

## Introduction

Illinois Tool Works Inc. (the "Company" or "ITW") is a multinational manufacturer of highly engineered products and specialty systems. The Company has more than 500 operations in 40 countries which are aggregated and organized for internal reporting purposes into the following six segments: Engineered Products—North America; Engineered Products—International; Specialty Systems—North America; Specialty Systems—International; Consumer Products; and Leasing and Investments. These segments are described below.

## Engineered Products—North America

Businesses in this segment are located in North America and manufacture short lead-time components and fasteners, and specialty products such as adhesives, resealable packaging and electronic component packaging. In 1999, this segment primarily served the construction (48%), automotive (27%), and general industrial (11%) markets.

Dollars in thousands	1999	1998	1997
Operating revenues	\$2,938,906	\$2,538,749	\$2,258,828
Operating income	561,742	477,547	402,395
Margin %	19.1%	18.8%	17.8%

In 1999, revenues increased 16% versus 1998 due to acquisitions and base business revenue growth, which both contributed 8%.

## Engineered Products—International

Businesses in this segment are located outside North America and manufacture short lead-time components and fasteners, and specialty products such as electronic component packaging and adhesives. In 1999, this segment primarily served the construction (38%), automotive (34%), and general industrial (11%) markets.

Dollars in thousands	1999	1998	1997
Operating revenues	\$1,321,513	\$1,036,211	\$ 871,699
Operating income	132,808	127,260	124,821
Margin %	10.0%	12.3%	14.3%

Operating revenues increased in 1999 versus 1998 due to acquisitions, which contributed 31% to the revenue growth. Base business revenue growth was 1%, as revenue increases in the automotive and polymer businesses were offset by declines in the construction businesses. In 1999, operating income grew 4% mainly due to

On November 23, 1999, a wholly owned subsidiary of ITW merged with Premark International, Inc. ("Premark"), a commercial manufacturer of food equipment and decorative products. The merger was accounted for under the pooling-of-interests accounting method and accordingly, ITW's historical financial statements for periods prior to the merger have been restated to include the results of operations, financial position and cash flows of Premark, as though the companies had been combined during such periods.

The primary contributors to the base business growth were the automotive, construction and consumer packaging businesses. Operating income increased 18% from 1998 due to the base business revenue growth and acquisitions. Overall margins increased as improved operating efficiencies at the base businesses were partially offset by the lower margins of acquired businesses.

In 1998, revenues increased 12% versus 1997 largely due to acquisitions, primarily in the automotive and general industrial businesses. The primary contributors to the base business revenue growth were the construction, automotive and general industrial businesses. Operating income grew 19% in 1998 due to acquisitions and cost reductions in the base businesses. Margins improved in 1998 due to cost improvements in the base businesses, partially offset by lower margins for acquired businesses.

acquisitions, partially offset by nonrecurring costs associated with various European operations. The margin decline in 1999 was attributable both to base businesses, mainly related to the European nonrecurring costs, and the initial lower margin impact of acquisitions. Foreign currency fluctuations in 1999 versus 1998 decreased both revenues and operating income by 4%.

Revenues increased 19% in 1998 compared with 1997 mainly due to acquisitions, primarily in the construction businesses. The general industrial, electronic component packaging and automotive businesses were the primary contributors to the base business revenue growth. Operating income was higher in 1998 due to cost reductions in the base businesses and due to acquisitions. Margins were lower in 1998 as a result of the lower margins of acquired companies, partially offset by the effect of cost improvements in the base businesses. Foreign currency fluctuations in 1998 versus 1997 decreased revenues by 6% and operating income by 8%.

## Management's Discussion and Analysis

### 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 spray coating. In 1999, this segment primarily served the food retail and service (34%), general industrial (19%), construction (9%), and food and beverage (9%) markets.

Dollars in thousands	1999	1998	1997
Operating revenues	<b>\$3,130,347</b>	<b>\$2,876,812</b>	<b>\$2,787,929</b>
Operating income	<b>537,555</b>	<b>468,352</b>	<b>399,613</b>
Margin %	<b>17.2%</b>	<b>16.3%</b>	<b>14.3%</b>

In 1999, operating revenues increased 9%, primarily due to acquisitions, which contributed revenue growth of 7%. Base business

revenue growth was 3%, mainly related to the food equipment businesses. Operating income grew 15% in 1999, primarily due to improved operating efficiencies in various base businesses. Acquisitions also contributed to the increase in operating income. Overall margins increased due to the base business efficiencies, partially offset by lower margins for acquired businesses.

In 1998, revenues increased 3%, primarily due to acquisitions, offset by a decline in base business revenues as a result of slower growth in the North American industrial markets, which affected the majority of the businesses. Operating income and margins increased due to administrative and manufacturing cost reductions. Acquisitions also contributed to the higher operating income.

### 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 spray coating. In 1999, this segment primarily served the food retail and service (32%), general industrial (24%) and food and beverage (9%) markets.

Dollars in thousands	1999	1998	1997
Operating revenues	<b>\$1,592,855</b>	<b>\$1,575,290</b>	<b>\$1,414,324</b>
Operating income	<b>154,022</b>	<b>155,110</b>	<b>116,317</b>
Margin %	<b>9.7%</b>	<b>9.8%</b>	<b>8.2%</b>

In 1999, operating revenues increased 1% versus 1998. The revenue growth contribution from acquisitions of 8% was partially

offset by the effect of a base business revenue decline of 4%. Operating income and margins were essentially flat, as increases from acquisitions were offset by reductions for the base businesses, primarily related to the decreased revenues. Foreign currency fluctuations in 1999 versus 1998 decreased revenues by 2% and operating income by 1%.

Operating revenues increased 11% in 1998 versus 1997 mainly due to acquisitions, primarily in the Signode packaging, stretch film and food equipment businesses. Operating income and margins increased primarily due to cost improvements, partially offset by the lower margins of acquired businesses. Foreign currency translation reduced revenues by 4% and operating income by 6% in 1998 versus 1997.

### Consumer Products

Businesses in this segment are located primarily in North America and manufacture household products which are used by consumers, including small electric appliances, physical fitness equipment and ceramic tile. In 1999, this segment served the consumer durables (67%) and construction (33%) markets.

Dollars in thousands	1999	1998	1997
Operating revenues	<b>\$ 501,275</b>	<b>\$ 488,686</b>	<b>\$ 478,675</b>
Operating income	<b>15,326</b>	<b>12,925</b>	<b>25,053</b>
Margin %	<b>3.1%</b>	<b>2.6%</b>	<b>5.2%</b>

Operating revenues increased 3% in 1999 compared with 1998, primarily due to higher sales in the fitness equipment and ceramic

tile businesses, offset by decreased revenues in the small appliance businesses. Operating income and margins both increased due to operating efficiencies, primarily in the small appliance businesses.

Revenues increased 2% in 1998 versus 1997 due primarily to increases at the fitness equipment and ceramic tile businesses, partially offset by decreased revenues in the small appliance businesses. Operating income and margins declined due to the effect of lower sales volume in the small appliance businesses and higher costs in the ceramic tile operation, partially offset by the effect of higher sales volume in the fitness equipment businesses.

### Leasing and Investments

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

Dollars in thousands	1999	1998	1997
Operating revenues	<b>\$ 157,385</b>	<b>\$ 149,748</b>	<b>\$ 101,110</b>
Operating income	<b>84,931</b>	<b>67,552</b>	<b>37,089</b>

Both revenues and operating income increased in 1999 versus 1998 due to gains on the sales of affordable housing and other investments, as well as higher mortgage-related income.

Revenues and operating income increased in 1998 due primarily to the commercial mortgage transaction entered into at year-end 1997. Increased property development activity and sales of mortgage-related assets also contributed to the higher revenues and operating income.

In 1995, 1996 and 1997, the Company acquired pools of mortgage-related assets in exchange for nonrecourse notes payable of \$739.7 million, preferred stock of subsidiaries of \$60 million and cash of \$240 million. The mortgage-related assets acquired in these transactions are located throughout the U.S. and include 16 subperforming, variable rate, balloon loans and 24 foreclosed properties at December 31, 1999. In conjunction with these transactions, the Company simultaneously entered into ten-year swap agreements and other related agreements whereby the Company will pay a third party the portion of the interest and net operating cash flow from the mortgage-related assets in excess of \$26 million per year and a portion of the proceeds from the disposition of the mortgage-related assets and principal repayments, in exchange for the third party making payments to the Company equal to the contractual principal and interest payments on the nonrecourse notes payable. In addition, in the event that the pools of mortgage-related assets do not generate income of \$26 million a year, the Company has a collateral right against the cash flow generated by three separate pools of mortgage-related assets (owned by third parties in which the Company has minimal interests) which have a total fair value of approximately \$2.7 billion at December 31, 1999. The Company entered into the swaps and other related agreements in order to reduce its credit and interest rate risks relative to the mortgage-related assets. The Company expects to recover its net investment in the mortgage-related assets of \$333.3 million at December 31, 1999 (net of the related nonrecourse notes payable) through its expected net cash flow of \$26 million per year for the remainder of the ten-year periods and its estimated \$413.3 million share of the total proceeds from disposition of the mortgage-related assets and principal repayments. The Company believes

that because the swaps' counterparty is Aaa-rated and that significant collateral secures the net annual cash flow of \$26 million, its risk of not recovering that portion of its net investment has been significantly mitigated. The Company believes that its share of the disposition proceeds will be sufficient to recover the remainder of its net investment. However, there can be no assurances that all of the net investment will be recovered. The net assets attributed to the Leasing and Investments segment at December 31, 1999 and 1998 are summarized as follows:

In thousands	1999	1998
<b>Assets:</b>		
Investments —		
Mortgage-related assets	\$1,006,468	\$1,018,698
Leases	62,269	78,396
Properties and affordable housing	76,632	50,837
Prepaid forward contract	21,247	20,247
Other	21,504	15,315
Deferred tax assets	257,687	345,127
Other assets	3,842	3,184
	<u>1,449,649</u>	<u>1,531,804</u>
<b>Liabilities:</b>		
Debt —		
Nonrecourse notes payable	673,143	698,462
Allocated general corporate debt	238,828	258,751
Deferred investment income	270,935	313,144
Preferred stock of subsidiaries	60,000	70,000
Other liabilities	27,901	24,831
	<u>1,270,807</u>	<u>1,365,188</u>
Net assets	<u>\$ 178,842</u>	<u>\$ 166,616</u>

### Operating Revenues

Total operating revenues increased 11.3% in 1999 versus 1998 and 10.0% in 1998 compared with 1997. Overall, the Company believes

that the majority of the increases in operating revenues is due to higher sales volume rather than increased sales prices.

### Cost of Revenues

Cost of revenues as a percentage of revenues was 64.7% in 1999 compared with 65.4% in 1998 and 65.7% in 1997. The continued

decline in this ratio was mainly due to increased sales volume coupled with lower manufacturing costs.

### Selling, Administrative and R&D Expenses

Selling, administrative, and research and development expenses were 18.5% of revenues in 1999 versus 18.4% in 1998 primarily due to nonrecurring charges in 1999, mostly offset by administrative

expense reductions. Selling, administrative and research and development expenses decreased to 18.4% in 1998 from 19.3% in 1997 because of increasing revenues and administrative expense reductions.

### Premark Merger-related Costs

In the fourth quarter of 1999, the Company incurred pretax non-recurring transaction and compensation costs related to the

Premark merger of \$81.0 million (after-tax of \$70.8 million or \$.23 per diluted share).

## Management's Discussion and Analysis

### Interest Expense

Interest expense increased to \$67.5 million in 1999 versus \$29.2 million in 1998, primarily due to higher long-term debt and increased commercial paper borrowings in 1999. Interest expense decreased to

\$29.2 million in 1998 versus \$31.5 million in 1997. Interest costs of \$57.9 million in 1999, \$64.4 million in 1998, and \$49.3 million in 1997 attributed to the Leasing and Investments segment have been classified in the segment's cost of revenues.

### Other Income

Other income was \$14.9 million in 1999 versus \$1.0 million in 1998, primarily due to 1998 losses on the sale of plant and equipment and on the sale of operations. Other income was \$1.0 million

in 1998 versus \$26.7 million in 1997, primarily due to losses on the sale of operations in 1998 versus gains on the sale of operations in 1997 and lower interest income in 1998 versus 1997.

### Income Taxes

The effective tax rate was 37.8% in 1999, 36.8% in 1998 and 37.2% in 1997. See the Income Taxes note for a reconciliation of the U.S. federal statutory rate to the effective tax rate. The Company has

not recorded a valuation allowance on the net deferred income tax assets of \$622.5 million at December 31, 1999 and \$690.3 million at December 31, 1998 as it expects to continue to generate significant taxable income in future years.

### Net Income

Net income in 1999 of \$841.1 million (\$2.76 per diluted share) was 3.9% higher than 1998 net income of \$809.7 million (\$2.66 per diluted share). Net income in 1999 before the Premark merger-

related costs of \$911.9 million (\$2.99 per diluted share) was 12.6% higher than 1998 net income of \$809.7 million. Net income in 1998 was 17.1% higher than 1997 net income of \$691.6 million (\$2.27 per diluted share).

### Foreign Currency

The strengthening of the U.S. dollar against foreign currencies in 1999, 1998 and 1997 resulted in decreased operating revenues of

\$59 million in 1999, \$122 million in 1998 and \$166 million in 1997 and decreased net income by approximately 1 cent per diluted share in 1999 and 4 cents per diluted share in 1998 and 1997.

### Financial Position

Net working capital at December 31, 1999 and 1998 is summarized as follows:

Dollars in thousands	1999	1998	Increase (Decrease)
Current Assets:			
Cash and equivalents	\$ 232,953	\$ 109,526	\$ 123,427
Trade receivables	1,630,937	1,465,899	165,038
Inventories	1,084,212	1,036,817	47,395
Other	324,829	416,357	(91,528)
	<u>3,272,931</u>	<u>3,028,599</u>	<u>244,332</u>
Current Liabilities:			
Short-term debt	553,655	428,019	125,636
Accounts payable and accrued expenses	1,376,415	1,274,165	102,250
Other	115,291	150,252	(34,961)
	<u>2,045,361</u>	<u>1,852,436</u>	<u>192,925</u>
Net Working Capital	<u>\$1,227,570</u>	<u>\$1,176,163</u>	<u>\$ 51,407</u>
Current Ratio	<u>1.60</u>	<u>1.63</u>	

The increase in trade receivables and inventories at December 31, 1999 was due to 1999 acquisitions and higher operating revenues in 1999 versus 1998. The decrease in other current assets is the result of the use of Premark's marketable securities to repay ITW's commercial paper subsequent to the merger.

The increase in accounts payable and accrued expenses is primarily due to 1999 acquisitions.

Short-term debt increased at December 31, 1999, as a result of \$225 million of notes which are due in 2000, offset by the decline in commercial paper.

In February 1999, the Company issued \$500 million of 5.75% notes due March 1, 2009. The proceeds were used primarily to repay commercial paper.

Long-term debt at December 31, 1999, consisted of \$125 million of 5.875% notes, \$100 million of 10.5% notes, \$150 million of 6.875% notes, \$500 million of 5.75% notes, \$673 million of nonrecourse notes, and \$77 million of capitalized lease obligations and other debt. Long-term debt increased \$153 million from December 31, 1998 principally as a result of the issuance of the \$500 million notes in 1999 offset by the increase in current maturities of long-term debt and the reduction of commercial paper borrowings. Excluding the effect of the Leasing and Investments segment, the percentage of total debt to total capitalization increased to 17.8% at December 31, 1999, from 14.3% at December 31, 1998.

Stockholders' equity was \$4.8 billion at December 31, 1999, compared with \$4.2 billion at December 31, 1998. Affecting equity were earnings of \$841 million, dividends declared of \$194 million, and unfavorable currency translation adjustments of \$76 million.

The Statement of Cash Flows for the years ended December 31, 1999 and 1998 is summarized below:

In thousands	1999	1998
Net income	\$ 841,112	\$ 809,747
Depreciation and amortization	343,284	296,567
Income from investments, net of non-cash interest on nonrecourse debt	(107,195)	(95,932)
Acquisitions	(805,664)	(921,629)
Additions to plant and equipment	(335,918)	(316,118)
Cash dividends paid	(183,587)	(150,934)
Net proceeds of debt	245,835	343,793
Purchase of investments	(38,863)	(13,232)
Proceeds from investments	81,064	50,455
Sales (purchases) of short-term investments	132,986	(2,118)
Other, net	(49,627)	(103,571)
Net increase (decrease) in cash and equivalents	<u>\$ 123,427</u>	<u>\$(102,972)</u>

Net cash provided by operating activities of \$1,037 million in 1999 and \$888 million in 1998 was primarily used for acquisitions, additions to plant and equipment, and cash dividends. Long-term debt borrowings in 1999 were used to repay commercial paper and to fund acquisitions. Commercial paper borrowings in 1998 were primarily used to fund acquisitions and to refinance maturing long-term debt.

Dividends paid per share increased 22% to \$.61 per share in 1999 from \$.50 per share in 1998. The Company expects to continue to meet its dividend payout objective of 25–30% of the average of the last three years' net income.

Management continues to believe that internally generated funds will be adequate to service existing debt and maintain appropriate debt to total capitalization and earnings to fixed charge ratios. Internally generated funds are also expected to be adequate to finance internal growth, small-to-medium sized acquisitions and additional investments. The Company has additional debt capacity to fund larger acquisitions. The Company had no material commitments for capital expenditures at December 31, 1999 or 1998.

## Market Risk

### Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt and certain mortgage-related investments.

The Company has no cash flow exposure on its long-term obligations related to changes in market interest rates. The Company primarily enters into long-term debt obligations for general corporate purposes, including the funding of capital expenditures and acquisitions. The Company has not entered into any material derivative financial instruments to hedge interest rate risk on these general corporate borrowings.

The Company has also issued nonrecourse notes in connection with the three commercial mortgage transactions.

The holders of these notes only have recourse against certain mortgage-related assets.

The mortgage-related assets acquired in the commercial mortgage transactions include 16 and 24 subperforming, variable rate, balloon loans at December 31, 1999 and 1998, respectively. The fair value of these commercial mortgage loans fluctuates as market interest rates change. The Company has entered into swap and other related agreements to reduce its credit and interest rate risks relative to the commercial mortgage loans and other mortgage-related assets. See the Leasing & Investments section for additional details regarding the net swap receivables.

The following table presents the Company's financial instruments for which fair value is subject to changing market interest rates:

## Management's Discussion and Analysis

	General Corporate Debt			Mortgage-related Investments and Related Nonrecourse Debt					
	5.75% notes due March 1, 2009	6.875% notes due November 15, 2008	5.875% notes due March 1, 2000	Commercial mortgage loans	Net swap receivables	6.59% nonrecourse note	7.00% nonrecourse note	6.44% nonrecourse note	
In thousands									
As of December 31, 1999:									
Estimated cash inflow									
(outflow) by year									
of principal maturity—									
2000	\$ —	\$ —	\$(125,000)	\$ 34,386	\$ 6,962	\$ (16,000)	\$ (9,319)	\$ —	
2001	—	—	—	—	78,119	(16,000)	(31,286)	—	
2002	—	—	—	—	32,517	(16,000)	(13,979)	(1,087)	
2003	—	—	—	—	37,795	(16,000)	(23,431)	(2,174)	
2004	—	—	—	—	40,470	(16,000)	(23,431)	(2,174)	
2005 and thereafter	(500,000)	(150,000)	—	376,021	270,828	(121,500)	(152,757)	(212,005)	
Total	(500,000)	(150,000)	(125,000)	410,407	466,691	(201,500)	(254,203)	(217,440)	
Estimated fair value	(447,891)	(135,961)	(124,980)	375,057	364,258	(209,522)	(263,386)	(223,826)	
Carrying value	(500,000)	(150,000)	(125,000)	262,443	364,258	(201,500)	(254,203)	(217,440)	

### As of December 31, 1998:

Total estimated cash inflow (outflow)	\$ —	(150,000)	\$(125,000)	\$ 569,218	\$ 486,083	\$(217,500)	\$(263,522)	\$(217,440)
Estimated fair value	—	(154,242)	(126,270)	510,795	371,000	(237,784)	(290,414)	(233,834)
Carrying value	—	(150,000)	(125,000)	371,812	371,000	(217,500)	(263,522)	(217,440)

### Foreign Currency Risk

The Company operates in the United States and 39 other countries. In general, the Company manufactures products that are sold in its significant foreign markets in the particular local country. As the initial funding for these foreign manufacturing operations is provided primarily through the permanent investment of

capital from the U.S. parent company, the Company and its subsidiaries do not have significant assets or liabilities denominated in currencies other than their functional currencies. As such, the Company does not have any significant derivatives or other financial instruments which are subject to foreign currency risk at December 31, 1999 or 1998.

### Year 2000 Issue

The Company utilizes software and related technologies throughout its businesses that could have been affected by the date change in the year 2000.

To determine the extent of the year 2000 compliance issues related to its computer systems, including equipment with embedded chip technology, the Company began an extensive internal study at all of its business units in 1997. All testing of existing systems and remediation activities were completed by the end of 1999.

The Company also had formal communications with its significant suppliers, customers and other relevant third parties to

determine the extent of their year 2000 compliance. No significant issues were identified.

The Company reviewed capital equipment that could have had embedded chip issues as part of its internal year 2000 compliance study. No significant year 2000 issues related to the Company's equipment products were identified.

The total estimated cost of the Company's year 2000 compliance program was approximately \$58 million for 1997 through 1999. Of this amount, the majority related to capital expenditures.

### Forward-looking Statements

This annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding the adequacy of internally generated funds and the recoverability of the Company's investment in mortgage-related 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, food service, automotive, general industrial 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, domestic and foreign, including adverse accounting or regulatory requirements and market values of candidates.



**Statement of Income**

Illinois Tool Works Inc. and Subsidiaries

In thousands except for per share amounts	For the Years Ended December 31		
	1999	1998	1997
Operating Revenues	\$9,333,185	\$8,386,971	\$7,627,263
Cost of revenues	6,042,548	5,485,533	5,010,571
Selling, administrative, and research and development expenses	1,730,031	1,542,684	1,469,973
Amortization of goodwill and other intangible assets	74,222	50,008	41,431
Premark merger-related costs	81,020	—	—
Operating Income	1,405,364	1,308,746	1,105,288
Interest expense	(67,510)	(29,216)	(31,498)
Other income	14,858	1,017	26,650
Income Before Income Taxes	1,352,712	1,280,547	1,100,440
Income taxes	511,600	470,800	408,851
Net Income	<u>\$ 841,112</u>	<u>\$ 809,747</u>	<u>\$ 691,589</u>
Net Income Per Share:			
Basic	<u>\$2.80</u>	<u>\$2.70</u>	<u>\$2.31</u>
Diluted	<u>\$2.76</u>	<u>\$2.66</u>	<u>\$2.27</u>

**Statement of Income Reinvested in the Business**

Illinois Tool Works Inc. and Subsidiaries

In thousands	For the Years Ended December 31		
	1999	1998	1997
Balance, Beginning of Year	\$3,864,024	\$3,242,996	\$2,707,185
Net income	841,112	809,747	691,589
Cash dividends declared	(193,981)	(159,125)	(135,261)
Adjustment to conform year-ends of Premark's international subsidiaries	2,323	—	—
Treasury stock issued for incentive plans	(27,963)	(29,594)	(20,517)
Balance, End of Year	<u>\$4,485,515</u>	<u>\$3,864,024</u>	<u>\$3,242,996</u>

**Statement of Comprehensive Income**

Illinois Tool Works Inc. and Subsidiaries

In thousands	For the Years Ended December 31		
	1999	1998	1997
Net Income	\$ 841,112	\$ 809,747	\$ 691,589
Other comprehensive income:			
Foreign currency translation adjustments	(77,696)	(14,413)	(106,103)
Income tax related to foreign currency translation adjustments	1,803	(2,389)	1,716
Comprehensive income	<u>\$ 765,219</u>	<u>\$ 792,945</u>	<u>\$ 587,202</u>

## Financial Statements

### Statement of Financial Position

Illinois Tool Works Inc. and Subsidiaries

	December 31	
In thousands except shares	1999	1998
<b>Assets</b>		
Current Assets:		
Cash and equivalents	\$ 232,953	\$ 109,526
Trade receivables	1,630,937	1,465,899
Inventories	1,084,212	1,036,817
Deferred income taxes	188,729	180,787
Prepaid expenses and other current assets	136,100	235,570
Total current assets	<u>3,272,931</u>	<u>3,028,599</u>
Plant and Equipment:		
Land	114,048	104,390
Buildings and improvements	926,306	851,691
Machinery and equipment	2,633,212	2,422,484
Equipment leased to others	118,164	107,187
Construction in progress	120,568	106,739
	<u>3,912,298</u>	<u>3,592,491</u>
Accumulated depreciation	<u>(2,278,367)</u>	<u>(2,100,221)</u>
Net plant and equipment	<u>1,633,931</u>	<u>1,492,270</u>
Investments	1,188,120	1,183,493
Goodwill & Other Intangibles	2,029,959	1,556,774
Deferred Income Taxes	433,792	509,486
Other Assets	501,526	441,866
	<u>\$ 9,060,259</u>	<u>\$ 8,212,488</u>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Short-term debt	\$ 553,655	\$ 428,019
Accounts payable	470,200	421,043
Accrued expenses	906,215	853,122
Cash dividends payable	54,102	43,709
Income taxes payable	61,189	106,543
Total current liabilities	<u>2,045,361</u>	<u>1,852,436</u>
Noncurrent Liabilities:		
Long-term debt	1,360,746	1,208,046
Other	838,729	908,634
Total noncurrent liabilities	<u>2,199,475</u>	<u>2,116,680</u>
Stockholders' Equity:		
Common stock:		
Issued — 300,829,216 shares in 1999 and		
306,150,973 shares in 1998	3,008	3,062
Additional paid-in-capital	517,210	730,822
Income reinvested in the business	4,485,515	3,864,024
Common stock held in treasury	(1,783)	(238,502)
Unearned restricted stock	—	(3,400)
Cumulative translation adjustment	<u>(188,527)</u>	<u>(112,634)</u>
Total stockholders' equity	<u>4,815,423</u>	<u>4,243,372</u>
	<u>\$ 9,060,259</u>	<u>\$ 8,212,488</u>

The Notes to Financial Statements are an integral part of this statement.



**Statement of Cash Flows**

Illinois Tool Works Inc. and Subsidiaries

In thousands	For the Years Ended December 31		
	1999	1998	1997
<b>Cash Provided by (Used for) Operating Activities:</b>			
Net income	\$ 841,112	\$ 809,747	\$ 691,589
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	343,284	296,567	258,111
Change in deferred income taxes	105,343	58,553	(13,328)
Provision for uncollectible accounts	17,704	9,017	10,100
(Gain) loss on sale of plant and equipment	(297)	4,514	6,534
Income from investments	(153,593)	(144,310)	(93,652)
Non-cash interest on nonrecourse debt	46,398	48,378	35,638
(Gain) loss on sale of operations and affiliates	(828)	3,786	(6,824)
Other non-cash items, net	(9,936)	(50)	(6,788)
Cash provided by operating activities	1,189,187	1,086,202	881,380
<b>Change in assets and liabilities:</b>			
(Increase) decrease in—			
Trade receivables	(105,084)	(24,410)	(104,793)
Inventories	7,427	(3,480)	(46,091)
Prepaid expenses and other assets	(32,115)	(34,348)	(58,957)
Increase (decrease) in—			
Accounts payable	4,381	(70,657)	41,242
Accrued expenses and other liabilities	(2,263)	(30,376)	35,203
Income taxes payable	(24,074)	(34,427)	70,730
Other, net	(863)	(724)	289
Net cash provided by operating activities	1,036,596	887,780	819,003
<b>Cash Provided by (Used for) Investing Activities:</b>			
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(805,664)	(921,629)	(296,861)
Additions to plant and equipment	(335,918)	(316,118)	(260,102)
Purchase of investments	(38,863)	(13,232)	(89,729)
Proceeds from investments	81,064	50,455	43,772
Proceeds from sale of plant and equipment	26,349	26,581	21,898
Proceeds from sale of operations and affiliates	8,679	17,006	168,383
Sales (purchases) of short-term investments	132,986	(2,118)	115,861
Other, net	2,997	73	3,635
Net cash used for investing activities	(928,370)	(1,158,982)	(293,143)
<b>Cash Provided by (Used for) Financing Activities:</b>			
Cash dividends paid	(183,587)	(150,934)	(128,396)
Issuance of common stock	21,887	18,742	15,862
Net proceeds (repayments) of short-term debt	(214,465)	318,497	(216,653)
Proceeds from long-term debt	499,681	167,755	4,629
Repayments of long-term debt	(39,381)	(142,459)	(37,729)
Repurchase of treasury stock	(44,995)	(45,267)	(53,380)
Other, net	(15,567)	1,565	9,278
Net cash provided by (used for) financing activities	23,573	167,899	(406,389)
<b>Effect of Exchange Rate Changes on Cash and Equivalents</b>	<b>(8,372)</b>	<b>331</b>	<b>(21,600)</b>
<b>Cash and Equivalents:</b>			
Increase (decrease) during the year	123,427	(102,972)	97,871
Beginning of year	109,526	212,498	114,627
End of year	\$ 232,953	\$ 109,526	\$ 212,498
<b>Cash Paid During the Year for Interest</b>	<b>\$ 69,977</b>	<b>\$ 44,487</b>	<b>\$ 45,084</b>
<b>Cash Paid During the Year for Income Taxes</b>	<b>\$ 414,346</b>	<b>\$ 421,510</b>	<b>\$ 318,569</b>
<b>Liabilities Assumed from Acquisitions</b>	<b>\$ 278,711</b>	<b>\$ 255,019</b>	<b>\$ 171,317</b>

See the Investments note for information regarding noncash transactions.  
The Notes to Financial Statements are an integral part of this statement.

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## Report of Independent Public Accountants

To the Board of Directors of Illinois Tool Works Inc.:

We have audited the accompanying statements of financial position of Illinois Tool Works Inc. (a Delaware corporation) and Subsidiaries (ITW) as of December 31, 1999 and 1998, and the related statements of income, income reinvested in the business, cash flows and comprehensive income for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Premark International, Inc., a company that merged with ITW during 1999 in a transaction accounted for as a pooling-of-interests, as discussed in the Premark Merger note below. Such statements are included in the consolidated financial statements of Illinois Tool Works Inc. and Subsidiaries and reflect total assets of 23% and 25% as of December 31, 1999 and 1998, and total revenues of 31%, 33% and 32% for the years ended December 31, 1999, 1998, and 1997, respectively, of the related consolidated totals, after restatement to reflect certain adjustments as set forth in the Premark Merger note. The financial statements of Premark International, Inc. prior to those adjustments were audited by other auditors whose report has been furnished to us and our opinion, insofar as

it relates to amounts included for Premark International, Inc., is based solely upon the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Tool Works Inc. and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

*Arthur Andersen LLP*

Chicago, Illinois  
January 31, 2000

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## Notes to Financial Statements

**The Notes to Financial Statements** furnish additional information on items in the financial statements. The notes have been arranged in the same order as the related items appear in the statements.

Illinois Tool Works Inc. (the "Company" or "ITW") is a multinational manufacturer of highly engineered products and specialty systems. The Company primarily serves the construction, food retail and service, automotive, and general industrial markets.

Significant accounting principles and policies of the Company are highlighted in italics. Certain reclassifications of prior years' data have been made to conform with current year reporting. All prior year

amounts and share data in the financial statements and notes to financial statements have been restated to reflect the merger of the Company with Premark International, Inc. (see Premark Merger note below).

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to financial statements. Actual results could differ from those estimates.

**Consolidation and Translation** — The financial statements *include the Company and its majority-owned subsidiaries. All significant intercompany transactions are eliminated from the financial statements.* Substantially all of the Company's foreign subsidiaries have November 30 fiscal year-ends to facilitate inclusion of their financial statements in the December 31 financial statements.

*Foreign subsidiaries' assets and liabilities are translated to U.S. dollars at end-of-period exchange rates. Revenues and expenses are translated at average rates for the period. Translation adjustments are not included in income but are reported as a separate component of stockholders' equity.*

**Premark Merger** — On November 23, 1999, a wholly owned subsidiary of ITW merged with Premark International, Inc. ("Premark"), a commercial manufacturer of food equipment and decorative products. Shareholders of Premark received .8081 shares of ITW common stock in exchange for each share of Premark common stock outstanding. A total of 49,781,665 of ITW common shares were issued to the former Premark shareholders in connection with the merger.

The merger was accounted for under the pooling-of-interests accounting method and accordingly, ITW's historical financial statements for periods prior to the merger have been restated to include the results of operations, financial position and cash flows of Premark, as though the companies had been combined during such periods.

Combined and separate results of ITW and Premark for the periods preceding the merger are summarized below:

In thousands	For the Nine Months Ended September 30, 1999 (Unaudited)	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997
<b>Operating revenues:</b>			
ITW	\$4,691,815	\$5,647,889	\$5,220,433
Premark	2,150,526	2,739,082	2,406,830
Adjustments	3,515	—	—
As restated	<u>\$6,845,856</u>	<u>\$8,386,971</u>	<u>\$7,627,263</u>
<b>Net income:</b>			
ITW	\$ 551,408	\$ 672,784	\$ 586,951
Premark	111,885	136,141	103,802
Adjustments	(2,223)	822	836
As restated	<u>\$ 661,070</u>	<u>\$ 809,747</u>	<u>\$ 691,589</u>

The adjustments to the previously reported results of ITW and Premark related to conforming depreciation methods, methods of recognizing the transition obligation for postretirement benefits, and the fiscal year-ends of foreign subsidiaries.

In the fourth quarter of 1999, the Company incurred pretax nonrecurring transaction and compensation costs related to the Premark merger of \$81,020,000 (after-tax of \$70,792,000 or \$.23 per diluted share).

**Acquisitions and Dispositions** — During 1999, 1998 and 1997, the Company acquired 31, 46 and 30 operations, respectively, none of which materially affected consolidated results.

**Research and Development Expenses** are recorded as expense in the year incurred.

These costs were \$114,605,000 in 1999, \$101,578,000 in 1998 and \$97,821,000 in 1997.

**Rental Expense** was \$91,797,000 in 1999, \$83,290,000 in 1998 and \$78,514,000 in 1997.

Future minimum lease payments for the years ended December 31 are as follows:

In thousands	
2000	\$ 71,961
2001	58,840
2002	41,320
2003	32,779
2004	25,434
2005 and future years	39,138
	<u>\$269,472</u>

**Other Income** consisted of the following:

In thousands	1999	1998	1997
Interest income	\$17,560	\$15,918	\$24,895
Gain (loss) on sale of operations and affiliates	828	(3,786)	6,824
Gain (loss) on sale of plant and equipment	297	(4,514)	(6,534)
Gain (loss) on foreign currency translation	(5,460)	(2,211)	1,455
Other, net	1,633	(4,390)	10
	<u>\$14,858</u>	<u>\$ 1,017</u>	<u>\$26,650</u>

## Notes to Financial Statements

**Income Taxes** — The Company utilizes the liability method of accounting for income taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial

and tax bases of assets and liabilities given the provisions of the enacted tax laws. The components of the provision for income taxes were as shown below:

In thousands	1999	1998	1997
U.S. federal income taxes:			
Current	\$318,307	\$275,949	\$255,775
Deferred	<u>47,684</u>	<u>11,040</u>	<u>13,983</u>
	<u>365,991</u>	<u>286,989</u>	<u>269,758</u>
Foreign income taxes:			
Current	77,283	98,446	125,864
Deferred	<u>11,557</u>	<u>30,863</u>	<u>(33,132)</u>
	<u>88,840</u>	<u>129,309</u>	<u>92,732</u>
State income taxes:			
Current	49,163	48,141	49,640
Deferred	<u>7,606</u>	<u>6,361</u>	<u>(3,279)</u>
	<u>56,769</u>	<u>54,502</u>	<u>46,361</u>
	<u>\$511,600</u>	<u>\$470,800</u>	<u>\$408,851</u>

Income before income taxes for domestic and foreign operations was as follows:

In thousands	1999	1998	1997
Domestic	\$ 992,633	\$ 981,173	\$ 910,799
Foreign	<u>360,079</u>	<u>299,374</u>	<u>189,641</u>
	<u>\$1,352,712</u>	<u>\$1,280,547</u>	<u>\$1,100,440</u>

The reconciliation between the U.S. federal statutory tax rate and the effective tax rate was as follows:

	1999	1998	1997
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of U.S. federal tax benefit	2.7	2.7	2.7
Nondeductible goodwill amortization	1.1	.7	.7
Differences between U.S. federal statutory and foreign tax rates	—	.6	1.4
Other, net	<u>(1.0)</u>	<u>(2.2)</u>	<u>(2.6)</u>
Effective tax rate	<u>37.8%</u>	<u>36.8%</u>	<u>37.2%</u>

Deferred U.S. federal income taxes and foreign withholding taxes have not been provided on approximately \$483,000,000 and \$337,000,000 of undistributed earnings of international affiliates as of December 31, 1999 and 1998, respectively. In the event these earnings were distributed to the Company, U.S. federal income taxes payable would be reduced by foreign tax credits based on

income tax laws and circumstances at the time of distribution. If these undistributed earnings were not considered permanently reinvested, additional deferred taxes of approximately \$84,000,000 and \$50,000,000 would have been provided at December 31, 1999 and 1998, respectively.

The components of deferred income tax assets and liabilities at December 31, 1999 and 1998 were as follows:

In thousands	1999		1998	
	Asset	Liability	Asset	Liability
Acquisition asset basis differences	\$ 43,390	\$ (18,545)	\$ 34,900	\$ (25,121)
Inventory reserves, capitalized tax cost and LIFO inventory	28,644	(10,909)	24,279	(10,550)
Investments	287,965	(30,278)	384,632	(39,505)
Plant and equipment	11,973	(58,866)	12,451	(54,970)
Accrued expenses and reserves	129,440	—	142,292	—
Employee benefit accruals	199,216	—	186,469	—
Foreign tax credit carryforwards	34,503	—	34,255	—
Net operating loss carryforwards	51,464	—	51,410	—
Allowances for uncollectible accounts	6,751	—	6,287	—
Prepaid pension assets	—	(34,189)	—	(27,735)
Other	39,816	(24,227)	39,648	(25,455)
Gross deferred income tax assets (liabilities)	833,162	(177,014)	916,623	(183,336)
Valuation allowances	(33,627)	—	(43,014)	—
Total deferred income tax assets (liabilities)	\$ 799,535	\$ (177,014)	\$ 873,609	\$ (183,336)
Net deferred income tax assets	\$ 622,521		\$ 690,273	

No valuation allowance has been recorded on the net deferred income tax assets at December 31, 1999 and 1998 as the Company expects to continue to generate significant taxable income in future years.

At December 31, 1999, the Company had net operating loss carryforwards of approximately \$125,372,000 available to offset future taxable income in the U.S. and certain foreign jurisdictions which expire as follows:

In thousands	
2000	\$ 1,898
2001	1,794
2002	5,768
2003	3,460
2004	15,030
2005	4,822
2006	241
2007	—
2008	1,560
2009	—
2010	540
2011	755
2012	2,360
2013	2,123
2014	334
2015	—
2016	—
2017	2,653
2018	3,983
Do not expire	78,051
	<u>\$125,372</u>

## Notes to Financial Statements

**Net Income Per Share**—In 1997, the Company adopted Statement of Financial Accounting Standards No. 128, Earnings per Share (“SFAS 128”). *Under SFAS 128, net income per basic share is computed by dividing net income by the weighted average number of shares outstanding for the period. Net income per diluted share is*

*computed by dividing net income by the weighted average number of shares assuming dilution.* Dilutive shares reflect the potential additional shares that would be outstanding if the dilutive stock options outstanding were exercised during the period. The computation of net income per share was as follows:

In thousands except per share data	1999	1998	1997
Net income	<u>\$841,112</u>	<u>\$809,747</u>	<u>\$691,589</u>
Net income per share — Basic:			
Weighted average common shares	<u>300,158</u>	<u>299,912</u>	<u>299,663</u>
Net income per share—Basic	<u>\$2.80</u>	<u>\$2.70</u>	<u>\$2.31</u>
Net income per share — Diluted:			
Weighted average common shares	<u>300,158</u>	<u>299,912</u>	<u>299,663</u>
Effect of dilutive stock options	<u>4,491</u>	<u>4,729</u>	<u>4,887</u>
Weighted average common shares assuming dilution	<u>304,649</u>	<u>304,641</u>	<u>304,550</u>
Net income per share—Diluted	<u>\$2.76</u>	<u>\$2.66</u>	<u>\$2.27</u>

Options to purchase 1,128,639 shares of common stock at an average price of \$54.61 per share were outstanding at December 31, 1997, but were not included in the computation of diluted net income per share for the period because the options’ exercise price

was greater than the average market price of the common shares. These options will expire in 2007. There were no significant options outstanding at December 31, 1999 and 1998 that had an exercise price greater than the average market price.

**Cash and Equivalents** included interest-bearing deposits of \$83,392,000 at December 31, 1999 and \$27,434,000 at December 31, 1998.

*Interest-bearing deposits have maturities of 90 days or less and are stated at cost, which approximates market.*

**Trade Receivables** as of December 31, 1999 and 1998 were net of allowances for uncollectible accounts of \$54,900,000 and \$48,600,000, respectively.

**Inventories** at December 31, 1999 and 1998 were as follows:

In thousands	1999	1998
Raw material	\$ 409,532	\$ 376,892
Work-in-process	94,815	89,073
Finished goods	<u>579,865</u>	<u>570,852</u>
	<u>\$1,084,212</u>	<u>\$1,036,817</u>

*Inventories are stated at the lower of cost or market and include material, labor and factory overhead. The last-in, first-out (LIFO) method is used to determine the cost of the inventories of a majority of the U.S. operations. Inventories priced at LIFO were 45% of total inventories as of December 31, 1999 and 1998. The first-in,*

*first-out (FIFO) method is used for all other inventories.* Under the FIFO method, which approximates current cost, total inventories would have been approximately \$79,600,000 and \$87,800,000 higher than reported at December 31, 1999 and 1998, respectively.

**Plant and Equipment** are stated at cost less accumulated depreciation. Renewals and improvements that increase the useful life of plant and equipment are capitalized. Maintenance and repairs are charged to expense as incurred.

Depreciation was \$269,062,000 in 1999 compared with \$246,559,000 in 1998 and \$216,680,000 in 1997 and was reflected primarily in cost of revenues. *Depreciation of plant and equipment*

*for financial reporting purposes is computed principally on an accelerated basis.*

The range of useful lives used to depreciate plant and equipment is as follows:

Buildings and improvements	<b>10–50 years</b>
Machinery and equipment	<b>3–20 years</b>
Equipment leased to others	<b>Term of lease</b>

**Investments** as of December 31, 1999 and 1998 consisted of the following:

In thousands	1999	1998
Commercial mortgage loans	\$ 262,443	\$ 371,812
Commercial real estate	274,407	217,340
Net swap receivables	364,258	371,000
Receivable from mortgage servicer	105,360	58,546
Prepaid forward contract	21,247	20,247
Leveraged, direct financing and sales-type leases of equipment	62,269	78,396
Properties held for sale	24,200	23,035
Property developments	50,542	16,482
Affordable housing	1,890	11,320
Annuity contract	5,993	5,483
U.S. Treasury security	5,292	4,869
Other	10,219	4,963
	<u>\$1,188,120</u>	<u>\$1,183,493</u>

In 1995, 1996 and 1997, the Company acquired pools of mortgage-related assets in exchange for nonrecourse notes payable of \$739,705,000, preferred stock of subsidiaries of \$60,000,000 and cash of \$240,000,000. The mortgage-related assets acquired in these transactions are located throughout the U.S. and include 16 and 24 subperforming, variable rate, balloon loans and 24 and 23 foreclosed properties at December 31, 1999 and 1998, respectively. In conjunction with these transactions, the Company simultaneously entered into ten-year swap agreements and other related agreements whereby the Company will pay a third party the portion of the interest and net operating cash flow from the mortgage-related assets in excess of \$26,000,000 per year and a portion of the proceeds from the disposition of the mortgage-related assets and principal repayments, in exchange for the third party making payments to the Company equal to the contractual principal and interest payments on the non-recourse notes payable. In addition, in the event that the pools of mortgage-related assets do not generate income of \$26,000,000 a year, the Company has a collateral right against the cash flow generated by three separate pools of mortgage-related assets (owned by third parties in which the Company has minimal interests) which have a total fair value of approximately \$2,700,000,000 at December 31, 1999. The Company entered into the swaps and other related agreements in order to reduce its credit and interest rate risks relative to the mortgage-related assets.

The Company expects to recover its net investment in the mortgage-related assets of \$333,325,000 at December 31, 1999 (net of the related nonrecourse notes payable) through its expected net

cash flow of \$26,000,000 per year for the remainder of the ten-year periods and its estimated \$413,340,000 share of the total proceeds from disposition of the mortgage-related assets and principal repayments.

The Company *evaluates whether the commercial mortgage loans have been impaired by reviewing the discounted estimated future cash flows of the loans versus the carrying value of the loans. If the carrying value exceeds the discounted cash flows, an impairment loss is recorded through income.* At December 31, 1999 and 1998, the impairment loss allowance was \$10,100,000 and \$5,600,000, respectively. The estimated fair value of the commercial mortgage loans, based on discounted future cash flows, exceeds the carrying value at December 31, 1999 and 1998 by \$112,614,000 and \$138,983,000, respectively. The net swap receivables *are recorded at fair value, based on the estimated future cash flows discounted at the current market interest rate. Any adjustments to the carrying value of the net swap receivables due to changes in expected future cash flows or interest rates are recorded through income.*

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), was issued in 1998. SFAS 133 requires that an entity recognize certain derivatives in the Statement of Financial Position and measure those instruments at fair value. The Company is required to adopt SFAS 133 for annual and interim periods beginning after June 15, 2000. The adoption of SFAS 133 is not expected to have a material effect on the Company's financial position or results of operations.



## Notes to Financial Statements

The Company's investment in leveraged and direct financing leases relates to equipment used in the transportation industry. The components of the investment in leveraged, direct financing

and sales-type leases at December 31, 1999 and 1998 were as shown below:

In thousands	1999	1998
Lease contracts receivable (net of principal and interest on nonrecourse financing)	\$ 63,603	\$ 81,400
Estimated residual value of leased assets	21,313	25,428
Unearned and deferred income	(22,647)	(28,432)
Investment in leveraged, direct financing and sales-type leases	62,269	78,396
Deferred income taxes related to leveraged and direct financing leases	(28,038)	(34,281)
Net investment in leveraged, direct financing and sales-type leases	<u>\$ 34,231</u>	<u>\$ 44,115</u>

**Goodwill and Other Intangibles** — Goodwill represents the excess cost over fair value of the net assets of purchased businesses. Goodwill is being amortized on a straight-line basis over 15 to 40 years. Goodwill amortization expense was \$57,470,000 in 1999, \$37,763,000 in 1998 and \$29,588,000 in 1997. Accumulated goodwill amortization was \$261,188,000 and \$207,341,000 at December 31, 1999 and 1998, respectively.

Other intangible assets represent patents, noncompete agreements and other assets acquired with purchased businesses and are being amortized primarily on a straight-line basis over five to 17 years. Amortization expense was \$16,752,000 in 1999, \$12,245,000

in 1998 and \$11,843,000 in 1997. Accumulated amortization was \$93,473,000 and \$74,985,000 at December 31, 1999 and 1998.

The Company assesses the recoverability of unamortized goodwill and other intangible assets, and other long-lived assets whenever events or changes in circumstances indicate that such assets may be impaired by reviewing the sufficiency of future undiscounted cash flows of the related entity to cover the amortization or depreciation over the remaining useful life of the asset. For any long-lived assets which are determined to be impaired, a loss would be recognized for the difference between the carrying value and the fair value for assets to be held or the net realizable value for assets to be disposed of.

**Other Assets** as of December 31, 1999 and 1998 consisted of the following:

In thousands	1999	1998
Cash surrender value of life insurance policies	\$132,042	\$113,999
Investment in unconsolidated affiliates	167,206	135,659
Prepaid pension assets	95,116	77,224
Other	107,162	114,984
	<u>\$501,526</u>	<u>\$441,866</u>

**Retirement Plans and Postretirement Benefits** — Summarized information regarding the Company's defined benefit pension and post-retirement health care and life insurance benefits was as follows:

In thousands	Pension			Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Components of net periodic benefit cost:						
Service cost	\$ 50,105	\$ 40,861	\$ 40,427	\$ 5,954	\$ 5,034	\$ 4,781
Interest cost	72,125	66,812	62,788	17,446	16,707	17,346
Expected return on plan assets	(102,568)	(83,090)	(127,360)	—	—	—
Amortization of prior service (benefit) cost	6,174	6,037	6,136	(574)	(493)	(493)
Amortization of actuarial (gain) loss	1,147	(4,597)	46,756	(21)	(1,835)	(1,379)
Amortization of transition amount	(6,813)	(6,831)	(6,974)	—	—	—
Net periodic benefit cost	<u>\$ 20,170</u>	<u>\$ 19,192</u>	<u>\$ 21,773</u>	<u>\$ 22,805</u>	<u>\$ 19,413</u>	<u>\$ 20,255</u>

In thousands	Pension		Postretirement Benefits	
	1999	1998	1999	1998
Change in benefit obligation as of September 30:				
Benefit obligation at beginning of period	\$1,122,055	\$ 941,112	\$ 255,890	\$ 246,657
Service cost	50,105	40,861	5,954	5,034
Interest cost	72,125	66,812	17,446	16,707
Plan participant contributions	2,081	1,685	4,621	4,261
Amendments	(45,861)	4,219	63,076	—
Actuarial (gain) loss	(95,824)	96,770	18,469	6,262
Acquisitions and divestitures	42,341	30,679	9,284	—
Benefits paid	(68,571)	(63,303)	(26,272)	(23,031)
Liabilities from other plans	2,178	5,066	—	—
Foreign currency translation	(8,922)	(1,846)	—	—
Benefit obligation at end of period	<u>\$1,071,707</u>	<u>\$1,122,055</u>	<u>\$ 348,468</u>	<u>\$ 255,890</u>
Change in plan assets as of September 30:				
Fair value of plan assets at beginning of period	\$1,078,130	\$1,122,941	\$ —	\$ —
Actual return on plan assets	208,677	(13,224)	—	—
Acquisitions and divestitures	48,447	9,739	—	—
Company contributions	24,417	25,506	21,651	18,770
Plan participant contributions	2,081	1,685	4,621	4,261
Benefits paid	(68,571)	(63,303)	(26,272)	(23,031)
Assets from other plans	3,541	—	—	—
Foreign currency translation	(4,607)	(5,214)	—	—
Fair value of plan assets at end of period	<u>\$1,292,115</u>	<u>\$1,078,130</u>	<u>\$ —</u>	<u>\$ —</u>
Net prepaid (accrued) benefit cost as of September 30:				
Funded status	\$ 220,408	\$ (43,925)	\$ (348,468)	\$ (255,890)
Unrecognized net actuarial (gain) loss	(179,338)	22,012	(4,922)	(23,314)
Unrecognized prior service (benefit) cost	(25,721)	26,252	58,058	(5,592)
Unrecognized net transition amount	(9,922)	(16,963)	—	—
Net prepaid (accrued) benefit cost	<u>\$ 5,427</u>	<u>\$ (12,624)</u>	<u>\$ (295,332)</u>	<u>\$ (284,796)</u>
Plans with accumulated benefit obligation				
in excess of plan assets as of September 30:				
Projected benefit obligation	<u>\$ 87,359</u>	<u>\$ 94,608</u>		
Accumulated benefit obligation	<u>\$ 83,679</u>	<u>\$ 91,128</u>		
Fair value of plan assets	<u>\$ 5,044</u>	<u>\$ 6,932</u>		

	Pension			Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Weighted average assumptions:						
Discount rate	7.19%	6.60%	7.46%	7.50%	6.75%	7.38%
Expected return on plan assets	9.68%	9.92%	9.15%	—	—	—
Rate of compensation increases	4.24%	4.33%	4.21%	—	—	—
Current health care cost trend rate	—	—	—	5.43%	5.82%	6.23%
Ultimate health care cost trend rate	—	—	—	5.00%	5.22%	5.24%

## Notes to Financial Statements

In 1999, the company amended the primary postretirement health care plan to provide benefits to substantially all domestic employees and amended the primary pension plan to change the benefit formula.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	7.76%	(4.52%)
Effect on postretirement benefit obligation	4.06%	(3.34%)

In addition to the above pension benefits, the Company sponsors defined contribution retirement plans covering the majority of domestic employees. The Company's contributions to these plans

were \$29,900,000 in 1999, \$29,200,000 in 1998 and \$27,500,000 in 1997.

**Short-Term Debt** as of December 31, 1999 and 1998 consisted of the following:

In thousands	1999	1998
Bank overdrafts	\$ 60,785	\$ 64,008
Commercial paper	120,626	226,813
Current maturities of long-term debt	264,302	40,654
Australian cash advance facility	29,451	51,007
Other borrowings by foreign subsidiaries	78,491	45,537
	<u>\$553,655</u>	<u>\$428,019</u>

Commercial paper is issued at a discount and generally matures 30 to 90 days from the date of issuance. The weighted average interest rate on commercial paper was 5.04% at December 31, 1999 and 5.15% at December 31, 1998.

In 1996, the Company entered into a 364-day Australian cash advance facility with maximum available borrowings of Australian \$325,000,000. As of December 31, 1999, this facility has been amended to decrease the maximum available borrowings to Australian \$95,000,000 and to extend the term of the facility to the first

quarter of 2000. The facility had an interest rate of 5.9% at December 31, 1999 and 5.2% at December 31, 1998.

The weighted average interest rate on other foreign borrowings was 4.2% at December 31, 1999 and 6.1% at December 31, 1998.

On June 30, 1999, the Company entered into a \$400,000,000 Credit Agreement with a maturity date of June 28, 2000. No amounts were outstanding under this facility at December 31, 1999.

**Accrued Expenses** as of December 31, 1999 and 1998 consisted of accruals for:

In thousands	1999	1998
Compensation and employee benefits	\$301,338	\$293,594
Warranties and maintenance service agreements	112,806	114,958
Taxes other than income	51,724	34,335
Deferred investment income	42,211	42,211
Other	398,136	368,024
	<u>\$906,215</u>	<u>\$853,122</u>

**Long-Term Debt** at December 31, 1999 and 1998 consisted of the following:

In thousands	1999	1998
5.875% notes due March 1, 2000	\$ 125,000	\$ 125,000
10.5% notes due September 15, 2000	100,000	100,000
6.875% notes due November 15, 2008	150,000	150,000
5.75% notes due March 1, 2009	500,000	—
6.59% nonrecourse note due semiannually through December 31, 2005	201,500	217,500
7.00% nonrecourse note due semiannually through November 30, 2006	254,203	263,522
6.44% nonrecourse note due semiannually from August 31, 2002 through February 29, 2008	217,440	217,440
Commercial paper	—	100,000
Other, including capitalized lease obligations	76,905	75,238
	<u>1,625,048</u>	<u>1,248,700</u>
Current maturities	<u>(264,302)</u>	<u>(40,654)</u>
	<u>\$1,360,746</u>	<u>\$1,208,046</u>

In 1990, the Company issued redeemable \$100,000,000 of 10.5% notes due September 15, 2000, at 99.304% of face value. The effective interest rate of the notes is 10.6%. The quoted market price of the notes exceeded the carrying value by approximately \$2,328,000 at December 31, 1999, and \$8,109,000 at December 31, 1998.

In 1993, the Company issued \$125,000,000 of 5.875% notes due March 1, 2000, at 99.744% of face value. The notes may not be redeemed by the Company prior to maturity. The effective interest rate of the notes is 5.9%. The quoted market price of the notes was below the carrying value by approximately \$20,000 at December 31, 1999, and exceeded the carrying value by approximately \$1,270,000 at December 31, 1998.

In 1998, the Company issued \$150,000,000 of 6.875% notes due November 15, 2008, at 99.228% of face value. The notes may not be redeemed by the Company prior to maturity. The effective interest rate of the notes is 6.9%. The quoted market price of the notes was below the carrying value by approximately \$14,039,000 at December 31, 1999, and exceeded the carrying value by approximately \$4,242,000 at December 31, 1998.

In 1999, the Company issued redeemable \$500,000,000 of 5.75% notes due March 1, 2009, at 99.281% of face value. The effective rate of the notes is 5.8%. The quoted market price of the notes was below the carrying value by approximately \$52,109,000 at December 31, 1999.

The Company issued a \$256,000,000, 6.28% nonrecourse note at face value in December 1995, a \$266,265,000, 7.0% nonrecourse note at face value in December 1996 and a \$217,440,000, 6.44% nonrecourse note at face value in December 1997. In 1997, the Company refinanced the 6.28% nonrecourse note with a 6.59% nonrecourse note with similar terms. The holders of these notes only have recourse against the commercial mortgage loans, commercial real estate and net swap receivables, which are included in investments. The estimated fair value of the three nonrecourse notes, based on discounted cash flows, exceeded the carrying value by

\$23,591,000 at December 31, 1999, and \$63,570,000 at December 31, 1998.

In 1992, the Company entered into a \$300,000,000 revolving credit facility (RCF). In 1994, the Company canceled \$150,000,000 of the RCF. In 1996, the Company amended the RCF to increase the maximum available borrowings to \$250,000,000 and extended the commitment termination date to May 30, 2001. In September 1998, the Company amended the RCF to increase the maximum available borrowings to \$350,000,000 and extend the termination date to September 30, 2003. The amended RCF provides for borrowings under a number of options and may be reduced or canceled at any time at the Company's option. There were no amounts outstanding under these facilities as of December 31, 1999 or 1998. The amended RCF contains financial covenants establishing a maximum total debt to total capitalization percentage and a minimum consolidated tangible net worth. The Company was in compliance with these covenants at December 31, 1999.

In 1998, the commercial paper balance expected to remain outstanding beyond one year has been classified as long-term, reflecting the Company's intent and ability to finance the borrowings on a long-term basis. The remaining commercial paper balance has been classified as short-term.

Other debt outstanding at December 31, 1999, bears interest at rates ranging from 1.5% to 26.2%, with maturities through the year 2012.

Scheduled maturities of long-term debt for the years ended December 31 are as follows:

In thousands	
2001	\$ 65,065
2002	43,013
2003	55,485
2004	44,949
2005 and future years	<u>1,152,234</u>
	<u>\$1,360,746</u>

## Notes to Financial Statements

**Other Noncurrent Liabilities** at December 31, 1999 and 1998 consisted of the following:

In thousands	1999	1998
Deferred investment income	\$228,724	\$270,933
Postretirement benefit obligation	283,231	277,917
Preferred stock of subsidiaries	60,000	70,000
Other	266,774	289,784
	<u>\$838,729</u>	<u>\$908,634</u>

**Preferred Stock**, without par value, of which 300,000 shares are authorized, is issuable in series. The Board of Directors is authorized to fix by resolution the designation and characteristics of each series

of preferred stock. The Company has no present commitments to issue its preferred stock.

**Common Stock, Additional Paid-in-Capital and Common Stock Held In Treasury** transactions during 1999, 1998 and 1997 are shown below. On May 9, 1997, the stockholders approved a) an amendment to the Restated Certificate of Incorporation changing the number of authorized shares of common stock from 150,000,000 shares without par value to 350,000,000 shares with a par value

of \$.01 and b) a two-for-one split of the Company's common stock, with a distribution date of May 27, 1997, at a rate of one additional share for each common share held by stockholders of record on May 20, 1997. All per share data in this report has been restated to reflect the stock split.

In thousands except shares	Common Stock		Additional	Common Stock	
	Shares	Amount	Paid-in-Capital	Shares	Held in Treasury
			Amount		Amount
Balance, December 31, 1996	151,901,125	\$ 685,548	\$ —	(2,670,817)	\$(213,276)
During 1997—					
Adjustment to reflect the May 1997 stock split	151,901,125	—	—	(2,670,817)	—
Adjustment to reflect change in par value	—	(686,827)	686,827	—	—
Shares surrendered on exercise of stock options	(33,162)	(10)	(744)	(14,862)	(796)
Tax benefits related to stock options exercised	—	—	13,910	—	—
Repurchase of treasury stock	—	—	—	(1,616,200)	(53,380)
Shares issued for acquisitions	1,181,228	289	(14)	—	—
Shares issued for stock incentive and restricted stock grants	677,592	4,056	4,452	885,577	29,521
Balance, December 31, 1997	305,627,908	3,056	704,431	(6,087,119)	(237,931)
During 1998—					
Shares surrendered on exercise of stock options	(28,334)	—	(1,679)	(3,163)	(176)
Tax benefits related to stock options exercised	—	—	19,064	—	—
Repurchase of treasury stock	—	—	—	(1,167,704)	(45,267)
Shares issued for stock incentive and restricted stock grants	551,399	6	9,006	1,199,078	44,872
Balance, December 31, 1998	306,150,973	3,062	730,822	(6,058,908)	(238,502)
During 1999—					
Shares surrendered on exercise of stock options	(54,437)	(1)	(3,703)	(72,633)	(3,449)
Tax benefits related to stock options exercised	—	—	22,497	—	—
Repurchase of treasury stock	—	—	—	(1,058,611)	(44,995)
Shares issued for stock incentive and restricted stock grants	713,019	7	13,180	957,503	40,118
Cash paid for Premark's fractional shares	(8,226)	—	(601)	—	—
Cancellation of Premark's treasury shares	(5,972,113)	(60)	(244,985)	5,972,113	245,045
Balance, December 31, 1999	300,829,216	\$ 3,008	\$ 517,210	(260,536)	\$ (1,783)
Authorized, December 31, 1999	350,000,000				

**Cash Dividends** declared were \$.65 per share in 1999, \$.53 per share in 1998 and \$.45 per share in 1997. Cash dividends paid were

\$\$.61 per share in 1999, \$.50 per share in 1998 and \$.43 per share in 1997.

**Comprehensive Income** — During 1998, the Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, which established standards for reporting and displaying comprehensive income and its components in a separate financial statement. Comprehensive Income is defined as the changes

in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's only component of other comprehensive income is foreign currency translation adjustments.

**Stock Options** have been issued to officers and other employees under ITW's 1996 Stock Incentive Plan and Premark's 1994 Incentive Plan. At December 31, 1999, 26,065,445 shares were reserved for issuance under these plans. Option prices are 100% of the common stock fair market value on the date of grant.

Statement of Financial Accounting Standards No. 123, Account-

ing for Stock-Based Compensation ("SFAS 123"), allows the recognition of compensation cost related to employee stock options. The Company has elected to continue to apply Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, which does not require that compensation cost be recognized. The pro forma net income effect of applying SFAS 123 was as follows:

In thousands except per share data

	1999	1998	1997
<b>Net Income:</b>			
As reported	\$841,112	\$809,747	\$691,589
Pro forma	807,301	797,152	684,097
<b>Net income per basic share:</b>			
As reported	\$2.80	\$2.70	\$2.31
Pro forma	2.69	2.66	2.28
<b>Net income per diluted share:</b>			
As reported	\$2.76	\$2.66	\$2.27
Pro forma	2.65	2.62	2.25

The estimated fair value of each option granted by ITW and Premark is calculated using the Black-Scholes option pricing model. The following summarizes the assumptions used in the model:

	ITW			PREMARK		
	1999	1998	1997	1999	1998	1997
Risk-free interest rate	6.5%	4.8%	5.9%	5.8%	5.1%	6.1%
Expected stock volatility	27.1%	24.5%	21.7%	28.7%	27.0%	26.0%
Dividend yield	1.11%	1.20%	1.29%	1.20%	1.30%	1.30%
Expected years until exercise	5.5	5.5	5.5	5.1	5.1	5.1

## Notes to Financial Statements

Stock option activity during 1999, 1998 and 1997, including the retroactive effect of converting Premark's options into ITW options, is summarized as follows:

	1999		1998		1997	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Under option at beginning of year	11,849,368	\$27.74	11,562,274	\$21.85	11,527,898	\$16.21
Granted	1,864,925	60.30	1,990,834	49.36	1,786,675	49.02
Exercised	(1,667,509)	15.56	(1,651,251)	12.23	(1,552,895)	11.50
Canceled or expired	(96,141)	42.83	(52,489)	36.78	(199,404)	19.81
Under option at end of year	<u>11,950,643</u>	<u>34.41</u>	<u>11,849,368</u>	<u>27.74</u>	<u>11,562,274</u>	<u>21.85</u>
Exercisable at year-end	9,100,013		6,599,519		6,464,813	
Available for grant at year-end	14,114,802		15,687,710		17,595,276	
Weighted average fair value of options granted during the year		\$20.69		\$14.39		\$14.53

The following table summarizes information on stock options outstanding as of December 31, 1999:

Range of Exercise Prices	Number Outstanding 1999	Weighted Average Remaining Contractual Life	Options Outstanding		Options Exercisable	
			Weighted Average Exercise Price	Number Exercisable 1999	Weighted Average Exercise Price	
\$ 2.13–15.12	2,790,082	3.45 years	\$10.99	2,790,082	\$10.99	
15.72–30.50	3,292,211	5.56 years	23.23	3,292,211	23.23	
31.43–46.59	2,336,816	8.19 years	39.53	2,172,316	39.98	
51.06–65.50	<u>3,531,534</u>	9.03 years	59.93	<u>845,404</u>	55.86	
	<u>11,950,643</u>	6.61 years	34.41	<u>9,100,013</u>	26.51	

**Segment Information** — In 1998, the Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS 131 requires that segment information be reported based on the way the segments are organized within the Company for making operating decisions and assessing performance.

The Company has more than 500 operations in 40 countries which are aggregated and organized for internal reporting purposes into the following six segments:

*Engineered Products — North America:* Businesses that are located in North America and that manufacture short lead-time components and fasteners, and specialty products such as adhesives, resealable packaging and electronic component packaging.

*Engineered Products — International:* Businesses that are located outside North America and that manufacture short lead-time components and fasteners, and specialty products such as electronic component packaging and adhesives.

*Specialty Systems — North America:* Businesses that are located in North America and that produce longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial spray coating.

*Specialty Systems — International:* Businesses that are located outside North America and that manufacture longer lead-time machinery and related consumables, and specialty equipment for food service and industrial spray coating.

*Consumer Products:* Businesses that are located primarily in North America and that manufacture household products that are used by consumers, including small electric appliances, physical fitness equipment and ceramic tile.

*Leasing & Investments:* Businesses that make opportunistic investments in mortgage-related assets, leveraged and direct financing leases of equipment, properties and property developments and affordable housing.



Segment information for 1999, 1998 and 1997 was as follows:

In thousands	1999	1998	1997
<b>Operating Revenues:</b>			
Engineered Products — North America	\$2,938,906	\$2,538,749	\$2,258,828
Engineered Products — International	1,321,513	1,036,211	871,699
Specialty Systems — North America	3,130,347	2,876,812	2,787,929
Specialty Systems — International	1,592,855	1,575,290	1,414,324
Consumer Products	501,275	488,686	478,675
Leasing & Investments	157,385	149,748	101,110
Intersegment revenues	(309,096)	(278,525)	(285,302)
	<u>\$9,333,185</u>	<u>\$8,386,971</u>	<u>\$7,627,263</u>
<b>Operating Income:</b>			
Engineered Products — North America	\$ 561,742	\$ 477,547	\$ 402,395
Engineered Products — International	132,808	127,260	124,821
Specialty Systems — North America	537,555	468,352	399,613
Specialty Systems — International	154,022	155,110	116,317
Consumer Products	15,326	12,925	25,053
Leasing & Investments	84,931	67,552	37,089
Premark merger-related costs	(81,020)	—	—
	<u>\$1,405,364</u>	<u>\$1,308,746</u>	<u>\$1,105,288</u>
<b>Depreciation and Amortization:</b>			
Engineered Products — North America	\$ 103,373	\$ 92,164	\$ 79,566
Engineered Products — International	66,405	47,407	36,107
Specialty Systems — North America	99,350	85,537	75,540
Specialty Systems — International	51,296	48,648	44,586
Consumer Products	21,793	21,708	21,731
Leasing & Investments	1,067	1,103	581
	<u>\$ 343,284</u>	<u>\$ 296,567</u>	<u>\$ 258,111</u>
<b>Plant &amp; Equipment Additions:</b>			
Engineered Products — North America	\$ 126,926	\$ 132,760	\$ 83,734
Engineered Products — International	63,774	44,923	39,277
Specialty Systems — North America	84,774	77,773	80,066
Specialty Systems — International	41,880	46,291	38,480
Consumer Products	18,534	14,371	18,545
Leasing & Investments	30	—	—
	<u>\$ 335,918</u>	<u>\$ 316,118</u>	<u>\$ 260,102</u>
<b>Identifiable Assets:</b>			
Engineered Products — North America	\$1,707,587	\$1,461,483	\$1,043,296
Engineered Products — International	1,447,076	983,371	630,824
Specialty Systems — North America	1,997,290	1,793,334	1,483,571
Specialty Systems — International	1,334,996	1,340,921	1,332,662
Consumer Products	372,484	378,505	383,566
Leasing & Investments	1,449,649	1,531,804	1,542,290
Corporate	751,177	723,070	755,198
	<u>\$9,060,259</u>	<u>\$8,212,488</u>	<u>\$7,171,407</u>

Identifiable assets by segment are those assets that are specifically used in that segment. Corporate assets are principally cash and equivalents, investments and other general corporate assets.

## Notes to Financial Statements

Enterprise-wide information for 1999, 1998 and 1997 was as follows:

In thousands	1999	1998	1997
<b>Operating Revenues by Product Line:</b>			
Engineered Products — North America —			
Fasteners & Components	\$2,317,264	\$2,046,927	\$1,809,874
Specialty Products	<u>621,642</u>	<u>491,822</u>	<u>448,954</u>
	<u>\$2,938,906</u>	<u>\$2,538,749</u>	<u>\$2,258,828</u>
Engineered Products — International —			
Fasteners & Components	\$1,178,424	\$ 963,822	\$ 792,542
Specialty Products	<u>143,089</u>	<u>72,389</u>	<u>79,157</u>
	<u>\$1,321,513</u>	<u>\$1,036,211</u>	<u>\$ 871,699</u>
Specialty Systems — North America —			
Equipment & Consumables	\$1,680,751	\$1,640,263	\$1,627,470
Specialty Equipment	<u>1,449,596</u>	<u>1,236,549</u>	<u>1,160,459</u>
	<u>\$3,130,347</u>	<u>\$2,876,812</u>	<u>\$2,787,929</u>
Specialty Systems — International —			
Equipment & Consumables	\$ 899,986	\$ 892,537	\$ 760,422
Specialty Equipment	<u>692,869</u>	<u>682,753</u>	<u>653,902</u>
	<u>\$1,592,855</u>	<u>\$1,575,290</u>	<u>\$1,414,324</u>
Consumer Products	<u>\$ 501,275</u>	<u>\$ 488,686</u>	<u>\$ 478,675</u>
<b>Operating Revenues by Geographic Region:</b>			
United States	\$6,195,574	\$5,608,719	\$5,181,977
Europe	2,275,311	2,052,953	1,785,903
Asia	295,788	217,440	196,431
Other	<u>566,512</u>	<u>507,859</u>	<u>462,952</u>
	<u>\$9,333,185</u>	<u>\$8,386,971</u>	<u>\$7,627,263</u>

No single customer accounted for more than 10% of consolidated revenues in 1999, 1998 or 1997. Export sales from U.S. operations to third parties were less than 10% of total operating revenues during those years.

Total noncurrent assets excluding deferred tax assets and financial instruments were \$4,724,000,000 and \$3,798,000,000 at

December 31, 1999 and 1998, respectively. Of these amounts, approximately 63% was attributed to U.S. operations for both years. The remaining amounts were attributed to the Company's foreign operations, with no single country accounting for a significant portion.

## Quarterly Financial Data (Unaudited)

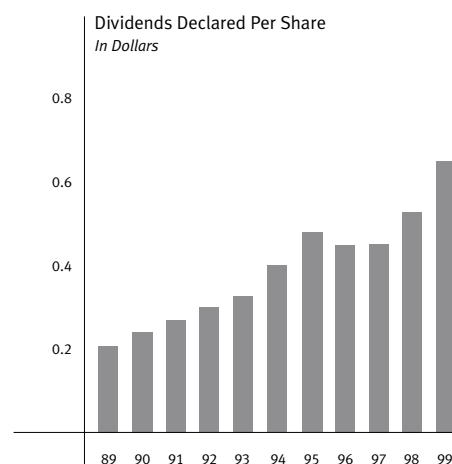
In thousands except per share amounts	Three Months Ended							
	March 31		June 30		September 30		December 31	
	1999	1998	1999	1998	1999	1998	1999	1998
Operating revenues	\$2,156,657	\$1,957,340	\$2,363,450	\$2,095,820	\$2,325,749	\$2,075,705	\$2,487,329	\$2,258,106
Cost of revenues	1,411,567	1,290,834	1,518,449	1,370,413	1,511,405	1,365,529	1,601,127	1,458,757
Operating income	304,497	275,290	394,093	338,811	382,086	327,615	324,688	367,030
Net income	188,432	172,720	239,716	208,550	232,922	202,745	180,042	225,732
Net income per share:								
Basic	.63	.58	.80	.70	.78	.68	.60	.75
Diluted	.62	.57	.79	.68	.76	.67	.59	.74

**Common Stock Price and Dividend Data** — The common stock of Illinois Tool Works Inc. is listed on the New York Stock Exchange

and the Chicago Stock Exchange. Quarterly market price and dividend data for 1999 and 1998 were as shown below:

	Market Price Per Share		Dividends Declared Per Share
	High	Low	
<b>1999</b>			
Fourth quarter	\$80.25	\$61.44	\$.180
Third quarter	81.81	69.25	.173
Second quarter	82.00	59.81	.148
First quarter	72.63	58.13	.146
<b>1998</b>			
Fourth quarter	\$67.69	\$50.88	\$.146
Third quarter	68.75	45.19	.146
Second quarter	73.19	62.13	.121
First quarter	65.00	52.56	.119

The approximate number of holders of record of common stock as of February 16, 2000 was 24,073. This number does not include beneficial owners of the Company's securities held in the name of nominees.

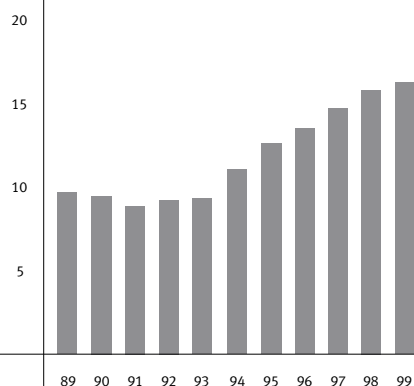


## Eleven-Year Financial Summary (a)

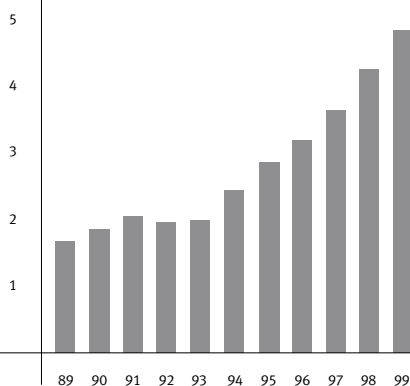
Dollars and shares in thousands except per share amounts

	1999	1998	1997
<b>Income:</b>			
Operating revenues	\$9,333,185	8,386,971	7,627,263
Cost of revenues	\$6,042,548	5,485,533	5,010,571
Selling, administrative and research and development expenses	\$1,730,031	1,542,684	1,469,973
Amortization of goodwill and other intangible assets	\$ 74,222	50,008	41,431
Premark merger-related costs	\$ 81,020	—	—
Operating income	\$1,405,364	1,308,746	1,105,288
Interest expense	\$ (67,510)	(29,216)	(31,498)
Other income (expense)	\$ 14,858	1,017	26,650
Income from continuing operations before income taxes	\$1,352,712	1,280,547	1,100,440
Income taxes	\$ 511,600	470,800	408,851
Income from continuing operations	\$ 841,112	809,747	691,589
Income (loss) from discontinued operations (net of tax)	\$ —	—	—
Cumulative effect of changes in accounting principles (net of tax)	\$ —	—	—
Net income	\$ 841,112	809,747	691,589
Net income per common share — assuming dilution (b):			
Income from continuing operations	\$ 2.99	2.66	2.27
Income (loss) from discontinued operations	\$ —	—	—
Cumulative effect of changes in accounting principles	\$ —	—	—
Net income	\$ 2.99	2.66	2.27
<b>Financial Position:</b>			
Net working capital	\$1,227,570	1,176,163	1,232,862
Net plant and equipment	\$1,633,931	1,492,270	1,266,689
Total assets	\$9,060,259	8,212,488	7,171,407
Total debt	\$1,914,401	1,636,065	1,279,606
Stockholders' equity	\$4,815,423	4,243,372	3,615,221
<b>Other Data:</b>			
Operating income margin (b)	% 15.9	15.6	14.5
Return on operating revenues (b)	% 9.8	9.7	9.1
Return on average stockholders' equity (b)	% 20.1	20.6	20.4
Cash dividends paid	\$ 183,587	150,934	128,396
Per share — paid	\$ .61	.50	.43
— declared	\$ .65	.53	.45
Book value per share	\$ 16.02	14.14	12.07
Common stock market price at year-end	\$ 67.56	58.00	60.13
Total debt to total capitalization	% 28.4	27.8	26.1
Total debt to total capitalization (excluding Leasing & Investments segment)	% 17.8	14.3	6.8
Shares outstanding at December 31	300,569	300,092	299,541
Weighted average shares outstanding	300,158	299,912	299,663
Plant and equipment additions	\$ 335,918	316,118	260,102
Depreciation	\$ 269,062	246,559	216,680
Research and development expenses	\$ 114,605	101,578	97,821
Employees at December 31	52,800	48,500	42,900

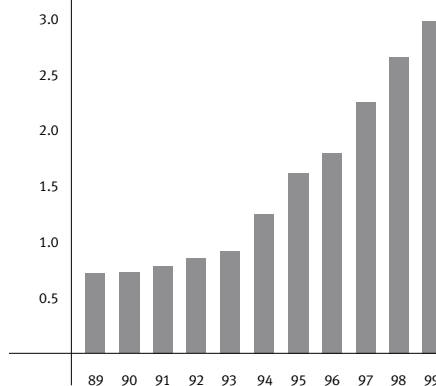
Operating Income Margin (b)  
In Percent



Stockholders' Equity  
In Billions of Dollars



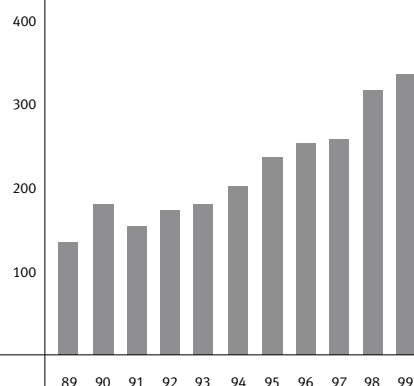
Diluted Income from Continuing  
Operations Per Share (b)  
In Dollars



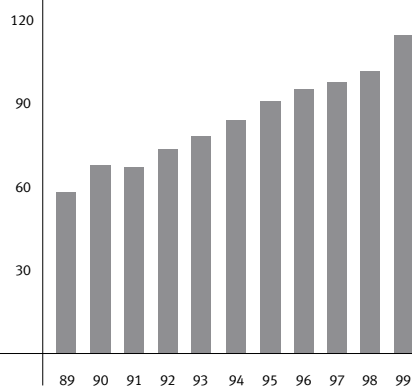
(a) Restated to reflect the merger with Premark International, Inc.  
(b) Excluding Premark merger-related costs in 1999.

1996	1995	1994	1993	1992	1991	1990	1989
7,264,281	6,391,480	5,579,655	5,026,774	4,645,288	4,379,078	4,246,417	3,739,370
4,823,840	4,239,196	3,747,254	3,421,482	3,119,548	2,941,484	2,843,847	2,517,305
1,438,223	1,328,523	1,189,895	1,114,142	1,070,051	1,021,332	980,224	843,827
36,512	31,849	32,859	30,714	31,219	33,947	28,328	24,333
—	—	—	—	—	—	—	—
965,706	791,912	609,647	460,436	424,470	382,315	394,018	353,905
(44,134)	(56,591)	(47,012)	(50,393)	(61,514)	(72,871)	(66,596)	(43,214)
(36,837)	10,118	205	2,774	11,542	29,016	15,703	7,525
884,735	745,439	562,840	412,817	374,498	338,460	343,125	318,216
340,813	278,077	213,247	154,253	140,783	123,429	144,864	125,871
543,922	467,362	349,593	258,564	233,715	215,031	198,261	192,345
62,200	158,700	154,700	122,000	(40,000)	64,200	32,600	46,900
—	—	—	—	(172,524)	—	—	—
606,122	626,062	504,293	380,564	21,191	279,231	230,861	239,245
1.80	1.62	1.25	.92	.84	.79	.73	.71
.21	.55	.55	.43	(.14)	.23	.12	.17
—	—	—	—	(.62)	—	—	—
2.01	2.17	1.80	1.35	.08	1.02	.85	.88
1,076,167	958,158	915,600	848,706	754,318	613,641	868,255	720,606
1,178,173	1,078,860	1,007,591	948,121	902,292	914,633	894,131	685,153
6,484,251	5,576,352	4,086,146	3,705,047	3,543,073	3,538,665	3,429,311	2,760,137
1,328,772	1,046,445	487,189	608,414	461,440	713,789	851,552	511,507
3,171,924	2,832,175	2,412,105	1,967,793	1,945,659	2,035,677	1,840,546	1,666,076
13.3	12.4	10.9	9.2	9.1	8.7	9.3	9.5
7.5	7.3	6.3	5.1	5.0	4.9	4.7	5.1
18.1	17.8	16.0	13.2	11.7	11.1	11.3	12.2
142,281	129,783	104,462	88,975	79,290	70,008	62,861	53,247
.48	.45	.38	.32	.29	.26	.23	.20
.45	.48	.40	.33	.30	.27	.24	.21
10.63	9.91	8.63	7.08	7.06	7.45	6.85	6.18
39.94	29.50	21.88	19.50	16.31	15.94	12.07	11.22
29.5	27.0	16.8	23.6	19.2	26.0	31.6	23.5
15.3	18.2	16.8	23.6	19.2	26.0	31.6	23.5
298,461	285,844	279,557	277,860	275,425	273,139	268,839	269,617
297,706	285,604	278,202	277,428	274,653	272,261	268,466	269,054
252,757	235,876	200,555	180,431	172,013	152,736	179,783	134,063
214,785	195,525	177,787	172,248	162,709	153,855	138,404	113,672
94,800	90,800	83,800	78,400	73,800	66,800	67,800	57,900
40,700	38,600	36,100	34,900	34,000	34,500	35,200	31,000

Plant and Equipment Additions  
In Millions of Dollars



Research and Development Expenses  
In Millions of Dollars



Total Debt to Total Capitalization  
In Percent

