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 March 31, 2002

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 March 31, 2002: 306,146,908.

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 years’ 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 March 31	
	2002	2001
Operating Revenues	$2,204,654	$2,295,840
Cost of revenues	1,475,119	1,537,365
Selling, administrative, and research and development expenses	414,764	438,290
Amortization of goodwill and other intangible assets	4,872	23,912
Operating Income	309,899	296,273
Interest expense	(17,503)	(18,189)
Other income	2,076	2,293
Income from Continuing Operations Before Income Taxes	294,472	280,377
Income taxes	100,100	97,976
Income from Continuing Operations	194,372	182,401
Income from Discontinued Operations	4,075	357
Cumulative Effect of Change in Accounting Principle	(221,890)	-
Net Income(Loss)	$ (23,443)	$182,758
Income Per Share from Continuing Operations:		
Basic	$0.64	$0.60
Diluted	$0.63	$0.60
Income Per Share from Discontinued Operations:		
Basic	$0.01	$0.00
Diluted	$0.01	$0.00
Cumulative Effect Per Share of Change In Accounting Principle:		
Basic	$(0.73)	--
Diluted	$(0.72)	--
Net Income (Loss) Per Share:		
Basic	$(0.08)	$0.60
Diluted	$(0.08)	$0.60
Pro Forma Excluding Goodwill Amortization:		
Income from Continuing Operations	$194,372	$198,960
Income per Diluted Share from Continuing Operations	$0.63	$0.65

Cash Dividends:		
Paid	$0.22	$0.20
Declared	$0.22	$0.20
Shares of Common Stock Outstanding During the Period:		
Average	305,532	303,151
Average assuming dilution	307,985	305,731

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

(In Thousands)

ASSETS	March 31, 2002	December 31, 2001
Current Assets:		
Cash and equivalents	$ 281,026	$ 282,224
Trade receivables	1,486,807	1,450,029
Inventories	964,958	994,156
Deferred income taxes	195,269	197,428
Prepaid expenses and other current assets	133,419	139,226
Net current assets of discontinued operations	95,754	100,181
Total current assets	3,157,233	3,163,244
Plant and Equipment:		
Land	112,750	114,649
Buildings and improvements	949,990	960,232
Machinery and equipment	2,786,136	2,800,341
Equipment leased to others	123,703	123,422
Construction in progress	135,926	105,316
	4,108,505	4,103,960
Accumulated depreciation	(2,503,325)	(2,470,270)
Net plant and equipment	1,605,180	1,633,690
Investments	1,379,207	1,278,285
Goodwill	2,281,592	2,516,813
Intangible Assets	208,835	221,881
Deferred Income Taxes	492,785	439,278
Other Assets	450,070	459,429
Net Noncurrent Assets of Discontinued Operations	107,844	109,729
	$9,682,746	$9,822,349

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2002	December 31, 2001
Current Liabilities:		
Short-term debt	$ 276,498	$ 313,447
Accounts payable	390,864	367,249
Accrued expenses	765,004	795,210
Cash dividends payable	67,352	67,084
Income taxes payable	56,305	32,922
Total current liabilities	1,556,023	1,575,912
Noncurrent Liabilities:		
Long-term debt	1,249,744	1,267,141
Other	931,043	938,558
Total noncurrent liabilities	2,180,787	2,205,699
Stockholders' Equity:		
Preferred stock		
Common stock	3,063	3,052
Additional paid-in-capital	706,926	675,856

Income reinvested in the business	5,674,625	5,765,421
Common stock held in treasury	(1,662)	(1,666)
Cumulative translation adjustment	(437,016)	(401,925)
Total stockholders' equity	5,945,936	6,040,738
	$9,682,746	$9,822,349

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

(In Thousands)

	Three Months Ended March 31 2002	Three Months Ended March 31 2001
Cash Provided by (Used for) Operating Activities:		
Net income	$(23,443)	$182,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(4,075)	(357)
Non-cash goodwill impairment charge	221,890	--
Depreciation and amortization	76,359	97,442
Change in deferred income taxes	(11,870)	580
Provision for uncollectible accounts	5,922	4,592
Loss on sale of plant and equipment	488	364
Income from investments	(31,154)	(36,898)
Non-cash interest on nonrecourse notes payable	9,810	10,611
(Gain) loss on sale of operations and affiliates	1,836	(899)
Other non-cash items, net	3,353	(956)
Cash provided by operating activities	249,116	257,237
Changes in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(55,954)	1,089
Inventories	24,768	4,965
Prepaid expenses and other assets	7,373	8,417
Net assets of discontinued operations	10,733	9,636
Increase (decrease) in--		
Accounts payable	26,708	(27,087)
Accrued expenses	(5,800)	(90,812)
Income taxes payable	25,926	71,528
Other, net	24	(10)
Net cash provided by operating activities	282,894	234,963
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(35,347)	(52,193)
Additions to plant and equipment	(64,051)	(69,532)
Purchase of investments	(115,049)	(9,518)
Proceeds from investments	11,827	22,050
Proceeds from sale of plant and equipment	2,605	3,503
Proceeds from sale of operations and affiliates	1,792	6,891
Sales of short-term investments	2,753	2,045
Other, net	1,165	666
Net cash used for investing activities	(194,305)	(96,088)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(67,084)	(60,490)
Issuance of common stock	30,997	27,146
Net repayments of short-term debt	(31,484)	(108,761)
Proceeds from long-term debt	237	939
Repayments of long-term debt	(9,626)	(2,290)
Other, net	(453)	116
Net cash used for financing activities	(77,413)	(143,340)
Effect of Exchange Rate Changes on Cash and Equivalents	(12,374)	2,662
Cash and Equivalents:		
Decrease during the period	(1,198)	(1,803)
Beginning of period	282,224	151,295
End of period	$281,026	$149,492
Cash Paid During the Period for Interest	$ 22,494	$ 24,980
Cash Paid During the Period for Income Taxes	$ 80,411	$ 26,040
Liabilities Assumed from Acquisitions	$ 2,238	$ 4,165

(1) INVENTORIES:

Inventories at March 31, 2002 and December 31, 2001 were as follows:

(In Thousands)

	March 31, 2002	Dec. 31, 2001
Raw material	$285,200	$287,067
Work-in-process	86,360	101,418
Finished goods	593,398	605,671
	$964,958	$994,156

(2) COMPREHENSIVE INCOME:

The only component of other comprehensive income that the Company has is foreign currency translation adjustments.

(In Thousands)

	March 31, 2002	March 31, 2001
Net income	$(23,443)	$182,758
Foreign currency translation adjustments, net of tax	(35,091)	31,930
Total comprehensive income (loss)	$(58,534)	$214,688

(3) DISCONTINUED OPERATIONS:

In December 2001, the Company’s Board of Directors authorized the divestiture of the Consumer Products segment. The segment is comprised of the following businesses: Precor specialty exercise equipment, West Bend appliances and premium cookware, and Florida Tile ceramic tile. The consolidated financial statements for all periods have been restated to present these businesses as discontinued operations in accordance with Accounting Principles Board Opinion No. 30. The Company intends to dispose of these businesses through sale transactions in 2002, and does not expect to incur a loss on their disposal. As of March 31, 2002, none of the businesses have been sold. Results of the discontinued operations for the three months ended March 31, 2002 and 2001 were as follows:

(In Thousands)

	March 31, 2002	March 31, 2001

Operating revenues	$101,054	$100,993
Pro forma operating income	$ 8,451	$ 1,799
Pro forma income before income taxes	$ 6,145	$ 1,374
Income taxes	2,070	424
Pro forma income from discontinued operations	$ 4,075	$ 950

The actual results for 2001 have been adjusted to reflect the pro forma effect of the elimination of goodwill and indefinite-lived intangible amortization.

The Company has allocated general corporate interest expense to discontinued operations based on proportional net assets excluding debt. Interest expense allocated to discontinued operations was $495,000 in 2002 and $515,000 in 2001.

The net assets of the discontinued operations as of March 31, 2002 and December 31, 2001 were as follows:

(In Thousands)

	March 31, 2002	Dec. 31, 2001
Accounts receivable	$ 57,345	$ 64,897
Inventory	70,568	71,481
Accounts payable	(13,464)	(14,258)
Accrued liabilties	(36,737)	(40,686)
Other, net	18,042	18,747
Net current assets of discontinued operations	$ 95,754	$100,181
Net plant and equipment	$ 77,551	$ 79,730
Net goodwill and intangibles	68,183	68,200
Other, net	(37,890)	(38,201)
Net noncurrent assets of discontinued operations	$107,844	$109,729

(4) INVESTMENTS:

In March 2002, the Company entered into two leveraged leasing transactions with a major German telecommunications company related to certain German mobile telecommunications equipment. The components of the Company’s cash investment of $100,001,000 were as follows:

(In Thousands)

Gross lease contracts receivable	$692,723
Nonrecourse debt service	(642,232)
Estimated residual value of leased assets	105,637
Unearned and deferred income	(56,127)
	$100,001

(5) GOODWILL AND INTANGIBLE ASSETS:

Goodwill represents the excess cost over fair value of the net assets of purchased businesses.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (“SFAS 142”). Under SFAS 142, the Company will no longer amortize goodwill and intangibles which have indefinite lives. SFAS 142 also requires that the Company assess goodwill and intangibles with indefinite lives for impairment at least annually, based on the fair value of the related reporting unit. The Company has not yet determined which quarter its annual impairment assessment will be performed on an on-going basis.

As an initial step in the SFAS 142 implementation process, the Company assigned its goodwill and intangibles to approximately 300 of its reporting units. Then, the fair value of each reporting unit was compared to its carrying value. Fair values were determined by discounting estimated future cash flows.

Based on the Company's initial impairment testing, goodwill and intangible assets were reduced by $262,816,000 and a net after-tax impairment charge of $221,890,000 ($0.72 per diluted share) was recognized as a cumulative effect of change in accounting principle in the first quarter of 2002. The impairment charge was related to approximately 40 businesses and primarily resulted from evaluating impairment based on discounted cash flows, as required by SFAS 142, instead of using undiscounted cash flows per the previous accounting standard. Although the Company has substantially completed its initial impairment testing, the impairment charge recorded in the first quarter of 2002 is an estimate that will be finalized later in 2002.

The changes in the carrying amount of goodwill by segment for the quarter ended March 31, 2002 are as follows:

(In Thousands)

	Engineered Products - North America	Engineered Products - International	Specialty Systems - North America	Specialty Systems International	Total
Balance, December 31, 2001	$579,462	$417,977	$853,557	$665,817	$2,516,813
Acquisitions	1,968	(39)	6,309	20,013	28,251
Impairment write-offs	(50,992)	(18,744)	(85,994)	(98,858)	(254,588)
Foreign currency translation	32	(3,659)	(1)	(5,256)	(8,884)
Balance, March 31, 2002	$530,470	$395,535	$773,871	$581,716	$2,281,592

Intangible assets as of March 31, 2002 and December 31, 2001 were as follows:

(In Thousands)

	As of March 31, 2002			As of December 31, 2001		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizable Intangibles:						
Trademarks and brands	$ 9,239	$ (1,791)	$ 7,448	$ 9,339	$ (1,685)	$ 7,654
Customer lists and relationships	28,371	(3,620)	24,751	28,371	(2,848)	25,523
Patents	74,911	(35,878)	39,033	74,971	(34,775)	40,196
Noncompete agreements	60,252	(23,088)	37,164	63,203	(21,741)	41,462
Other	49,219	(26,914)	22,305	50,239	(25,648)	24,591
Indefinite-lived Intangibles:						
Trademarks and brands	78,134	--	78,134	82,455	--	82,455
Total Intangible Assets	$300,126	$ (91,291)	$208,835	$308,578	$ (86,697)	$221,881

Amortization expense related to amortizable intangible assets was $4,872,000 for the first quarter of 2002 and $4,679,000 for the first quarter of 2001. The estimated amortization expense of intangible assets for the years ending December 31 is as follows:

(In Thousands)

2002	$19,489
2003	17,099
2004	16,298
2005	15,319
2006	14,417
2007	12,228

A reconciliation of the previously reported 2001 statement of income information to pro forma amounts that reflect the elimination of amortization of goodwill and indefinite-lived intangible assets is presented below:

(In Thousands, except per share amounts)

	Three months ended March 31, 2001		
		Per Share	
	Amount	Basic	Diluted
Income from continuing operations, as reported	$182,401	$0.60	$0.60
Amortization of goodwill and indefinite-lived intangible assets	16,559	0.05	0.05
Pro forma income from continuing operations	198,960	0.66	0.65
Income from discontinued operations, as reported	357	0.00	0.00
Amortization of goodwill and indefinite-lived intangible assets	593	0.00	0.00
Pro forma income from discontinued operations	950	0.00	0.00
Pro forma net income	$199,910	0.66	0.65

(6) SUBSEQUENT EVENT:

On April 26, 2002, a subsidiary of the Company issued $250,000,000 of 6.55% preferred debt securities due December 31, 2011 at 99.849% of face value. The effective interest rate of the preferred debt securities is 6.76%.

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 March 31	
	2002	2001
Operating revenues	$738,450	$744,595
Operating income	124,779	109,693
Margin %	16.9%	14.7%

For the first quarter of 2002, operating revenues decreased 1% as the base business revenue decline of 4% was offset by a 3% revenue increase from acquisitions. Base business revenues declined due to weakness in the industrial plastics, construction, machined components, polymers and electronic component packaging businesses, partially offset by increased demand in the automotive businesses. Operating income increased 14% and margins were higher by 220 basis points due to higher sales for the automotive businesses, reduced costs in the construction and automotive businesses and higher 2001 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 electronic component packaging.

(Dollars in Thousands)

	Three months ended March 31	
	2002	2001
Operating revenues	$332,033	$361,193
Operating income	28,227	38,045
Margin %	8.5%	10.5%

Operating revenues decreased 8% in the first quarter of 2002 versus the prior period. This revenue decline was primarily due to a 4% decrease attributed to currency fluctuations and a base business revenue decline of 3%, primarily related to weakness in the automotive, electronic component packaging and industrial plastics businesses. Operating income declined 26% and margins decreased 200 basis points due to the lower revenues and an asset writedown. In addition, foreign currency fluctuations reduced operating income by 4%.

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 March 31	
	2002	2001
Operating revenues	$826,362	$847,006
Operating income	111,129	109,006
Margin %	13.4%	12.9%

In the first quarter of 2002, operating revenues decreased 2% as the revenue increase from acquisitions of 5% was more than offset by revenue declines in the base businesses of 8%. The base business revenue decreases in the industrial packaging, food equipment and finishing businesses, offset higher revenues in the welding businesses. Operating income increased 2% due mainly to acquisitions, higher sales for the welding businesses and lower costs in the food equipment businesses. These gains offset higher nonrecurring costs in 2002. Margins improved 50 basis points due to lower costs in the food equipment, industrial packaging and consumer packaging 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 applications such as food service and industrial finishing.

(Dollars in Thousands)

	Three months ended March 31	
	2002	2001
Operating revenues	$365,594	$401,756
Operating income	28,977	36,000
Margin %	7.9%	9.0%

Operating revenues decreased 9% in the first quarter of 2002 due to lower base business revenues in the industrial packaging, food equipment and decorating businesses. In addition, increased revenues from acquisitions of 4% were offset by the effect of foreign currency fluctuations of 4%.

Operating income decreased 20% and margins were lower by 110 basis points, primarily due to weakness in the industrial packaging, decorating and finishing businesses. Also, currency fluctuation reduced operating income by 4%.

LEASING AND INVESTMENTS

This segment makes opportunistic investments in mortgage-related assets, leveraged and direct financing leases of telecommunications, aircraft and other equipment, properties and property developments, affordable housing, and a venture capital fund.

(In Thousands)

	Three months ended March 31	
	2002	2001
Operating revenues	$32,096	$40,323
Operating income	16,787	22,762

Operating revenues and income decreased in the first quarter of 2002 primarily due to a gain on the sale of a property in the first quarter of 2001.

In March 2002, the Company entered into two leveraged leasing transactions with a major German telecommunications company related to certain German mobile telecommunications equipment. The Company’s cash investment was $100,001,000.

OPERATING REVENUES

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

	Three months ended March 31	
	2002	2001
Engineered Products - North America	$ 738,450	$ 744,595
Engineered Products – International	332,033	361,193
Specialty Systems - North America	826,362	847,006
Specialty Systems – International	365,594	401,756
Leasing and Investments	32,096	40,323
Total segment operating revenues	2,294,535	2,394,873
Intersegment revenues	(89,881)	(99,033)
Total operating revenues	$2,204,654	$2,295,840

OPERATING INCOME

Segment operating income for 2001 was restated to exclude the amortization of goodwill and indefinite-lived intangible assets. The reconciliation of segment operating income to total operating income is as follows:

	Three months ended March 31	
	2002	2001
Engineered Products - North America	$124,779	$109,693
Engineered Products – International	28,227	38,045
Specialty Systems - North America	111,129	109,006
Specialty Systems – International	28,977	36,000
Leasing and Investments	16,787	22,762
Total segment operating income	309,899	315,506
Amortization of goodwill and indefinite-lived intangible assets	--	(19,233)
Total operating income	$309,899	$296,273

OPERATING EXPENSES

Cost of revenues as a percentage of revenues decreased to 66.9% in the first three months of 2002 versus 67.0% in the first three months of 2001. Selling, administrative, and research and development expenses decreased to 18.8% of revenues in the first three months of 2002 versus 19.1% in the first three months of 2001, primarily due to lower nonrecurring charges in 2002 and expense reductions as a result of a Company-wide objective to reduce administrative costs.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). Under SFAS 142, the Company will no longer amortize goodwill and intangibles which have indefinite lives. SFAS 142 also requires that the Company assess goodwill and intangibles with indefinite lives for impairment at least annually, based on the fair value of the related reporting unit. The Company has not yet determined which quarter its annual impairment assessment will be performed on an on-going basis.

As an initial step in the SFAS 142 implementation process, the Company assigned its goodwill and intangibles to approximately 300 of its reporting units. Then, the fair value of each reporting unit was compared to its carrying value. Fair values were determined by discounting estimated future cash flows.

Based on the Company's initial impairment testing, goodwill and intangible assets were reduced by $262,816,000 and a net after-tax impairment charge of $221,890,000 ($0.72 per diluted share) was recognized as a cumulative effect of change in accounting principle in the first quarter of 2002. The impairment charge was related to approximately 40 businesses and primarily resulted from evaluating impairment based on discounted cash flows, as required by SFAS 142, instead of using undiscounted cash flows per the previous accounting standard. Although the Company has substantially completed its initial impairment testing, the impairment charge recorded in the first quarter of 2002 is an estimate that will be finalized later in 2002.

Amortization expense related to amortizable intangible assets was $4,872,000 for the first quarter of 2002 and $4,679,000 for the first quarter of 2001.

INTEREST EXPENSE

Interest expense decreased to $17.5 million in the first three months of 2002 from $18.2 million in the first three months of 2001, primarily due to lower commercial paper borrowings in 2002.

OTHER INCOME

Other income decreased to $2.1 million for the first three months of 2002 from $2.3 million in 2001. This decrease is primarily due to losses versus gains on the sale of operations and affiliates in 2002 partially offset by gains versus losses on foreign currency translation.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations of $194.4 million ($0.63 per diluted share) in the first three months of 2002 was 6.6% higher than the 2001 first quarter net income of $182.4 million ($0.60 per diluted share).

On a pro forma basis, excluding goodwill and indefinite-lived intangible amortization in 2001, net income from continuing operations of $194.4 million in the first three months of 2002 was 2.3% lower than the 2001 pro forma income from continuing operations of $199.0 million. Net income from continuing operations per diluted share of $0.63 for the first three months of 2002 was 3.1% lower than the pro forma net income from continuing operations per diluted share of $0.65 for the first three months of 2001.

FOREIGN CURRENCY

The strengthening of the U.S. dollar against foreign currencies in 2002 decreased operating revenues in the first three months of 2002 by approximately $31 million and reduced income from continuing operations by approximately 1 cent per diluted share.

DISCONTINUED OPERATIONS

In December 2001, the Company’s Board of Directors authorized the divestiture of the Consumer Products segment. Businesses in this segment are located primarily in North America and manufacture household products that are used by consumers, including West Bend small electric appliances, Precor specialty exercise equipment and Florida Tile ceramic tile. The Company intends to dispose of these businesses through sale transactions in 2002, and does not expect to incur a net loss on the disposal of the segment. As of March 31, 2002, none of the businesses have been sold.

(Dollars in Thousands)

	Three months ended March 31	
	2002	2001
Operating revenues	$101,054	$100,993
Operating income	8,451	1,799
Margin %	8.4%	1.8%

Operating revenues increased slightly in 2002 versus 2001 due to higher sales of specialty exercise equipment, offset by lower small appliance and ceramic tile revenues. Operating income and margins increased significantly due to cost improvements in the exercise equipment and appliance businesses.

LIQUIDITY AND CAPITAL RESOURCES

Summarized cash flow information for the three months ended March 31, 2002 and 2001 was as follows:

(In Thousands)

	2002	2001
Net cash provided by operating activities	$282,894	$234,963
Net cash used for investing activities, excluding acquisitions and purchase of investments	(43,909)	(34,377)
Free operating cash flow	$238,985	$200,586
Acquisitions	$(35,347)	$(52,193)
Purchase of investments	(115,049)	(9,518)
Cash dividends paid	(67,084)	(60,490)
Net payments of debt	(40,873)	(110,112)
Other, net	18,170	29,924
Net decrease in cash and equivalents	$ (1,198)	$ (1,803)

Return on average invested capital for the three months ended March 31, 2002 and 2001 was as follows:

(Dollars in Thousands)

	2002	2001
Pro forma operating income after taxes	$ 204,533	$ 205,079

Total debt	$1,526,242	$1,860,012
Less: Leasing and investment debt	(810,106)	(796,115)
Less: Cash	(281,026)	(149,492)
Adjusted net debt	435,110	914,405
Total stockholders' equity	5,945,936	5,583,917
Invested capital	$6,381,046	$6,498,322
Average invested capital	$6,506,623	$6,457,021
Return on average invested capital	12.6%	12.7%

Net working capital at March 31, 2002 and December 31, 2001 is summarized as follows:

(Dollars in Thousands)

	March 31, 2002	Dec. 31, 2001	Increase/ (Decrease)
Current Assets:			
Cash and equivalents	$ 281,026	$ 282,224	$ (1,198)
Trade receivables	1,486,807	1,450,029	36,778
Inventories	964,958	994,156	(29,198)
Other	328,688	336,654	(7,966)
Net current assets of discontinued operations	95,754	100,181	(4,427)
	3,157,233	3,163,244	(6,011)
Current Liabilities:			
Short-term debt	276,498	313,447	(36,949)
Accounts payable	390,864	367,249	23,615
Accrued expenses	765,004	795,210	(30,206)
Other	123,657	100,006	23,651
	1,556,023	1,575,912	(19,889)
Net Working Capital	$1,601,210	$1,587,332	$ 13,878
Current Ratio	2.03	2.01	

Accounts receivable increased as a result of higher sales at the end of the first three months of 2002 and slower payments by customers. Inventories decreased as a result of a Company-wide effort to reduce inventory levels.

Accounts payable has increased as a result of differences in the timing of payments in the first quarter of 2002 and the fourth quarter of 2001. Accrued liabilities decreased primarily as a result of a decrease in accrued bonuses and payroll.

Total debt at March 31, 2002 and December 31, 2001 was as follows:

(Dollars in Thousands)

	March 31, 2002	Dec. 31, 2001
Short-term debt	$ 276,498	$ 313,447
Long-term debt	1,249,744	1,267,141
Total debt	$1,526,242	$1,580,588
Total debt to capitalization	20.4%	20.7%
Total debt to total capitalization (excluding Leasing and Investment segment)	11.6%	13.1%

On April 26, 2002, a subsidiary of the Company issued $250,000,000 of 6.55% preferred debt securities due December 31, 2011 at 99.849% of face value. The proceeds will be used for general corporate purposes.

The changes to stockholders' equity during 2002 were as follows:

(In Thousands)

Total stockholders' equity, December 31, 2001	$6,040,738
Income from continuing operations	194,372
Income from discontinued operations	4,075
Cumulative effect of change in accounting principle	(221,890)
Cash dividends declared	(67,353)
Exercise of stock options, including tax benefits	31,085
Currency translation adjustments	(35,091)
Total stockholders' equity, March 31, 2002	$5,945,936

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements regarding the profitable divestiture of the Consumer Products segment in 2002 and the estimated residual value of leased assets. 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 downturn in the construction, automotive, general industrial, food retail and service or real estate markets, (2) deterioration in global and domestic business and economic conditions, particularly in North America, Europe, and Australia, (3) an interruption in, or reduction in, introducing new products into the Company's product line and (4) an unfavorable environment for making acquisitions or dispositions, domestic and international, including adverse accounting or regulatory requirements and market values of candidates.

Part II - Other Information

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibit Index

No exhibits.

(b) Reports on Form 8-K

Form 8-K, Current Report dated January 29, 2002 which included Items 5 and 7 and a press release dated January 29, 2002 setting forth the 2001 financial results of Illinois Tool Works Inc.

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: May 2, 2002

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