FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2001

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	36-1258310
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3600 West Lake Avenue, Glenview, IL	60025-5811
(Address of principal executive offices)	(Zip Code)

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

Former address:

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes __X__. No _____.

The number of shares of registrant's common stock, $.01 par value, outstanding at October 31, 2001: 304,678,211.

Part I - Financial Information

Item 1

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

FINANCIAL STATEMENTS

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

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

(In Thousands Except for Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Operating Revenues	$2,395,645	$2,472,342	$7,302,592	$7,454,748
Cost of revenues	1,597,149	1,597,669	4,874,594	4,821,874
Selling, administrative, research and development expenses	442,430	416,949	1,345,003	1,327,021
Amortization of goodwill and other intangible assets	28,450	23,461	79,092	66,784
Operating Income	327,616	434,263	1,003,903	1,239,069
Interest expense	(18,308)	(18,567)	(54,878)	(52,375)
Other expense	(3,153)	(3,111)	(3,536)	(4,708)
Income Before Income Taxes	306,155	412,585	945,489	1,181,986
Income taxes	107,100	148,500	330,900	425,500
Net Income	$ 199,055	$ 264,085	$ 614,589	$ 756,486
Per share of common stock:				
Basic Net Income	$.65	$.87	$2.02	$2.51
Diluted Net Income	$.65	$.87	$2.01	$2.49
Cash dividends:				
Paid	$.20	$.18	$.60	$.54
Declared	$.22	$.20	$.62	$.56
Shares of common stock outstanding during the period:				
Average	304,522	301,857	303,908	301,365
Average assuming dilution	306,463	304,475	306,204	304,314

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

(In Thousands)

ASSETS	September 30, 2001	December 31, 2000
Current Assets:		
Cash and equivalents	$ 229,313	$ 151,295
Trade receivables	1,629,559	1,654,632
Inventories	1,153,220	1,181,385
Deferred income taxes	195,702	183,823
Prepaids and other current assets	141,421	157,926
Total current assets	3,349,215	3,329,061
Plant and Equipment:		
Land	122,116	116,423
Buildings and improvements	1,017,175	1,000,807
Machinery and equipment	3,005,171	2,860,472
Equipment leased to others	122,652	118,589
Construction in progress	148,189	103,319
	4,415,303	4,199,610
Accumulated depreciation	(2,678,904)	(2,477,086)
Net plant and equipment	1,736,399	1,722,524
Investments	1,294,550	1,170,392
Goodwill & Other Intangibles	2,812,254	2,483,882
Deferred Income Taxes	503,514	478,420
Other Assets	457,632	419,177
	$10,153,564	$9,603,456

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 584,130	$ 425,789
Accounts payable	405,145	455,417
Accrued expenses	790,893	826,107
Cash dividends payable	67,001	60,490
Income taxes payable	109,181	49,807
Total current liabilities	1,956,350	1,817,610
Non-current Liabilities:		
Long-term debt	1,380,371	1,549,038
Other	926,001	835,821
Total non-current liabilities	2,306,372	2,384,859
Stockholders' Equity:		
Preferred stock	--	--
Common stock	3,048	3,027
Additional Paid-in-Capital	631,414	584,357
Income reinvested in the business	5,641,435	5,214,098
Common stock held in treasury	(1,666)	(1,783)
Cumulative translation adjustment	(383,389)	(398,712)
Total stockholders' equity	5,890,842	5,400,987
	$10,153,564	$9,603,456

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

(In Thousands)	Nine Months Ended September 30 2001	2000
Cash Provided by (Used for) Operating Activities:		
Net income	$614,589	$756,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	308,301	285,313
Change in deferred income taxes	(15,800)	(6,639)
Provision for uncollectible accounts	18,818	12,385
Loss on sale of plant and equipment	6,110	6,311
Income from investments	(107,810)	(108,326)
Non-cash interest on nonrecourse debt	32,229	33,637
(Gain) loss on sale of operations and affiliates	4,302	(1,619)
Other non-cash items, net	(5,823)	(5,472)
Cash provided by operating activities	854,916	972,076
Changes in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	59,768	(18,611)
Inventories	86,875	(18,162)
Prepaid expenses and other assets	905	(38,999)
Increase (decrease) in--		
Accounts payable	(85,300)	(61,219)
Accrued expenses	(53,388)	(57,505)
Income taxes payable	62,854	(6,975)
Other, net	(278)	179
Net cash provided by operating activities	926,352	770,784
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(535,334)	(533,578)
Additions to plant and equipment	(200,667)	(235,525)
Purchase of investments	(77,639)	(14,585)
Proceeds from investments	67,536	62,580
Proceeds from sale of plant and equipment	16,458	29,790
Proceeds from sale of operations and affiliates	9,800	8,248
Sales (purchases) of short-term investments	1,638	(4,630)
Other, net	1,377	1,989
Net cash used for investing activities	(716,831)	(685,711)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(182,140)	(162,612)
Issuance of common stock	46,650	17,234
Net borrowings of short-term debt	6,039	387,812
Proceeds from long-term debt	4,182	1,059
Repayments of long-term debt	(9,986)	(255,793)
Other, net	1,464	(179)
Net cash used for financing activities	(133,791)	(12,479)
Effect of Exchange Rate Changes on Cash and Equivalents	2,288	(37,956)
Cash and Equivalents:		
Increase during the period	78,018	34,638
Beginning of period	151,295	232,953
End of period	$229,313	$267,591
Cash Paid During the Period for Interest	$ 64,194	$ 71,815
Cash Paid During the Period for Income Taxes	$266,899	$381,952

Liabilities Assumed from Acquisitions	$ 93,095	$180,295

(1) INVENTORIES at September 30, 2001 and December 31, 2000 were as follows:

(In Thousands)

	Sept 30, 2001	Dec. 31, 2000
Raw material	$330,395	$350,943
Work-in-process	120,152	134,044
Finished goods	702,673	696,398
	$1,153,220	$1,181,385

(2) COMPREHENSIVE INCOME:

The components of comprehensive income were as follows:

(In Thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Net income	$199,055	$264,085	$614,589	$756,486
Foreign currency translation adjustments, net of tax	63,198	(51,774)	15,323	(142,879)
Total comprehensive income	$262,253	$212,311	$629,912	$613,607

(3) SHORT-TERM DEBT:

In 1999, the Company entered into a $400,000,000 Line of Credit Agreement. In 2001, the Company extended the termination date of the Line of Credit from June 22, 2001 to June 21, 2002. No amounts were outstanding under this facility at September 30, 2001.

(4) NEW ACCOUNTING PRONOUNCEMENTS:

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. The pooling-of-interests method will no longer be allowed. Under SFAS No. 142 beginning January 1, 2002, goodwill will no longer be amortized for book purposes. The Company will be required annually to evaluate goodwill for impairment based on fair value. The Company is currently evaluating the new statements to determine their effect on the Company's results of operations and financial position.

(5) INVESTMENTS:

During the third quarter of 2001, the Company entered into a leveraged lease of a Boeing 777 jet with a major airline. The components of the Company's cash investment of $28,295,000 were as follows:

(In Thousands)

Lease contracts receivable (net of principal and interest on nonrecourse financing)	$10,773
Estimated residual value of leased asset	28,750
Unearned and deferred income	(11,228)
Investment in leveraged lease	$28,295

Item 2 - Management's Discussion and Analysis

ENGINEERED PRODUCTS - NORTH AMERICA

Businesses in this segment are located in North America and manufacture short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products and resealable packaging.

(Dollars in Thousands)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Operating revenues	$748,054	$785,152	$2,269,502	$2,432,117
Operating income	126,272	165,974	367,139	488,405
Margin %	16.9%	21.1%	16.2%	20.1%

In 2001, operating revenues declined by 5% in the third quarter and 7% for the nine-month period mainly due to lower demand in the automotive, construction, electronic component packaging and consumer durable end markets. The base business revenue decline of 10% for both periods was partially offset by increases from acquisitions of 6% in the third quarter and 4% in the year-to-date period. Operating income declined 24% in the third quarter and 25% for the first nine months due to lower revenues and higher nonrecurring costs. Margins declined in both periods of 2001 due to reduced leverage of fixed costs as a result of lower sales and higher nonrecurring costs.

ENGINEERED PRODUCTS - INTERNATIONAL

Businesses in this segment are located outside North America and manufacture short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products and resealable packaging.

(Dollars in Thousands)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Operating revenues	$341,729	$374,649	$1,083,383	$1,066,660
Operating income	34,849	47,525	111,193	128,608
Margin %	10.2%	12.7%	10.3%	12.1%

Operating revenues increased 2% for the first nine months of 2001 mainly due to acquisitions, which contributed 9%. Operating revenues decreased 9% for the third quarter of 2001 due primarily to the effect of translation, which reduced revenues by 8% for both the three-month and nine-month periods. Base business revenues were flat in the third quarter and increased 1% for the year-to-date period as higher sales for the construction and automotive businesses were offset by lower revenues for the electronic component packaging and industrial plastics businesses. Operating income declined 27% in the third quarter and 14% year-to-date, primarily related to the electronic component packaging and industrial plastics businesses. Margins declined 250 basis points for the third quarter and 180 basis points for the year-to-date period as a result of lower revenues related to certain base businesses, higher nonrecurring costs and the effect of currency translation, which reduced operating income by 7% for both periods.

SPECIALTY SYSTEMS - NORTH AMERICA

Businesses in this segment are located in North America and produce longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing.

(Dollars in Thousands)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Operating revenues	$863,615	$820,049	$2,578,307	$2,505,015
Operating income	110,086	148,000	335,877	430,063
Margin %	12.7%	18.0%	13.0%	17.2%

In 2001, operating revenues increased 5% for the third quarter and 3% for the nine-month period, due primarily to acquisitions, which contributed 15% to the increase for the third quarter and 12% year-to-date. Base business revenues decreased 9% for both periods, as continued slow demand in most end markets negatively impacted the industrial packaging, food equipment, finishing and welding businesses. Operating income declined 26% in the third quarter and 22% year-to-date, and margins fell in both periods due to the revenue declines, nonrecurring costs and the impact of lower margins of acquired businesses.

SPECIALTY SYSTEMS - INTERNATIONAL

Businesses in this segment are located outside North America and manufacture longer lead-time machinery and related consumables, and specialty equipment for food service and industrial finishing.

(Dollars in Thousands)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Operating revenues	$403,975	$439,747	$1,243,580	$1,290,399
Operating income	34,900	51,440	122,072	138,836
Margin %	8.6%	11.7%	9.8%	10.8%

In 2001, operating revenues decreased 8% for the third quarter and 4% for the nine-month period primarily due to the effect of currency fluctuations, which reduced revenues by 8% for both periods. The acquisition-related revenue growth of 5% for the third quarter and 7% year-to-date was partially offset by base business revenue declines of 3% and 2%, respectively, primarily in the industrial packaging and food equipment operations. For the third quarter of 2001, operating income decreased 32% and margins declined 310 basis points due to weaknesses in the industrial packaging and consumer packaging markets. That weakness was partially offset by income improvements for the food equipment, finishing and welding operations. For the year-to-date period of 2001, operating income decreased 12% and margins declined 100 basis points due to lower demand in the industrial packaging and food equipment markets and the lower margins of acquired companies. Currency fluctuations reduced operating income by 8% for both periods.

CONSUMER PRODUCTS

Businesses in this segment are located primarily in North America and manufacture specialty exercise equipment, small appliances, cookware and ceramic tile.

(Dollars in Thousands)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Operating revenues	$96,462	$114,301	$294,530	$341,268
Operating income	2,967	2,894	3,109	(3,322)
Margin %	3.1%	2.5%	1.1%	(1.0%)

In 2001, the decrease in operating revenues of 16% for the third quarter and 14% for the nine-month period was related to lower sales volume at the ceramic tile, small appliance and specialty exercise equipment businesses. Operating income and margins improved for both periods due to the effect of lower nonrecurring costs and improved operating performance for the ceramic tile operation.

LEASING AND INVESTMENTS

This segment makes opportunistic investments in mortgage-related assets, leveraged and direct financing leases of equipment, properties and property developments, and affordable housing.

(Dollars in Thousands)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Operating revenues	$35,104	$37,143	$116,384	$109,872
Operating income	18,542	18,430	64,513	56,479

Operating revenues and income were relatively flat in the third quarter of 2001. For the year-to-date period, revenues and income increased due to higher property development income and gains on real estate which was held for sale.

OPERATING REVENUES

The reconciliation of segment operating revenues to total company operating revenues is as follows:

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Engineered Products - North America	$748,054	$785,152	$2,269,502	$2,432,117
Engineered Products – International	341,729	374,649	1,083,383	1,066,660
Specialty Systems - North America	863,615	820,049	2,578,307	2,505,015

Specialty Systems – International	403,975	439,747	1,243,580	1,290,399
Consumer Products	96,462	114,301	294,530	341,268
Leasing and Investments	35,104	37,143	116,384	109,872
Total segment operating revenues	2,488,939	2,571,041	7,585,686	7,745,331
Intersegment revenues	(93,294)	(98,699)	(283,094)	(290,583)
Total company operating revenues	$2,395,645	$2,472,342	$7,302,592	$7,454,748

OPERATING EXPENSES

Cost of revenues as a percentage of revenues increased to 66.8% in the first nine months of 2001 versus 64.7% in the first nine months of 2000 due to decreased sales volume in the North American base businesses and lower margins at acquired businesses. Selling, administrative, and research and development expenses increased to 18.4% of revenues in the first nine months of 2001 versus 17.8% in 2000 as a result of lower sales and higher non-recurring charges.

INTEREST EXPENSE

Interest expense increased to $54.9 million in the first nine months of 2001 from $52.4 million in 2001.

OTHER EXPENSE

Other expense was $3.5 million for the first nine months of 2001 versus $4.7 million in 2000. The decrease is primarily due to lower minority interest expense on less-than-100%-owned subsidiaries and lower losses on foreign currency translation in 2001, which was mostly offset by losses on the sales of operations in 2001 versus gains in 2000.

NET INCOME

Net income of $614.6 million ($2.01 per diluted share) in the first nine months of 2001 was 18.8% lower than the 2000 net income of $756.5 million ($2.49 per diluted share).

FOREIGN CURRENCY

The strengthening of the U.S. dollar against foreign currencies in 2001 decreased operating revenues for the first nine months of 2001 by approximately $229 million and reduced earnings by approximately 5 cents per diluted share.

FINANCIAL POSITION

Net working capital at September 30, 2001 and December 31, 2000 is summarized as follows:

(Dollars in Thousands)

	Sept. 30, 2001	Dec. 31, 2000	Increase/ (Decrease)
Current Assets:			
Cash and equivalents	$ 229,313	$ 151,295	$ 78,018
Trade receivables	1,629,559	1,654,632	(25,073)
Inventories	1,153,220	1,181,385	(28,165)
Other	337,123	341,749	(4,626)
	3,349,215	3,329,061	20,154
Current Liabilities:			
Short-term debt	584,130	425,789	158,341
Accounts payable	405,145	455,417	(50,272)

Accrued expenses	790,893	826,107	(35,214)
Other	176,182	110,297	65,885
	1,956,350	1,817,610	138,740
Net Working Capital	$1,392,865	$1,511,451	($118,586)
Current Ratio	1.71	1.83	

Short-term borrowings increased as a result of the reclassification of debt from long-term to short-term.

Other liabilities increased as a result of higher taxes payable due to the timing of tax payments.

The Company’s cash generation from operations continued to be strong in the quarter and reflected reduced working capital and capital expenditures as a result of the slower economy. The Company’s invested capital declined $149 million, excluding the effect of acquisitions. Coupled with $615 million of net income, these two components resulted in free cash of $764 million. As a result, the Company has been able to fund a $535 million acquisition program and pay dividends of $182 million.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks, uncertainties, and other factors which could cause actual results to differ materially from those anticipated, including, without limitation, the risks described herein. Important factors that may influence future results include (1) a further downturn in the construction, food retail and service, automotive, general industrial or real estate markets, (2) further deterioration in global and domestic business and economic conditions, such as interest rate and currency fluctuations, particularly in North America, Europe and Australia, (3) an interruption in, or reduction in, introducing new products into the Company’s product lines, (4) an unfavorable environment for making acquisitions, domestic and international, including adverse accounting or regulatory requirements and market value of candidates, and (5) uncertainties arising from the aftermath of the September 11th tragedy.

Part II - Other Information

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibit Index

Exhibit No.	Description
3(b)	By-laws of Illinois Tool Works Inc., as amended.
10(a)	Illinois Tool Works Inc. Non-officer directors’ restricted stock program, as amended.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

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

ILLINOIS TOOL WORKS INC.

Dated: November 13, 2001

By: /s/ Jon C. Kinney
Jon C. Kinney, Senior Vice President
and Chief Financial Officer
(Principal Accounting Officer)