ILLINOIS TOOL WORKS INC
Form 10-Q
August 03, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2012

OR

[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _______________ to _______________

Commission File Number: 1-4797

ILLINOIS TOOL WORKS INC.
(Exact name of registrant as specified in its charter)

Delaware	36-1258310
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
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 June 30, 2012: 468,817,680.

Part I – Financial Information

Item 1 – Financial Statements

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

(In millions except per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Revenues	$ 4,655	$ 4,615	$ 9,202	$ 8,887
Cost of revenues	2,964	2,996	5,875	5,758
Selling, administrative, and research and development expenses	846	845	1,705	1,641
Amortization of intangible assets	75	63	147	118
Operating Income	770	711	1,475	1,370
Interest expense	(50)	(45)	(100)	(89)
Other income (expense)	23	15	31	21
Income from Continuing Operations Before Income Taxes	743	681	1,406	1,302
Income Taxes	216	197	408	212
Income from Continuing Operations	527	484	998	1,090
Income from Discontinued Operations	354	15	369	32
Net Income	$ 881	$ 499	$ 1,367	$ 1,122
Income Per Share from Continuing Operations:				
Basic	$ 1.12	$ 0.97	$ 2.09	$ 2.19
Diluted	$ 1.11	$ 0.96	$ 2.08	$ 2.17
Income Per Share from Discontinued Operations:				
Basic	$ 0.75	$ 0.03	$ 0.77	$ 0.06
Diluted	$ 0.74	$ 0.03	$ 0.77	$ 0.06
Net Income Per Share:				
Basic	$ 1.86	$ 1.00	$ 2.86	$ 2.25
Diluted	$ 1.85	$ 0.99	$ 2.84	$ 2.23
Cash Dividends Per Share:				
Paid	$ 0.36	$ 0.34	$ 0.72	$ 0.68
Declared	$ 0.36	$ 0.34	$ 0.72	$ 0.68
Shares of Common Stock Outstanding During the Period:				
Average	472.9	497.8	477.4	498.2
Average assuming dilution	476.1	501.9	480.9	502.3

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$881	$499	$1,367	$1,122
Other comprehensive income:				
Foreign currency translation adjustments	(291)	194	(115)	426
Pension and other postretirement benefit adjustments, net of tax	16	8	26	17
Comprehensive income	$606	$701	$1,278	$1,565

The Notes to Financial Statements are an integral part of these statements.

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

(In millions)	June 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and equivalents	$ 1,692	$ 1,178
Trade receivables	3,164	2,819
Inventories	1,796	1,716
Deferred income taxes	373	366
Prepaid expenses and other current assets	449	384
Assets held for sale	77	386
Total current assets	7,551	6,849
Net Plant and Equipment	2,067	2,025
Investments	271	409
Goodwill	5,456	5,198
Intangible Assets	2,368	2,233
Deferred Income Taxes	514	634
Other Assets	694	636
	$ 18,921	$ 17,984
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 1,438	$ 502
Accounts payable	785	697
Accrued expenses	1,479	1,435
Cash dividends payable	169	174
Income taxes payable	54	57
Deferred income taxes	5	5
Liabilities held for sale	6	107
Total current liabilities	3,936	2,977
Noncurrent Liabilities:		
Long-term debt	3,468	3,488
Deferred income taxes	118	117
Other liabilities	1,298	1,368
Total noncurrent liabilities	4,884	4,973
Stockholders' Equity:		
Common stock	5	5
Additional paid-in-capital	825	686
Income reinvested in the business	12,821	11,794
Common stock held in treasury	(3,702)	(2,692)
Accumulated other comprehensive income	135	224
Noncontrolling interest	17	17
Total stockholders' equity	10,101	10,034
	$ 18,921	$ 17,984

The Notes to Financial Statements are an integral part of these statements.

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

(In millions)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash Provided by (Used for) Operating Activities:		
Net income	$ 1,367	$ 1,122
Adjustments to reconcile net income to cash provided by operating activities:		
(Gain)/Loss on disposal of discontinued operations	(454)	—
Depreciation	162	167
Amortization and impairment of goodwill and other intangible assets	147	120
Change in deferred income taxes	(12)	(52)
Provision for uncollectible accounts	10	5
(Gain)/Loss on sale of plant and equipment	(1)	—
Income from investments	(9)	(14)
Gain on sale of operations and affiliates	(1)	(2)
Stock compensation expense	24	28
Other non-cash items, net	(3)	(3)
Change in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(339)	(526)
Inventories	(46)	(194)
Prepaid expenses and other assets	(42)	(20)
Increase (decrease) in--		
Accounts payable	73	91
Accrued expenses and other liabilities	(34)	69
Income taxes	3	(336)
Other, net	(13)	2
Net cash provided by operating activities	832	457
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents)	(587)	(748)
Additions to plant and equipment	(184)	(176)
Purchase of investments	(1)	—
Proceeds from investments	146	12
Proceeds from sale of plant and equipment	10	5
Net proceeds from sale of discontinued operations	626	—
Proceeds from sale of operations and affiliates	3	1
Other, net	(2)	9
Net cash provided by (used for) investing activities	11	(897)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(346)	(339)
Issuance of common stock	113	131
Repurchases of common stock	(1,000)	(550)
Net proceeds of debt with original maturities of three months or less	1,186	1,115
Repayments of debt with original maturities of more than three months	(260)	(2)
Excess tax benefits from share-based compensation	2	7
Net cash provided by (used for) financing activities	(305)	362
Effect of Exchange Rate Changes on Cash and Equivalents	(24)	123
Cash and Equivalents:		
Increase (decrease) during the period	514	45

Beginning of period	1,178	1,186
End of period	$ 1,692	$ 1,231
Cash Paid During the Period for Interest	$ 86	$ 59
Cash Paid During the Period for Income Taxes	$ 478	$ 566
Liabilities Assumed from Acquisitions	$ 160	$ 90

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

(1) 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 2011 Annual Report on Form 10-K. Certain reclassifications of prior year data have been made to conform with current year reporting.

On January 1, 2012, the Company adopted new accounting guidance that requires the presentation of net income and comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The Company is reporting comprehensive income in a separate consecutive financial statement for interim and annual reporting periods.

On January 1, 2012, the Company adopted new accounting guidance which provides an entity the option to first assess qualitative factors in determining whether it is necessary to perform the two-step test for goodwill impairment. Under the new guidance, further testing using the two-step test would only be required when, based on the qualitative assessment, it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. The Company performs its annual goodwill impairment test in the third quarter and does not expect the adoption of the new accounting guidance to have a material impact on its consolidated financial statements.

(2) DISCONTINUED OPERATIONS

In April 2011, the Company entered into a definitive agreement to sell its finishing group of businesses included within the All Other segment to Graco Inc. in a $650 million cash transaction. The sale of the finishing business to Graco was completed on April 2, 2012, resulting in a pre-tax gain of $454 million which was included in income before taxes from discontinued operations in the second quarter of 2012.

In the second quarter of 2011, the Company’s Board of Directors approved plans to divest a consumer packaging business in the All Other segment and an electronic components business in the Power Systems & Electronics segment. The consumer packaging and electronics components businesses have been classified as held for sale beginning in the second quarter of 2011. The electronic components business was sold in the fourth quarter of 2011. The Company entered into a definitive agreement in June 2012 to sell the consumer packaging business and expects to complete the sale in the third quarter of 2012. The Company also exited a flooring business in the Decorative Surfaces segment in early 2011.

The consolidated statement of income and the notes to financial statements for all periods have been restated to present the operating results of the held for sale and previously divested or exited businesses discussed above as discontinued operations.

Results of the discontinued operations for the second quarter and year-to-date periods ended June 30, 2012 and 2011 were as follows:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating revenues	$ 17	$ 122	$ 132	$ 238

Income before income taxes	$	442		$	23		$	465		$	46
Income taxes		(88	)		(8	)		(96	)		(14)
Income from discontinued operations	$	354		$	15		$	369		$	32

The assets and liabilities of the held for sale businesses discussed above were presented as assets and liabilities held for sale in the statement of financial position. At June 30, 2012 assets and liabilities held for sale included the consumer packaging business discussed above. Assets and liabilities held for sale at December 31, 2011 included both the consumer packaging and finishing businesses discussed above. The following table summarizes the classes of assets and liabilities held for sale at June 30, 2012 and December 31, 2011:

(In millions)	June 30, 2012	December 31, 2011
Trade receivables	$ 11	$ 72
Inventories	7	56
Net plant and equipment	2	44
Goodwill and intangible assets	55	201
Other	2	13
Total assets held for sale	$ 77	$ 386
Accounts payable	$ 2	$ 22
Accrued expenses	3	55
Other	1	30
Total liabilities held for sale	$ 6	$ 107

(3) INCOME TAXES

The components of the effective tax rate for the six month periods ended June 30, 2012 and 2011 were as follows:

	Six Months Ended June 30, 2012	2011
Estimated annual effective tax rate	29.0 %	29.0 %
Discrete tax adjustments	—	(12.7)
Effective tax rate	29.0 %	16.3 %

The Company litigated a dispute with the Australian Tax Office over the tax treatment of an intercompany financing transaction between the U.S. and Australia. The case was heard before the Federal Court of Australia, Victoria, in September 2010. The proceedings resulted from the Company's appeal of a decision by the Australian Tax Commissioner to disallow income tax deductions for the income tax years 2002 through 2005 and the assessment of withholding taxes for income tax year 2003. The Company also contested the Commissioner's similar determination for income tax years 2006 and 2007; however, the parties agreed to follow the Court's decision made on the earlier years. On February 4, 2011, the Federal Court of Australia, Victoria, decided in the Company's favor with respect to a significant portion of the income tax deductions. The Court issued the final orders on February 18, 2011. Based on this decision, the Company decreased its unrecognized tax benefits related to this matter by approximately $197 million and recorded a favorable discrete non-cash tax benefit to reduce tax expense by $166 million in the first quarter of 2011. Subsequent to the 2011 ruling, the Australian Tax Office appealed the timing of certain of the deductions. In March 2012, the Court ruled in favor of the Australian Tax Office regarding the timing of the deductions, which did not have a material impact to the Company.

During the first quarter of 2011, the Company resolved an issue with the Internal Revenue Service in the United States related to a deduction for foreign exchange losses on an intercompany loan that resulted in a decrease in unrecognized tax benefits of approximately $179 million.

The Company and its subsidiaries file tax returns in the U.S. and various state, local and foreign jurisdictions. These tax returns are routinely audited by the tax authorities in these jurisdictions and a number of these audits are currently ongoing.

The Company believes it is reasonably possible that within the next twelve months the amount of the Company's unrecognized tax benefits may be reduced by a range of approximately $70 million to $220 million related predominantly to cross-border loss utilization tax claims and global legal structure reorganization tax audits. The Company has recorded its best estimate of the potential exposure for these issues.

(4) INVENTORIES

Inventories at June 30, 2012 and December 31, 2011 were as follows:

(In millions)	June 30, 2012	December 31, 2011
Raw material	$ 626	$ 596
Work-in-process	170	156
Finished goods	1,000	964
	$ 1,796	$ 1,716

(5) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

Pension and other postretirement benefit costs related to both continuing and discontinued operations for the second quarter and year-to-date periods ended June 30, 2012 and 2011, were as follows:

(In millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension		Other Postretirement Benefits		Pension		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
Components of net periodic benefit cost:								
Service cost	$ 24	$ 23	$ 4	$ 4	$ 49	$ 48	$ 7	$ 7
Interest cost	27	29	7	8	55	60	14	15
Expected return on plan assets	(39)	(39)	(5)	(5)	(79)	(81)	(10)	(10)
Amortization of actuarial loss	13	10	—	—	26	20	—	—
Amortization of prior service cost	—	—	—	1	—	—	1	3
Net periodic benefit cost	$ 25	$ 23	$ 6	$ 8	$ 51	$ 47	$ 12	$ 15
Amounts were included in the statement of income as follows:								
Income from continuing operations	$ 25	$ 22	$ 6	$ 8	$ 50	$ 46	12	15
Income from discontinued operations	—	1	—	—	1	1	—	—
Total	$ 25	$ 23	$ 6	$ 8	$ 51	$ 47	$ 12	$ 15

The Company expects to contribute approximately $165 million to its pension plans and $39 million to its other postretirement plans in 2012. As of June 30, 2012, contributions of $144 million to pension plans and $16 million to other postretirement plans have been made.

(6) SHORT-TERM DEBT

The Company had outstanding commercial paper of $1.3 billion at June 30, 2012 and $192 million at December 31, 2011. Commercial paper is stated at cost, which approximates fair value.

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(7) LONG-TERM DEBT

Based on rates for comparable instruments, which are classified as Level 2 inputs, the approximate fair value and related carrying value of the Company's long-term debt, including current maturities, were as follows:

(In millions)	June 30, 2012	December 31, 2011
Fair value	$ 3,954	$ 4,234
Carrying value	3,475	3,751

In June 2007, the Company entered into a $500 million line of credit agreement with a termination date of June 15, 2012. In June 2010, the Company entered into an additional $1.0 billion line of credit agreement with a termination date of June 11, 2013. These two lines of credit were terminated and replaced on June 8, 2012 by a $1.5 billion line of credit agreement with a termination date of June 8, 2017. No amounts were outstanding under this facility at June 30, 2012.

(8) COMMITMENTS AND CONTINGENCIES

Among the toxic tort cases in which the Company is a defendant, the Company as well as its subsidiaries Hobart Brothers Company and Miller Electric Mfg. Co., have been named, along with numerous other defendants, in lawsuits alleging injury from exposure to welding consumables. The plaintiffs in these suits claim unspecified damages for injuries resulting from the plaintiffs' alleged exposure to asbestos, manganese and/or toxic fumes in connection with the welding process. In the first quarter of 2012, the Company entered into an agreement resolving substantially all of the manganese-related claims for an immaterial amount. The Company believes that the remaining claims will not have a material adverse effect on the Company's operating results, financial position or cash flows.

(9) SEGMENT INFORMATION

The Company periodically makes changes to its management reporting structure to better align its businesses with Company objectives and operating strategies. In the first quarter of 2012, the Company made certain changes in its management reporting structure that resulted in changes in some of the reportable segments. These changes primarily related to the industrial fasteners reporting unit, formerly in the All Other segment, moving to the Transportation segment; certain businesses in a Latin American reporting unit, formerly in the Polymers & Fluids segment, moving to the Transportation segment; and a worldwide insulation reporting unit, formerly in the Industrial Packaging segment, moving to the Power Systems & Electronics segment. The changes in the reportable segments and underlying reporting units did not result in any goodwill impairment charges in the first quarter of 2012. The prior period segment results have been restated to conform to the current year reporting of these businesses. See Management's Discussion and Analysis of Financial Condition and Results of Operations for information regarding operating revenues and operating income for the Company's segments.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Management analyzes the Company's consolidated results of operations and the results of each segment by identifying the effects of changes in the results of the base businesses, newly acquired companies, restructuring costs, goodwill and intangible asset impairment charges, and currency translation on the operating revenues and operating income of each segment. Base businesses are those businesses that have been included in the Company's results of operations for more than 12 months. The changes to base business operating income include the estimated effects of both operating leverage and changes in variable margins and overhead costs. Operating leverage is the estimated effect of the base business revenue volume changes on operating income, assuming variable margins remain the same as the prior period. As manufacturing and administrative overhead costs usually do not significantly change as a result of revenues increasing or decreasing, the percentage change in operating income due to operating leverage is usually more than the percentage change in the base business revenues. Changes in variable margins and overhead costs represent the estimated effect of non-volume related changes in base business operating income and may be driven by a number of factors, including changes in product mix, the cost of raw materials, labor and overhead, and pricing to customers. Selling price versus material cost comparisons represent the estimated net impact of increases or decreases in the cost of materials used in the Company's products versus changes in the selling price to the Company's customers. Management reviews these price versus cost comparisons by analyzing the net impact of changes to each segment's operating margin.

The Company periodically reviews its operations for businesses that may no longer be aligned with its long-term objectives. For businesses reported as discontinued operations in the statement of income, all related prior period income statement information has been restated to conform to the current year reporting of these businesses. Refer to the Discontinued Operations note in Item 1 - Financial Statements for discussion of the Company's discontinued operations.

The Company periodically makes changes to its management reporting structure to better align its businesses with Company objectives and operating strategies. In the first quarter of 2012, the Company made certain changes in its management reporting structure that resulted in changes in some of the reportable segments. These changes primarily related to the industrial fasteners reporting unit, formerly in the All Other segment, moving to the Transportation segment; certain businesses in a Latin American reporting unit, formerly in the Polymers & Fluids segment, moving to the Transportation segment; and a worldwide insulation reporting unit, formerly in the Industrial Packaging segment, moving to the Power Systems & Electronics segment. The changes in the reportable segments and underlying reporting units did not result in any goodwill impairment charges in the first quarter of 2012. The prior period segment results have been restated to conform to the current year reporting of these businesses.

The following discussion of operating results should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

CONSOLIDATED RESULTS OF OPERATIONS

The Company's consolidated results of operations for the second quarter and year-to-date periods of 2012 and 2011 were as follows:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating revenues	$4,655	$4,615	$9,202	$8,887

Operating income	770		711		1,475		1,370	
Margin %	16.5	%	15.4	%	16.0	%	15.4	%

In the second quarter and year-to-date periods of 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended June 30			Six Months Ended June 30		
	% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins	% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins
Base business:						
Revenue change/Operating leverage	2.3 %	6.0 %	0.6 %	2.7 %	7.2 %	0.7 %
Changes in variable margins & overhead costs	-	6.4	0.9	-	4.5	0.6
Total	2.3	12.4	1.5	2.7	11.7	1.3
Acquisitions and divestitures	3.0	0.7	(0.4)	3.7	0.9	(0.4)
Restructuring costs	-	(0.1)	-	-	(1.9)	(0.3)
Impairment of goodwill & intangibles	-	-	-	-	-	-
Translation	(4.5)	(4.7)	-	(3.0)	(3.0)	-
Other	0.1	-	-	0.1	-	-
Total	0.9 %	8.3 %	1.1 %	3.5 %	7.7 %	0.6 %

Operating Revenues

Revenues increased 0.9% and 3.5% for the second quarter and year-to-date periods of 2012, respectively, versus 2011. Worldwide base revenues increased 2.3% and 2.7% for the second quarter and year-to-date periods, respectively, as economic conditions in North America remained strong while the European economic environment remained modestly negative, and Asia continued to experience slower growth. North American base revenues increased 5.4% and 5.8% for the second quarter and year-to-date periods, respectively, while international base revenues declined 0.8% and 0.3%, respectively, as Europe decreased 1.7% and 0.8%, respectively, and Asia Pacific base business growth was 1.8% and 1.4%, respectively. Acquisitions (net of divestitures) contributed 3.0% and 3.7% to revenues in the second quarter and year-to-date periods, respectively. Significant acquisitions included a North American automotive aftermarket business purchased in the first quarter of 2011, a thermal processing and environmental equipment manufacturer purchased in the third quarter of 2011 and a manufacturer of specialty devices used to measure the flow of gases and fluids purchased in the first quarter of 2012. Currency translation resulted in a 4.5% and 3.0% decline in revenues in the second quarter and year-to-date periods, respectively, primarily due to a weaker Euro versus the year ago period.

Operating Income

Operating income increased 8.3% and 7.7% in the second quarter and year-to-date periods of 2012, respectively, versus 2011 primarily due to the positive operating leverage effects of the base revenue increase noted above and the improved variable margins further discussed below. Currency translation resulted in a 4.7% and 3.0% decline in operating income in the second quarter and year-to-date periods, respectively, primarily due to a weaker Euro versus the year ago period. Higher restructuring expenses due to increased cost reduction activities negatively impacted operating income by 0.1% and 1.9% in the second quarter and year-to-date periods, respectively. Base margins increased 150 and 130 basis points in the second quarter and year-to-date periods, respectively, primarily due to the positive operating leverage effect of the increase in base revenues of 60 and 70 basis points, respectively, and improvements in variable margins and overhead costs. The 90 and 60 basis point improvements in variable margins and overhead costs in the second quarter and year-to-date periods, respectively, were primarily due to the favorable effect of selling price versus material cost comparisons of 60 and 50 basis points, respectively. The increase in base margins was partially offset by a 30 basis point operating margin decline in the year-to-date period due to the higher restructuring expenses noted above. Acquisitions and divestitures diluted operating margins by 40 basis points in both the second quarter and year-to-date periods primarily due to amortization expense related to intangible assets from acquisitions made within the past year.

RESULTS OF OPERATIONS BY SEGMENT

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

(In millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Transportation	$896	$895	$1,819	$1,734
Power Systems & Electronics	810	752	1,601	1,464
Industrial Packaging	627	661	1,239	1,253
Food Equipment	476	492	949	965
Construction Products	489	520	958	984
Polymers & Fluids	334	337	637	624
Decorative Surfaces	286	285	561	553
All Other	755	694	1,471	1,352
Intersegment revenues	(18)	(21)	(33)	(42)
Total operating revenues	$4,655	$4,615	$9,202	$8,887

TRANSPORTATION

Businesses in this segment produce components, fasteners, fluids and polymers, as well as truck remanufacturing and related parts and service.

In the Transportation segment, products and services include:

- plastic and metal components, fasteners and assemblies for automobiles, light trucks, and other industrial uses;
- fluids, polymers and other supplies for auto aftermarket maintenance and appearance;
- fillers and putties for auto body repair;
- polyester coatings and patch and repair products for the marine industry; and
- truck remanufacturing and related parts and service.

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 second quarter and year-to-date periods of 2012 and 2011 were as follows:

(Dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating revenues	$896	$895	$1,819	$1,734
Operating income	143	137	294	274
Margin %	16.0%	15.3%	16.2%	15.8%

In the second quarter and year-to-date periods of 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended June 30			Six Months Ended June 30		
	% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins	% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins
Base business:						
Revenue change/Operating leverage	3.4 %	7.9 %	0.7 %	4.2 %	9.6 %	0.8 %
Changes in variable margins & overhead costs	-	2.3	0.3	-	0.3	0.1
Total	3.4	10.2	1.0	4.2	9.9	0.9
Acquisitions and divestitures	1.1	0.7	(0.1)	3.7	2.9	(0.1)
Restructuring costs	-	(1.5)	(0.2)	-	(1.8)	(0.3)
Impairment of goodwill & intangibles	-	-	-	-	-	-
Translation	(4.4)	(5.0)	-	(3.0)	(3.7)	(0.1)
Other	-	-	-	-	-	-
Total	0.1 %	4.4 %	0.7 %	4.9 %	7.3 %	0.4 %

Operating Revenues

Revenues increased 0.1% and 4.9% in the second quarter and year-to-date periods of 2012, respectively, versus 2011 due to an increase in base revenues and revenues from acquisitions, partially offset by the unfavorable effect of currency translation. The increase in acquisition revenue for the second quarter and year-to-date periods was primarily due to the purchase of a North American automotive aftermarket business in the first quarter of 2011 and a European automotive aftermarket business in the third quarter of 2011. North American automotive base revenues increased 8.0% and 7.4% in the second quarter and year-to-date periods, respectively, primarily due to increases in the major US automakers' auto builds of approximately 7.0% and 9.0% for the respective periods. International automotive base revenues increased 4.2% and 5.8% in the second quarter and year-to-date periods, respectively, primarily due to Asia Pacific base revenue growth of 24.2% and 21.3%, respectively, driven by the Company's growing product penetration with Chinese automotive original equipment manufacturers and increased auto builds. European base revenues grew 0.9% and 3.7% in the second quarter and year-to-date periods, respectively, due to favorable customer mix and product penetration gains, as European car builds decreased approximately 7% and 5% for the respective periods. The automotive aftermarket base business declined 1.8% for the second quarter and 1.2% for the year-to-date period due to decreased demand for car care products as discretionary consumer spending continued to be soft in North America and Europe. Base revenues for the truck remanufacturing and related parts and service business increased 4.1% and 5.7% for the second quarter and year-to-date periods, respectively, primarily due to strong energy development activity that increased demand in North America.

Operating Income

Operating income increased 4.4% and 7.3% in the second quarter and year-to-date periods of 2012, respectively, versus 2011 primarily due to the increase in base revenues and income from acquisitions, partially offset by the unfavorable effect of currency translation and higher restructuring expenses due to increased cost reduction activities. Base margins increased 100 and 90 basis points for the second quarter and year-to-date periods, respectively, primarily as a result of positive leverage from the increase in base revenues and changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased base margins primarily due to the positive impact of selling price versus material cost comparisons of 30 and 10 basis points in the second quarter and year-to-date periods, respectively. The increase in total base margins was partially offset by a 20 and 30 basis point operating margin decline in the second quarter and year-to-date periods, respectively, due to the higher restructuring expenses noted above. Acquisitions and divestitures diluted operating margins by 10 basis points for each respective period primarily due to the impact of intangible asset amortization from acquisitions made within the past year.

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;
- static and contamination control equipment;
- airport ground support equipment;
- pressue sensitive adhesives and components for telecommunications, electronics, medical and transportation applications; and
- metal jacketing and other insulation products.

This segment primarily serves the general industrial, electronics, construction and automotive original equipment manufacturers markets.

The results of operations for the Power Systems & Electronics segment for the second quarter and year-to-date periods of 2012 and 2011 were as follows:

(Dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating revenues	$810	$752	$1,601	$1,464
Operating income	172	155	341	305
Margin %	21.2 %	20.6 %	21.3 %	20.8 %

In the second quarter and year-to-date periods of 2012, the changes in operating revenues, operating income and operating margins over the prior year were primarily due to the following factors:

Three Months Ended June 30			Six Months Ended June 30		
% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins	% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins