438     | 968,638       |
| Income from Discontinued Operations                            | 54,370                          | 50,514        | 4,059         |
| Net Income   | \$ 2,071,384                    | \$ 1,502,952  | \$ 972,697    |
| Income Per Share from Continuing Operations:                   |                                 |               |               |
| Basic  | \$ 4.10                         | \$ 2.90       | \$ 1.94       |
| Diluted  | \$ 4.08                         | \$ 2.89       | \$ 1.93       |
| Income Per Share from Discontinued Operations:                 |                                 |               |               |
| Basic  | \$ 0.11                         | \$ 0.10       | \$ 0.01       |
| Diluted  | \$ 0.11                         | \$ 0.10       | \$ 0.01       |
| Net Income Per Share:  |                                 |               |               |
| Basic  | \$ 4.21                         | \$ 3.00       | \$ 1.94       |
| Diluted  | \$ 4.19                         | \$ 2.99       | \$ 1.94       |

*The Notes to Financial Statements are an integral part of this statement.*



**Statement of Income Reinvested in the Business****Illinois Tool Works Inc. and Subsidiaries**

| <b>In Thousands</b>   | <b>For the Years Ended December 31</b> |               |              |
|---|--|---------------|--------------|
|   | <b>2011</b>                            | <b>2010</b>   | <b>2009</b>  |
| Beginning Balance   | \$ 10,407,946                          | \$ 9,554,702  | \$ 9,196,465 |
| Net income  | 2,071,384                              | 1,502,952     | 972,697      |
| Cash dividends declared   | (685,146)                              | (649,708)     | (620,679)    |
| Cumulative effect of adopting new accounting principles, net of tax |  |               | 6,219        |
| Ending Balance  | \$ 11,794,184                          | \$ 10,407,946 | \$ 9,554,702 |

**Statement of Comprehensive Income****Illinois Tool Works Inc. and Subsidiaries**

| <b>In Thousands</b>  | <b>For the Years Ended December 31</b> |              |              |
|--|--|--------------|--------------|
|  | <b>2011</b>                            | <b>2010</b>  | <b>2009</b>  |
| Net Income   | \$ 2,071,384                           | \$ 1,502,952 | \$ 972,697   |
| Other Comprehensive Income:                                      |  |              |              |
| Foreign currency translation adjustments                         | (140,521)                              | 153,230      | 301,112      |
| Pension and other postretirement benefit adjustments, net of tax | (62,411)                               | 24,966       | (62,271)     |
| Comprehensive Income   | \$ 1,868,452                           | \$ 1,681,148 | \$ 1,211,538 |

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

## Statement of Financial Position

## Illinois Tool Works Inc. and Subsidiaries

| In Thousands except shares                                       | December 31      |                  |
|--|------------------|------------------|
|  | 2011             | 2010             |
| <b>Assets</b>  |                  |                  |
| Current Assets:  |                  |                  |
| Cash and equivalents   | \$ 1,177,875     | \$ 1,186,367     |
| Trade receivables  | 2,818,892        | 2,581,592        |
| Inventories  | 1,715,859        | 1,634,856        |
| Deferred income taxes  | 365,905          | 301,486          |
| Prepaid expenses and other current assets                        | 384,491          | 266,187          |
| Assets held for sale   | 386,324          |                  |
| <b>Total current assets</b>                                      | <b>6,849,346</b> | <b>5,970,488</b> |
| Plant and Equipment:   |                  |                  |
| Land   | 248,250          | 264,875          |
| Buildings and improvements                                       | 1,566,742        | 1,574,593        |
| Machinery and equipment  | 3,972,417        | 3,930,502        |
| Equipment leased to others                                       | 187,387          | 187,284          |
| Construction in progress   | 112,501          | 104,440          |
| <b>Gross plant and equipment</b>                                 | <b>6,087,297</b> | <b>6,061,694</b> |
| Accumulated depreciation   | (4,061,901)      | (3,995,538)      |
| <b>Net plant and equipment</b>                                   | <b>2,025,396</b> | <b>2,066,156</b> |
| Investments  | 408,906          | 440,760          |
| Goodwill   | 5,197,601        | 4,971,818        |
| Intangible assets  | 2,233,378        | 1,731,016        |
| Deferred income taxes  | 633,832          | 615,326          |
| Other assets   | 635,055          | 616,747          |
|  | \$ 17,983,514    | \$ 16,412,311    |
| <b>Liabilities and Stockholders Equity</b>                       |                  |                  |
| Current Liabilities:   |                  |                  |
| Short-term debt  | \$ 502,063       | \$ 326,236       |
| Accounts payable   | 696,776          | 749,489          |
| Accrued expenses   | 1,435,603        | 1,391,396        |
| Cash dividends payable   | 174,099          | 169,233          |
| Income taxes payable   | 56,517           | 386,498          |
| Deferred income taxes  | 4,821            |                  |
| Liabilities held for sale  | 106,848          |                  |
| <b>Total current liabilities</b>                                 | <b>2,976,727</b> | <b>3,022,852</b> |
| Noncurrent Liabilities:  |                  |                  |
| Long-term debt   | 3,488,198        | 2,542,087        |
| Deferred income taxes  | 116,954          | 194,590          |
| Other liabilities  | 1,367,571        | 1,080,783        |
| <b>Total noncurrent liabilities</b>                              | <b>4,972,723</b> | <b>3,817,460</b> |
| Stockholders Equity:   |                  |                  |
| Common stock:  |                  |                  |
| Issued 542,500,435 shares in 2011 and 538,505,782 shares in 2010 | 5,425            | 5,385            |
| Additional paid-in-capital                                       | 686,155          | 460,806          |

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|  |               |               |
|--|---------------|---------------|
| Income reinvested in the business      | 11,794,184    | 10,407,946    |
| Common stock held in treasury          | (2,692,196)   | (1,740,682)   |
| Accumulated other comprehensive income | 224,223       | 427,155       |
| Noncontrolling interest                | 16,273        | 11,389        |
| Total stockholders' equity             | 10,034,064    | 9,571,999     |
|  | \$ 17,983,514 | \$ 16,412,311 |

*The Notes to Financial Statements are an integral part of this statement.*

## Statement of Cash Flows

## Illinois Tool Works Inc. and Subsidiaries

| In Thousands   | For the Years Ended December 31 |                    |                    |
|--|---------------------------------|--------------------|--------------------|
|  | 2011                            | 2010               | 2009               |
| <b>Cash Provided by (Used for) Operating Activities:</b>   |                                 |                    |                    |
| Net income   | \$ 2,071,384                    | \$ 1,502,952       | \$ 972,697         |
| Adjustments to reconcile net income to cash provided by operating activities:                    |                                 |                    |                    |
| Depreciation   | 336,495                         | 334,786            | 376,226            |
| Amortization and impairment of goodwill and other intangible assets                              | 257,514                         | 214,000            | 308,615            |
| Change in deferred income taxes  | (175,923)                       | (142,729)          | (481,803)          |
| Provision for uncollectible accounts   | 4,553                           | 4,390              | 17,543             |
| (Gain) loss on sale of plant and equipment   | (2,011)                         | (701)              | 1,596              |
| Income from investments  | (17,486)                        | (20,808)           | (4,944)            |
| (Gain) loss on disposal of operations and affiliates   | 1,899                           | (12,627)           | 34,315             |
| Stock compensation expense   | 56,374                          | 56,443             | 51,858             |
| Other non-cash items, net  | (5,766)                         | (1,810)            | (1,086)            |
| Change in assets and liabilities:  |                                 |                    |                    |
| (Increase) decrease in   |                                 |                    |                    |
| Trade receivables  | (302,952)                       | (170,579)          | 223,055            |
| Inventories  | (50,577)                        | (223,597)          | 576,932            |
| Prepaid expenses and other assets  | (50,238)                        | (38,723)           | 509                |
| Increase (decrease) in   |                                 |                    |                    |
| Accounts payable   | (54,977)                        | 69,543             | (19,636)           |
| Accrued expenses and other liabilities   | 51,586                          | 66,533             | (246,370)          |
| Income taxes receivable and payable  | (182,416)                       | (148,796)          | 355,561            |
| Other, net   | 18,549                          | 36                 | 2,484              |
| <b>Net cash provided by operating activities</b>   | <b>1,956,008</b>                | <b>1,488,313</b>   | <b>2,167,552</b>   |
| <b>Cash Provided by (Used for) Investing Activities:</b>   |                                 |                    |                    |
| Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates | (1,308,164)                     | (497,435)          | (281,404)          |
| Additions to plant and equipment   | (353,408)                       | (287,759)          | (255,739)          |
| Purchases of investments   | (5,641)                         | (16,047)           | (17,586)           |
| Proceeds from investments  | 36,516                          | 26,438             | 20,215             |
| Proceeds from sale of plant and equipment  | 17,079                          | 18,427             | 26,736             |
| Proceeds from sale of operations and affiliates  | 21,918                          | 63,197             | 17,259             |
| Other, net   | 12,569                          | 20,787             | (23,481)           |
| <b>Net cash used for investing activities</b>  | <b>(1,579,131)</b>              | <b>(672,392)</b>   | <b>(514,000)</b>   |
| <b>Cash Provided by (Used for) Financing Activities:</b>   |                                 |                    |                    |
| Cash dividends paid  | (680,280)                       | (636,200)          | (619,681)          |
| Issuance of common stock   | 153,100                         | 114,844            | 101,733            |
| Repurchases of common stock  | (950,000)                       | (350,000)          |                    |
| Net proceeds (repayments) of debt with original maturities of three months or less               | 166,592                         | (157,286)          | (1,615,998)        |
| Proceeds from debt with original maturities of more than three months                            | 989,596                         | 1,437              | 2,153,440          |
| Repayments of debt with original maturities of more than three months                            | (8,655)                         | (34,236)           | (1,279,869)        |
| Excess tax benefits from share-based compensation  | 8,199                           | 8,787              | 4,051              |
| <b>Net cash used for financing activities</b>  | <b>(321,448)</b>                | <b>(1,052,654)</b> | <b>(1,256,324)</b> |
| Effect of Exchange Rate Changes on Cash and Equivalents  | (63,921)                        | 76,934             | 87,951             |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| <b>Cash and Equivalents:</b>                               |              |              |              |
| Increase (decrease) during the year                        | (8,492)      | (159,799)    | 485,179      |
| Beginning of year  | 1,186,367    | 1,346,166    | 860,987      |
| End of year  | \$ 1,177,875 | \$ 1,186,367 | \$ 1,346,166 |
| Cash Paid During the Year for Interest                     | \$ 168,331   | \$ 174,974   | \$ 156,144   |
| Cash Paid During the Year for Income Taxes, Net of Refunds | \$ 978,257   | \$ 960,013   | \$ 355,069   |
| Liabilities Assumed from Acquisitions                      | \$ 200,028   | \$ 216,478   | \$ 57,863    |

*The Notes to Financial Statements are an integral part of this statement.*

## Notes to Financial Statements

The Notes to Financial Statements furnish additional information on items in the financial statements. The notes have been arranged in the same order as the related items appear in the statements.

### Nature Of Operations

Illinois Tool Works Inc. (the Company or ITW) is a multinational manufacturer of a diversified range of industrial products and equipment with operations in 58 countries. The Company primarily serves the construction, general industrial, food institutional/restaurant, automotive OEM/tiers, automotive aftermarket, and food and beverage markets.

### Significant Accounting Policies

Significant accounting principles and policies of the Company are in italics. Certain reclassifications of prior years data have been made to conform to current year reporting.

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to financial statements. Actual results could differ from those estimates. The significant estimates included in the preparation of the financial statements are related to inventories, trade receivables, plant and equipment, income taxes, goodwill and intangible assets, product liability matters, litigation, product warranties, pensions, other postretirement benefits, environmental matters and stock options.

### International Reporting Lag

**International Reporting Lag** 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 impact of the elimination of the one month reporting lag for international operations outside of North America for the years ended December 31, 2010 and 2009 was as follows:

| <b>Increase (Decrease)</b>                          |             |             |
|---|-------------|-------------|
| <b>In Thousands Except per Share Amounts</b>        | <b>2010</b> | <b>2009</b> |
| Operating revenues                                  | \$ (21,796) | \$ 91,574   |
| Income from continuing operations                   | (24,877)    | 26,023      |
| Income from continuing operations per diluted share | (0.04)      | 0.05        |
| Net income  | (24,241)    | 25,688      |
| Net income per diluted share                        | (0.04)      | 0.05        |

The cumulative effect of adopting this change in accounting principle was recorded as an after-tax increase of \$7,274,000 to income reinvested in the business as of January 1, 2009.

## Consolidation and Translation

**Consolidation and Translation** *The financial statements include the Company and its majority-owned subsidiaries. All significant intercompany transactions are eliminated from the financial statements.*

*Foreign subsidiaries' assets and liabilities are translated to U.S. dollars at end-of-period exchange rates. Revenues and expenses are translated at average rates for the period. Translation adjustments are reported as a component of accumulated other comprehensive income in stockholders' equity.*

## Discontinued Operations

**Discontinued Operations** The Company periodically reviews its operations for businesses which may no longer be aligned with its long-term objectives. In April 2011, the Company entered into a definitive agreement to sell its finishing group of businesses included within the All Other segment to Graco Inc. in a \$650,000,000 cash transaction. In December 2011, the Federal Trade Commission (FTC) filed a complaint challenging Graco's acquisition of the finishing business. The Company intends to divest the finishing business in 2012. The finishing business has been classified as held for sale beginning in the second quarter of 2011.

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 electronic components business in the Power Systems & Electronics segment. The electronic components business was sold in the fourth quarter of 2011. The Company expects to divest the consumer packaging business in 2012. The consumer packaging business has been classified as held for sale beginning in the second quarter of 2011.

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**Notes to Financial Statements (Continued)**

The Company exited a flooring business in the Decorative Surfaces segment in early 2011 and sold a security printing business in the All Other segment in the third quarter of 2010.

In 2008, the Company's Board of Directors authorized the divestiture of the Click Commerce industrial software business which was previously reported in the All Other segment. In the second quarter of 2009, the Company completed the sale of the Click Commerce business. Additionally, in 2009, the Company sold an automotive components business which was previously reported in the Transportation segment.

The consolidated statement of income and the notes to financial statements have been restated to present the operating results of the held for sale and previously divested or exited businesses discussed above as discontinued operations for 2011, 2010 and 2009.

Results of the discontinued operations for the years ended December 31, 2011, 2010 and 2009 were as follows:

| <b>In Thousands</b>                 | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|-------------------------------------|-------------|-------------|-------------|
| Operating revenues                  | \$ 470,252  | \$ 432,705  | \$ 420,609  |
| Income before taxes                 | \$ 81,602   | \$ 84,912   | \$ 5,080    |
| Income tax expense                  | (27,232)    | (34,398)    | (1,021)     |
| Income from discontinued operations | \$ 54,370   | \$ 50,514   | \$ 4,059    |

Income before taxes from discontinued operations included a \$3,675,000 loss related to the sale of the electronics components business in 2011, a \$19,559,000 gain related to the sale of the security printing business in 2010, and losses of \$27,665,000 related to the sale of the Click Commerce and automotive components businesses in 2009.

There were no businesses held for sale as of December 31, 2010 and 2009. The assets and liabilities of the held for sale finishing and consumer packaging businesses discussed above were included in assets and liabilities held for sale in the statement of financial position as of December 31, 2011 as follows:

| <b>In Thousands</b>             | <b>December 31, 2011</b> |
|---------------------------------|--------------------------|
| Trade receivables               | \$ 71,684                |
| Inventories                     | 55,642                   |
| Net plant and equipment         | 44,635                   |
| Goodwill and intangible assets  | 201,526                  |
| Other                           | 12,837                   |
| Total assets held for sale      | \$ 386,324               |
| Accounts payable                | \$ 21,672                |
| Accrued expenses                | 54,723                   |
| Other                           | 30,453                   |
| Total liabilities held for sale | \$ 106,848               |





## Notes to Financial Statements (Continued)

## Acquisitions

**Acquisitions** *The Company accounts for acquisitions under the acquisition method, in which assets acquired and liabilities assumed are recorded at fair value as of the date of acquisition. The operating results of the acquired companies are included in the Company's consolidated financial statements from the date of acquisition. Acquisitions, individually and in the aggregate, did not materially affect the Company's results of operations or financial position for any period presented. Summarized information related to acquisitions is as follows:*

| In Thousands except number of acquisitions | 2011         | 2010       | 2009       |
|--|--------------|------------|------------|
| Number of acquisitions                     | 28           | 24         | 20         |
| Net cash paid during the year              | \$ 1,308,164 | \$ 497,435 | \$ 281,404 |

The premium over tangible net assets recorded for acquisitions based on purchase price allocations during 2011, 2010 and 2009 was as follows:

| In Thousands except for weighted-average lives (years) | 2011                  |                  | 2010                  |                  | 2009                  |                  |
|--|-----------------------|------------------|-----------------------|------------------|-----------------------|------------------|
|  | Weighted-Average Life | Premium Recorded | Weighted-Average Life | Premium Recorded | Weighted-Average Life | Premium Recorded |
| Goodwill   |                       | \$ 475,634       |                       | \$ 219,222       |                       | \$ 95,936        |
| Amortizable intangible assets:                         |                       |                  |                       |                  |                       |                  |
| Customer lists and relationships                       | 12.2                  | 362,387          | 11.8                  | 120,845          | 10.7                  | 48,152           |
| Patents and proprietary technology                     | 9.6                   | 98,117           | 10.9                  | 31,986           | 12.3                  | 30,421           |
| Trademarks and brands                                  | 17.3                  | 245,295          | 14.9                  | 70,667           | 14.0                  | 19,732           |
| Noncompete agreements                                  | 5.0                   | 26,818           | 5.3                   | 4,617            | 6.2                   | 8,859            |
| Other  | 1.8                   | 10,307           | 4.9                   | 12,572           | 4.4                   | 6,846            |
| Total amortizable intangible assets                    | 13.1                  | 742,924          | 12.1                  | 240,687          | 10.9                  | 114,010          |
| Indefinite-lived intangible assets:                    |                       |                  |                       |                  |                       |                  |
| Trademarks and brands                                  |                       | 5,481            |                       |                  |                       | 12,254           |
| Total premium recorded                                 |                       | \$ 1,224,039     |                       | \$ 459,909       |                       | \$ 222,200       |

Of the total goodwill recorded for acquisitions, the Company expects goodwill of \$302,146,000 in 2011, \$51,304,000 in 2010 and \$72,216,000 in 2009 will be tax deductible.

On January 1, 2009, the Company adopted new accounting guidance related to business combinations. The new accounting guidance requires an entity to recognize assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. The new guidance also requires prospectively that (1) acquisition-related costs be expensed as incurred; (2) restructuring costs generally be recognized as a post-acquisition expense; and (3) changes in deferred tax asset valuation allowances and income tax uncertainties after the measurement period impact income tax expense. Upon adoption of the new guidance, the Company recorded an after-tax charge to income reinvested in the business of \$1,055,000 in 2009.

## Operating Revenues

**Operating Revenues** are recognized when persuasive evidence of an arrangement exists, product has shipped and the risks and rewards of ownership have transferred or services have been rendered, the price to the customer is fixed or determinable, and collectibility is reasonably assured, which is generally at the time of product shipment. Typical sales arrangements are for standard products and provide for transfer of ownership and risk of loss at the time of shipment. *In limited circumstances where significant obligations to the customer are unfulfilled at the time of shipment, typically involving installation and customer acceptance, revenue recognition is deferred until such obligations have been completed. Customer allowances and rebates, consisting primarily of volume discounts and other short-term incentive programs, are estimated at the time of sale based on historical experience and known trends and are recorded as a reduction in reported revenues.* No single customer accounted for more than 5% of consolidated revenues in 2011, 2010 or 2009.

In October 2009, new accounting guidance was issued on multiple-deliverable revenue arrangements. The new accounting guidance amends the accounting for multiple-deliverable arrangements to enable the vendor to account for product or services separately rather than as a combined unit. The guidance establishes a hierarchy for determining the selling price of a deliverable, which is based on: (1) vendor-specific objective evidence, (2) third-party evidence or (3) estimates. The Company adopted the new accounting guidance on January 1, 2011, and the adoption did not materially affect the Company's financial position or results of operations.

## Research and Development Expenses

**Research and Development Expenses** are recorded as expense in the year incurred. These costs were \$242,979,000 in 2011, \$213,339,000 in 2010 and \$191,859,000 in 2009.

## Notes to Financial Statements (Continued)

## Rental Expense

**Rental Expense** was \$178,439,000 in 2011, \$165,171,000 in 2010 and \$170,561,000 in 2009. Future minimum lease payments under non-cancellable leases for the years ending December 31 are as follows:

| In Thousands          |            |
|-----------------------|------------|
| 2012                  | \$ 156,760 |
| 2013                  | 123,549    |
| 2014                  | 92,642     |
| 2015                  | 65,566     |
| 2016                  | 50,948     |
| 2017 and future years | 87,348     |
|                       | \$ 576,813 |

## Advertising Expenses

**Advertising Expenses** are recorded as expense in the year incurred. These costs were \$87,965,000 in 2011, \$72,016,000 in 2010 and \$63,290,000 in 2009.

## Other Income (Expense)

**Other Income (Expense)** consisted of the following:

| In Thousands                            | 2011      | 2010      | 2009       |
|---|-----------|-----------|------------|
| Interest income                         | \$ 40,276 | \$ 24,065 | \$ 16,649  |
| Investment income                       | 17,486    | 20,808    | 4,944      |
| Losses on foreign currency transactions | (4,272)   | (16,664)  | (21,284)   |
| Other, net                              | 349       | (18,225)  | (4,763)    |
|   | \$ 53,839 | \$ 9,984  | \$ (4,454) |

## Income Taxes

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**Income Taxes** *The Company utilizes the asset and liability method of accounting for income taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities given the provisions of the enacted tax laws. The components of the provision for income taxes were as shown below:*

| <b>In Thousands</b>   | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|-------------|
| <b>U.S. Federal income taxes:</b>                                   |             |             |             |
| Current   | \$ 514,798  | \$ 396,880  | \$ 226,615  |
| Deferred  | (33,733)    | (45,630)    | (21,213)    |
| Benefit of net operating loss and foreign tax credits carryforwards |             |             | (85,898)    |
|   | 481,065     | 351,250     | 119,504     |
| <b>Foreign income taxes:</b>  |             |             |             |
| Current   | 147,425     | 266,384     | 334,227     |
| Deferred  | (82,069)    | (19,615)    | (189,995)   |
| Benefit of net operating loss carryforwards                         | (4,237)     | (3,134)     | (30,820)    |
|   | 61,119      | 243,635     | 113,412     |
| <b>State income taxes:</b>  |             |             |             |
| Current   | 65,122      | 51,530      | 38,836      |
| Deferred  | (31,357)    | (2,837)     | (22,527)    |
| Benefit of net operating loss carryforwards                         | (249)       | (7,178)     | (3,943)     |
|   | 33,516      | 41,515      | 12,366      |
|   | \$ 575,700  | \$ 636,400  | \$ 245,282  |

## Notes to Financial Statements (Continued)

Income from continuing operations before income taxes for domestic and foreign operations was as follows:

| In Thousands | 2011         | 2010         | 2009         |
|--------------|--------------|--------------|--------------|
| Domestic     | \$ 1,452,268 | \$ 1,216,749 | \$ 473,341   |
| Foreign      | 1,140,446    | 872,089      | 740,579      |
|              | \$ 2,592,714 | \$ 2,088,838 | \$ 1,213,920 |

The reconciliation between the U.S. Federal statutory tax rate and the effective tax rate was as follows:

|   | 2011  | 2010  | 2009  |
|---|-------|-------|-------|
| U.S. Federal statutory tax rate                                       | 35.0% | 35.0% | 35.0% |
| State income taxes, net of U.S. Federal tax benefit                   | 1.1   | 1.2   | 0.8   |
| Nondeductible goodwill impairment                                     |       |       | 2.5   |
| Differences between U.S. Federal statutory and foreign tax rates      | (2.7) | (2.0) | (3.3) |
| Nontaxable foreign interest income                                    | (3.6) | (3.4) | (4.6) |
| Foreign tax credit related to a global legal structure reorganization |       |       | (7.0) |
| German tax audit settlement   |       |       | (4.7) |
| Australian court decision   | (6.4) |       |       |
| Tax effect of foreign dividends                                       | 0.4   | 0.5   | 1.3   |
| Tax relief for U.S. manufacturers                                     | (1.3) | (1.3) | (0.7) |
| Other, net  | (0.3) | 0.5   | 0.9   |
| Effective tax rate  | 22.2% | 30.5% | 20.2% |

Deferred U.S. Federal income taxes and foreign withholding taxes have not been provided on the remaining undistributed earnings of certain international subsidiaries of approximately \$6,300,000,000 and \$5,700,000,000 as of December 31, 2011 and 2010, respectively, as these earnings are considered permanently invested. Upon repatriation of these earnings to the U.S. in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. The actual U.S. tax cost would depend on income tax laws and circumstances at the time of distribution. Determination of the related tax liability is not practicable because of the complexities associated with the hypothetical calculation.

The components of deferred income tax assets and liabilities at December 31, 2011 and 2010 were as follows:

| In Thousands  | 2011       |              | 2010       |              |
|---|------------|--------------|------------|--------------|
|   | Asset      | Liability    | Asset      | Liability    |
| Goodwill and intangible assets                              | \$ 355,412 | \$ (786,815) | \$ 386,662 | \$ (758,136) |
| Inventory reserves, capitalized tax cost and LIFO inventory | 75,974     | (12,999)     | 65,592     | (11,961)     |
| Investments   | 36,017     | (56,626)     | 33,849     | (57,196)     |
| Plant and equipment   | 27,665     | (106,839)    | 37,017     | (90,505)     |

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|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Accrued expenses and reserves                  | 78,961       |              | 77,169       |              |
| Employee benefit accruals                      | 350,829      |              | 335,668      |              |
| Foreign tax credit carryforwards               | 11,806       |              | 94,100       |              |
| Net operating loss carryforwards               | 622,607      |              | 528,915      |              |
| Capital loss carryforwards                     | 34,499       |              | 34,564       |              |
| Allowances for uncollectible accounts          | 19,864       |              | 17,813       |              |
| Pension liabilities                            | 113,423      |              | 116,268      |              |
| Deferred intercompany deductions               | 460,423      |              | 240,233      |              |
| Other  | 123,554      | (21,206)     | 115,794      | (32,059)     |
| Gross deferred income tax assets (liabilities) | 2,311,034    | (984,485)    | 2,083,644    | (949,857)    |
| Valuation allowances                           | (448,587)    |              | (411,565)    |              |
| Total deferred income tax assets (liabilities) | \$ 1,862,447 | \$ (984,485) | \$ 1,672,079 | \$ (949,857) |

*Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of the deferred tax asset will not be realized.* The valuation allowances recorded at December 31, 2011 and 2010 relate primarily to certain net operating loss carryforwards and capital loss carryforwards.

## Notes to Financial Statements (Continued)

At December 31, 2011, the Company had net operating loss carryforwards available to offset future taxable income in the U.S. and certain foreign jurisdictions, which expire as follows:

| In Thousands  | Gross Net<br>Operating Loss<br>Carryforwards |
|---------------|--|
| 2012          | \$ 8,610                                     |
| 2013          | 8,116  |
| 2014          | 5,932  |
| 2015          | 6,945  |
| 2016          | 8,247  |
| 2017          | 10,813                                       |
| 2018          | 32,390                                       |
| 2019          | 76,834                                       |
| 2020          | 83,794                                       |
| 2021          | 18,728                                       |
| 2022          | 14,639                                       |
| 2023          | 12,518                                       |
| 2024          | 12,324                                       |
| 2025          | 11,065                                       |
| 2026          | 1,622  |
| 2027          | 4,928  |
| 2028          | 3,493  |
| 2029          | 4,490  |
| 2030          | 5,476  |
| Do not expire | 1,704,783                                    |
|               | \$ 2,035,747                                 |

The Company has foreign tax credit carryovers of \$871,000 as of December 31, 2011 and \$94,100,000 as of December 31, 2010 that are available for use by the Company between 2012 and 2020.

The changes in the amount of unrecognized tax benefits during 2011, 2010 and 2009 were as follows:

| In Thousands   | 2011       | 2010       | 2009       |
|--|------------|------------|------------|
| Beginning balance  | \$ 717,711 | \$ 724,777 | \$ 799,647 |
| Additions based on tax positions related to the current year | 43,042     | 57,491     | 122,714    |
| Additions for tax positions of prior years                   | 74,178     | 56,034     | 122,241    |
| Reductions for tax positions of prior years                  | (16,305)   | (96,161)   | (17,973)   |
| Settlements  | (376,598)  |            | (383,058)  |
| Foreign currency translation                                 | (4,850)    | (24,430)   | 81,206     |
| Ending balance   | \$ 437,178 | \$ 717,711 | \$ 724,777 |



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Included in the balance at December 31, 2011 are approximately \$437,000,000 of tax positions that, if recognized, would impact the Company's effective tax rate.

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.

## Notes to Financial Statements (Continued)

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 Company settled several items during 2009 related to its German and U.S. tax audits. The most significant issues related to a financing transaction, leveraged leases and mortgage-backed securities.

The Company files numerous consolidated and separate tax returns in the U.S. 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 | 2004-2011      |
| United Kingdom          | 2000-2011      |
| Germany                 | 2006-2011      |
| France                  | 2004-2011      |
| Australia               | 2002-2011      |

The Company recognizes interest and penalties related to income tax matters in income tax expense. The accrual for interest and penalties, as of December 31, 2011 and 2010 was \$1,775,000 and \$40,000,000, respectively.

## Income Per Share from Continuing Operations

**Income Per Share from Continuing Operations** is computed by dividing income from continuing operations by the weighted-average number of shares outstanding for the period. Income from continuing operations per diluted share is computed by dividing income from continuing operations by the weighted-average number of shares assuming dilution for stock options and restricted stock units. Dilutive shares reflect the potential additional shares that would be outstanding if the dilutive stock options outstanding were exercised and the unvested restricted stock units vested during the period. The computation of income per share from continuing operations was as follows:

| In Thousands except per share amounts                       | 2011         | 2010         | 2009       |
|---|--------------|--------------|------------|
| Income from continuing operations                           | \$ 2,017,014 | \$ 1,452,438 | \$ 968,638 |
| Income per share from continuing operations - Basic:        |              |              |            |
| Weighted-average common shares                              | 491,439      | 500,772      | 500,177    |
| Income per share from continuing operations - Basic         | \$ 4.10      | \$ 2.90      | \$ 1.94    |
| Income per share from continuing operations - Diluted:      |              |              |            |
| Weighted-average common shares                              | 491,439      | 500,772      | 500,177    |
| Effect of dilutive stock options and restricted stock units | 3,207        | 2,578        | 1,744      |
| Weighted-average common shares assuming dilution            | 494,646      | 503,350      | 501,921    |

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|   |    |      |    |      |    |      |
|---|----|------|----|------|----|------|
| Income per share from continuing operations Diluted | \$ | 4.08 | \$ | 2.89 | \$ | 1.93 |
|---|----|------|----|------|----|------|

*Options that were considered antidilutive were not included in the computation of diluted income per share from continuing operations. The antidilutive options outstanding as of December 31, 2011, 2010 and 2009 were 5,005,664, 10,434,146 and 14,581,559, respectively.*

### Cash and Equivalents

**Cash and Equivalents** included interest-bearing instruments of \$551,342,000 at December 31, 2011 and \$694,272,000 at December 31, 2010. *Interest-bearing instruments have maturities of 90 days or less and are stated at cost, which approximates fair value.*

## Notes to Financial Statements (Continued)

## Trade Receivables

**Trade Receivables** were net of allowances for uncollectible accounts. The changes in the allowances for uncollectible accounts during 2011, 2010 and 2009 were as follows:

| In Thousands                     | 2011        | 2010        | 2009        |
|----------------------------------|-------------|-------------|-------------|
| Beginning balance                | \$ (70,235) | \$ (76,459) | \$ (78,320) |
| Provision charged to expense     | (4,553)     | (4,390)     | (17,543)    |
| Write-offs, net of recoveries    | 10,159      | 12,513      | 24,799      |
| Acquisitions and divestitures    | (3,657)     | (2,866)     | (2,327)     |
| Foreign currency translation     | 1,641       | 957         | (3,209)     |
| Transfer to assets held for sale | 1,393       |             |             |
| Other                            | 27          | 10          | 141         |
| Ending balance                   | \$ (65,225) | \$ (70,235) | \$ (76,459) |

## Inventories

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

| In Thousands    | 2011         | 2010         |
|-----------------|--------------|--------------|
| Raw material    | \$ 596,129   | \$ 553,089   |
| Work-in-process | 155,896      | 165,292      |
| Finished goods  | 963,834      | 916,475      |
|                 | \$ 1,715,859 | \$ 1,634,856 |

*Inventories are stated at the lower of cost or market and include material, labor and factory overhead. The last-in, first-out ( LIFO ) method is used to determine the cost of the inventories of approximately 44% of the U.S. inventories. Inventories priced at LIFO were approximately 22% and 21% of total inventories as of December 31, 2011 and 2010, respectively. The first-in, first-out ( FIFO ) method, which approximates current cost, is used for all other inventories. If the FIFO method was used for all inventories, total inventories would have been approximately \$127,725,000 and \$122,888,000 higher than reported at December 31, 2011 and 2010, respectively.*

## Prepaid Expenses and Other Current Assets

**Prepaid Expenses and Other Current Assets** as of December 31, 2011 and 2010 were as follows:

| In Thousands                  | 2011       | 2010      |
|-------------------------------|------------|-----------|
| Income tax refunds receivable | \$ 111,663 | \$ 10,937 |

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|                             |            |            |
|-----------------------------|------------|------------|
| Value-added-tax receivables | 65,196     | 59,954     |
| Vendor advances             | 39,875     | 35,618     |
| Insurance                   | 24,082     | 21,111     |
| Other                       | 143,675    | 138,567    |
|                             | \$ 384,491 | \$ 266,187 |

## Plant and Equipment

**Plant and Equipment** are stated at cost less accumulated depreciation. Renewals and improvements that increase the useful life of plant and equipment are capitalized. Maintenance and repairs are charged to expense as incurred.

Depreciation was \$334,331,000 in 2011, \$327,520,000 in 2010 and \$367,196,000 in 2009, and was reflected primarily in cost of revenues. Depreciation included in income from discontinued operations was \$2,164,000 in 2011, \$7,266,000 in 2010 and \$9,030,000 in 2009.

*Depreciation of plant and equipment for financial reporting purposes is computed on an accelerated basis for U.S. businesses and on a straight-line basis for a majority of the international businesses.*

The ranges of useful lives used to depreciate plant and equipment are as follows:

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 5 50 years    |
| Machinery and equipment    | 3 12 years    |
| Equipment leased to others | Term of lease |

## Notes to Financial Statements (Continued)

## Investments

Investments as of December 31, 2011 and 2010 consisted of the following:

| In Thousands                            | 2011       | 2010       |
|---|------------|------------|
| Leases of equipment                     | \$ 275,377 | \$ 281,067 |
| Venture capital limited partnership     | 42,321     | 50,112     |
| Properties held for sale                | 41,846     | 45,125     |
| Property developments                   | 26,081     | 25,454     |
| Affordable housing limited partnerships | 23,281     | 39,002     |
|   | \$ 408,906 | \$ 440,760 |

*Leases of Equipment*

The components of the investment in leases of equipment at December 31, 2011 and 2010 were as shown below:

| In Thousands  | 2011       | 2010       |
|---|------------|------------|
| Leveraged and direct financing leases:                            |            |            |
| Gross lease contracts receivable, net of nonrecourse debt service | \$ 130,284 | \$ 145,687 |
| Estimated residual value of leased assets                         | 247,512    | 247,512    |
| Unearned income   | (109,834)  | (120,863)  |
|   | 267,962    | 272,336    |
| Equipment under operating leases                                  | 7,415      | 8,731      |
|   | \$ 275,377 | \$ 281,067 |

Deferred tax liabilities related to leases of equipment were \$54,262,000 and \$56,170,000 at December 31, 2011 and 2010, respectively.

The investment in leases of equipment at December 31, 2011 and 2010 consisted of the following types of equipment:

| In Thousands        | 2011       | 2010       |
|---------------------|------------|------------|
| Telecommunications  | \$ 170,834 | \$ 178,946 |
| Air traffic control | 70,210     | 66,433     |
| Aircraft            | 34,074     | 35,391     |
| Manufacturing       | 259        | 297        |
|                     | \$ 275,377 | \$ 281,067 |

In 2002, the Company entered into leveraged leasing transactions related to mobile telecommunications equipment with two major European telecommunications companies with a cash investment of \$144,676,000. In 2003, the Company entered into a leveraged lease transaction related to air traffic control equipment in Australia with a cash investment of \$48,763,000. Under the terms of the telecommunications and air traffic control lease transactions, the lessees have made upfront payments to third-party financial institutions that are acting as payment undertakers.

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These payment undertakers are obligated to make the required scheduled payments directly to the nonrecourse debt holders and to the lessors, including the Company. In the event of default by the lessees, the Company has the right to recover its net investment from the payment undertakers. In addition, the lessees are required to purchase residual value insurance from a creditworthy third party at a date near the end of the lease term.

Income from leveraged leases was \$13,372,000, \$10,513,000, and \$7,618,000 for the years ended December 31, 2011, 2010 and 2009, respectively. *Unearned income related to leveraged leases is recognized as lease income over the life of the lease based on the effective yield of the lease. The Company adjusts recognition of lease income on its leveraged leases when there is a change in the assumptions affecting total income or the timing of cash flows associated with the lease. The residual values of leased assets are estimated at the inception of the lease based on market appraisals and reviewed for impairment at least annually.*

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**Notes to Financial Statements (Continued)**
**Other Investments**

The Company entered into a venture capital limited partnership in 2001 that invests primarily in late-stage venture capital opportunities. The Company has a 25% limited partnership interest and *accounts for this investment using the equity method, whereby the Company recognizes its proportionate share of the partnership's income or loss. The partnership's financial statements are prepared on a mark-to-market basis.*

The Company has entered into several affordable housing limited partnerships primarily to receive tax benefits in the form of tax credits and tax deductions from operating losses. *These affordable housing investments are accounted for using the effective yield method, in which the investment is amortized to income tax expense as the tax benefits are received. The tax credits are credited to income tax expense as they are allocated to the Company.*

The Company has invested in property developments with a residential construction developer through partnerships in which the Company has a 50% interest. *These partnership investments are accounted for using the equity method, whereby the Company recognizes its proportionate share of the partnerships' income or loss.*

**Goodwill and Intangible Assets**

**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.*

On January 1, 2009, the Company adopted new accounting guidance on fair value measurements for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The new accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and provides guidance for measuring fair value and the necessary disclosures.

When performing its annual goodwill 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 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.

Amortization and impairment of goodwill and other intangible assets for the years ended December 31, 2011, 2010 and 2009 were as follows:

| In Thousands       | 2011    | 2010    | 2009      |
|--------------------|---------|---------|-----------|
| Goodwill:          |         |         |           |
| Impairment         | \$      | \$      | \$ 90,000 |
| Intangible Assets: |         |         |           |
| Amortization       | 255,338 | 207,427 | 197,469   |
| Impairment         |         | 1,006   | 15,568    |



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\$ 255,338      \$ 208,433      \$ 303,037

Income from discontinued operations included intangible asset amortization of \$2,176,000 in 2011, \$5,567,000 in 2010 and \$5,578,000 in 2009.

In 2011, the Company performed its annual goodwill and indefinite-lived intangible asset impairment assessment which resulted in no goodwill or intangible asset impairment charges.

In 2010, the Company performed its annual goodwill and indefinite-lived intangible asset impairment assessment which resulted in \$1,006,000 of intangible asset impairment charges.

## Notes to Financial Statements (Continued)

In the third quarter of 2009, the Company changed the date of its annual goodwill impairment assessment from the first quarter to the third quarter. This constituted a change in the method of applying an accounting principle that the Company believes is preferable, as it better aligns the timing of the Company's goodwill impairment assessment with the Company's annual business planning and forecasting process. In the third quarter of 2009, the Company performed its goodwill impairment assessment which resulted in a charge of \$12,000,000 related to the truck remanufacturing and related parts and service reporting unit in the Transportation segment.

In the first quarter of 2009, the Company performed its annual goodwill impairment assessment which resulted in impairment charges of \$60,000,000 related to the pressure sensitive adhesives reporting unit and \$18,000,000 related to the PC board fabrication reporting unit, which are both included in the Power Systems & Electronics segment.

Also in 2009, intangible asset impairments of \$15,568,000 were recorded related to certain trademarks, brands and patents. Approximately \$5,800,000 of this total charge related to the PC board fabrication reporting unit and the remainder to various trademarks, brands and patents of other reporting units.

The impairments during 2009 were primarily related to new reporting units which were acquired over the preceding few years prior to the economic downturn in late 2008 and 2009. These charges were driven primarily by lower forecasts compared to the expected forecasts at the time the reporting units were acquired.

A summary of goodwill and intangible assets that were adjusted to fair value and the related impairment charges included in earnings for 2009 is as follows:

| In Thousands      | Book Value | Fair Value | Total Impairment Charges |
|-------------------|------------|------------|--------------------------|
| Goodwill          | \$ 449,000 | \$ 359,000 | \$ 90,000                |
| Intangible assets | 98,544     | 82,976     | 15,568                   |

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2011 and 2010 were as follows:

| In Thousands                    | Power          |                       |                      |                |                       |                   |                     |              | Total        |
|---------------------------------|----------------|-----------------------|----------------------|----------------|-----------------------|-------------------|---------------------|--------------|--------------|
|                                 | Transportation | Systems & Electronics | Industrial Packaging | Food Equipment | Construction Products | Polymers & Fluids | Decorative Surfaces | All Other    |              |
| Balance, Dec 31, 2009           | \$ 538,271     | \$ 420,829            | \$ 765,179           | \$ 209,025     | \$ 558,504            | \$ 739,101        | \$ 13,405           | \$ 1,532,799 | \$ 4,777,113 |
| 2010 activity:                  |                |                       |                      |                |                       |                   |                     |              |              |
| Acquisitions & divestitures     | 50,800         | 4,554                 | 1,242                | 2,676          | 10,817                | 84,097            |                     | 37,122       | 191,308      |
| Impairment charges              |                |                       |                      |                |                       |                   |                     |              |              |
| Foreign currency translation    | (4,456)        | 3,808                 | 2,133                | (7,408)        | 16,584                | (1,020)           | (179)               | (6,065)      | 3,397        |
| Intersegment goodwill transfers | (17,945)       | (292)                 | 936                  |                | (962)                 | 22,252            |                     | (3,989)      |              |
| Balance, Dec 31, 2010           | \$ 566,670     | \$ 428,899            | \$ 769,490           | \$ 204,293     | \$ 584,943            | \$ 844,430        | \$ 13,226           | \$ 1,559,867 | \$ 4,971,818 |
| 2011 activity:                  |                |                       |                      |                |                       |                   |                     |              |              |
| Acquisitions & divestitures     | 118,286        | 242,257               | 25,166               | (1,175)        | 5,515                 | 49,843            |                     | 24,206       | 464,098      |
| Impairment charges              |                |                       |                      |                |                       |                   |                     |              |              |
| Foreign currency translation    | (9,514)        | (2,233)               | (11,252)             | (4,579)        | (216)                 | (17,265)          | (285)               | (2,504)      | (47,848)     |
|                                 |                | (7,336)               |                      |                |                       |                   |                     | (183,131)    | (190,467)    |

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|   |            |              |            |            |            |            |           |              |              |  |
|---|------------|--------------|------------|------------|------------|------------|-----------|--------------|--------------|--|
| Transfer of assets held<br>for sale                         |            |              |            |            |            |            |           |              |              |  |
| Intersegment goodwill<br>transfers                          | 1,464      | 341,857      |            |            |            | (156,441)  |           | (186,880)    |              |  |
| Balance, Dec 31, 2011                                       | \$ 676,906 | \$ 1,003,444 | \$ 783,404 | \$ 198,539 | \$ 590,242 | \$ 720,567 | \$ 12,941 | \$ 1,211,558 | \$ 5,197,601 |  |
| Accumulated goodwill<br>impairment charges,<br>Dec 31, 2011 | \$ 36,276  | \$ 87,696    | \$ 114,079 | \$ 59,797  | \$ 6,574   | \$ 14,821  | \$        | \$ 46,484    | \$ 365,727   |  |

## Notes to Financial Statements (Continued)

Intangible assets as of December 31, 2011 and 2010 were as follows:

| In Thousands                        | Cost         | 2011<br>Accumulated<br>Amortization | Net          | Cost         | 2010<br>Accumulated<br>Amortization | Net          |
|-------------------------------------|--------------|-------------------------------------|--------------|--------------|-------------------------------------|--------------|
| Amortizable intangible assets:      |              |                                     |              |              |                                     |              |
| Customer lists and relationships    | \$ 1,608,027 | \$ (522,155)                        | \$ 1,085,872 | \$ 1,252,748 | \$ (412,482)                        | \$ 840,266   |
| Patents and proprietary technology  | 561,205      | (235,618)                           | 325,587      | 467,226      | (210,359)                           | 256,867      |
| Trademarks and brands               | 699,586      | (157,373)                           | 542,213      | 467,838      | (119,010)                           | 348,828      |
| Software                            | 201,009      | (172,058)                           | 28,951       | 199,560      | (154,188)                           | 45,372       |
| Noncompete agreements               | 181,379      | (148,088)                           | 33,291       | 158,363      | (135,754)                           | 22,609       |
| Other                               | 116,994      | (102,274)                           | 14,720       | 110,105      | (92,984)                            | 17,121       |
| Total amortizable intangible assets | 3,368,200    | (1,337,566)                         | 2,030,634    | 2,655,840    | (1,124,777)                         | 1,531,063    |
| Indefinite-lived intangible assets: |              |                                     |              |              |                                     |              |
| Trademarks and brands               | 202,744      |                                     | 202,744      | 199,953      |                                     | 199,953      |
| Total intangible assets             | \$ 3,570,944 | \$ (1,337,566)                      | \$ 2,233,378 | \$ 2,855,793 | \$ (1,124,777)                      | \$ 1,731,016 |

Amortizable intangible assets are being amortized primarily on a straight-line basis over their estimated useful lives of 3 to 20 years.

The estimated amortization expense of intangible assets for the future years ending December 31 is as follows:

| In Thousands |            |
|--------------|------------|
| 2012         | \$ 258,868 |
| 2013         | 237,114    |
| 2014         | 222,619    |
| 2015         | 211,273    |
| 2016         | 200,043    |

## Other Assets

Other Assets as of December 31, 2011 and 2010 consisted of the following:

| In Thousands                                    | 2011       | 2010       |
|---|------------|------------|
| Cash surrender value of life insurance policies | \$ 370,564 | \$ 362,401 |
| Customer tooling                                | 81,415     | 76,765     |
| Prepaid pension assets                          | 40,687     | 16,023     |
| Noncurrent receivables                          | 29,807     | 38,740     |
| Other   | 112,582    | 122,818    |
|   | \$ 635,055 | \$ 616,747 |

## Notes to Financial Statements (Continued)

## Pension and Other Postretirement Benefits

**Pension and Other Postretirement Benefits** The Company has both funded and unfunded defined benefit pension and other postretirement benefit plans, predominately in the U.S. covering a majority of U.S. employees.

The U.S. primary pension plan provides benefits based on years of service and final average salary. The U.S. primary postretirement healthcare plan is contributory with the participants' contributions adjusted annually. The U.S. primary postretirement life insurance plan is noncontributory.

Beginning January 1, 2007, the U.S. primary pension and other postretirement benefit plans were closed to new participants. Newly hired employees and employees from acquired businesses that are not participating in these plans are eligible for additional Company contributions under the existing U.S. primary defined contribution retirement plans. The Company's expense related to defined contribution plans was \$77,700,000 in 2011, \$69,300,000 in 2010 and \$66,000,000 in 2009.

In addition to the U.S. plans, the Company also has defined benefit pension plans in certain other countries, mainly the United Kingdom, Switzerland, Germany and Canada.

Summarized information regarding the Company's significant defined benefit pension and other postretirement benefit plans related to both continuing and discontinued operations is as follows:

| In Thousands                                | Pension   |           |           | Other Postretirement Benefits |           |           |
|---|-----------|-----------|-----------|-------------------------------|-----------|-----------|
|   | 2011      | 2010      | 2009      | 2011                          | 2010      | 2009      |
| Components of net periodic benefit cost:    |           |           |           |                               |           |           |
| Service cost                                | \$ 94,100 | \$ 94,104 | \$ 97,950 | \$ 13,430                     | \$ 13,941 | \$ 12,567 |
| Interest cost                               | 116,331   | 110,484   | 120,109   | 29,532                        | 29,995    | 30,506    |
| Expected return on plan assets              | (157,848) | (149,822) | (154,254) | (20,564)                      | (18,183)  | (13,612)  |
| Amortization of actuarial loss              | 39,359    | 26,092    | 8,436     | 415                           | 40        | 40        |
| Amortization of prior service cost (income) | 777       | 736       | (1,585)   | 6,448                         | 6,445     | 6,423     |
| Amortization of transition amount           | 16        | 47        | 164       |                               |           |           |
| Settlement/curtailment loss (income)        |           | 515       | (11,947)  |                               |           |           |
|   | \$ 92,735 | \$ 82,156 | \$ 58,873 | \$ 29,261                     | \$ 32,238 | \$ 35,924 |

Net periodic benefit cost was included in the statement of income as follows:

| In Thousands                        | Pension   |           |           | Other Postretirement Benefits |           |           |
|-------------------------------------|-----------|-----------|-----------|-------------------------------|-----------|-----------|
|                                     | 2011      | 2010      | 2009      | 2011                          | 2010      | 2009      |
| Income from continuing operations   | \$ 89,277 | \$ 79,980 | \$ 56,466 | \$ 28,916                     | \$ 31,860 | \$ 35,560 |
| Income from discontinued operations | 3,458     | 2,176     | 2,407     | 345                           | 378       | 364       |
|                                     | \$ 92,735 | \$ 82,156 | \$ 58,873 | \$ 29,261                     | \$ 32,238 | \$ 35,924 |

## Notes to Financial Statements (Continued)

| In Thousands                                 | Pension      |              | Other Postretirement Benefits |            |
|--|--------------|--------------|-------------------------------|------------|
|  | 2011         | 2010         | 2011                          | 2010       |
| Change in benefit obligation:                |              |              |                               |            |
| Benefit obligation at January 1              | \$ 2,300,740 | \$ 2,176,568 | \$ 559,423                    | \$ 533,834 |
| Service cost                                 | 94,100       | 94,104       | 13,430                        | 13,941     |
| Interest cost                                | 116,331      | 110,484      | 29,532                        | 29,995     |
| Plan participants contributions              | 8,100        | 4,642        | 15,273                        | 15,241     |
| Actuarial loss                               | 78,634       | 31,830       | 251                           | 10,824     |
| Acquisitions                                 | 15,882       | 30,845       |                               |            |
| Benefits paid                                | (142,409)    | (137,753)    | (47,946)                      | (48,465)   |
| Medicare subsidy received                    |              |              | 3,136                         | 4,053      |
| Liabilities from (to) other immaterial plans | 2,409        | 6,817        | (4,074)                       |            |
| Settlement/curtailment loss                  |              | 515          |                               |            |
| Foreign currency translation                 | (9,169)      | (17,312)     |                               |            |
| Benefit obligation at December 31            | \$ 2,464,618 | \$ 2,300,740 | \$ 569,025                    | \$ 559,423 |

## As per XBRL need we need to split the into TWO

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Change in plan assets:                   |              |              |              |              |
| Fair value of plan assets at January 1   | \$ 1,940,552 | \$ 1,750,904 | \$ 293,776   | \$ 259,753   |
| Actual return on plan assets             | 108,495      | 187,688      | 3,357        | 34,023       |
| Company contributions                    | 130,535      | 73,720       | 32,673       | 33,224       |
| Plan participants contributions          | 8,100        | 4,642        | 15,273       | 15,241       |
| Acquisitions                             | 15,344       | 26,115       |              |              |
| Benefits paid                            | (142,409)    | (137,753)    | (47,946)     | (48,465)     |
| Assets from other immaterial plans       |              | 44,860       |              |              |
| Foreign currency translation             | (6,706)      | (9,624)      |              |              |
| Fair value of plan assets at December 31 | \$ 2,053,911 | \$ 1,940,552 | \$ 297,133   | \$ 293,776   |
| Funded status                            | \$ (410,707) | \$ (360,188) | \$ (271,892) | \$ (265,647) |
| Other immaterial plans                   | (63,655)     | (62,664)     | (7,458)      | (3,105)      |
| Net liability at December 31             | \$ (474,362) | \$ (422,852) | \$ (279,350) | \$ (268,752) |

## The amounts recognized in the statement of financial position as of December 31 consist of:

|                              |              |              |              |              |
|------------------------------|--------------|--------------|--------------|--------------|
| Assets held for sale         | \$ 75        | \$           | \$           | \$           |
| Other assets                 | 40,687       | 16,023       |              |              |
| Accrued expenses             | (21,459)     | (15,378)     | (7,767)      | (9,025)      |
| Liabilities held for sale    | (12,757)     |              |              |              |
| Other noncurrent liabilities | (480,908)    | (423,497)    | (271,583)    | (259,727)    |
| Net liability at end of year | \$ (474,362) | \$ (422,852) | \$ (279,350) | \$ (268,752) |

## The pre-tax amounts recognized in accumulated other comprehensive income consist of:

|                           |            |            |           |            |
|---------------------------|------------|------------|-----------|------------|
| Net actuarial loss (gain) | \$ 848,368 | \$ 758,901 | \$ 15,406 | \$ (1,840) |
| Prior service cost        | 3,981      | 4,758      | 4,844     | 11,292     |
| Net transition obligation | 52         | 68         |           |            |
|                           | \$ 852,401 | \$ 763,727 | \$ 20,250 | \$ 9,452   |

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|  |              |              |
|--|--------------|--------------|
| Accumulated benefit obligation   | \$ 2,193,199 | \$ 2,084,663 |
| Plans with accumulated benefit obligation in excess of plan assets as of<br>December 31: |              |              |
| Projected benefit obligation   | \$ 1,837,761 | \$ 1,722,577 |
| Accumulated benefit obligation   | \$ 1,665,360 | \$ 1,582,158 |
| Fair value of plan assets  | \$ 1,413,557 | \$ 1,379,466 |

## Notes to Financial Statements (Continued)

**Assumptions**

The weighted-average assumptions used in the valuations of pension and other postretirement benefits were as follows:

|  | 2011  | Pension<br>2010 | 2009  | Other Postretirement Benefits |       |       |
|--|-------|-----------------|-------|-------------------------------|-------|-------|
|  |       |                 |       | 2011                          | 2010  | 2009  |
| Assumptions used to determine benefit obligations at December 31:                    |       |                 |       |                               |       |       |
| Discount rate  | 4.64% | 5.05%           | 5.57% | 4.95%                         | 5.45% | 5.80% |
| Rate of compensation increases   | 3.86  | 3.94            | 4.18  |                               |       |       |
| Assumptions used to determine net periodic benefit cost for years ended December 31: |       |                 |       |                               |       |       |
| Discount rate  | 5.05% | 5.57%           | 6.59% | 5.45%                         | 5.80% | 6.50% |
| Expected return on plan assets   | 7.39  | 7.63            | 8.28  | 7.00                          | 7.00  | 7.00  |
| Rate of compensation increases   | 3.94  | 4.18            | 4.19  |                               |       |       |

The expected long-term rates of return for pension and other postretirement benefit plans were developed using historical asset class returns while factoring in current market conditions such as inflation, interest rates and asset class performance.

Assumed health care cost trend rates have an effect on the amounts reported for the postretirement health care benefit plans. The assumed health care cost trend rates used to determine the postretirement benefit obligation at December 31 were as follows:

|   | 2011  | 2010  | 2009  |
|---|-------|-------|-------|
| Health care cost trend rate assumed for the next year | 8.50% | 8.71% | 8.21% |
| Ultimate trend rate                                   | 5.00% | 5.00% | 5.00% |
| Year the rate reaches the ultimate trend rate         | 2019  | 2020  | 2020  |

A one-percentage-point change in assumed health care cost trend rates would have the following impact:

| In Thousands   | 1-Percentage-Point Increase | 1-Percentage-Point Decrease |
|--|-----------------------------|-----------------------------|
| Change in service cost and interest cost for 2011                | \$ 964                      | \$ (1,406)                  |
| Change in postretirement benefit obligation at December 31, 2011 | \$ 14,556                   | \$ (17,480)                 |

**Plan Assets**

The Company's overall investment strategy for the assets in the pension funds is to achieve a balance between the goals of growing plan assets and keeping risk at a reasonable level over a long-term investment horizon. In order to reduce unnecessary risk, the pension funds are diversified across several asset classes, securities and investment managers. The target allocations for plan assets are 50% to 65% equity securities, 30% to 45% debt securities, 0% to 2% real estate and 0% to 10% in other types of investments. The Company does not use derivatives for the purpose of speculation, leverage, circumventing investment guidelines or taking risks that are inconsistent with specified guidelines.

The assets in the Company's postretirement health care plan are primarily invested in life insurance policies. The Company's overall investment strategy for the assets in the postretirement health care fund is to invest in assets that provide a reasonable tax exempt rate of return while preserving capital.

The following tables present the fair value of the Company's pension and other postretirement benefit plan assets at December 31, 2011 and 2010, by asset category and valuation methodology. Level 1 assets are valued using unadjusted quoted prices for identical assets in active markets. Level 2 assets are valued using quoted prices or other observable inputs for similar assets. Level 3 assets are valued using unobservable inputs, but reflect the assumptions market participants would be expected to use in pricing the assets. Each financial instrument's categorization is based on the lowest level of input that is significant to the fair value measurement.





## Notes to Financial Statements (Continued)

| In Thousands                                     | 2011       |              |            | Total        |
|--|------------|--------------|------------|--------------|
|  | Level 1    | Level 2      | Level 3    |              |
| <b>Pension Plan Assets:</b>                      |            |              |            |              |
| Cash and equivalents                             | \$ 16,466  | \$           | \$         | \$ 16,466    |
| <b>Equity securities:</b>                        |            |              |            |              |
| Domestic   | 56,202     |              |            | 56,202       |
| Foreign  | 68,290     |              |            | 68,290       |
| <b>Fixed income securities:</b>                  |            |              |            |              |
| Government securities                            |            | 217,840      |            | 217,840      |
| Corporate debt securities                        |            | 240,032      | 4,020      | 244,052      |
| Mortgage-backed securities                       |            | 16,418       |            | 16,418       |
| Investment contracts with insurance companies    |            |              | 69,285     | 69,285       |
| <b>Commingled funds:</b>                         |            |              |            |              |
| Mutual funds                                     | 344,891    |              |            | 344,891      |
| Collective trust funds                           |            | 931,735      |            | 931,735      |
| Partnerships/private equity interests            |            |              | 86,869     | 86,869       |
| Other  |            | 916          | 947        | 1,863        |
|  | \$ 485,849 | \$ 1,406,941 | \$ 161,121 | \$ 2,053,911 |
| <b>Other Postretirement Benefit Plan Assets:</b> |            |              |            |              |
| Cash and equivalents                             | \$ 33,675  | \$           | \$         | \$ 33,675    |
| Life insurance policies                          |            |              | 263,458    | 263,458      |
|  | \$ 33,675  | \$           | \$ 263,458 | \$ 297,133   |

| In Thousands                                     | 2010       |              |           | Total        |
|--|------------|--------------|-----------|--------------|
|  | Level 1    | Level 2      | Level 3   |              |
| <b>Pension Plan Assets:</b>                      |            |              |           |              |
| Cash and equivalents                             | \$ 49,444  | \$           | \$        | \$ 49,444    |
| <b>Equity securities:</b>                        |            |              |           |              |
| Domestic   | 125,884    |              |           | 125,884      |
| Foreign  | 161,850    |              |           | 161,850      |
| <b>Fixed income securities:</b>                  |            |              |           |              |
| Government securities                            |            | 193,940      | 1,025     | 194,965      |
| Corporate debt securities                        |            | 219,546      | 2,667     | 222,213      |
| Mortgage-backed securities                       |            | 9,621        |           | 9,621        |
| Investment contracts with insurance companies    |            | 119,976      |           | 119,976      |
| <b>Commingled funds:</b>                         |            |              |           |              |
| Mutual funds                                     | 300,716    |              |           | 300,716      |
| Collective trust funds                           |            | 678,082      |           | 678,082      |
| Partnerships/private equity interests            |            |              | 77,587    | 77,587       |
| Other  |            | 204          | 10        | 214          |
|  | \$ 637,894 | \$ 1,221,369 | \$ 81,289 | \$ 1,940,552 |
| <b>Other Postretirement Benefit Plan Assets:</b> |            |              |           |              |
| Cash and equivalents                             | \$ 28,065  | \$           | \$        | \$ 28,065    |
| Life insurance policies                          |            |              | 265,711   | 265,711      |

\$ 28,065      \$                      \$ 265,711      \$ 293,776

## Notes to Financial Statements (Continued)

Cash and equivalents include cash on hand and investments with maturities of 90 days or less and are valued at cost, which approximates fair value. Equity securities primarily include common and preferred equity securities covering a wide range of industries and geographies which are traded in active markets and are valued based on quoted prices. Fixed income securities primarily consist of U.S. and foreign government bills, notes and bonds, corporate debt securities, asset-backed securities and investment contracts. The majority of the assets in this category are valued by evaluating bid prices provided by independent financial data services. For securities where market data is not readily available, unobservable market data is used to value the security. Commingled funds include investments in public and private pooled funds. Mutual funds are traded in active markets and are valued based on quoted prices. The underlying investments include small-cap equity, international equity and long- and short-term fixed income instruments. Collective trust funds are private funds that are valued at the net asset value which is determined based on the fair value of the underlying investments. The underlying investments include both passively and actively managed U.S. and foreign large- and mid-cap equity funds and short-term investment funds. Partnerships/private equity interests are investments in partnerships where the benefit plan is a limited partner. The investments are valued by the investment managers on a periodic basis using pricing models that use market, income and cost valuation methods. Life insurance policies are used to fund other postretirement benefits in order to obtain favorable tax treatment and are valued based on the cash surrender value of the underlying policies.

The following table presents a reconciliation of Level 3 assets measured at fair value for pension and other postretirement benefit plans during the years ended December 31, 2011 and 2010:

| In Thousands              | Government Securities | Corporate Debt Securities | Mortgage-backed Securities | Investment Contracts with Insurance Companies | Partnerships/Private Equity Interests | Life Insurance Policies | Other    | Total      |
|---------------------------|-----------------------|---------------------------|----------------------------|---|---------------------------------------|-------------------------|----------|------------|
| Balance Dec 31, 2009      | \$ 1,285              | \$ 2,092                  | \$ 3,372                   | \$  | \$ 68,847                             | \$ 233,042              | \$ 2,226 | \$ 310,864 |
| 2010 Activity:            |                       |                           |                            |   |                                       |                         |          |            |
| Realized gains (losses)   | 100                   | (452)                     | (947)                      |   | 3,547                                 |                         | (17)     | 2,231      |
| Unrealized gains (losses) | (49)                  | 624                       | 844                        |   | (538)                                 | 32,669                  | 319      | 33,869     |
| Purchases and sales       | (311)                 | (1,137)                   | (3,269)                    |   | 5,731                                 |                         | (2,518)  | (1,504)    |
| Transfers                 |                       | 1,540                     |                            |   |                                       |                         |          | 1,540      |
| Balance Dec 31, 2010      | 1,025                 | 2,667                     |                            |   | 77,587                                | 265,711                 | 10       | 347,000    |
| 2011 Activity:            |                       |                           |                            |   |                                       |                         |          |            |
| Realized gains            |                       |                           |                            |   | 4,088                                 |                         | 4        | 4,092      |
| Unrealized gains (losses) |                       | 118                       |                            | 5,794   | 4,398                                 | (2,253)                 | (221)    | 7,836      |
| Purchases and sales       |                       | 2,000                     |                            | 2,192   | 796                                   |                         | 909      | 5,897      |
| Transfers                 | (1,025)               | (765)                     |                            | 61,299  |                                       |                         | 245      | 59,754     |
| Balance Dec 31, 2011      | \$                    | \$ 4,020                  | \$                         | \$ 69,285                                     | \$ 86,869                             | \$ 263,458              | \$ 947   | \$ 424,579 |

**Cash Flows**

The Company generally funds its pension and other postretirement benefit plans as required by law or to the extent such contributions are tax deductible. The Company expects to contribute approximately \$165,000,000 to its pension plans and \$39,000,000 to its other postretirement benefit plans in 2012.

The Company's portion of the benefit payments that are expected to be paid during the years ending December 31 is as follows:

| In Thousands | Pension    | Other Postretirement Benefits |
|--------------|------------|-------------------------------|
| 2012         | \$ 181,603 | \$ 38,849                     |
| 2013         | 169,423    | 39,278                        |

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|                 |           |         |
|-----------------|-----------|---------|
| 2014            | 174,453   | 39,866  |
| 2015            | 181,405   | 40,558  |
| 2016            | 187,856   | 41,338  |
| Years 2017-2021 | 1,010,684 | 218,668 |

## Notes to Financial Statements (Continued)

## Short Term Debt

**Short-Term Debt** as of December 31, 2011 and 2010 consisted of the following:

| <b>In Thousands</b>                  | <b>2011</b>       | <b>2010</b>       |
|--------------------------------------|-------------------|-------------------|
| Bank overdrafts                      | \$ 37,706         | \$ 57,463         |
| Commercial paper                     | 192,495           |                   |
| Current maturities of long-term debt | 262,343           | 252,216           |
| Other borrowings                     | 9,519             | 16,557            |
|                                      | <b>\$ 502,063</b> | <b>\$ 326,236</b> |

The Company has committed credit facilities that support the issuance of commercial paper. See the Long-Term Debt note for further discussion.

The weighted-average interest rate on commercial paper was 0.1% at December 31, 2011. Commercial paper is stated at cost, which approximates fair value.

The weighted-average interest rate on other borrowings was 11.2% at December 31, 2011 and 6.9% at December 31, 2010.

As of December 31, 2011, the Company had unused capacity of approximately \$329,000,000 under international debt facilities.

## Accrued Expenses

**Accrued Expenses** as of December 31, 2011 and 2010 consisted of accruals for:

| <b>In Thousands</b>   | <b>2011</b>         | <b>2010</b>         |
|---|---------------------|---------------------|
| Compensation and employee benefits                                      | \$ 550,955          | \$ 558,340          |
| Deferred revenue and customer deposits                                  | 245,465             | 264,472             |
| Rebates   | 162,019             | 137,554             |
| Warranties  | 55,203              | 63,665              |
| Current portion of pension and other postretirement benefit obligations | 29,226              | 24,403              |
| Other   | 392,735             | 342,962             |
|   | <b>\$ 1,435,603</b> | <b>\$ 1,391,396</b> |

*The Company accrues for product warranties based on historical experience.* The changes in accrued warranties during 2011, 2010 and 2009 were as follows:

| <b>In Thousands</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|---------------------|-------------|-------------|-------------|
| Beginning balance   | \$ 63,665   | \$ 62,366   | \$ 67,490   |

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|                                       |           |           |           |
|---------------------------------------|-----------|-----------|-----------|
| Charges                               | (47,256)  | (42,907)  | (44,289)  |
| Provision charged to expense          | 37,489    | 44,652    | 35,691    |
| Acquisitions and divestitures         | 3,262     | 690       | 1,929     |
| Foreign currency translation          | (239)     | (1,136)   | 1,545     |
| Transfer to liabilities held for sale | (1,718)   |           |           |
| Ending balance                        | \$ 55,203 | \$ 63,665 | \$ 62,366 |

## Notes to Financial Statements (Continued)

## Long Term Debt

**Long-Term Debt** at December 31, 2011 and 2010 consisted of the following:

| In Thousands  | 2011         | 2010         |
|---|--------------|--------------|
| 6.55% preferred debt securities due December 31, 2011 | \$ 250,000   | \$ 249,949   |
| 5.15% notes due April 1, 2014                         | 799,693      | 799,567      |
| 5.25% Euro notes due October 1, 2014                  | 971,465      | 1,002,016    |
| 6.25% notes due April 1, 2019                         | 699,912      | 699,903      |
| 4.88% notes due thru December 31, 2020                | 21,954       | 21,954       |
| 3.375% notes due September 15, 2021                   | 348,476      |              |
| 4.875% notes due September 15, 2041                   | 640,551      |              |
| Other borrowings                                      | 18,490       | 20,914       |
|   | 3,750,541    | 2,794,303    |
| Current maturities                                    | (262,343)    | (252,216)    |
|   | \$ 3,488,198 | \$ 2,542,087 |

In 2002, a subsidiary of the Company issued \$250,000,000 of 6.55% preferred debt securities at 99.849% of face value. The effective interest rate of the preferred debt securities is 6.7%. These preferred debt securities were due and fully paid on the first business day in 2012.

In 2005, the Company issued \$53,735,000 of 4.88% notes at 100% of face value.

In 2007, the Company, through a wholly-owned European subsidiary, issued 750,000,000 of 5.25% Euro notes due October 1, 2014 at 99.874% of face value. The effective interest rate of the notes is 5.3%.

In 2009, the Company issued \$800,000,000 of 5.15% redeemable notes due April 1, 2014 at 99.92% of face value and \$700,000,000 of 6.25% redeemable notes due April 1, 2019 at 99.98% of face value. The effective interest rates of the notes are 5.2% and 6.3%, respectively.

In 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.

Other debt outstanding at December 31, 2011, bears interest at rates ranging from 0.3% to 15.6%, with maturities through the year 2029.

Based on market rates for comparable instruments, the approximate fair value and related carrying value of the Company's long-term debt, including current maturities, as of December 31, 2011 and 2010 were as follows:

| In Thousands  | 2011       |                | 2010       |                |
|---|------------|----------------|------------|----------------|
|   | Fair Value | Carrying Value | Fair Value | Carrying Value |
| 6.55% preferred debt securities due December 31, 2011 | \$ 250,000 | \$ 250,000     | \$ 263,750 | \$ 249,949     |
| 5.15% notes due April 1, 2014                         | 876,800    | 799,693        | 882,480    | 799,567        |
| 5.25% Euro notes due October 1, 2014                  | 1,064,218  | 971,465        | 1,098,412  | 1,002,016      |
| 6.25% notes due April 1, 2019                         | 871,668    | 699,912        | 816,200    | 699,903        |
| 4.88% notes due thru December 31, 2020                | 24,362     | 21,954         | 23,471     | 21,954         |



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|                                     |              |              |              |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
| 3.375% notes due September 15, 2021 | 367,574      | 348,476      |              |              |
| 4.875% notes due September 15, 2041 | 760,533      | 640,551      |              |              |
| Other borrowings                    | 18,490       | 18,490       | 20,914       | 20,914       |
|                                     | \$ 4,233,645 | \$ 3,750,541 | \$ 3,105,227 | \$ 2,794,303 |

In 2007, the Company entered into a \$500,000,000 revolving credit facility with a termination date of June 15, 2012. In 2010, the Company entered into a \$1,000,000,000 line of credit agreement with a termination date of June 11, 2013 and a \$1,000,000,000 line of credit agreement with a termination date of June 10, 2011, which was replaced in June of 2011 by a \$1,000,000,000 line of credit with a termination date of June 10, 2016. The revolving credit facility along with the lines of credit support the issuance of commercial paper. No amounts were outstanding under any of these facilities at December 31, 2011.

## Notes to Financial Statements (Continued)

The Company's debt agreements' financial covenants limit total debt, including guarantees, to 50% of total capitalization. The Company's total debt, including guarantees, was 30.2% of total capitalization as defined in our debt agreements as of December 31, 2011, which was in compliance with these covenants.

Scheduled maturities of long-term debt for the future years ending December 31 are as follows:

| In Thousands          |              |
|-----------------------|--------------|
| 2013                  | \$ 10,077    |
| 2014                  | 1,776,211    |
| 2015                  | 2,861        |
| 2016                  | 675          |
| 2017 and future years | 1,698,374    |
|                       | \$ 3,488,198 |

At December 31, 2011, the Company had open stand-by letters of credit of approximately \$213,000,000, substantially all of which expire in 2012 and 2013.

## Other Noncurrent Liabilities

Other Noncurrent Liabilities at December 31, 2011 and 2010 consisted of the following:

| In Thousands                      | 2011         | 2010         |
|-----------------------------------|--------------|--------------|
| Pension benefit obligation        | \$ 480,908   | \$ 423,497   |
| Postretirement benefit obligation | 271,583      | 259,727      |
| Other                             | 615,080      | 397,559      |
|                                   | \$ 1,367,571 | \$ 1,080,783 |

## Commitments and Contingencies

**Commitments and Contingencies** The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, including those involving environmental, product liability (including toxic tort) and general liability claims. *The Company accrues for such liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated.* Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and its experience in contesting, litigating and settling other similar matters. The Company believes resolution of these matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial position, liquidity or future operations.

Among the toxic tort cases in which the Company is a defendant, the Company as well as its subsidiaries Hobart Brothers Company and Miller Electric Mfg. Co., have been named, along with numerous other defendants, in lawsuits alleging injury from exposure to welding consumables. The plaintiffs in these suits claim unspecified damages for injuries resulting from the plaintiffs' alleged exposure to asbestos, manganese and/or toxic fumes in connection with the welding process. Based upon the Company's experience in defending these claims, the Company believes that the resolution of these proceedings will not have a material adverse effect on the Company's operating results, financial position or cash flows. The Company has not recorded any significant reserves related to these cases.

## Preferred Stock

**Preferred Stock**, without par value, of which 300,000 shares are authorized, is issuable in series. The Board of Directors is authorized to fix by resolution the designation and characteristics of each series of preferred stock. The Company has no present commitment to issue its preferred stock.

## Notes to Financial Statements (Continued)

**Common Stock**, with a par value of \$.01, **Additional Paid-In-Capital** and **Common Stock Held in Treasury** transactions during 2011, 2010 and 2009 are shown below.

| In Thousands except shares   | Common Stock |          | Additional                | Common Stock Held in Treasury |                |
|--|--------------|----------|---------------------------|-------------------------------|----------------|
|  | Shares       | Amount   | Paid-In-Capital<br>Amount | Shares                        | Amount         |
| Balance, December 31, 2008   | 531,789,730  | \$ 5,318 | \$ 105,497                | (32,674,759)                  | \$ (1,390,594) |
| During 2009  |              |          |                           |                               |                |
| Shares issued for stock options                                      | 3,204,212    | 32       | 101,581                   |                               |                |
| Shares issued for stock compensation and vesting of restricted stock | 17,018       |          | 120                       |                               |                |
| Stock compensation expense   |              |          | 51,858                    |                               |                |
| Noncontrolling interest  |              |          | (2,591)                   |                               |                |
| Tax benefits related to stock options                                |              |          | 11,416                    |                               |                |
| Tax benefits related to defined contribution plans                   |              |          | 3,104                     |                               |                |
| Balance, December 31, 2009   | 535,010,960  | 5,350    | 270,985                   | (32,674,759)                  | (1,390,594)    |
| During 2010  |              |          |                           |                               |                |
| Shares issued for stock options                                      | 3,445,891    | 34       | 113,592                   |                               |                |
| Shares issued for stock compensation and vesting of restricted stock | 48,931       | 1        | 1,217                     | (1,998)                       | (88)           |
| Stock compensation expense   |              |          | 56,443                    |                               |                |
| Noncontrolling interest  |              |          | (287)                     |                               |                |
| Tax benefits related to stock options                                |              |          | 15,619                    |                               |                |
| Tax benefits related to defined contribution plans                   |              |          | 3,237                     |                               |                |
| Repurchases of common stock  |              |          |                           | (8,084,724)                   | (350,000)      |
| Balance, December 31, 2010   | 538,505,782  | 5,385    | 460,806                   | (40,761,481)                  | (1,740,682)    |
| During 2011  |              |          |                           |                               |                |
| Shares issued for stock options                                      | 3,932,861    | 39       | 151,431                   |                               |                |
| Shares issued for stock compensation and vesting of restricted stock | 61,792       | 1        | 1,629                     | (24,796)                      | (1,514)        |
| Stock compensation expense   |              |          | 56,374                    |                               |                |
| Tax benefits related to stock options                                |              |          | 12,594                    |                               |                |
| Tax benefits related to defined contribution plans                   |              |          | 3,321                     |                               |                |
| Repurchases of common stock  |              |          |                           | (18,106,109)                  | (950,000)      |
| Balance, December 31, 2011   | 542,500,435  | \$ 5,425 | \$ 686,155                | (58,892,386)                  | \$ (2,692,196) |
| Authorized, December 31, 2011  | 700,000,000  |          |                           |                               |                |

On August 20, 2007, the Company's Board of Directors authorized a stock repurchase program which provides for the buyback of up to \$3,000,000,000 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 8,084,724 shares of its common stock at an average price of \$43.29 per share during 2010 and 16,278,856 shares of its common stock at an average price of \$53.51 per share during 2011. As of December 31, 2011, there were no authorized repurchases 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 \$4,000,000,000 of the Company's common stock over an open-ended period of time (the 2011 Program). Through December 31, 2011, the Company made repurchases of 1,827,253 shares of its common stock at an average price of \$43.20. As of December 31, 2011, there was approximately \$3,900,000,000 of authorized repurchases remaining under the 2011 Program.

**Cash Dividends** declared were \$1.40 per share in 2011, \$1.30 per share in 2010 and \$1.24 per share in 2009. Cash dividends paid were \$1.38 per share in 2011, \$1.27 per share in 2010 and \$1.24 per share in 2009.



## Notes to Financial Statements (Continued)

**Accumulated Other Comprehensive Income** Comprehensive income is defined as the changes in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by stockholders and distributions to stockholders. The changes in accumulated other comprehensive income during 2011, 2010 and 2009 were as follows:

| In Thousands   | 2011       | 2010       | 2009       |
|--|------------|------------|------------|
| Beginning balance  | \$ 427,155 | \$ 248,959 | \$ 10,118  |
| Foreign currency translation adjustments   | (140,521)  | 153,230    | 301,112    |
| Pension and other postretirement benefits actuarial gains (losses) net of tax of \$53,568 in 2011, \$(2,978) in 2010 and \$23,213 in 2009                | (93,156)   | 3,543      | (71,197)   |
| Amortization of unrecognized pension and other postretirement benefits costs, net of tax of \$(16,506) in 2011, \$(11,956) in 2010 and \$(5,089) in 2009 | 30,745     | 21,423     | 8,357      |
| Pension and other postretirement benefits settlements, curtailments and other, net of tax of \$0 in 2011, \$0 in 2010 and \$(225) in 2009                |            |            | 569        |
| Ending balance   | \$ 224,223 | \$ 427,155 | \$ 248,959 |

Foreign currency translation adjustments for the year ended December 31, 2011 is net of a \$55,297,000 increase for the resolution of an issue with the Internal Revenue Service in the U.S. related to a deduction for foreign exchange losses on an intercompany loan.

As of December 31, 2011 and 2010, the ending balance of accumulated comprehensive income consisted of cumulative translation adjustment income of \$773,367,000 and \$913,888,000, respectively, and unrecognized pension and other postretirement benefits costs of \$549,144,000 and \$486,733,000, respectively. The estimated unrecognized benefit cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2012 is \$52,638,000 for pension and \$3,337,000 for other postretirement benefits.

### Stock Based Compensation

**Stock-Based Compensation** Stock options and restricted stock units have been issued to officers and other management employees under ITW's 2011 Long-Term Incentive Plan (the "Plan"). The stock options generally vest over a four-year period and have a maturity of ten years from the issuance date. Restricted stock units generally vest after a three-year period and include units with and without performance criteria. To cover the exercise of vested options and vesting of restricted stock units, the Company generally issues new shares from its authorized but unissued share pool. At December 31, 2011, 51,244,986 shares of ITW common stock were reserved for issuance under the Plan. The Company records compensation expense for the grant date fair value of stock awards over the remaining service periods of those awards.

The following summarizes the Company's stock-based compensation expense:

| In Thousands   | 2011      | 2010      | 2009      |
|--|-----------|-----------|-----------|
| Pre-tax compensation expense                                   | \$ 56,374 | \$ 56,443 | \$ 51,858 |
| Tax benefit  | (17,343)  | (17,822)  | (15,565)  |
| Total stock-based compensation recorded as expense, net of tax | \$ 39,031 | \$ 38,621 | \$ 36,293 |

Of the pre-tax compensation expense, \$845,000, \$783,000 and \$729,000 were included in income from discontinued operations for the years ended December 31, 2011, 2010 and 2009, respectively.

The following table summarizes activity related to non-vested restricted stock units during 2011:

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|                             | Number of<br>Shares | Weighted-Average<br>Grant-Date Fair Value |
|-----------------------------|---------------------|---|
| Unvested, January 1, 2011   | 1,721,481           | \$ 34.84                                  |
| Granted                     | 589,772             | 51.73                                     |
| Vested                      | (34,630)            | 34.38                                     |
| Cancelled                   | (102,175)           | 38.36                                     |
| Unvested, December 31, 2011 | 2,174,448           | 39.27                                     |

## Notes to Financial Statements (Continued)

The following table summarizes stock option activity under the Plan for the year ended December 31, 2011:

|                                 | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---------------------------------|------------------|---------------------------------|---|---------------------------|
| Under option, January 1, 2011   | 19,655,417       | \$ 44.08                        |   |                           |
| Granted                         | 2,008,104        | 55.92                           |   |                           |
| Exercised                       | (4,055,853)      | 39.06                           |   |                           |
| Cancelled or expired            | (156,838)        | 47.58                           |   |                           |
| Under option, December 31, 2011 | 17,450,830       | 46.57                           | 5.81 years                                  | \$ 42,603,214             |
| Exercisable, December 31, 2011  | 12,036,884       | 46.25                           | 4.92 years                                  | \$ 26,125,945             |

On February 10, 2012, the Compensation Committee of the Board of Directors approved an annual equity award consisting of stock options, restricted stock units ( RSUs ) and performance restricted stock units ( PRSUs ). The RSUs provide for full cliff vesting three years from the date of grant. The PRSUs provide for full cliff vesting after three years if the Compensation Committee certifies that the performance goals set with respect to the PRSU have been met. Upon vesting, the holder will receive one share of common stock of the Company for each vested RSU or PRSU. Option exercise prices are equal to the common stock fair market value on the date of grant. Stock options were granted on 1,758,420 shares at an exercise price of \$55.71 per share. Additionally, 550,308 RSUs and PRSUs were issued at the grant date share price of \$55.71. The fair value of RSUs and PRSUs is determined by reducing the closing market price on the date of the grant by the present value of projected dividends over the vesting period. The Company uses a binomial option pricing model to estimate the fair value of the stock options granted. The following summarizes the assumptions used in the models:

|                               | 2012     | 2011     | 2010     |
|-------------------------------|----------|----------|----------|
| Risk-free interest rate       | 0.2-2.1% | 0.3-3.8% | 0.4 3.9% |
| Weighted-average volatility   | 25.0%    | 25.0%    | 25.0%    |
| Dividend yield                | 2.61%    | 2.80%    | 2.78%    |
| Expected years until exercise | 7.6-7.8  | 7.6-7.9  | 7.5-7.8  |

Lattice-based option valuation models, such as the binomial option pricing model, incorporate ranges of assumptions for inputs. The risk-free rate of interest for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on implied volatility from traded options on the Company's stock and historical volatility of the Company's stock. The Company uses historical data to estimate option exercise timing and employee termination rates within the valuation model. The weighted-average dividend yield is based on historical information. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The ranges presented result from separate groups of employees assumed to exhibit different behavior.

The weighted-average grant-date fair value of options granted during 2012, 2011, 2010 and 2009 was \$11.48, \$12.34, \$9.59 and \$10.24 per share, respectively. The aggregate intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009 was \$63,480,000, \$56,191,000 and \$38,609,000, respectively. As of December 31, 2011 there was \$27,762,000 of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 2.4 years. Exercise of options during the years ended December 31, 2011, 2010, and 2009 resulted in cash receipts of \$151,470,000, \$113,627,000 and \$101,613,000, respectively. The total fair value of vested stock option awards during the years ended December 31, 2011, 2010 and 2009 was \$32,955,000, \$29,545,000 and \$38,999,000, respectively.

As of December 31, 2011 there was \$27,402,000 of total unrecognized compensation cost related to unvested restricted stock units. That cost is expected to be recognized over a weighted-average remaining contractual life of 1.7 years. The total fair value of vested restricted stock unit awards during the years ended December 31, 2011 and 2010 was \$1,191,000 and \$632,000, respectively.





**Notes to Financial Statements (Continued)**

**Segment Information**

**Segment Information** The Company has 52 operating segments which are aggregated from the Company's approximately 800 operations in 58 countries. These businesses are internally reported as 52 operating segments to senior management. The Company's 52 operating segments have been aggregated into the following eight external reportable segments: Transportation; Power Systems & Electronics; Industrial Packaging; Food Equipment; Construction Products; Polymers & Fluids; Decorative Surfaces; and All Other.

**Transportation** Transportation-related components, fasteners, fluids and polymers, as well as truck remanufacturing and related parts and service.

**Power Systems & Electronics** Equipment and consumables associated with specialty power conversion, metallurgy and electronics.

**Industrial Packaging** Steel, plastic and paper products and equipment used for bundling, shipping and protecting goods in transit.

**Food Equipment** Commercial food equipment and related service.

**Construction Products** Tools, fasteners and other products for construction applications.

**Polymers & Fluids** Adhesives, sealants, lubrication and cutting fluids, and hygiene products.

**Decorative Surfaces** Decorative surfacing materials for furniture, office and retail space, countertops, and other applications.

**All Other** All other operating segments.

## Notes to Financial Statements (Continued)

Segment information for 2011, 2010 and 2009 was as follows:

| In Thousands   | 2011          | 2010          | 2009          |
|--|---------------|---------------|---------------|
| <b>Operating revenues:</b>   |               |               |               |
| Transportation   | \$ 3,108,349  | \$ 2,522,226  | \$ 2,092,249  |
| Power Systems & Electronics  | 2,872,161     | 2,409,204     | 2,004,402     |
| Industrial Packaging   | 2,612,108     | 2,272,059     | 1,940,887     |
| Food Equipment   | 1,982,187     | 1,857,051     | 1,862,950     |
| Construction Products  | 1,958,370     | 1,753,485     | 1,547,365     |
| Polymers & Fluids  | 1,364,004     | 1,106,025     | 980,305       |
| Decorative Surfaces  | 1,083,157     | 987,692       | 971,900       |
| All Other  | 2,889,699     | 2,598,475     | 2,238,604     |
| Intersegment revenues  | (83,452)      | (90,525)      | (65,666)      |
|  | \$ 17,786,583 | \$ 15,415,692 | \$ 13,572,996 |
| <b>Operating income:</b>   |               |               |               |
| Transportation   | \$ 474,592    | \$ 369,454    | \$ 155,373    |
| Power Systems & Electronics  | 580,674       | 469,244       | 198,673       |
| Industrial Packaging   | 273,342       | 231,303       | 95,128        |
| Food Equipment   | 303,771       | 255,060       | 255,891       |
| Construction Products  | 225,448       | 192,070       | 104,795       |
| Polymers & Fluids  | 208,873       | 188,696       | 150,065       |
| Decorative Surfaces  | 132,394       | 117,333       | 113,227       |
| All Other  | 531,914       | 430,857       | 309,811       |
|  | \$ 2,731,008  | \$ 2,254,017  | \$ 1,382,963  |
| <b>Depreciation and amortization and impairment of goodwill and intangible assets:</b> |               |               |               |
| Transportation   | \$ 125,988    | \$ 97,784     | \$ 114,865    |
| Power Systems & Electronics  | 87,346        | 78,523        | 171,065       |
| Industrial Packaging   | 72,244        | 69,513        | 71,564        |
| Food Equipment   | 49,655        | 44,446        | 42,472        |
| Construction Products  | 58,084        | 59,496        | 75,007        |
| Polymers & Fluids  | 48,889        | 38,942        | 40,174        |
| Decorative Surfaces  | 21,946        | 20,353        | 23,958        |
| All Other  | 129,857       | 139,729       | 145,736       |
|  | \$ 594,009    | \$ 548,786    | \$ 684,841    |
| <b>Plant and equipment additions:</b>  |               |               |               |
| Transportation   | \$ 97,735     | \$ 70,743     | \$ 50,006     |
| Power Systems & Electronics  | 42,623        | 25,849        | 24,776        |
| Industrial Packaging   | 27,969        | 34,324        | 27,151        |
| Food Equipment   | 35,859        | 30,847        | 39,039        |
| Construction Products  | 37,332        | 27,823        | 31,280        |
| Polymers & Fluids  | 22,053        | 13,283        | 9,417         |
| Decorative Surfaces  | 22,590        | 23,490        | 12,671        |
| All Other  | 67,247        | 61,400        | 61,399        |
|  | \$ 353,408    | \$ 287,759    | \$ 255,739    |

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Identifiable assets:

|                             |               |               |
|-----------------------------|---------------|---------------|
| Transportation              | \$ 2,657,457  | \$ 1,946,633  |
| Power Systems & Electronics | 2,407,644     | 1,903,321     |
| Industrial Packaging        | 1,933,782     | 1,889,068     |
| Food Equipment              | 1,022,380     | 1,030,913     |
| Construction Products       | 1,504,850     | 1,488,119     |
| Polymers & Fluids           | 1,411,665     | 1,336,996     |
| Decorative Surfaces         | 399,915       | 386,398       |
| All Other                   | 2,644,120     | 2,995,165     |
| Corporate                   | 3,615,377     | 3,435,698     |
| Assets held for sale        | 386,324       |               |
|                             | \$ 17,983,514 | \$ 16,412,311 |

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**Notes to Financial Statements (Continued)**

Identifiable assets by segment are those assets that are specifically used in that segment. Corporate assets are principally cash and equivalents, investments and other general corporate assets. For 2010, a reclassification has been made to identifiable assets by segment to correct the allocation of \$743,244,000 of deferred income taxes between Corporate and the Company's segments.

Enterprise-wide information for 2011, 2010 and 2009 was as follows:

| <b>In Thousands</b>                             | <b>2011</b>   | <b>2010</b>   | <b>2009</b>   |
|---|---------------|---------------|---------------|
| <b>Operating Revenues by Geographic Region:</b> |               |               |               |
| United States                                   | \$ 7,379,219  | \$ 6,461,993  | \$ 5,708,035  |
| Europe  | 5,491,704     | 4,806,027     | 4,507,939     |
| Asia  | 1,931,607     | 1,697,969     | 1,241,173     |
| Other North America                             | 1,161,179     | 1,018,034     | 821,409       |
| Australia/New Zealand                           | 884,660       | 780,416       | 699,945       |
| Other   | 938,214       | 651,253       | 594,495       |
|   | \$ 17,786,583 | \$ 15,415,692 | \$ 13,572,996 |

Operating revenues by geographic region are based on the customers' location.

The Company has thousands of product lines within its businesses; therefore, providing operating revenues by product line is not practicable.

Total noncurrent assets excluding deferred tax assets and financial instruments were \$10,159,000,000 and \$9,456,000,000 at December 31, 2011 and 2010, respectively. Of these amounts, approximately 52% and 49% was attributed to U.S. operations for 2011 and 2010, respectively. The remaining amounts were attributed to the Company's foreign operations, with no single country accounting for a significant portion.

**QUARTERLY AND COMMON STOCK DATA (Unaudited)****Quarterly Financial Data**

The unaudited quarterly financial data included as supplementary data reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented.

| In Thousands except per share amounts        | Three Months Ended |              |              |              |              |              |              |              |
|--|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | March 31           |              | June 30      |              | September 30 |              | December 31  |              |
|  | 2011               | 2010         | 2011         | 2010         | 2011         | 2010         | 2011         | 2010         |
| Operating revenues                           | \$ 4,271,845       | \$ 3,632,764 | \$ 4,614,914 | \$ 3,928,056 | \$ 4,580,516 | \$ 3,941,124 | \$ 4,319,308 | \$ 3,913,748 |
| Cost of revenues                             | 2,762,009          | 2,327,863    | 2,996,014    | 2,514,222    | 2,961,497    | 2,548,451    | 2,798,365    | 2,606,132    |
| Operating income                             | 658,592            | 525,675      | 711,050      | 626,035      | 714,284      | 619,725      | 647,082      | 482,582      |
| Income from continuing operations            | 606,237            | 321,296      | 483,529      | 399,792      | 490,133      | 403,054      | 437,115      | 328,296      |
| Income from discontinued operations          | 16,903             | 12,509       | 14,901       | 11,664       | 17,484       | 18,974       | 5,082        | 7,367        |
| Net income                                   | 623,140            | 333,805      | 498,430      | 411,456      | 507,617      | 422,028      | 442,197      | 335,663      |
| Income per share from continuing operations: |                    |              |              |              |              |              |              |              |
| Basic  | 1.22               | 0.64         | 0.97         | 0.79         | 1.01         | 0.80         | 0.90         | 0.66         |
| Diluted                                      | 1.21               | 0.64         | 0.96         | 0.79         | 1.00         | 0.80         | 0.90         | 0.66         |
| Net income per share:                        |                    |              |              |              |              |              |              |              |
| Basic  | 1.25               | 0.66         | 1.00         | 0.82         | 1.04         | 0.84         | 0.91         | 0.68         |
| Diluted                                      | 1.24               | 0.66         | 0.99         | 0.81         | 1.04         | 0.84         | 0.91         | 0.67         |

In the first quarter of 2011, the Company recorded a favorable discrete non-cash tax benefit of \$165.9 million, or \$0.33 per share, associated with an Australian tax matter.

**ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

Not applicable.

**ITEM 9A. Controls and Procedures****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 December 31, 2011. Based on such evaluation, the Company's Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer have concluded that, as of December 31, 2011, the Company's disclosure controls and procedures were effective.

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

The Management Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are found in Item 8. Financial Statements and Supplementary Data.

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 December 31, 2011 were identified that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**ITEM 9B. Other Information**

Not applicable.



**PART III**

**ITEM 10. *Directors, Executive Officers and Corporate Governance***

Information regarding the Directors of the Company is incorporated by reference from the information under the captions "Election of Directors" and "Corporate Governance Policies and Practices" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.

Information regarding the Audit Committee and its Financial Experts is incorporated by reference from the information under the captions "Board of Directors and Its Committees" and "Audit Committee Report" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.

Information regarding the Executive Officers of the Company can be found in Part I of this Annual Report on Form 10-K under the caption "Executive Officers."

Information regarding compliance with Section 16(a) of the Exchange Act is incorporated by reference from the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.

Information regarding the Company's code of ethics that applies to the Company's Chairman & Chief Executive Officer, Senior Vice President & Chief Financial Officer, and key financial and accounting personnel is incorporated by reference from the information under the caption "Corporate Governance Policies and Practices" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.

**ITEM 11. *Executive Compensation***

This information is incorporated by reference from the information under the captions "Executive Compensation," "Director Compensation," "Compensation Discussion and Analysis" and "Compensation Committee Report" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.

**ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

This information is incorporated by reference from the information under the captions "Ownership of ITW Stock" and "Equity Compensation Plan Information" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.

**ITEM 13. *Certain Relationships and Related Transactions, and Director Independence***

Information regarding certain relationships and related transactions is incorporated by reference from the information under the captions "Ownership of ITW Stock," "Certain Relationships and Related Transactions" and "Corporate Governance Policies and Practices" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.

Information regarding director independence is incorporated by reference from the information under the captions "Corporate Governance Policies and Practices" and "Categorical Standards for Director Independence" in the Company's Proxy Statement for the 2012 Annual Meetings of Stockholders.

**ITEM 14. *Principal Accounting Fees and Services***

This information is incorporated by reference from the information under the caption "Ratification of the Appointment of Independent Registered Public Accounting Firm" in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders.



**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules**

*(a)(1) Financial Statements*

The following information is included as part of Item 8. Financial Statements and Supplementary Data:

Management Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

Statement of Income

Statement of Income Reinvested in the Business

Statement of Comprehensive Income

Statement of Financial Position

Statement of Cash Flows

Notes to Financial Statements

*(2) Financial Statement Schedules*

Not applicable.

*(3) Exhibits*

(i) See the Exhibit Index within this Annual Report on Form 10-K.

(ii) Pursuant to Regulation S-K, Item 601(b)(4)(iii), the Company has not filed with Exhibit 4 any debt instruments for which the total amount of securities authorized thereunder is less than 10% of the total assets of the Company and its subsidiaries on a consolidated basis as of December 31, 2011, with the exception of the agreements related to the 5.15% Notes due 2014, the 6.25% Notes due 2019, the 3.375% Notes due 2021 and the 4.875% Notes due 2041, which are described as Exhibit numbers 4(a) through (f) in the Exhibit Index. The Company agrees to furnish a copy of the agreement related to the debt instruments which have not been filed with Exhibit 4 to the Securities and Exchange Commission upon request.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on this 17th day of February 2012.

**ILLINOIS TOOL WORKS INC.**

By: /s/ DAVID B. SPEER

David B. Speer  
*Chairman & Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on this 17th day of February 2012.

| <b>Signatures</b>                                  | <b>Title</b>   |
|--|--|
| /s/ DAVID B. SPEER<br>David B. Speer               | Chairman & Chief Executive Officer<br>(Principal Executive Officer)              |
| /s/ RONALD D. KROPP<br>Ronald D. Kropp             | Senior Vice President & Chief Financial Officer<br>(Principal Financial Officer) |
| /s/ RANDALL J. SCHEUNEMAN<br>Randall J. Scheuneman | Vice President & Chief Accounting Officer<br>(Principal Accounting Officer)      |
| DANIEL J. BRUTTO                                   | Director   |
| SUSAN CROWN  | Director   |
| DON H. DAVIS, JR.                                  | Director   |
| ROBERT C. MCCORMACK                                | Director   |
| ROBERT S. MORRISON                                 | Director   |
| JAMES A. SKINNER                                   | Director   |
| DAVID B. SMITH, JR.                                | Director   |
| PAMELA B. STROBEL                                  | Director   |
| KEVIN M. WARREN                                    | Director   |
| ANRÉ D. WILLIAMS                                   | Director   |

By /s/ DAVID B. SPEER  
 (David B. Speer, *as Attorney-in-Fact*)

Original powers of attorney authorizing David B. Speer to sign the Company's Annual Report on Form 10-K and amendments thereto on behalf of the above-named directors of the registrant have been filed with the Securities and Exchange Commission as part of this Annual Report on Form 10-K (Exhibit 24).

**Exhibit Index**

**Annual Report on Form 10-K**

**2011**

**Exhibit**

**Number**

**Description**

- 3(a) Restated Certificate of Incorporation of Illinois Tool Works Inc., filed as Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.
- 3(b) By-laws of Illinois Tool Works Inc., as amended and restated as of February 10, 2012, filed as Exhibit 3 to the Company's Form 8-K filed on February 13, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
- 4(a) Indenture between Illinois Tool Works Inc. and The First National Bank of Chicago, as Trustee, dated as of November 1, 1986, filed as Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed on January 15, 1999 (Commission File No. 333-70691) and incorporated herein by reference.
- 4(b) First Supplemental Indenture between Illinois Tool Works Inc. and Harris Trust and Savings Bank, as Trustee, dated as of May 1, 1990, filed as Exhibit 4.2 to the Company's Registration Statement on Form S-3 filed on January 15, 1999 (Commission File No. 333-70691) and incorporated herein by reference.
- 4(c) Officers' Certificate dated March 26, 2009 establishing the terms, and setting forth the forms, of the 5.15% Notes due 2014 and the 6.25% Notes due 2019 filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on March 27, 2009 (Commission File No. 1-4797) and incorporated herein by reference.
- 4(d) Registration Rights Agreement dated March 26, 2009, by and among the Company and HSBC Securities (USA) Inc. and Banc of America Securities LLC filed as Exhibit 4.4 to the Company's Current Report on Form 8-K filed on March 27, 2009 (Commission File No. 1-4797) and incorporated herein by reference.
- 4(e) 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(f) 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.
- 10(a)\* Illinois Tool Works Inc. 1996 Stock Incentive Plan dated February 16, 1996, as amended on December 12, 1997, October 29, 1999, January 3, 2003, March 18, 2003, January 2, 2004, December 10, 2004 and December 7, 2005, filed as Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (Commission File No. 1-4797) and incorporated herein by reference.
- 10(b)\* Illinois Tool Works Inc. 2006 Stock Incentive Plan dated February 10, 2006, as amended on May 5, 2006, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.
- 10(c)\* Amendment to Illinois Tool Works Inc. 2006 Stock Incentive Plan dated February 8, 2008, filed as Exhibit 10(q) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Commission File No. 1-4797) and incorporated herein by reference.
- 10(d)\* Second Amendment to Illinois Tool Works Inc. 2006 Stock Incentive Plan dated February 13, 2009, filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 1-4797) and incorporated herein by reference.
- 10(e)\* Illinois Tool Works Inc. 2011 Long-Term Incentive Plan filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on December 16, 2010 (Commission File No. 1-4797) and incorporated herein by reference.
- 10(f)\* Form of stock option terms filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 16, 2004 and incorporated herein by reference.
- 10(g)\*

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Form of stock option terms filed as Exhibit 10(m) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.

**Exhibit**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 10(h)*        | Form of stock option terms filed as Exhibit 10(o) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(i)*        | Form of stock option terms filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 5, 2009 (Commission File No. 1-4797) and incorporated herein by reference.   |
| 10(j)*        | Form of stock option terms filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.   |
| 10(k)*        | Form of stock option terms filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.   |
| 10(l)*        | Form of restricted stock unit terms filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on February 5, 2009 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(m)*        | Form of restricted stock unit terms filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on February 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(n)*        | Form of restricted stock unit terms filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(o)*        | Form of qualifying or performance restricted stock unit terms filed as Exhibit 10(j) to the Company's Annual Report on Form 10-K filed on February 26, 2010 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(p)*        | Form of performance restricted stock unit terms filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on February 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(q)*        | Form of performance restricted stock unit terms filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(r)*        | Form of company-wide growth plan grant filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on March 3, 2010 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(s)*        | Form of company-wide growth plan grant filed as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on February 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.   |
| 10(t)*        | Form of company-wide growth plan grant filed as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.   |
| 10(u)*        | Illinois Tool Works Inc. Executive Incentive Plan adopted February 16, 1996, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996 (Commission File No. 1-4797) and incorporated herein by reference.                                    |
| 10(v)*        | Illinois Tool Works Inc. 2011 Executive Incentive Plan filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on December 16, 2010 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(w)*        | Illinois Tool Works Inc. 1982 Executive Contributory Retirement Income Plan adopted December 13, 1982, filed as Exhibit 10(c) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990 (Commission File No. 1-4797) and incorporated herein by reference.              |
| 10(x)*        | Illinois Tool Works Inc. 1985 Executive Contributory Retirement Income Plan adopted December 1985, filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990 (Commission File No. 1-4797) and incorporated herein by reference.                  |
| 10(y)*        | Amendment to the Illinois Tool Works Inc. 1985 Executive Contributory Retirement Income Plan dated May 1, 1996, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996 (Commission File No. 1-4797) and incorporated herein by reference. |

**Exhibit**

| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 10(z)*        | Illinois Tool Works Inc. Executive Contributory Retirement Income Plan as amended and restated, effective January 1, 2010, filed as exhibit 10 to the Company's Current Report on Form 8-K filed on November 5, 2009 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(aa)*       | Illinois Tool Works Inc. Nonqualified Pension Plan, effective January 1, 2008, as amended and approved by the Board of Directors on December 22, 2008, filed as Exhibit 10(p) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 1-4797) and incorporated herein by reference. |
| 10(bb)*       | Illinois Tool Works Inc. 2011 Change-in-Control Severance Compensation Policy filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on December 16, 2010 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(cc)*       | Illinois Tool Works Inc. Directors' Deferred Fee Plan effective May 5, 2006, as amended and approved by the Board of Directors on February 9, 2007, filed as Exhibit 10(h) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.    |
| 10(dd)*       | Amendment to the Illinois Tool Works Inc. Directors' Deferred Fee Plan, effective February 8, 2008, filed as Exhibit 10(j) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 10(ee)*       | Illinois Tool Works Inc. Phantom Stock Plan for Non-Officer Directors, as approved by the Board of Directors on December 5, 2008, filed as Exhibit 10(s) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 1-4797) and incorporated herein by reference.                      |
| 10(ff)*       | Illinois Tool Works Inc. 2011 Cash Incentive Plan, filed as Exhibit 99.1 to the Company's Form 8-K filed on May 12, 2011 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 21            | Subsidiaries and Affiliates of the Company.  |
| 23            | Consent of Independent Registered Public Accounting Firm.  |
| 24            | Powers of Attorney.  |
| 31            | Rule 13a-14(a) Certifications.   |
| 32            | Section 1350 Certification.  |
| 99(a)         | Description of the capital stock of Illinois Tool Works Inc. filed as Exhibit 99(a) to the Company's Annual Report on Form 10-K filed on February 26, 2010 (Commission File No. 1-4797) and incorporated herein by reference.  |
| 101**         | Interactive Data File.   |

\* Management contract or compensatory plan or arrangement.

\*\* 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.