ILLINOIS TOOL WORKS INC
Form 10-Q
May 02, 2008

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 March 31, 2008
	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)847-724-7500

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 **[ ]**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer X	Accelerated filer ___
Non-accelerated filer ___ (Do not check if a smaller reporting company)	Smaller reporting company ___

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

Yes **[ ]** No **x**

The number of shares of registrant s common stock, $0.01 par value, outstanding at March 31, 2008: 522,781,884.

Part I Financial Information

Item 1 Financial Statements

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 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 2008	2007
Operating Revenues	$ 4,139,414	$ 3,716,641
Cost of revenues	2,697,966	2,413,010
Selling, administrative, and research and development expenses	780,460	694,976
Amortization of intangible assets	42,437	38,024
Impairment of goodwill and other intangible assets	98,590	2,154
Operating Income	519,961	568,477
Interest expense	(37,488)	(24,379)
Other income (expense)	(21,398)	15,054
Income from Continuing Operations Before Income Taxes	461,075	559,152
Income Taxes	159,700	174,139
Income from Continuing Operations	301,375	385,013
Income from Discontinued Operations	2,246	17,422
Net Income	$ 303,621	$ 402,435
Income Per Share from Continuing Operations:		
Basic	$0.57	$0.69
Diluted	$0.57	$0.68
Income Per Share from Discontinued Operations:		
Basic	$0.00	$0.03
Diluted	$0.00	$0.03
Net Income Per Share:		
Basic	$0.58	$0.72
Diluted	$0.57	$0.71
Cash Dividends:		
Paid	$0.28	$0.21
Declared	$0.28	$0.21
Shares of Common Stock Outstanding During the Period:		
Average	526,299	559,001
Average assuming dilution	529,725	563,280

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

(In thousands)	March 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and equivalents	$ 927,441	$ 827,524
Trade receivables	3,014,391	2,915,546
Inventories	1,766,019	1,625,820

Deferred income taxes	190,940	189,093
Prepaid expenses and other current assets	529,926	607,672
Total current assets	6,428,717	6,165,655
Plant and Equipment:		
Land	236,829	226,208
Buildings and improvements	1,518,807	1,476,673
Machinery and equipment	3,946,434	3,852,241
Equipment leased to others	158,365	154,111
Construction in progress	129,202	109,267
	5,989,637	5,818,500
Accumulated depreciation	(3,741,996)	(3,624,490)
Net plant and equipment	2,247,641	2,194,010
Investments	506,983	507,567
Goodwill	4,476,496	4,387,165
Intangible Assets	1,363,040	1,296,176
Deferred Income Taxes	70,113	61,416
Other Assets	891,953	913,873
	$ 15,984,943	$ 15,525,862
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term debt	$ 1,339,993	$ 410,512
Accounts payable	873,604	854,148
Accrued expenses	1,351,091	1,341,817
Cash dividends payable	146,379	148,427
Income taxes payable	212,133	205,381
Total current liabilities	3,923,200	2,960,285
Noncurrent Liabilities:		
Long-term debt	1,435,464	1,888,839
Deferred income taxes	301,126	260,658
Other	1,077,181	1,064,755
Total noncurrent liabilities	2,813,771	3,214,252
Stockholders Equity:		
Common stock	5,307	5,625
Additional paid-in-capital	30,928	173,610
Income reinvested in the business	8,439,692	9,879,065
Common stock held in treasury	(385,574)	(1,757,761)
Accumulated other comprehensive income	1,157,619	1,050,786
Total stockholders equity	9,247,972	9,351,325
	$ 15,984,943	$ 15,525,862

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF CASH FLOWS

(UNAUDITED)

(In thousands)	**Three Months Ended March 31**	
	2008	**2007**
Cash Provided by (Used for) Operating Activities:		
Net income	$ 303,621	$ 402,435
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	90,575	84,998
Amortization and impairment of goodwill and other intangible assets	141,007	40,179
Change in deferred income taxes	(8,311)	(32,661)

Provision for uncollectible accounts	3,255	1,795
Income from investments	(6,742)	(5,402)
Gain on sale of operations and affiliates	(80)	(11,715)
Stock compensation expense	11,304	7,386
Other non-cash items, net	(179)	(7,436)
Change in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(19,344)	(60,043)
Inventories	(65,336)	(67,076)
Prepaid expenses and other assets	(18,213)	(60,192)
Increase (decrease) in--		
Accounts payable	(18,771)	8,491
Accrued expenses and other liabilities	(31,955)	(90,634)
Income taxes	111,419	212,041
Other, net	1,674	653
Net cash provided by operating activities	493,924	422,819
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents)	(236,042)	(269,082)
Additions to plant and equipment	(89,005)	(85,291)
Purchases of investments	(606)	(6,197)
Proceeds from investments	4,446	13,087
Proceeds from sale of plant and equipment	6,295	4,724
Proceeds from (payments related to) sale of operations and affiliates	(3,727)	91,739
Other, net	(1,586)	91
Net cash used for investing activities	(320,225)	(250,929)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(148,427)	(117,337)
Issuance of common stock	17,553	51,003
Repurchases of common stock	(385,574)	(179,873)
Net proceeds from short-term debt	424,190	97,750
Proceeds from long-term debt	2,438	10
Repayments of long-term debt	(1,473)	(8,545)
Excess tax benefits from share-based compensation	1,797	5,991
Repayment of preferred stock of subsidiary		(40,000)
Net cash used for financing activities	(89,496)	(191,001)
Effect of Exchange Rate Changes on Cash and Equivalents	15,714	3,479
Cash and Equivalents:		
Increase (decrease) during the period	99,917	(15,632)
Beginning of period	827,524	590,207
End of period	$927,441	$574,575
Cash Paid During the Period for Interest	$22,021	$63,083
Cash Paid (Received) During the Period for Income Taxes	$43,370	$(23,401)
Liabilities Assumed from Acquisitions	$99,656	$237,290

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 March 31 2008	2007
Net Income	$ 303,621	$ 402,435
Other Comprehensive Income:		
Foreign currency translation adjustments	102,539	(22,870)
Pension and other postretirement benefit adjustments, net of tax	721	10,480
Comprehensive Income	$ 406,881	$ 390,045

(2) DISCONTINUED OPERATIONS

In the first quarter of 2007, the Company completed the divestiture of a consumer packaging business. As of March 31, 2008 and December 31, 2007, the Company also classified a consumer packaging and an automotive components business as held for sale. The operating results of these businesses, along with the gains realized, net of tax, have been presented as discontinued operations. Assets of $141,300,000 and liabilities of $6,000,000 related to the two businesses held for sale as of March 31, 2008 have been classified as prepaids and other current assets and accrued expenses, respectively.

Results of the discontinued operations for the first quarter of 2008 and 2007 were as follows:

(In thousands)	Three Months Ended March 31 2008	2007
Operating revenues	$ 22,073	$ 42,400
Income before taxes	$ 3,465	$ 32
Gain on sale of discontinued operations		11,651
Income tax (expense) benefit	(1,219)	5,739
Income from discontinued operations	$ 2,246	$ 17,422

(3) INVENTORIES

Inventories at March 31, 2008 and December 31, 2007 were as follows:

(In thousands)

	March 31, 2008	December 31, 2007
Raw material	$557,995	$516,914
Work-in-process	197,918	182,990
Finished goods	1,010,106	925,916
	$1,766,019	$1,625,820

(4) GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess cost over fair value of the net assets of purchased businesses. *The Company does not amortize goodwill and intangible assets that have indefinite lives. 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, 2008, the Company had assigned its recorded goodwill and intangible assets to 59 of its 60 operating segments. When performing its annual impairment assessment, the Company compares the fair value of each operating segment to its carrying value. Fair values are determined primarily 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 segment. When the discounted cash flow method is not representative of fair value, the Company may also employ additional valuation techniques, such as market multiples from similar transactions. If the fair value of an operating segment is less than its carrying value, an impairment loss is recorded for the difference between the implied fair value of the segment s goodwill and the carrying value of the goodwill.

In the first quarter of 2008, the Company performed its annual impairment testing of its goodwill and intangible assets, which resulted in total impairment charges of $98,590,000. The first quarter 2008 goodwill impairment charge of $97,152,000 related to the Company s worldwide industrial software business in the All Other segment. The goodwill impairment was primarily driven by the combination of lower forecasts for this business and lower market driven multiples that were being paid for similar businesses.

(5) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

On January 1, 2008, the Company adopted the measurement date provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) ("SFAS 158"), which required the Company to change its measurement date to correspond with the Company's fiscal year end. The Company previously used a September 30 measurement date. As allowed under SFAS 158, the Company elected to remeasure its plan assets and benefit obligations as of the beginning of the fiscal year. Upon adoption, the Company recorded an after-tax charge of $12,788,000 to beginning retained earnings and an after-tax gain to accumulated other comprehensive income of $3,573,000 related to the three months ended December 31, 2007.

Pension and other postretirement benefit costs for the periods ended March 31, 2008 and 2007 were as follows:

(In thousands)	**Three Months Ended March 31**			
			Other Postretirement	
	Pension		**Benefits**	
	2008	**2007**	**2008**	**2007**
Components of net periodic benefit cost:				
Service cost	$27,949	$28,667	$3,585	$3,782
Interest cost	30,096	26,414	8,216	8,058
Expected return on plan assets	(42,253)	(38,719)	(3,848)	(2,898)
Amortization of actuarial loss (gain)	638	4,897	(252)	505
Amortization of prior service (income) cost	(602)	(588)	1,565	1,565
Amortization of net transition amount	21	6		
Settlement loss		5,738		
Net periodic benefit cost	$15,849	$26,415	$9,266	$11,012

The Company expects to contribute $44,400,000 to its pension plans and $60,100,000 to its other postretirement plans in 2008. As of March 31, 2008, contributions of $10,500,000 to pension plans and $8,200,000 to other postretirement plans have been made.

(6) SHORT-TERM DEBT

The Company had outstanding commercial paper of $597,574,000 at March 31, 2008 and $200,977,000 at December 31, 2007.

In 1999 the Company issued $500,000,000 of 5.75% redeemable notes due March 1, 2009. The balance related to these notes outstanding at March 31, 2008 has been reclassified as short-term debt. The balance outstanding at December 31, 2007 was classified as long-term debt.

(7) STOCKHOLDERS' EQUITY

Common Stock, Additional Paid-In-Capital, Income Reinvested in the Business and Common Stock Held in Treasury transactions during the first three months of 2008 are shown below:

(In thousands)	**Common Stock**	**Additional Paid-In-Capital**	**Income Reinvested in the Business**	**Common Stock Held in Treasury**
Balance, December 31, 2007	$5,625	$ 173,610	$9,879,065	$(1,757,761)
During 2008 -				
Retirement of treasury shares	(324)	(173,610)	(1,583,827)	1,757,761
Shares issued for stock options and grants	6	17,548		
Stock compensation expense		11,304		
Tax benefits related to stock options		2,076		
Repurchases of common stock				(385,574)
Net income			303,621	
Cash dividends declared			(146,379)	
Adoption of SFAS 158, net of tax			(12,788)	
Balance, March 31, 2008	$5,307	$ 30,928	$8,439,692	$(385,574)

On August 20, 2007, the Company's Board of Directors authorized a stock repurchase program, which provided for the buyback of up to $3,000,000,000 of the Company s common stock over an open-ended period of time. In the first quarter of 2008, the Company repurchased 7,873,007 shares of its common stock at an average price of $48.97 per share. In February 2008, the Company retired 32,425,297 shares of common stock held in treasury.

(8) COMMITMENTS AND CONTINGENCIES

The Company has an estimated potential liability for European transfer taxes of up to approximately $57,000,000 related to legal entity reorganizations. The ultimate resolution of this liability will be dependent upon the determination of whether or not such transfers are deemed to have occurred and whether such taxes are applicable to transfers that occurred outside of Europe. A reserve of $32,000,000 has been recorded for this matter as of March 31, 2008.

(9) 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 first quarter of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended March 31**	
	2008	**2007**
Operating revenues	$4,139,414	$3,716,641
Operating income	519,961	568,477
Margin %	12.6%	15.3%

In the first quarter of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended March 31		
	% Increase (Decrease)		**% Point Increase (Decrease)**
	Operating Revenues	**Operating Income**	**Operating Margins**
Base manufacturing business:			
Revenue change/Operating leverage	0.4%	1.1%	0.1%
Changes in variable margins and overhead costs		0.5	0.1
Total	0.4	1.6	0.2
Acquisitions and divestitures	6.2	0.6	(0.7)
Restructuring costs		1.5	0.2
Impairment of goodwill and intangibles		(17.0)	(2.6)
Translation	4.8	4.8	0.1
Intercompany/Other			0.1
Total	11.4%	(8.5)%	(2.7)%

Operating Revenues

Revenues increased 11.4% in the first quarter of 2008 versus the first quarter of 2007 primarily due to revenues from acquisitions and the favorable effect of currency translation from the weakening dollar. Base revenues increased 0.4% as a 4.6% increase in international base revenues was mostly offset by a 2.5% decline in North American base revenues. The Company s Asia Pacific end markets continue to experience strong growth while Europe experienced moderate economic growth. North American revenues continue to be negatively impacted by the decline in the residential construction market, decline in automotive production and weak industrial production.

Operating Income

Operating income in the first quarter of 2008 declined 8.5% over the same period last year primarily due to a $97.2 million impairment charge related to the goodwill of a worldwide industrial software business, partially offset by the positive effect of currency translation, lower restructuring expenses and the positive leverage effect of the growth in base business. Total operating margins declined 2.7% largely as a result of the impairment charge and lower margins of acquired companies.

INDUSTRIAL PACKAGING

Businesses in this segment produce steel, plastic and paper products used for bundling, shipping and protecting transported goods.

In the Industrial Packaging segment, products include:
- steel and plastic strapping and related tools and equipment;
- plastic stretch film and related equipment;
- paper and plastic products that protect goods in transit; and
- metal jacketing and other insulation products.

This segment primarily serves the primary metals, general industrial, construction, and food and beverage markets.

The results of operations for the Industrial Packaging segment for the first quarter of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended March 31**			
	2008		**2007**	
Operating revenues	$623,292		$554,638	
Operating income	69,009		65,055	
Margin %	11.1	%	11.7	%

In the first quarter of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended March 31					
	% Increase (Decrease)				**% Point Increase (Decrease)**	
	Operating Revenues		**Operating Income**		**Operating Margins**	
Base manufacturing business:						
Revenue change/Operating leverage	0.7	%	2.6	%	0.2	%
Changes in variable margins and overhead costs			(7.1	)	(0.8	)
Total	0.7		(4.5	)	(0.6	)

Acquisitions and divestitures	4.9	1.7	(0.3)
Restructuring costs		1.4	0.2
Translation	6.7	7.4	0.1
Other	0.1	0.1	
Total	12.4 %	6.1 %	(0.6)%

Operating Revenues

Revenues increased 12.4% in the first quarter of 2008 versus the first quarter of 2007 primarily due to the favorable effect of currency translation and revenues from acquired companies. The increase in acquisition revenue was primarily related to the purchase of a European industrial packaging business and a European stretch packaging business. Total base revenues increased modestly as the insulation worldwide and stretch packaging worldwide businesses increased 22.3% and 7.4%, respectively, due to strong international end market demand. These increases were partially offset by a 1.0% decline in worldwide strapping revenues mainly due to lower demand for consumable product.

Operating Income

Operating income increased 6.1% in the first quarter of 2008 compared to the first quarter of 2007 primarily due to the favorable effect of currency translation and the positive effect of the increase in base revenues, partially offset by higher base operating expenses. Base operating income and margins decreased as a result of increased raw material prices and unfavorable product mix.

POWER SYSTEMS & ELECTRONICS

Businesses in this segment produce equipment and consumables associated with specialty power conversion, metallurgy and electronics.

In the Power Systems & Electronics segment, products include:

- arc welding equipment;
- metal arc welding consumables and related accessories;
- metal solder materials for PC board fabrication;
- equipment and services for microelectronics assembly;
- electronic components and component packaging; and
- airport ground support equipment.

This segment primarily serves the general industrial, electronics and construction markets.

The results of operations for the Power Systems & Electronics segment for the first quarter of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended March 31**	
	2008	**2007**
Operating revenues	$582,390	$554,420
Operating income	124,821	116,094
Margin %	21.4 %	20.9 %

In the first quarter of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended March 31		
	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:			
Revenue change/Operating leverage	0.9 %	1.5 %	0.1 %
Changes in variable margins and overhead costs		3.9	0.9
Total	0.9	5.4	1.0
Acquisitions and divestitures	2.0	1.1	(0.2)
Restructuring costs		(0.2)	
Impairment of goodwill and intangibles		(0.7)	(0.2)
Translation	2.2	1.9	(0.1)
Other	(0.1)		
Total	5.0 %	7.5 %	0.5 %

Operating Revenues

Revenues increased 5.0% in the first quarter of 2008 versus the first quarter of 2007 mainly due to the positive effect of currency translation and revenues from acquired companies, primarily a North American industrial welding accessories business. Base revenues grew 2.8% for the worldwide welding businesses primarily due to 18.0% growth in international businesses serving the energy and ship building end markets, partially offset by a 1.7% decline in North American base revenues as a result of weak industrial and construction end market demand. Base revenues for the ground support and PC fabrication group declined 8.6% and 4.8%, respectively due to lower worldwide market demand. Base revenue for the electronics-related businesses was flat for the period.

Operating Income

Operating income increased in the first quarter of 2008 versus the first quarter of 2007 primarily due to reduced base operating expenses, the favorable effect of currency translation, the positive leverage effect from the increase in base revenues and income from acquired companies. Total operating margins increased primarily due to improved base margins in the ground support equipment and Asian welding operating segments and overall improved product mix, partially offset by lower margins of acquired companies and the margin effect of impairment charges.

TRANSPORTATION

Businesses in this segment produce components, fasteners, fluids and polymers for transportation-related applications.

In the Transportation segment, products include:

- metal and plastic components and assemblies for automobiles and trucks;
- metal and plastic fasteners for automobiles and trucks;
- fluids and polymers for maintenance and appearance;
- fillers and putties for auto body repair; and
- polyester coatings and patch and repair products for the marine industry.

This segment primarily serves the automotive original equipment manufacturers and tiers and automotive aftermarket markets.

The results of operations for the Transportation segment for the first quarter of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended March 31**	
	2008	**2007**
Operating revenues	$594,261	$529,295
Operating income	91,651	84,285
Margin %	15.4%	15.9%

In the first quarter of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended March 31		
	% Increase (Decrease)		**% Point Increase (Decrease)**
	Operating Revenues	**Operating Income**	**Operating Margins**
Base manufacturing business:			
Revenue change/Operating leverage	1.1%	2.6%	0.2%
Changes in variable margins and overhead costs		(3.1)	(0.5)
Total	1.1	(0.5)	(0.3)
Acquisitions	5.9	1.1	(0.7)
Restructuring costs		2.9	0.5
Translation	5.3	5.1	
Other		0.1	
Total	12.3%	8.7%	(0.5)%

Operating Revenues

Revenues increased 12.3% in the first quarter of 2008 versus the first quarter of 2007 due to acquisitions, the favorable effect of currency translation and base business revenue growth. Increased acquisition revenue was primarily due to the purchase of a worldwide components business. Worldwide automotive original equipment manufacturer and tiers revenues increased 0.4%. Base revenues for the components businesses increased 2.8% primarily due to increased product penetration at foreign-owned auto manufacturers operating in North America and a 7.2% increase in European automotive production. Base revenues for the fastener businesses decreased 2.3% due to a 13.1% decline in automotive production at the Detroit 3 automotive manufacturers. In the automotive aftermarket businesses, base revenues increased 4.1% and the transportation repair businesses increased 0.9%.

Operating Income

Operating income increased in the first quarter of 2008 versus the first quarter of 2007 primarily due to the favorable effect of currency translation, lower restructuring expenses and the positive leverage effect from the increase in base business revenues described above, partially offset by increased base operating expenses. Base margins declined due to higher raw material costs, which partially offset the positive leverage from revenue growth.

CONSTRUCTION PRODUCTS

Businesses in this segment produce tools, fasteners and other products for construction applications.

In the Construction Products segment, products include:

- fasteners and related fastening tools for wood applications
- anchors, fasteners and related tools for concrete applications;
- metal plate truss components and related equipment and software; and
- packaged hardware, fasteners, anchors and other products for retail.

This segment primarily serves the residential construction, renovation construction and commercial construction markets.

The results of operations for the Construction Products segment for the first quarter of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended March 31**			
	2008		**2007**	
Operating revenues	$484,034		$474,536	
Operating income	50,439		52,589	
Margin %	10.4	%	11.1	%

In the first quarter of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended March 31					
	% Increase (Decrease)				**% Point Increase (Decrease)**	
	Operating Revenues		**Operating Income**		**Operating Margins**	
Base manufacturing business:						
Revenue change/Operating leverage	(5.7	)%	(21.0	)%	(1.8	)%
Changes in variable margins and overhead costs			(3.9	)	(0.5	)
Total	(5.7	)	(24.9	)	(2.3	)
Acquisitions	0.6		(1.1	)	(0.2	)
Restructuring costs			11.7		1.4	
Impairment of goodwill and intangibles			0.7		0.1	
Translation	7.1		9.4		0.3	
Other			0.1			
Total	2.0	%	(4.1	)%	(0.7	)%

Operating Revenues

Revenues increased 2.0% in the first quarter of 2008 versus the first quarter of 2007 primarily due to the favorable effect of currency translation mostly offset by a decline in base business revenues. Worldwide construction base revenues declined 5.7%, primarily due to a 17.8% decrease in North American base revenues partially offset by a 3.8% increase in international base revenues. Base business revenues for the North American fasteners and worldwide building components businesses decreased 15.3% and 18.3%, respectively, due to the ongoing weakness in the North American residential construction market, indicated by a 28.8% decline in housing starts. Base revenue increased 8.7% for the Australasia region primarily on higher residential and commercial demand and was flat in Europe, as construction demand in the United Kingdom, Ireland and Spain were all weak.

Operating Income

Operating income decreased 4.1% in the first quarter of 2008 versus the first quarter of 2007 primarily due to the negative leverage effect from the decline in base revenues described above and increased base operating expenses, mostly offset by lower restructuring expenses and the favorable effect of currency translation. Base operating margins declined primarily due to the revenue decreases discussed above and an increase in European sales expenses, partially offset by the benefit of prior year North American restructuring projects.

FOOD EQUIPMENT

Businesses in this segment produce commercial food equipment and related service.

In the Food Equipment segment, products include:

- warewashing equipment;
- cooking equipment, including ovens, ranges and broilers;
- refrigeration equipment, including refrigerators, freezers and prep tables;
- food processing equipment, including slicers, mixers and scales; and
- kitchen exhaust, ventilation and pollution control systems.

This segment primarily serves the food institutional/restaurant, service and food retail markets.

The results of operations for the Food Equipment segment for the first quarter of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended March 31**	
	2008	**2007**
Operating revenues	$509,739	$390,554
Operating income	71,046	69,373
Margin %	13.9 %	17.8 %

In the first quarter of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended March 31		
	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:			
Revenue change/Operating leverage	6.1 %	15.0 %	1.5 %
Changes in variable margins and overhead costs		(8.7)	(1.5)
Total	6.1	6.3	
Acquisitions	20.1	(5.4)	(3.5)
Restructuring costs		(2.5)	(0.4)
Translation	4.3	4.0	0.1
Other			(0.1)
Total	30.5 %	2.4 %	(3.9)%

Operating Revenues

Revenues increased 30.5% in the first quarter of 2008 versus the first quarter of 2007 primarily due to revenues from acquired companies, base business revenue growth and the favorable effect of currency translation. The acquired revenues are primarily attributable to the acquisition of a European food equipment business and two worldwide food processing businesses. International base revenues increased 12.5% due to increased European and Asian institutional demand. North American base revenues increased 2.1% primarily due to a 4.8% and 2.6% growth in service-related and retail revenues, respectively.

Operating Income

Operating income increased in the first quarter of 2008 versus the first quarter of 2007 primarily as a result of the positive effect of leverage from the base revenue increases described above and the favorable effect of currency translation. Operating income and margins were negatively affected by lower margins of acquired businesses and higher restructuring expenses. Base business margins were flat, as the positive effect of margin gains due to leverage from the increase in base revenues described above were offset by higher operating expenses related to increased fuel costs and staffing levels within the North American food service segment.

DECORATIVE SURFACES

Businesses in this segment produce decorative surfacing materials for countertops, flooring, furniture and other applications.

In the Decorative Surfaces segment, products include:

- decorative high-pressure laminate for countertops;
- solid surface materials for countertops;
- high-pressure laminate flooring;
- laminate for furniture applications; and
- high-pressure laminate worktops.

This segment serves the commercial construction, renovation construction, residential construction and general industrial markets.

The results of operations for the Decorative Surfaces segment for the first quarter of 2008 and 2007 were as follows:

(Dollars in thousands)	Three Months Ended March 31			
	2008		2007	
Operating revenues	$302,532		$283,722	
Operating income	33,270		28,315	
Margin %	11.0	%	10.0	%

In the first quarter of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended March 31		
	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:			