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 June 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 July 31, 2001: 304,514,850.

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 June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Operating Revenues	$2,510,113	$2,577,446	$4,906,947	$4,982,406
Cost of revenues	1,664,403	1,652,275	3,277,445	3,224,205
Selling, administrative, and research and development expenses	440,799	455,901	902,573	910,072
Amortization of goodwill and other intangible assets	26,103	22,767	50,642	43,323
Operating Income	378,808	446,503	676,287	804,806
Interest expense	(17,859)	(17,725)	(36,570)	(33,808)
Other expense	(2,773)	(1,806)	(383)	(1,597)
Income Before Income Taxes	358,176	426,972	639,334	769,401
Income taxes	125,400	153,700	223,800	277,000
Net Income	$232,776	$273,272	$415,534	$492,401
Per share of common stock:				
Basic Net Income	$.77	$.91	$1.37	$1.64
Diluted Net Income	$.76	$.90	$1.36	$1.62
Cash dividends:				
Paid	$.20	$.18	$.40	$.36
Declared	$.20	$.18	$.40	$.36
Shares of common stock outstanding during the period:				
Average	304,160	301,516	303,641	301,131
Average assuming dilution	306,477	304,484	306,101	304,248

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

(In Thousands)

ASSETS	June 30, 2001	December 31, 2000
Current Assets:		
Cash and equivalents	$176,931	$151,295
Trade receivables	1,635,693	1,654,632
Inventories	1,154,948	1,181,385
Deferred income taxes	191,473	183,823
Prepaid expenses and other current assets	136,689	157,926
Total current assets	3,295,734	3,329,061
Plant and Equipment:		
Land	119,869	116,423
Buildings and improvements	986,677	1,000,807
Machinery and equipment	2,931,076	2,860,472
Equipment leased to others	122,775	118,589
Construction in progress	152,006	103,319
	4,312,403	4,199,610
Accumulated depreciation	(2,600,621)	(2,477,086)
Net plant and equipment	1,711,782	1,722,524
Investments	1,280,334	1,170,392
Goodwill and Other Intangibles	2,624,540	2,483,882
Deferred Income Taxes	503,586	478,420
Other Assets	455,290	419,177
	$9,871,266	$9,603,456

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$559,484	$425,789
Accounts payable	409,073	455,417
Accrued expenses	762,172	826,107
Cash dividends payable	60,898	60,490
Income taxes payable	58,182	49,807
Total current liabilities	1,849,809	1,817,610
Non-current Liabilities:		
Long-term debt	1,390,434	1,549,038
Other	936,927	835,821
Total non-current liabilities	2,327,361	2,384,859
Stockholders' Equity:		
Common stock	3,047	3,027
Additional Paid-in-Capital	629,921	584,357
Income reinvested in the business	5,509,381	5,214,098
Common stock held in treasury	(1,666)	(1,783)
Cumulative translation adjustment	(446,587)	(398,712)
Total stockholders' equity	5,694,096	5,400,987
	$9,871,266	$9,603,456

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

(In Thousands)

	Six Months Ended June 30	
	2001	2000
Cash Provided by (Used for) Operating Activities:		
Net income	$415,534	$492,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	206,561	188,167
Change in deferred income taxes	(19,092)	(9,467)
Provision for uncollectible accounts	13,729	10,143
Loss on sale of plant and equipment	3,147	2,676
Income from investments	(74,787)	(73,052)
Non-cash interest on nonrecourse debt	21,430	22,392
(Gain)loss on sale of operations and affiliates	3,633	(1,867)
Other non-cash items, net	(3,334)	(3,722)
Cash provided by operating activities	566,821	627,671
Changes in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(848)	(39,249)
Inventories	42,895	(6,310)
Prepaid expenses and other assets	9,921	(24,728)
Increase (decrease) in:		
Accounts payable	(57,310)	(34,024)
Accrued expenses and other liabilities	(51,430)	(54,413)
Income taxes payable	11,015	(3,119)
Other, net	56	30
Net cash provided by operating activities	521,120	465,858
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(308,488)	(326,056)
Additions to plant and equipment	(140,399)	(154,641)
Purchase of investments	(23,819)	(11,102)
Proceeds from investments	47,137	41,838
Proceeds from sale of plant and equipment	11,475	22,599
Proceeds from sale of operations and affiliates	10,040	4,220
Purchases of short-term investments	2,309	(4,126)
Other, net	956	1,871
Net cash used for investing activities	(400,789)	(425,397)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(121,241)	(108,306)
Issuance of common stock	45,204	13,007
Net borrowings (repayments) of short-term debt	(11,017)	209,301
Proceeds from long-term debt	2,999	1,611
Repayments of long-term debt	(5,701)	(142,630)
Other, net	1,820	650
Net cash used for financing activities	(87,936)	(26,367)
Effect of Exchange Rate Changes on Cash and Equivalents	(6,759)	(34,894)
Cash and Equivalents:		
Increase (decrease) during the period	25,636	(20,800)
Beginning of period	151,295	232,953
End of period	$176,931	$212,153
Cash Paid During the Period for Interest	$34,253	$38,823

Cash Paid During the Period for Income Taxes	$221,034	$231,577
Liabilities Assumed from Acquisitions	$59,606	$82,786

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

(In Thousands)

	June 30, 2001	Dec 31, 2000
Raw material	$346,869	$350,943
Work-in-process	115,450	134,044
Finished goods	692,629	696,398
	$1,154,948	$1,181,385

(2) COMPREHENSIVE INCOME:

The components of comprehensive income were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Net income	$232,776	$273,272	$415,534	$492,401
Foreign currency translation adjustments, net of tax	(79,806)	(57,913)	(47,875)	(91,105)
Total comprehensive income	$152,970	$215,359	$367,659	$401,296

(3) SHORT-TERM DEBT:

In June 1999, the Company entered into a $400,000,000 Line of Credit Agreement. In 2001, the Company extended the termination date of the agreement from June 22, 2001 to June 21, 2002.

(4) NEW ACCOUNTING STANDARDS:

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 to annually 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.

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 June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Operating revenues	$776,853	$841,238	$1,521,448	$1,646,965
Operating income	135,469	174,630	240,867	322,433
Margin %	17.4%	20.8%	15.8%	19.6%

Operating revenues declined by 8% in both the second quarter and first half of 2001 mainly due to lower demand in the automotive and construction end markets. The base business revenue decline of 10% for both periods was partially offset by increases from acquisitions of 2% in the second and 3% in the year-to-date period. Operating income declined 22% in the second quarter and 25% for the first half of 2001 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 June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Operating revenues	$380,460	$357,130	$741,653	$692,011
Operating income	42,830	49,046	76,344	81,082
Margin %	11.3%	13.7%	10.3%	11.7%

Operating revenues increased 7% for both the three-month and six-month periods of 2001 due mainly to acquisitions, which contributed 12% and 14% for the respective periods. Base business revenue increased 1% for both periods as higher sales for automotive businesses were offset by lower revenues for the electronic component packaging and industrial plastics businesses. Operating income declined 13% in the second quarter and 6% year-to-date, primarily related to the electronic component packaging and industrial plastics businesses. Lower revenues related to certain end markets and the lower margins of acquired companies resulted in margin declines of 240 basis points for the second quarter and 140 basis points for the year-to-date period. Currency translation, primarily related to the euro, reduced revenues and 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 June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Operating revenues	$870,594	$855,903	$1,714,693	$1,684,966
Operating income	123,207	150,544	225,792	282,063
Margin %	14.2%	17.6%	13.2%	16.7%

Operating revenues increased 2% for both the three-month and six-month periods of 2001, due primarily to acquisitions, which contributed 11% to the increase for both periods. Base business revenues decreased 9% for the second quarter and 8% for the first half of 2001, as slowing demand in most end markets negatively impacted the welding, industrial packaging, food equipment and finishing businesses. Operating income declined 18% in the second quarter and 20% year-to-date, primarily related to the welding and industrial packaging businesses. Margins declined in both periods due to the revenue declines, nonrecurring costs and 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 June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Operating revenues	$437,849	$474,177	$839,605	$850,651
Operating income	55,157	59,635	87,171	87,397
Margin %	12.6%	12.6%	10.4%	10.3%

In the second quarter of 2001, both operating revenues and operating income decreased 8% due to the unfavorable foreign currency impact of 8% on revenues and 9% on operating income. While revenues related to acquisitions grew 2%, the topline was decreased by the effect of divestitures. Base business revenues and operating income were flat.

For the year-to-date period, revenues decreased 1% as the acquisition-related growth of 9% was offset by the unfavorable currency effect of 8% and a base business revenue decline of 1%. Operating income was flat and margins increased slightly as improvements related to acquisitions and higher 2000 nonrecurring costs were offset by negative translation effect of 9%.

CONSUMER PRODUCTS

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

(Dollars in Thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Operating revenues	$94,387	$107,309	$198,068	$226,967
Operating income	(1,064)	(8,036)	142	(6,217)
Margin %	-1.1%	-7.5%	0.1%	-2.7%

In 2001, the decrease in operating revenues of 12% for the second quarter and 13% for the year-to-date period was primarily related to the ceramic tile and small appliance businesses. Operating income and margins improved for both periods due to the effect of 2000 nonrecurring costs.

LEASING AND INVESTMENTS

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

(Dollars in Thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Operating revenues	$40,957	$38,061	$81,280	$72,730
Operating income	23,209	20,684	45,971	38,048

Operating revenues and income increased in the second quarter of 2001 due to gains on the sales of mortgage-related investments and increased property development activity. 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 June 30		Six months ended June 30	
	2001	2000	2001	2000
Engineered Products - North America	$776,853	$841,238	$1,521,448	$1,646,965
Engineered Products – International	380,460	357,130	741,653	692,011
Specialty Systems - North America	870,594	855,903	1,714,693	1,684,966
Specialty Systems – International	437,849	474,177	839,605	850,651
Consumer Products	94,387	107,309	198,068	226,967
Leasing and Investments	40,957	38,061	81,280	72,730

Total segment operating revenues	2,601,100	2,673,818	5,096,747	5,174,290
Intersegment revenues	(90,987)	(96,372)	(189,800)	(191,884)
Total company operating revenues	$2,510,113	$2,577,446	$4,906,947	$4,982,406

OPERATING EXPENSES

Cost of revenues as a percentage of revenues increased to 66.8% in the first six months of 2001 versus 64.7% in the first six months of 2000 due to decreased sales volume in the North American base business and lower margins at acquired businesses. Selling, administrative, and research and development expenses as a percent of revenues in the first half of 2001 versus 2000 were flat.

INTEREST EXPENSE

Interest expense increased to $36.6 million in the first six months of 2001 from $33.8 million in 2000.

OTHER EXPENSE

Other expense was $.4 million for the first half of 2001 versus $1.6 million in 2000. This reduced expense is primarily due to lower losses on foreign currency translation and higher interest income, mostly offset by losses versus gains on the divestiture of businesses.

NET INCOME

Net income of $415.5 million ($1.36 per diluted share) in the first six months of 2001 was 15.6% lower than the 2000 net income of $492.4 million ($1.62 per diluted share).

The Company is not expecting any material improvement in its various North American end markets in the second half of 2001.

FOREIGN CURRENCY

The strengthening of the U.S. dollar against foreign currencies in 2001 decreased operating revenues for the first half of 2001 by approximately $148 million and reduced earnings by approximately 3 cents per diluted share.

FINANCIAL POSITION

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

(Dollars in Thousands)

	June 30, 2001	Dec. 31, 2000	Increase/ (Decrease)
Current Assets:			
Cash and equivalents	$ 176,931	$ 151,295	$ 25,636
Trade receivables	1,635,693	1,654,632	(18,939)
Inventories	1,154,948	1,181,385	(26,437)
Other	328,162	341,749	(13,587)
	3,295,734	3,329,061	(33,327)
Current Liabilities:			
Short-term debt	559,484	425,789	133,695
Accounts payable	409,073	455,417	(46,344)
Accrued expenses	762,172	826,107	(63,935)
Other	119,080	110,297	8,783
	1,849,809	1,817,610	32,199
Net Working	$1,445,925	$1,511,451	$(65,526)

Current Ratio	1.78	1.83

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

Accrued liabilities decreased primarily as a result of a decrease in accrued compensation and other miscellaneous accruals such as rebates.

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 line, and (4) an unfavorable environment for making acquisitions, domestic and international, including adverse accounting or regulatory requirements and market values of candidates.

Part II - Other Information

Item 4 - Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on May 12, 2000. The stockholders reapproved the performance factors and award limits under the 1996 Stock Incentive Plan and Executive Incentive Plan by a vote of 243,474,887 in favor (with 23,171,598 votes against and 2,817,347 votes withheld). The following members were elected to the Company's Board of Directors to hold office for the ensuing year:

Nominees	In Favor	Withheld
W. F. Aldinger, III	267,004,072	2,459,759
M. J. Birck	267,030,684	2,433,147
M. D. Brailsford	267,057,498	2,406,333
S. Crown	267,052,409	2,411,422
H. R. Crowther	260,893,329	8,570,502
D. H. Davis, Jr.	267,006,370	2,457,461
W. J. Farrell	266,984,747	2,479,084
R. C. McCormack	267,038,248	2,425,583
P. B. Rooney	266,953,604	2,510,227
H. B. Smith	259,152,179	10,311,652

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibit Index

No exhibits.

(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: August 8, 2001

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