ILLINOIS TOOL WORKS INC
Form 10-Q
August 03, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(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, 2007
	OR
o	**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 Number)**
3600 West Lake Avenue, Glenview, IL	**60026-1215**
(Address of principal executive offices)	**(Zip Code)**

(Registrant s telephone number, including area code)<u>**847-724-7500**</u>

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 **o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated file (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer **x** Accelerated filer **o** Non-accelerated filer **o**

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

Yes **o** No **x**

The number of shares of registrant s common stock, $.01 par value, outstanding at July 31, 2007: 552,034,685.

<u>Part I Financial Information</u>

<u>Item 1 Financial Statements</u>

<u>ILLINOIS TOOL WORKS INC. and SUBSIDIARIES</u>

<u>FINANCIAL STATEMENTS</u>

The unaudited financial statements included herein have been prepared by Illinois Tool Works Inc. and Subsidiaries (the Company or ITW). 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/A. 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 2007	2006	Six Months Ended June 30 2007	2006
Operating Revenues	$ 4,159,689	$ 3,579,470	$ 7,918,730	$ 6,876,506
Cost of revenues	2,675,515	2,292,821	5,124,544	4,412,495
Selling, administrative, and research and development expenses	745,718	602,221	1,446,903	1,203,642
Amortization and impairment of goodwill and other intangible assets	39,779	24,664	79,958	60,637
Operating Income	698,677	659,764	1,267,325	1,199,732
Interest expense	(25,606)	(19,009)	(50,008)	(37,906)
Other income	44,135	25,699	70,724	35,858
Income Before Taxes	717,206	666,454	1,288,041	1,197,684
Income Taxes	211,600	200,600	380,000	365,300
Net Income	$ 505,606	$ 465,854	$ 908,041	$ 832,384
Net Income Per Share:				
Basic	$0.91	$0.82	$1.63	$1.47
Diluted	$0.90	$0.81	$1.61	$1.46
Cash Dividends:				
Paid	$0.21	$0.165	$0.42	$0.33
Declared	$0.21	$0.165	$0.42	$0.33
Shares of Common Stock Outstanding During the Period:				
Average	556,793	567,446	558,022	565,462
Average assuming dilution	561,244	571,954	562,388	569,808

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

(In thousands)

	June 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and equivalents	$ 481,508	$ 590,207
Trade receivables	2,882,698	2,471,273
Inventories	1,612,380	1,482,508
Deferred income taxes	213,905	196,860
Prepaid expenses and other current assets	463,792	465,557
Total current assets	5,654,283	5,206,405
Plant and Equipment:		
Land	209,374	193,328

Buildings and improvements	1,414,465	1,374,926
Machinery and equipment	3,694,081	3,594,057
Equipment leased to others	147,615	149,682
Construction in progress	115,275	96,853
	5,580,810	5,408,846
Accumulated depreciation	(3,463,982)	(3,355,389)
Net plant and equipment	2,116,828	2,053,457
Investments	560,667	595,083
Goodwill	4,183,793	4,025,053
Intangible Assets	1,225,320	1,113,634
Deferred Income Taxes	132,978	116,245
Other Assets	762,531	770,562
	$ 14,636,400	$ 13,880,439
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term debt	$ 528,096	$ 462,721
Accounts payable	805,983	707,656
Accrued expenses	1,192,528	1,187,526
Cash dividends payable	115,874	117,337
Income taxes payable	177,671	161,344
Total current liabilities	2,820,152	2,636,584
Noncurrent Liabilities:		
Long-term debt	956,578	955,610
Deferred income taxes	285,668	259,159
Other	1,185,546	1,011,578
Total noncurrent liabilities	2,427,792	2,226,347
Stockholders Equity:		
Common stock	5,612	6,309
Additional paid-in-capital	106,908	1,378,587
Income reinvested in the business	9,217,978	10,406,511
Common stock held in treasury	(479,873)	(3,220,538)
Accumulated other comprehensive income	537,831	446,639
Total stockholders equity	9,388,456	9,017,508
	$ 14,636,400	$ 13,880,439

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Six Months Ended June 30	
	2007	**2006**
Cash Provided by (Used for) Operating Activities:		
Net income	$908,041	$832,384
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	174,798	150,859
Amortization and impairment of goodwill and other intangible assets	79,958	60,637
Change in deferred income taxes	(28,723)	43,646
Provision for uncollectible accounts	5,346	7,202
(Gain) loss on sale of plant and equipment	1,019	(705)
Income from investments	(28,223)	(36,559)

(Gain) loss on sale of operations and affiliates	(35,441)	3,429
Stock compensation expense	15,045	19,777
Other non-cash items, net	(7,777)	3,021
Changes in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(192,151)	(147,236)
Inventories	(72,766)	(90,841)
Prepaid expenses and other assets	(41,260)	9,861
Increase (decrease) in--		
Accounts payable	(10,118)	42,406
Accrued expenses and other liabilities	(38,475)	(14,743)
Income taxes receivable and payable	223,385	(132,250)
Other, net	1,799	2,104
Net cash provided by operating activities	954,457	752,992
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents)	(424,420)	(281,479)
Additions to plant and equipment	(174,329)	(144,994)
Purchase of investments	(7,538)	(3,809)
Proceeds from investments	24,872	18,549
Proceeds from sale of plant and equipment	8,712	7,106
Proceeds from sale of operations and affiliates	149,760	12,901
Other, net	(68)	9,078
Net cash used for investing activities	(423,011)	(382,648)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(234,248)	(186,183)
Issuance of common stock	77,101	63,007
Repurchases of common stock	(479,873)	
Net proceeds (repayments) from short-term debt	12,628	(157,843)
Proceeds from long-term debt	22	179
Repayments of long-term debt	(9,728)	(6,246)
Excess tax benefits from share-based compensation	9,886	10,552
Repayment of preferred stock of subsidiary	(40,000)	
Net cash used for financing activities	(664,212)	(276,534)
Effect of Exchange Rate Changes on Cash and Equivalents	24,067	(5,041)
Cash and Equivalents:		
Increase (decrease) during the period	(108,699)	88,769
Beginning of period	590,207	370,417
End of period	$481,508	$459,186
Cash Paid During the Period for Interest	$81,579	$37,633
Cash Paid During the Period for Income Taxes	$170,413	$446,983
Liabilities Assumed from Acquisitions	$331,275	$148,231

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

(1) COMPREHENSIVE INCOME

The Company s components of comprehensive income in the periods presented are:

(In thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Net income	$505,606	$465,854	$908,041	$832,384
Foreign currency translation adjustments	99,114	116,726	76,244	145,144
Amortization of unrecognized pension and postretirement expense	4,468		14,948	
Total comprehensive income	$609,188	$582,580	$999,233	$977,528

(2) INVENTORIES

Inventories at June 30, 2007 and December 31, 2006 were as follows:

(In thousands)

	June 30, 2007	**December 31, 2006**
Raw material	$520,905	$470,032
Work-in-process	169,080	166,946
Finished goods	922,395	845,530
	$1,612,380	$1,482,508

(3) 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 or intangible assets that have indefinite lives. In the first quarter of each year, the Company performs an annual impairment assessment of goodwill and intangible assets with indefinite lives based on the fair value of the related reporting unit or intangible asset.*

As of January 1, 2007, the Company had assigned its recorded goodwill and intangible assets to approximately 440 of its 750 reporting units. When performing its annual impairment assessment, the Company compares the fair value of each reporting unit to its carrying value. Fair values are determined by discounting estimated future cash flows at the Company s estimated cost of capital of 10%. Estimated future cash flows are based either on current operating cash flows or on a detailed cash flow forecast prepared by the relevant operating unit. If the fair value of an operating unit is less than its carrying value, an impairment loss is recorded for the difference between the implied fair value of the unit s goodwill and the carrying value of the goodwill.

Amortization and impairment of goodwill and other intangible assets for the periods ended June 30, 2007 and 2006 were as follows:

(In thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Goodwill:				
Impairment	$	$	$ 988	$ 9,200

Intangible Assets:				
Amortization	39,779	24,664	77,804	48,452
Impairment			1,166	2,985
Total	$ 39,779	$ 24,664	$ 79,958	$ 60,637

In the first quarter of 2007, the Company performed its annual impairment testing of its goodwill and intangible assets, which resulted in total impairment charges of $2,154,000. The first quarter 2007 goodwill impairment charges of $988,000 were primarily related to a French polymers business and an Asian construction business in the Engineered Products International segment and resulted from lower estimated future cash flows than previously expected. Also in the first quarter of 2007, intangible asset impairments of $1,166,000 were recorded to reduce to the estimated fair value the carrying value of trademarks and customer-related intangible assets primarily related to a French polymers business in the Engineered Products International segment and a U.S. contamination control business in the Engineered Products North America segment.

In the first quarter of 2006, the Company recorded goodwill impairment charges of $9,200,000 which were primarily related to a U.S. construction joist business in the Engineered Products North America segment, a U.S. thermal transfer ribbon business in the Specialty Systems North America segment, and an Asian construction business in the Engineered Products International segment, and resulted from lower estimated future cash flows than previously expected. Also in the first quarter of 2006, intangible asset impairments of $2,985,000 were recorded to reduce to the estimated fair value the carrying value of trademarks, patents and customer-related intangible assets primarily related to a U.S. welding components business in the Specialty Systems North America segment and a U.S. contamination control business in the Engineered Products North America segment.

(4) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

Pension and other postretirement benefit costs for the periods ended June 30, 2007 and 2006 were as follows:

(In thousands)

	Three Months Ended June 30				**Six Months Ended June 30**			
	Pension		**Other Postretirement Benefits**		**Pension**		**Other Postretirement Benefits**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Components of net periodic benefit cost:								
Service cost	$28,698	$26,734	$3,782	$4,186	$57,365	$53,404	$7,564	$ 8,373
Interest cost	26,548	24,165	8,058	8,225	52,962	48,161	16,116	16,449
Expected return on plan assets	(38,856)	(34,360)	(2,899)	(1,997)	(77,575)	(68,545)	(5,797)	(3,992)
Amortization of actuarial loss	5,086	6,319	506	1,292	9,983	12,593	1,011	22,281
Amortization of prior service cost (income)	(586)	(565)	1,565	1,392	(1,174)	(1,132)	3,130	2,783
Amortization of net transition amount	4	16			10	32		
Curtailment/settlement loss (gain)	262		(1,562)		6,000		(1,562)	
Net periodic benefit cost	$21,156	$22,309	$9,450	$13,098	$47,571	$44,513	$20,462	$ 45,894

The Company expects to contribute $82,400,000 to its pension plans in 2007. As of June 30, 2007, contributions of $62,400,000 have been made.

(5) SHORT-TERM DEBT

In June 2006, the Company entered into a $600,000,000 Line of Credit Agreement with a termination date of June 15, 2007. This line of credit was replaced on June 15, 2007, by a $1,000,000,000 Line of Credit Agreement with a termination date of June 13, 2008. No amounts were outstanding under this facility at June 30, 2007.

The Company had outstanding commercial paper of $393,940,000 at June 30, 2007 and $200,340,000 at December 31, 2006.

(6) LONG-TERM DEBT

In June 2006, the Company entered into a $350,000,000 revolving credit facility (RCF) with a termination date of June 16, 2011. This RCF was replaced on June 15, 2007 by a $500,000,000 RCF with a termination date of June 15, 2012. No amounts were outstanding under this facility at June 30, 2007.

(7) INCOME TAXES

On January 1, 2007, the Company adopted Financial Accounting Standard Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in tax returns, and provides guidance on derecognition, classification, and interest and penalties, related to uncertain tax positions. As a result of implementation of FIN 48, the Company did not recognize any change in its liability for unrecognized tax benefits.

As of the adoption date, the Company had $688,000,000 of unrecognized tax benefits. If these unrecognized tax benefits were recognized, approximately $593,000,000 would impact the Company's effective tax rate. There has been no significant change to the amount of unrecognized tax benefits during the six months ended June 30, 2007. The Company does not expect the total amount of uncertain tax provisions as of June 30, 2007 to change significantly in the next twelve months.

The Company files numerous consolidated and separate income tax returns in the United States 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	2001-2006
United Kingdom	2000-2006
Germany	2001-2006
France	2000-2006
Australia	2002-2006

The Company recognizes interest and penalties related to income tax matters in income tax expense. There were no significant accruals for interest and penalties recorded as of January 1, 2007.

(8) LEVERAGED LEASES

On January 1, 2007, the Company adopted FASB Staff Position No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction (FSP 13-2). FSP 13-2 addresses how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. Upon adoption of FSP 13-2, the Company recorded an after-tax charge to retained earnings of $22,600,000, resulting from a change in the timing of expected cash flows related to income tax benefits of the Company's leveraged lease transactions.

(9) STOCKHOLDERS' EQUITY

On August 4, 2006 the Company's Board of Directors authorized a stock repurchase program which provided for the buyback of up to 35,000,000 shares. In the first six months of 2007, the Company repurchased 9,464,419 shares of its common stock at an average price of $50.70 per share. On February 9, 2007, the Company retired 72,151,184 shares of Common Stock Held in Treasury. Common Stock, Additional Paid-In-Capital, Income Reinvested in the Business and Common Stock Held in Treasury activity during the first six months of 2007 are shown below:

(In thousands)	**Common Stock**	**Additional Paid-In-Capital**	**Income Reinvested in the Business**	**Common Stock Held in Treasury**
Balance, December 31, 2006	$6,309	$ 1,378,587	$10,406,511	$(3,220,538)
During 2007				
Retirement of treasury shares	(721)	(1,378,587)	(1,841,230)	3,220,538
Shares issued for stock options and grants	24	77,184		
Shares surrendered on exercise of stock options		(108)		
Stock compensation expense		15,045		
Tax benefits related to stock options		14,787		
Repurchases of common stock				(479,873)
Net income			908,041	
Cash dividends declared			(232,785)	
Cumulative effect of adopting FSP 13-2			(22,559)	
Balance, June 30, 2007	$5,612	$ 106,908	$9,217,978	$(479,873)

(10) SEGMENT INFORMATION

See Management s Discussion and Analysis for information regarding operating revenues and operating income for the Company s segments.

Item 2 - Management s Discussion and Analysis

CONSOLIDATED RESULTS OF OPERATIONS

The Company s consolidated results of operations for the second quarter and year-to-date periods of 2007 and 2006 were as follows:

(Dollars in thousands)

	Three Months Ended June 30		**Six Months Ended June 30**	
	2007	**2006**	**2007**	**2006**
Operating revenues	$ 4,159,689	$ 3,579,470	$ 7,918,730	$ 6,876,506
Operating income	698,677	659,764	1,267,325	1,199,732
Margin %	16.8 %	18.4 %	16.0 %	17.4 %

In the second quarter and year-to-date periods of 2007, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended June 30			**Six Months Ended June 30**		
	% Increase (Decrease)		**% Point Increase (Decrease)**	**% Increase (Decrease)**		**% Point Increase (Decrease)**
	Operating Revenues	**Operating Income**	**Operating Margins**	**Operating Revenues**	**Operating Income**	**Operating Margins**
Base manufacturing business:						
Revenue change/Operating leverage	2.4 %	5.2 %	0.5 %	1.7 %	4.0 %	0.4 %
Changes in variable margins and overhead costs		(1.8)	(0.3)		(1.1)	(0.2)
Total	2.4	3.4	0.2	1.7	2.9	0.2
Acquisitions	12.0	1.7	(1.7)	11.4	0.9	(1.6)
Divestitures	(1.3)	(0.8)	0.1	(0.9)	(0.5)	0.1
Restructuring costs		(1.5)	(0.3)		(1.4)	(0.2)
Impairment of goodwill and intangibles					0.8	0.1
Translation	3.6	3.1		3.4	2.8	
Intercompany/Other	(0.5)		0.1	(0.4)	0.1	
Total	16.2 %	5.9 %	(1.6)%	15.2 %	5.6 %	(1.4)%

In the second quarter and year-to-date period of 2007 revenues increased 16.2% and 15.2%, respectively, over 2006 primarily due to revenues from acquisitions and favorable currency translation. Base business revenues increased 2.4% and 1.7% in the second quarter and year-to-date periods, respectively, over the same periods of 2006 primarily related to an 8.0% and 8.4% increase in international base business revenues for the second quarter and year-to-date periods, respectively. These increases were offset by a 1.4% and 2.5 % decline in North American base revenues in the second quarter and the year-to-date periods, respectively. European economic strength and market demand continued the growth seen in last half of 2006. North American base revenues declined, although at a lower rate than first quarter 2007, due to weak industrial production and slow demand throughout the North American end markets, primarily automotive and construction.

Operating income in the second quarter and year-to-date period improved over 2006 primarily due to leverage from the growth in base business revenues, favorable currency translation versus the prior year and the effect of acquisitions, partially offset by increased restructuring expenses and the effect of divestitures. Operating margins were negatively affected by lower margins of acquired businesses, including amortization expense.

ENGINEERED PRODUCTS - NORTH AMERICA

Businesses in this segment are located in North America and manufacture a variety of short lead-time plastic and metal components and fasteners, as well as specialty products for a diverse customer base. These commercially oriented, value-added products become part of the customers products and typically are manufactured and delivered in a time period less than 30 days.

In the plastic and metal components and fasteners category, products include:

- metal fasteners and fastening tools for the commercial, residential and renovation construction industries;
- metal plate connecting components, machines and software for the commercial and residential construction industries;
- laminate products for the commercial, residential and renovation construction industries and furniture markets;
- metal fasteners for automotive, appliance and general industrial applications;
- metal components for automotive, appliance and general industrial applications;
- plastic components for automotive, appliance, furniture, electronics and general industrial applications; and
- plastic fasteners for automotive, appliance, electronics and general industrial applications.

In the specialty products category, products include:

- reclosable packaging for consumer food and storage applications;
- hand wipes and cleaners for use in industrial manufacturing locations;
- chemical fluids which clean or add lubrication to machines and automobiles;
- adhesives for industrial, construction and consumer purposes;
- epoxy and resin-based coating products for industrial applications;
- components for industrial machines;
- automotive aftermarket maintenance and appearance products; and
- swabs, wipes and mats for clean room usage in the electronics and pharmaceutical industries.

This segment primarily serves the construction, automotive and consumer durables markets.

The results of operations for the Engineered Products North America segment for the second quarter and year-to-date periods of 2007 and 2006 were as follows:

(Dollars in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Operating revenues	$ 1,088,908	$ 1,091,673	$ 2,115,573	$ 2,122,011
Operating income	194,475	209,723	347,767	383,001
Margin %	17.9 %	19.2 %	16.4 %	18.0 %

In the second quarter and year-to-date periods of 2007, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended June 30			Six Months Ended June 30		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:						
Revenue change/Operating leverage	(3.3)%	(7.0)%	(0.7)%	(4.8)%	(11.0)%	(1.2)%
Changes in variable margins and overhead costs		(0.6)	(0.1)		1.4	0.3
Total	(3.3)	(7.6)	(0.8)	(4.8)	(9.6)	(0.9)
Acquisitions	3.5	1.5	(0.4)	5.1	1.1	(0.7)
Divestitures	(0.6)	(0.4)	0.1	(0.6)	(0.3)	
Restructuring costs		(0.9)	(0.2)		(1.8)	(0.3)
Impairment of goodwill and intangibles					1.4	0.3
Translation/Other	0.1	0.1				
Total	(0.3)%	(7.3)%	(1.3)%	(0.3)%	(9.2)%	(1.6)%

Revenues decreased modestly in both the second quarter and year-to-date periods of 2007 versus 2006 primarily due to a decline in base business revenues and the effect of divestitures, mostly offset by revenues from acquisitions. Acquisition revenue was primarily related to the acquisition of an electronic switches business and a specialty wipes business. In the fourth quarter of 2006, a roofing components business was divested. In the second quarter and year-to-date periods, construction base revenues declined 5.4% and 7.8%, respectively, due to declines in the residential construction market. Automotive base revenues decreased 3.6% and 5.3%, respectively, primarily due to a 7% and 9% decline in automotive production at the Detroit 3 automotive manufacturers in the second quarter and year-to-date periods. Base revenues from the other industrial-based businesses in this segment declined 0.7% and 1.0% in the second quarter and year-to-date periods, respectively, primarily due to declines in the strength films, and industrial plastics and metals businesses, partially offset by revenue increases in the polymers and fluids businesses in both periods.

Operating income decreased in the second quarter of 2007 and year-to-date period primarily due to the decline in base business revenues described above and higher restructuring expenses. The decrease for the year-to-date period was partially offset by lower first quarter 2007 goodwill and intangible impairment charges. Variable margins increased 30 basis points for both the second quarter and year-to-date period mainly due to expense management in the automotive, construction, and polymers businesses and the benefits of 2006 restructuring projects. Base overhead expenses increased 40 basis points in the second quarter due to increased selling and advertising expenses in the laminate business as a result of new product launches. Year-to-date overhead expenses are flat as increased selling and advertising costs were offset by the positive 2007 effect of a first quarter 2006 charge of $9.8 million related to retiree healthcare and life insurance liabilities.

ENGINEERED PRODUCTS - INTERNATIONAL

Businesses in this segment are located outside North America and manufacture a variety of short lead-time plastic and metal components and fasteners, as well as specialty products for a diverse customer base. These commercially oriented, value-added products become part of the customers products and typically are manufactured and delivered in a time period less than 30 days.

In the plastic and metal components and fasteners category, products include:

- metal fasteners and fastening tools for the commercial, residential and renovation construction industries;
- laminate products for the commercial, residential and renovation construction industries and furniture markets;

metal plate connecting components and software for the commercial and residential construction markets;