

ILLINOIS TOOL WORKS INC
Form DEF 14A
March 20, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ILLINOIS TOOL WORKS INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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ILLINOIS TOOL WORKS INC.

ILLINOIS TOOL WORKS INC.

Notice of 2015 Annual Meeting and Proxy Statement

Illinois Tool Works Inc.

Notice of Annual Meeting of Stockholders

Friday, May 8, 2015

9:00 A.M. Central Daylight Time

Illinois Tool Works Inc.

155 Harlem Avenue*

Glenview, Illinois 60025

If you plan to attend the meeting, you must be a holder of Illinois Tool Works Inc. shares as of the record date of March 10, 2015, and obtain a registration confirmation (Ticket) in advance. Tickets can be printed by accessing Shareholder Meeting Registration at www.proxyvote.com and following the instructions provided. You will need the 12 digit number that is printed in the box marked by the arrow g included on your proxy card or Notice of Internet Availability of Proxy Materials. Tickets will be available to registered and beneficial owners and to one guest accompanying each registered and beneficial owner. You **must** bring your ticket to the meeting to gain access. Requests for admission tickets will be processed in the order in which they are received. Please note that seating is limited and requests for tickets will be accepted on a first-come, first-served basis.

*** Enter the campus from Waukegan Road at Overlook Drive. Signage will direct you to the meeting location.**

Illinois Tool Works Inc. (ITW) is holding its 2015 Annual Meeting for the following purposes:

1. To elect the eleven directors named in this proxy statement for the upcoming year;
2. To ratify the appointment of Deloitte & Touche LLP as ITW s independent registered public accounting firm for 2015;
3. To hold an advisory vote on executive compensation;

4. To approve the Illinois Tool Works Inc. 2015 Long-Term Incentive Plan;
5. To consider a non-binding stockholder proposal, if properly presented, to permit stockholders to call special meetings; and
6. To conduct any other business as may be properly brought before the meeting.

Only stockholders of record at the close of business on March 10, 2015 are entitled to vote.

Our annual report to stockholders for fiscal year 2014 is enclosed with this proxy statement.

By Order of the Board of Directors,
Maria C. Green
Secretary

March 20, 2015

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 8, 2015: The Illinois Tool Works Inc. 2014 Annual Report to Stockholders, including the Annual Report on Form 10-K, and its 2015 Proxy Statement are available on the Company's website at www.itw.com under the Investor Relations link. Paper copies are available without charge upon written request to the Company's address above, Attention: Secretary.

Your Vote is Important

Whether or not you plan to attend the meeting, please vote as soon as possible. Under New York Stock Exchange rules, your broker will NOT be able to vote your shares on Proposals 1, 3, 4 or 5 unless they receive specific instructions from you. If you hold your shares through a bank or brokerage account, we strongly encourage you to return the voting instruction card to your bank, broker or other holder of record so that your vote is counted.

We encourage you to vote by internet or telephone. It is convenient for you and saves us significant postage and processing costs. Please see the section entitled "How do I vote" on page 3 for instructions on how to vote your shares.

We have been advised that some states are strictly enforcing unclaimed property laws and requiring shares held in inactive accounts to be escheated to the state in which the stockholder was last known to reside. One way you can show that your account is active is to vote your shares.

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Questions and Answers about the 2015 Annual Meeting and Voting

What am I voting on and how does the Company's Board recommend that I vote?

The Company's Board solicits your vote on the following proposals:

Proposal Submitted for Vote	Board Recommendation
The election of the eleven directors named in this proxy statement for the upcoming year	FOR
The ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2015	FOR
An advisory vote on executive compensation	FOR
Approval of the Illinois Tool Works Inc. 2015 Long-Term Incentive Plan	FOR
A non-binding stockholder proposal to permit stockholders to call special meetings	FOR
Any other business as may be properly brought before the meeting	FOR

Who may vote?

Stockholders at the close of business on March 10, 2015, the record date, may vote. On that date, there were 373,322,688 shares of ITW common stock outstanding.

How many votes do I have?

Each share of ITW common stock that you own entitles you to one vote.

How do I vote?

You may vote your shares in one of the following four ways:

1. By telephone: See the instructions at www.proxyvote.com; or
2. By Internet: See the instructions at www.proxyvote.com; or
3. By mail: If you received a printed copy of these proxy materials by mail, by

4. In person: signing, dating and mailing the enclosed proxy card; or
Attend our Annual Meeting, where ballots will be provided.

If you vote by telephone or Internet, you should have your proxy card or E-Proxy Notice in hand when you call or go to the proxy vote site. If you hold your shares through a bank or broker that does not offer telephone or Internet voting, please complete and return your proxy card by mail.

When must I submit my vote by Internet or by phone?

If you vote by Internet or by phone, you must transmit your vote by 10:59 p.m., Central Time, on May 7, 2015.

If I hold shares through an ITW Savings and Investment 401(k) Plan, when must I submit my vote?

Shares held through an ITW 401(k) plan must be voted by 10:59 p.m., Central Time, on May 5, 2015 in order to be tabulated in time for the meeting.

How does discretionary voting authority apply?

Stockholders of Record. If you are a stockholder of record and you vote by proxy, the individuals named on the proxy card (your proxies) will vote your shares in the manner you indicate. If your proxy card does not indicate how you want to vote, your proxy will be voted FOR the election of each director nominee, FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, FOR approval of ITW's executive compensation, FOR the proposal to approve the Illinois Tool Works Inc. 2015 Long-Term Incentive Plan, FOR the non-binding stockholder proposal to permit stockholders to call special meetings, and FOR or AGAINST any other properly raised matter at the discretion of Susan Crown, Robert S. Morrison and Pamela B. Strobel, or any one of them.

Beneficial Owners. If your shares are held in a brokerage account or by a nominee and you do not provide your broker or nominee with voting instructions, the broker or nominee may represent your shares at the meeting for purposes of obtaining a quorum, but may not exercise discretion to vote your shares at the meeting unless the proposal is considered a routine matter. The only matter being proposed for stockholder vote at the 2015 Annual Meeting that is considered a routine matter is the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm. As a result, in the absence of voting instructions from you, your broker or nominee will not have discretion to vote on the election of directors, ITW's executive compensation, or the proposals to approve the Illinois Tool Works Inc. 2015 Long-Term Incentive Plan or the non-binding stockholder proposal. If you are a beneficial owner, it is important that you provide instructions to your bank, broker or other holder of record so that your vote is counted.

May I revoke my proxy?

You may revoke your proxy at any time before it is voted at our Annual Meeting in one of four ways:

1. Notify our Secretary in writing before our Annual Meeting that you wish to revoke your proxy;
2. Submit another proxy with a later date;
3. Vote by telephone or Internet after you have given your proxy; or
4. Vote in person at our Annual Meeting.

Why didn't I receive a paper copy of the proxy statement and annual report?

Unless our stockholders have requested paper copies, we are furnishing proxy materials through the Internet. If you received a Notice of Internet Availability of Proxy Materials (E-Proxy Notice) by mail or electronically, you will not receive a printed copy of the proxy materials unless you specifically request one. Instead, the E-Proxy Notice provides instructions on how you may access and review our proxy materials online. The E-Proxy Notice also instructs you on how you may submit your proxy via the Internet. If you received the E-Proxy Notice and would still like to receive a printed copy of our proxy materials without charge, you should follow the instructions for requesting such materials included in the E-Proxy Notice.

I have received paper copies how do I receive future proxy materials electronically?

To sign up to receive stockholder communications electronically, follow the instructions on your proxy card or E-Proxy Notice under Vote by Internet. You will need the 12-digit number that is printed in the box marked by the arrow g, which appears on your proxy card or E-Proxy Notice. This 12-digit number is sometimes called the control number. In order to receive the communications electronically, you must have an e-mail account and access to the Internet. If you own your shares through a broker or other nominee, you may contact them directly to request electronic access. Your consent to electronic access will be effective until you revoke it. You may revoke your consent by going to www.proxyvote.com and using the 12-digit number that is printed in the box marked by the arrow g to complete the revocation.

What does it mean if I receive more than one E-Proxy Notice or set of proxy materials?

Your shares are likely registered differently or are in more than one account. For each notice, proxy and/or voting instruction card or e-mail notification you receive that has a 12-digit number, you must vote separately to ensure that all shares you own are voted.

What constitutes a quorum?

The presence, in person or by proxy, of the holders of a majority of ITW shares entitled to vote at our Annual Meeting constitutes a quorum. Your shares will be considered part of the quorum if you return a signed and dated proxy card or if you vote by telephone or Internet. Abstentions and broker non-votes are counted as shares present at the meeting for purposes of determining if a quorum exists. A broker non-vote occurs when your bank, broker or other holder of record holding shares for you as the beneficial owner submits a proxy that does not indicate a vote as to a non-routine proposal because that holder has not received voting instructions from you and, therefore, does not have voting authority for that proposal.

What vote is required to approve each proposal, assuming a quorum is present?

Election of Directors: The number of shares voted FOR a director must exceed the number of shares voted AGAINST that director to constitute approval by the stockholders.

Ratification of the Appointment of our Independent Registered Public Accounting Firm: The affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote will constitute approval by the stockholders.

Advisory (Non-Binding) Vote on ITW's Executive Compensation: The affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote will constitute approval by the stockholders.

Approval of the Illinois Tool Works Inc. 2015 Long-Term Incentive Plan: The affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote will constitute approval by the stockholders.

Approval of a Non-Binding Stockholder Proposal to Permit Stockholders to Call Special Meetings: The affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote will constitute approval by the stockholders.

What is the effect of a broker non-vote generally and on each proposal?

A broker non-vote occurs when a broker or other nominee does not receive voting instructions from the beneficial owner and does not have the discretion to direct the voting of the shares. Broker non-votes will be counted for purposes of calculating whether a quorum is present at the Annual Meeting, but will not be counted for purposes of determining the number of votes present in person or represented by proxy and entitled to vote with respect to a particular proposal. Broker non-votes will not, therefore, impact our ability to obtain a quorum and will have no effect on the election of directors, ratification of the appointment of our Independent Registered Public Accounting Firm, approval of ITW's executive compensation, approval of the Illinois Tool Works Inc. 2015 Long-Term Incentive Plan, or approval of the non-binding stockholder proposal.

What if I abstain from voting?

An abstention on the election of directors will have no effect on the outcome. An abstention on the other proposals will have the effect of a vote against those proposals.

How do I submit a stockholder proposal for the 2016 Annual Meeting?

To be considered for inclusion in our proxy statement for our May 2016 Annual Meeting, a stockholder proposal must be received no later than November 21, 2015. Your proposal must be in writing and must comply with the proxy rules of the Securities and Exchange Commission, or SEC. You should send your proposal to our Secretary at our address on the cover of this proxy statement.

You also may submit a proposal that you do not want included in the proxy statement, but that you want to raise at our May 2016 Annual Meeting. We must receive your proposal in writing on or after January 9, 2016, but no later than February 8, 2016. As detailed in the advance notice procedures described in our by-laws, for a proposal other than the nomination of a director to be properly brought before an annual meeting, your notice of proposal must include: (1) your name and address, as well as the name and address of the beneficial owner of the shares, if any; (2) the number of shares of ITW stock owned beneficially and of record by you and any beneficial owner as of the date of the notice (which information must be supplemented as of the record date); (3) a description of certain agreements, arrangements or understandings entered into by you or any beneficial owner with respect to the shares (which information must be supplemented as of the record date) or the business proposed to be brought before the meeting; (4) any other information regarding you or any beneficial owner that would be required under the SEC's proxy rules and regulations; and (5) a brief description of the business you propose to be brought before the meeting, the reasons for conducting that business at the meeting, and any material interest that you or any beneficial owner has in that business.

How do I nominate a director?

If you wish to nominate an individual for election as a director at our May 2016 Annual Meeting, our Secretary must receive your written nomination on or after January 9, 2016, but no later than February 8, 2016. As detailed in the advance notice procedures described in our by-laws, for a nomination to be properly brought before an annual meeting, your notice of nomination must

include: (1) your name and address, as well as the name and address of the beneficial owner of the shares, if any; (2) the number of shares of ITW stock owned beneficially and of record by you and any beneficial owner as of the date of the notice (which information must be supplemented as of the record date); (3) a description of certain agreements, arrangements or understandings entered into by you or any beneficial owner with respect to the shares (which information must be supplemented as of the record date); (4) the name, age and home and business addresses of the nominee; (5) the principal occupation or employment of the nominee; (6) the number of shares of ITW stock that the nominee beneficially owns; (7) a statement that the nominee is willing to be nominated and serve as a director; (8) a statement as to whether the nominee, if elected, intends to tender his or her resignation in accordance with our Corporate Governance Guidelines; (9) an undertaking to provide any other information required to determine the eligibility of the nominee to serve as an independent director or that could be material to stockholders understanding of the nominee's independence; and (10) any other information regarding you, any beneficial owner or the nominee that would be required under the SEC's proxy rules and regulations had our Board of Directors nominated the individual. Any nomination that you make must be approved by our Corporate Governance and Nominating Committee, as well as by our Board of Directors. The process for the selection of director candidates is described under Corporate Governance Policies and Practices Director Candidate Selection Process below.

Who pays to prepare, mail and solicit the proxies?

We will pay the cost of solicitation of proxies including preparing, printing and mailing this proxy statement and the E-Proxy Notice. We will also authorize brokers, dealers, banks, voting trustees and other nominees and fiduciaries to forward copies of the proxy materials to the beneficial owners of ITW common stock. Upon request, we will reimburse them for their reasonable expenses. In addition, our officers, directors and employees may solicit proxies in person, by mail, by telephone or otherwise. In the event that we decide to engage a proxy solicitation firm to assist with the solicitation of proxies, we would expect to engage Georgeson, and we estimate that the additional cost to be borne by us would be approximately \$12,000 plus reasonable and approved out-of-pocket expenses.

Proposal 1 Election of Directors

Stockholders are being asked to elect the eleven directors named in this proxy statement at our Annual Meeting. The individuals listed below have been nominated by the Board of Directors as recommended by the Corporate Governance and Nominating Committee. See Corporate Governance Policies and Practices for more information regarding our candidate selection process. Each director will serve until the May 2016 Annual Meeting, until a qualified successor director has been elected, or until he or she resigns or is removed.

We will vote your shares as you specify on the proxy card, by telephone, by Internet or by mail. If you do not specify how you want your shares voted, we will vote them FOR the election of all the nominees listed below. If unforeseen circumstances (such as death or disability) make it necessary for the Board of Directors to substitute another person for any of the nominees, we will vote your shares FOR that other person. The Board of Directors does not anticipate that any nominee will be unable to serve.

Each nominee for director brings a strong and unique background and set of skills to the Board, giving the Board as a whole competence and experience in a variety of areas. Set forth below is biographical information provided by the nominees, as well as a description of the experiences, qualifications, skills and attributes that led the Corporate Governance and Nominating Committee and the Board to conclude that each nominee should serve as a director of the Company.

Daniel J. Brutto, 58, retired as President of UPS International and Senior Vice President of United Parcel Service, Inc., a global package delivery, supply chain management and freight forwarding company, having served in these capacities from January 2008 to June 2013. Previously, he served as President, Global Freight Forwarding, for UPS from 2006 to 2007, and corporate controller from 2004 to 2006. Mr. Brutto had over 38 years of experience at UPS, serving over the years in various areas with increasing levels of responsibility, including operations, finance, information systems, mergers & acquisitions, marketing, business development and international. Mr. Brutto is currently a Director of Innotrac Corporation, a privately held global fulfillment, customer care and technology company, and has served as a director of ITW since 2012. He has not served as a director of any other publicly-traded company in the last five years. In the past, Mr. Brutto served on the board of the US-China Business Council, the Guangdong Economic Council, and the Turkey Economic Advisory Council. He was also a delegate to the World Economic Forum, Davos, Switzerland, from 2009 to 2013.

Mr. Brutto's significant strategic, operational, and financial leadership experience with a major global company, including the establishment of operations in 35 countries, along with his significant international business experience, brings valuable perspectives to our Board.

Susan Crown, 56, has served as Vice President of Henry Crown and Company, a business with diversified investments, since 1984. Ms. Crown is currently a director of Northern Trust Corporation and its subsidiary, The Northern Trust Company, and has not served as a director of any other publicly-traded company in the last five years. Ms. Crown has served as a director of ITW since 1994. Ms. Crown's experience includes executive experience in diversified manufacturing, cellular phone, home furnishings and real estate businesses.

Ms. Crown's long-standing board service at a global banking and financial institution and her extensive board service with many civic and not-for-profit organizations bring valuable perspectives to our Board.

James W. Griffith, 61, retired as President and Chief Executive Officer of The Timken Company, a manufacturer of bearings, alloy and specialty steels and components, having served in that capacity from 2002 to 2014. Previously, he served as President and Chief Operating Officer from 1999 to 2002. Mr. Griffith joined Timken in 1984, and held positions in various functional areas of Timken with increasing levels of responsibility, including purchasing and logistics, manufacturing and international operations. From 1996 to 1999, he led Timken's automotive business in North America and Timken's bearing business activities in Asia and Latin America. Prior to joining Timken, he held production and engineering positions at Martin Marietta, Bunker Hill Company and Homestake Mining Company. Mr. Griffith is currently a director of AB Volvo Sweden, a commercial transport solutions company, and has served as a director of ITW since 2012. He previously served as a director of The Timken Company from 1999 to 2014 and Goodrich Corporation from 2002 to 2012, as well as a director of the US-China Business Council and a number of other industry and not-for-profit organizations.

Mr. Griffith's extensive experience as Chief Executive Officer of a global industrial manufacturer, along with his international business and engineering experience, bring valuable perspectives to our Board.

Richard H. Lenny, 63, has served as non-executive Chairman of Information Resources, Inc., a privately held producer of market and shopper information, since 2013. He served as an operating partner with Friedman Fleischer & Lowe LLC, a private equity firm, from 2011 to August 2014, at which time he became a senior advisor. From 2001 through 2007 he served as Chairman, President and Chief Executive Officer of The Hershey Company, a manufacturer, distributor and marketer of candy, snacks and candy-related grocery products. From 1998 to 2000 he served as President, Nabisco Biscuit Company, and prior thereto he was President of Pillsbury, North America. He is also a director of Discover Financial Services, ConAgra Foods, Inc. and McDonald's Corporation. Mr. Lenny has served as a director of ITW since August 2014.

Mr. Lenny's experience as Chief Executive Officer of a global Fortune 500 company and diverse board experience bring valuable perspectives to our Board.

Robert S. Morrison, 72, retired as Vice Chairman of PepsiCo, Inc., a beverage and food products company, having served in that position from 2001 to 2003. From 1997 to 2001, prior to its merger with PepsiCo, he was Chairman, President and Chief Executive Officer of The Quaker Oats Company. He also served as interim Chairman and Chief Executive Officer of 3M Company from June to December 2005. Mr. Morrison is currently a director of Aon Corporation, and was formerly a director of 3M Company and The Tribune Co. He has served as a director of ITW since 2003 and currently serves as ITW's non-executive Chairman.

Mr. Morrison's experience as a former top executive of three global public companies and diverse board experience bring valuable perspectives to our Board.

E. Scott Santi, 53, has served as President and Chief Executive Officer of ITW since November 2012 and as President and Chief Operating Officer from October to November 2012. Previously, Mr. Santi served as Vice Chairman from December 2008 to October 2012 and Executive Vice President from October 2004 to December 2008. He has served as a director of ITW since November 2012 and currently serves as a director of W.W. Grainger, Inc. He has not served as a director of any other publicly traded company in the last five years. Mr. Santi also has significant experience as a participating board member of a number of professional and not-for-profit organizations.

Mr. Santi's deep understanding of the Company's business operations, operating philosophy and culture bring indispensable perspectives to our Board.

James A. Skinner, 70, retired as Vice Chairman and Chief Executive Officer of McDonald's Corporation, a global restaurant chain, having served in those positions from 2004 to June 2012. Previously, Mr. Skinner served as Vice Chairman from 2003 to 2004; as President and Chief Operating Officer of McDonald's Restaurant Group from February 2002 to December 2002; as President and Chief Operating Officer of McDonald's Europe, Asia/Pacific, Middle East and Africa from 2001 to 2002; and as President of McDonald's -Europe from 1997 to 2001. Mr. Skinner is currently the Executive Chairman of Walgreens Boots Alliance and serves as a director of Hewlett-Packard Company. He served as a director of McDonald's Corporation from November 2004 to June 2012. He has served as a director of ITW since 2005.

Mr. Skinner's extensive experience as Chief Executive Officer of a major global corporation and diverse board experience bring valuable perspectives to our Board.

David B. Smith, Jr., 48, has served as Executive Vice President for Policy & Legal Affairs and General Counsel of Mutual Fund Directors Forum, a not-for-profit membership organization for independent investment company directors and an advocate on important policy matters, since 2005. From 1996 to 2005, Mr. Smith held several positions with increasing levels of responsibility at the Securities and Exchange Commission, serving as Associate Director, Division of Investment Management, from 2001 to 2005. Mr. Smith is currently a director of Northern Trust Corporation and its subsidiary, The Northern Trust Company, and has not served as a director of any other publicly-traded company in the last five years. Mr. Smith has served as a director of ITW since 2009.

Mr. Smith's extensive legal and regulatory experience along with his executive experience with a mutual fund industry organization bring valuable perspectives to our Board. Mr. Smith is a nephew of Mr. Harold B. Smith, an emeritus director of ITW.

Pamela B. Strobel, 62, retired as Executive Vice President and Chief Administrative Officer of Exelon Corporation and President of Exelon Business Services Company, an electric and gas utility company, in October 2005, a position she had held since 2003, previously serving as Chairman and Chief Executive Officer of Exelon Energy Delivery from 2000 to 2003. Prior to that, she served as Executive Vice President of Unicom and its chief subsidiary, ComEd, having joined ComEd as General Counsel in 1993. Ms. Strobel is currently a director of Domtar Corporation and State Farm Mutual Automobile Insurance Company. Ms. Strobel has served as a director of ITW since 2008.

Ms. Strobel's executive and legal experience with a leading energy provider and other board experience bring valuable perspectives to our Board.

Kevin M. Warren, 52, has been the President, Industrial, Retail and Hospitality Business Group for Xerox Corporation, a global business services, technology and document management company, since January 2015. Since 1984, Mr. Warren has held a number of positions at Xerox with increasing levels of responsibility, including serving as President of Strategic Growth Initiatives for Xerox Corporation from January 2014 to January 2015; President of U.S. Client Operations for Xerox Corporation from June 2010 to December 2013; Chairman, President and Chief Executive Officer of Xerox Canada from 2007 to 2010; Senior Vice President, Acquisition Transition Office in 2007; and Senior Vice President, U.S. Eastern Sales, U.S. Solutions Group from 2004 to 2007. He also serves as a director of a number of professional, civic and not-for-profit organizations. Mr. Warren has served as a director of ITW since 2010 and has not served as a director of any other publicly-traded company in the last five years.

Mr. Warren's significant strategic and operational leadership experience with a major global company, along with his significant international experience, bring valuable perspectives to our Board.

Anré D. Williams, 49, has been President, Global Merchant Services, of American Express Company, a global services company, since 2011. From 2007 to 2011, Mr. Williams was President, Global Commercial Card, of American Express. From 1989 to 2007, Mr. Williams held several positions at American Express, serving as Executive Vice President, U.S. Commercial Card, from 2003 to 2007; Senior Vice President, U.S. Middle Market, from 2000 to 2003; Vice President and General Manager, Western Region, Corporate Services, from 1999 to 2000; and Vice President, Acquisition and Advertising, from 1996 to 1999. Mr. Williams has served as a director of ITW since 2010 and is a former director of Ryerson Inc. Mr. Williams has not served as a director of any other publicly-traded company in the last five years.

Mr. Williams' significant strategic and operational leadership experience with a major global financial services company, along with his global business experience, bring valuable perspectives to our Board.

The Board of Directors recommends a vote FOR the election of all of the above nominees.

Board of Directors and Its Committees

The Company's Board of Directors met five times during 2014. In addition to these Board meetings, directors attended meetings of Board committees. Non-employee directors, all of whom are independent, met five times in regularly scheduled executive sessions in conjunction with regular board meetings. Robert S. Morrison serves as non-executive Chairman of the Board.

As stated in the Company's Corporate Governance Guidelines, the Board believes that it is in the best interests of the Company to examine whether the roles of Chairman and Chief Executive Officer should be combined each time the Board elects a new chief executive officer. E. Scott Santi was elected President and CEO in November 2012, after the death of David B. Speer, our former CEO. The Board decided to separate the roles of CEO and Chairman at that time and elected Robert S. Morrison, who was then lead director, as non-executive Chairman. Our Corporate Governance Guidelines also state that the Board has the discretion to combine or separate the offices of CEO and Chairman at such time or times as it deems appropriate.

The Board of Directors has standing audit, compensation, corporate governance and nominating, finance, and executive committees. Under the terms of their respective charters, each member of the audit, compensation, and corporate governance and nominating committees must meet applicable New York Stock Exchange (NYSE) and SEC independence requirements. The Company strongly encourages its directors to attend all Board and committee meetings and the Annual Meeting of Stockholders. In 2014, during the time they were serving, all of the directors attended at least 75% of the meetings of the Board and the committees on which they serve, and all of the directors except Anré Williams attended our 2014 Annual Meeting of Stockholders.

Audit Committee

The Audit Committee is responsible for the engagement of our independent registered public accounting firm and assists the Board with respect to matters involving and overseeing accounting, financial reporting and internal audit functions. In addition, the Committee is responsible for the integrity of the Company's financial statements, compliance with legal and regulatory requirements, the independence and performance of ITW's independent registered public accounting firm, and the performance of the Company's internal audit function. Finally, the Audit Committee, on behalf of the Board of Directors, reviews and evaluates certain of our policies and practices with respect to risk assessment and risk management and steps taken by management to monitor and control such exposures. Additional information on the Committee and its activities is set forth under Audit Committee Report below.

Compensation Committee

The Compensation Committee establishes and oversees executive compensation policies, including issues relating to pay and performance, targeted positioning and pay mix. The Compensation Committee recommends to the other independent directors compensation for the chief executive officer, reviews and approves the chief executive officer's recommendations regarding the compensation of our other executive officers, and makes recommendations regarding new incentive compensation and equity-based plans or amendments to any existing plans. The Compensation Committee also is responsible for reviewing and evaluating risks arising from our compensation policies and practices and providing input to management on whether such policies and practices may have a material adverse effect on the Company.

Under its charter, the Compensation Committee may retain an independent compensation consultant or other advisors. The Compensation Committee engaged Frederic W. Cook & Co., an independent consultant (Cook), as its independent advisor to review the Company's overall executive compensation program, review the peer group of companies used by the Compensation Committee for comparison purposes and assess our compensation governance process. Based on representations from Cook and executive officers and directors of the Company, the Compensation Committee has determined that Cook and its individual compensation advisor to the committee are independent. See Compensation Discussion and Analysis Role of Compensation Consultants.

Additional information on the Compensation Committee, its activities, its relationship with its compensation consultant and the role of management in setting compensation is provided under Compensation Discussion and Analysis below.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee identifies, evaluates and recommends director candidates; develops, administers and recommends corporate governance guidelines; oversees the evaluations of the performance and procedures of the Board and individual directors; makes recommendations as to Board committees and Board size and makes a recommendation to the Board regarding the Board's determination of director independence for the Board, the Audit Committee and the Compensation Committee. This committee also oversees and makes recommendations to the independent directors regarding non-employee director compensation. See Corporate Governance Policies and Practices Director Candidate Selection Process below for a description of the director selection process.

Finance Committee

The Finance Committee reviews, evaluates and recommends management's proposals to the Board relating to the Company's financing and investment portfolio, and reviews and evaluates an annual summary of the funding and investment status of significant benefit plans sponsored by the Company globally. The Finance Committee also periodically reviews and evaluates the Company's capital allocation strategy as well as risks arising from the Company's investments, treasury function (such as derivatives and interest rates) and liquidity.

Executive Committee

The Executive Committee may act on behalf of the Board if a matter requires Board action between meetings of the full Board. The Executive Committee's authority in certain matters is limited by law and our by-laws.

Committee Memberships

The following table shows the current committee membership and the number of meetings held by each committee during 2014.

Director	Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee	Finance Committee	Executive Committee
Daniel J. Brutto	X			X	
Susan Crown		X	X		Chair
James W. Griffith		X		X	
Richard H. Lenny	X	X			
Robert S. Morrison		X	Chair	X	X
E. Scott Santi					X
James A. Skinner		Chair	X	X	X
David B. Smith, Jr.	X			Chair	
Pamela B. Strobel	Chair		X		X
Kevin M. Warren	X		X		
Anré D. Williams	X	X			
Fiscal 2014 meetings	4	4	4	2	1

Board's Role in Risk Oversight

The Board of Directors is responsible for the overall risk oversight of the Company. The Board has delegated to the Audit Committee the responsibility to review and evaluate the Company's overall financial and compliance risk policies and practices, has delegated to the Finance Committee the responsibility for the review and evaluation of risks relating to investments and other treasury functions, and has delegated to the Compensation Committee the responsibility for the review and evaluation of risks arising from the Company's compensation policies and practices. The Compensation Committee also advises management on whether the Company's compensation policies and practices may have a material adverse effect on the Company.

The Company has identified key business risks of the Company, including, but not limited to, legal/compliance/controllership, key leader continuity/succession, supply chain integrity/continuity, and data security risks, and has established a formal process for continuous review of such risks. Certain risks are reviewed and discussed annually, while others are considered on a rotating basis. Company management routinely presents on these risks at meetings of the Company's Board and Board committees, providing them with an opportunity to discuss the risks and the Company's risk mitigation processes.

In instances where a particular committee reviews certain risks, that committee reports on those risks to the full Board on a regular basis. The Company believes that because each of these committees is comprised solely of independent directors, the President and Chief Executive Officer of the Company is subject to the risk oversight of independent directors.

Corporate Governance Policies and Practices

General

We have long believed that good corporate governance is important to assure that the Company is managed for the long-term benefit of its stockholders. Accordingly, we continuously review our corporate governance policies and practices not only for compliance with applicable law, the rules and regulations of the SEC, and the listing standards of the NYSE, but also for good corporate governance principles and standards of behavior.

Our Statement of Principles of Conduct sets forth standards of conduct applicable to all employees and directors.

Our Global Anti-Corruption Policy provides detailed guidance to our employees on prohibited actions under anti-bribery and anti-corruption laws.

Our Code of Ethics sets forth standards of ethical dealing, disclosure and compliance applicable to our CEO, CFO, and all key financial personnel.

Our hedging policy for key employees and directors prohibits hedging the risk of ownership in ITW stock and prohibits pledging of ITW stock to secure payment obligations.

Our clawback policy provides for the recovery of incentive compensation payments from our senior officers in the event of an accounting restatement (whether or not based on misconduct) due to material noncompliance with financial reporting requirements.

Our Conflict Minerals Policy requires our suppliers to certify that any tin, tantalum, tungsten and gold used in our products are from conflict free sources if they originate within the Democratic Republic of Congo or its adjoining countries.

The Audit, Compensation and Corporate Governance and Nominating Committees each review their Committee charters annually and recommend that the Board of Directors approve any changes. We maintain a corporate governance section on our website that includes the charters of these committees, the Company's Corporate Governance Guidelines, the Statement of Principles of Conduct (our code of business conduct and ethics for directors, officers and employees), the Global Anti-Corruption Policy and the Code of Ethics for the Chief Executive Officer and key financial and accounting personnel. In addition, we will promptly post any amendments to or waivers of the Code of Ethics on our website. You can find this and other corporate governance information at www.itw.com. We also will provide copies of this information upon request.

Communications with Directors

Stockholders and other interested parties may communicate with any of our directors, including Robert S. Morrison, our Chairman, or with the independent directors as a group by sending an e-mail to independentdirectors@itw.com or by writing to the independent directors as a group or to any of our directors c/o Illinois Tool Works Inc., 155

Harlem Avenue, Glenview, IL 60025, Attention: Secretary, with a designation on the outside of the envelope as a Board Communication. Relevant communications will be forwarded by the Secretary to the appropriate directors depending on the facts and circumstances outlined in the communication.

Board Independence

Our Corporate Governance and Nominating Committee conducts an annual review and makes a recommendation to the full Board as to whether each of our directors meets the applicable independence standards of the NYSE. In accordance with the NYSE listing standards, our Board of Directors has adopted categorical standards for director independence, including heightened standards applicable to members of our Audit and Compensation Committees. A copy of the Company's Categorical Standards for Director Independence is attached as **Appendix A**. A director will not be considered independent unless the Board of Directors determines that the director has no material relationship with the Company (directly, or as a partner, stockholder or officer of an organization that has a material relationship with the Company).

The Board has determined that each of the current directors, except E. Scott Santi, has no material relationship with the Company other than as a director and is independent within the meaning of the Company's Categorical Standards for Director Independence and the listing standards of the NYSE. In making its independence determinations, the Board of Directors has broadly considered all relevant facts and circumstances including that: (1) Ms. Crown and Mr. Smith serve as directors of Northern Trust Corporation and its subsidiary, The Northern Trust Company, with which the Company has a commercial banking relationship as described under "Certain Relationships and Related Transactions" below; (2) Messrs. Griffith, Lenny, Morrison and Skinner serve as directors of companies that have an existing customer or supplier relationship with the Company; (3) Ms. Crown and her immediate family members have direct and indirect interests in a company with which we conduct business; (4) Ms. Strobel serves as a director of two companies with which we conduct business, one of which owns approximately 6% of the Company's common stock; (5) Mr. David B. Smith, Jr. is the nephew of Harold B. Smith, emeritus director of the Company and the beneficial owner of more than 5% of the Company's stock; and (6) each of Messrs. Warren and Williams are officers of companies with which we conduct business. The Board has concluded that these relationships are not material and, therefore, do not impair the independence of these directors.

Director Qualifications

Our directors play a critical role in guiding the Company's strategic direction and oversee the management of the Company. Board candidates are considered based upon various criteria, such as their personal integrity and judgment, broad-based business and professional skills and experiences, global business and social perspective, and concern for the long-term interests of our stockholders. Although there is no specific policy regarding Board diversity, racial, ethnic and gender diversity are also important factors considered in the director selection process. In addition, directors must have time available to devote to Board activities and to enhance their knowledge of the global manufacturing environment. Accordingly, we seek to attract and retain a diverse board composed of highly qualified directors who have sufficient time to attend to their duties and responsibilities to the Company. Of the eleven director nominees two are women and two are minorities.

Director Candidate Selection Process

The Corporate Governance and Nominating Committee, or other members of the Board of Directors, may identify a need to add new members to the Board of Directors with specific skills or simply to fill a vacancy on the Board. At that time the Corporate Governance and Nominating Committee would initiate a search, seeking input from Board members and senior management and, to the extent it deems appropriate, engaging a search firm. An initial qualified candidate or a slate of qualified candidates would be identified and presented to the Committee for its evaluation and approval. The Committee would then seek full Board approval of the selected candidate(s).

Our by-laws permit stockholders to nominate directors for consideration at an annual meeting of stockholders. The policy of the Corporate Governance and Nominating Committee is to consider a properly submitted stockholder nomination for election as director. For a description of the process for submitting a director candidate in accordance with the Company's by-laws, see [Questions and Answers - How do I nominate a director?](#) above.

Assuming that a properly submitted stockholder recommendation for a director candidate has been received, the Corporate Governance and Nominating Committee will evaluate that candidate by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by other sources, but the Committee has no obligation to recommend that candidate for nomination.

Director and Officer Succession Planning

The Corporate Governance and Nominating Committee screens and recommends nominees for director to the full Board. It is responsible for reviewing the skills and characteristics required of Board members in the context of the current make-up of the Board. Its assessment includes the skills of board candidates, such as an understanding of technologies pertinent to the Company's businesses, manufacturing, marketing, finance, regulation and public policy, international background and experience, age, diversity and ability to provide strategic insight and direction on the Company's key strategic initiatives. After receiving recommendations for nominations from the Corporate Governance and Nominating Committee, the Board nominates or elects candidates for director.

In 2014, the Corporate Governance and Nominating Committee continued to evaluate the current make-up of the Board in light of the directors' ages and experience. Pursuant to ITW's Corporate Governance Guidelines, a director may not stand for re-election after his or her 75th birthday, except in rare circumstances approved by the Board. The Committee determined that it would be important to replace the skills that would be lost as certain directors approached retirement age, specifically, experience as a current or former CEO of a publicly-traded company, experience on public company boards and experience with global operations.

Several of our independent directors identified Richard H. Lenny as an individual with all of these characteristics. The Corporate Governance and Nominating Committee evaluated Mr. Lenny's qualifications and found that he would be a desirable addition to the Board, especially in light of his global executive experience and his extensive experience as a public company CEO and director. The Committee recommended and the Board elected Mr. Lenny in August 2014.

On February 13, 2015, Don H. Davis, Jr. and Robert C. McCormack informed the Board that they would retire from the Board as of that date, as each of Mr. Davis and Mr. McCormack had reached the retirement age specified by the Corporate Governance Guidelines and did not intend to stand for re-election. The Board thanks Mr. Davis and Mr. McCormack for their many years of distinguished service.

The Board recognizes that one of its most important duties is to ensure continuity in the Company's senior leadership by overseeing the development of executive talent and planning for the effective succession of the Company's CEO and the executive leadership team. In order to ensure that the succession planning and leadership development process supports and enhances ITW's strategic objectives, the Board regularly consults with the CEO on the Company's organizational needs, its leadership pipeline and the succession plans for critical leadership positions. On an annual basis, the Board also conducts a detailed review of executive succession plans, in addition to addressing the Company's talent management initiatives and discussing individuals who are considered potential future senior executives of the Company. Similarly, leadership development, including succession planning, is a top priority of the CEO and the senior executive team and is reflected in the fact that the individual performance goals of the CEO and senior executive officers include critical talent management and succession planning objectives. See Compensation Discussion and Analysis Annual Cash Incentives 2014 Individual Objectives of the Executive Incentive Plan.

Director Election

Our by-laws provide for the election of directors in uncontested elections by majority vote. Under this majority vote standard, each director must be elected by a majority of the votes cast with respect to that director. For this purpose, a majority of the votes cast means that the number of shares voted for a director exceeds the number of shares voted against that director. In a contested election, directors will be elected by a plurality of the votes represented in person or by proxy at the meeting. An election is contested if the number of nominees exceeds the number of directors to be elected. Whether an election is contested or not is determined ten days in advance of when we file our definitive proxy statement with the SEC. This year's election is uncontested, and the majority vote standard will apply.

If a nominee who is serving as a director is not elected at an annual meeting, Delaware law provides that the director would continue to serve on the Board as a holdover director until his or her successor is elected. Our Corporate Governance Guidelines, however, require any nominee for director who fails to receive a majority of the votes cast for his or her election to tender his or her resignation. The Corporate Governance and Nominating Committee of the Board will consider the resignation and recommend to the Board whether to accept or reject it. In considering the resignation, the Committee will take into account such factors as any stated reasons why stockholders voted against the election of the director, the length of service and qualifications of the director, the director's contributions to the Company, and our Corporate Governance Guidelines. The Board will consider the Committee's recommendation, but no director who failed to receive a majority of the votes cast will participate. We will disclose the results of the Committee's review within 90 days of such annual meeting. At our 2014 Annual Meeting, each director received a majority of the votes cast for his or her election.

Director Compensation

Annual Retainer and Chair Fees

The following table shows the non-employee director compensation for 2014. Non-employee directors were given the opportunity to elect to receive all or a portion of their annual retainer and chair fees in an equivalent value of ITW common stock pursuant to our Illinois Tool Works Inc. 2011 Long-Term Incentive Plan (the Long-Term Incentive Plan). The number of ITW shares to be issued to a director is determined by dividing the dollar amount of the fee subject to the election by the fair market value of ITW common stock on the date the fee otherwise would have been paid in cash.

Annual Retainer	\$ 135,000
Non-Executive Chairman Annual Retainer	\$ 100,000
Additional Committee Chair Retainers:	
Audit & Compensation Committee	\$ 20,000
Corporate Governance, Nominating; Finance	\$ 15,000
Executive Committee	\$ 5,000
Annual Stock Grant	\$ 120,000
Additional Non-Executive Chairman Stock Grant	\$ 100,000

Directors' Deferred Fee Plan

Non-employee directors can defer receipt of all or a portion of their annual retainer, chair fees and/or stock grant until retirement or resignation. Deferred cash amounts are credited with interest quarterly at current rates. If a director elects to defer receipt of any ITW common stock to be received in lieu of a cash payment and/or any portion of his or her stock grant, the deferred shares are credited as stock units to an account in the director's name. The account receives additional credit for cash dividends and is adjusted for stock dividends, splits, combinations or other changes in ITW common stock upon retirement, resignation or a corporate change (as defined in our Long-Term Incentive Plan), with any fractional shares paid in cash.

ITW Common Stock

The Company grants stock to its non-employee directors under our Long-Term Incentive Plan, which links this element of compensation to long-term performance. Under our director compensation program, non-employee directors serving in 2014 received an annual stock grant equivalent in value to approximately \$120,000. Our non-executive Chairman receives an additional annual stock grant equivalent in value to \$100,000.

Director Compensation in Fiscal Year 2014

The following table summarizes the compensation for our non-employee directors who served during 2014.

Name	Fees Earned or Paid in Cash (\$)(1)(2)	Stock Awards (\$)(3)	Total (\$)
Daniel J. Brutto	\$ 135,000	\$ 119,943	\$ 254,943
Susan Crown	\$ 140,000	\$ 119,943	\$ 259,943
Don H. Davis, Jr.	\$ 135,000	\$ 119,943	\$ 254,943
James W. Griffith	\$ 135,000	\$ 119,943	\$ 254,943
Richard H. Lenny(4)	\$ 53,193	\$ 0.00	\$ 53,193
Robert C. McCormack	\$ 148,750	\$ 119,943	\$ 268,693
Robert S. Morrison	\$ 248,750	\$ 219,896	\$ 468,646
James A. Skinner	\$ 155,000	\$ 119,943	\$ 274,943
David B. Smith, Jr.	\$ 135,000	\$ 119,943	\$ 254,943
Pamela B. Strobel	\$ 155,000	\$ 119,943	\$ 274,943
Kevin M. Warren	\$ 135,000	\$ 119,943	\$ 254,943
Anré D. Williams	\$ 135,000	\$ 119,943	\$ 254,943

- (1) The following directors elected to convert some or all fees earned in 2014 to shares of ITW common stock and to defer receipt of those shares:

Name	Fees Deferred in 2014	Number of Shares Deferred in 2014
Daniel J. Brutto	\$ 67,500	798
Don H. Davis, Jr.	\$ 135,000	1,594
Robert S. Morrison	\$ 248,750	2,935
James A. Skinner	\$ 155,000	1,830

- (2) Fees include the \$135,000 annual retainer, non-executive Chairman fee and committee chair fees.

- (3) Each director serving in 2014 received an annual stock grant of 1,404 shares equivalent in value to approximately \$120,000. Mr. Morrison received an additional stock grant of 1,170 shares equivalent in value to approximately \$100,000 on May 2, 2014 for his services as non-executive Chairman. In addition, as of December 31, 2014, the directors' phantom stock accounts had phantom stock unit balances as follows: Mr. Brutto, 1,066; Ms. Crown, 5,579; Mr. Davis, 2,670; Mr. Griffith, 1,066; Mr. McCormack, 5,579; Mr. Morrison, 2,562; Mr. Skinner, 2,491; Mr. Smith, 1,133; Ms. Strobel, 1,195; Mr. Warren, 1,111; and Mr. Williams, 1,111.

- (4) Mr. Lenny was elected to the Board on August 8, 2014.

Ownership of ITW Stock

Directors and Executive Officers

The following table shows the amount of ITW common stock beneficially owned by the directors, the named executive officers, and all directors and executive officers as a group as of December 31, 2014. The named executive officers as shown in the table are our Chief Executive Officer, our Chief Financial Officer, and the next three most highly-compensated executive officers who were serving at the end of the last fiscal year (based on total compensation, less the increase in pension value and nonqualified deferred compensation earnings). The percent of class calculation is based on 383,196,213 shares of ITW common stock outstanding as of December 31, 2014.

Beneficial ownership is a technical term broadly defined by the SEC to mean more than ownership in the usual sense. In general, beneficial ownership includes any shares a director or executive officer can vote or transfer and stock options and restricted stock units that are currently vested or that become vested within 60 days. Except as otherwise noted, the stockholders named in this table have sole voting and investment power for all shares shown as beneficially owned by them.

The number of the directors phantom stock units disclosed in the table represents an equivalent number of shares of ITW common stock as of December 31, 2014. The granting of phantom stock units was discontinued in May 2012, so Mr. Lenny was not awarded phantom stock units upon joining the Board, as he joined the Board after that date. Phantom stock units are not transferable and have no voting rights. The units are payable in cash and are not included in the percent of class calculation.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Phantom Stock Units	Percent of Class
Directors (other than Executive Officers)			
Daniel J. Brutto	7,691(1)	1,066	*
Susan Crown	51,049(2)	5,579	*
Don H. Davis, Jr.	55,154(3)	2,670	*
James W. Griffith	7,611	1,066	*
Richard H. Lenny	1,008(4)	n/a	*
Robert C. McCormack	10,857,270(5)	5,579	2.8%
Robert S. Morrison	90,752(6)	2,562	*
James A. Skinner	36,653(7)	2,491	*
David B. Smith, Jr.	132,283(8)	1,133	*
Pamela B. Strobel	25,902(9)	1,195	*
Kevin M. Warren	11,548(10)	1,111	*
Anré D. Williams	15,670	1,111	*
Named Executive Officers			
E. Scott Santi	606,935(11)		*
Michael M. Larsen	45,233(12)		*
David C. Parry	374,801(13)		*
Christopher A. O'Herlihy	132,880(14)		*
Roland M. Martel	338,847(15)		*
Directors and Executive Officers as a Group (24 Persons)	13,580,557(16)	25,563	3.5%

* Less than 1%

- (1) Includes 804 deferred shares in lieu of director's fees.
- (2) Includes (a) 4,000 shares owned by Ms. Crown's spouse, which are pledged to secure bank borrowings, and as to which she disclaims beneficial ownership; (b) 4,000 shares held in trusts of which Ms. Crown's children are beneficiaries, as to which she disclaims beneficial ownership; and (c) 6,463 deferred shares in lieu of director's fees.
- (3) Includes 36,836 deferred shares in lieu of director's fees. Mr. Davis retired as a director on February 13, 2015.
- (4) Includes (a) 8 shares owned jointly with Mr. Lenny's spouse; and (b) 1,000 shares as to which Mr. Lenny has shared voting and investment power, which shares are held as tenants in common with his spouse through trusts.
- (5) Includes (a) 800 shares owned in a trust, as to which Mr. McCormack shares voting and investment power with The Northern Trust Company; (b) 8,147,664 shares owned in eight trusts, as to which Messrs. McCormack and Harold Smith, one other individual, and The Northern Trust Company are trustees and share voting and investment power; (c) 12,550 shares owned in a limited partnership in which Mr. McCormack owns 99% of the limited partnership units; (d) 2,422,347 shares owned in four trusts, as to which Mr. McCormack, two other individuals and The Northern Trust Company are trustees and share voting and investment power (all of these shares are pledged to secure lines of credit); (e) 258,123 shares owned in one limited partnership in which Mr. McCormack has a beneficial interest through trust ownership of the limited partnership units; and (f) 12,785 shares owned in a revocable trust for Mr. McCormack, as to which he has sole investment authority. Mr. McCormack retired as a director on February 13, 2015.
- (6) Includes 32,478 deferred shares in lieu of director's fees.
- (7) Includes 24,295 deferred shares in lieu of director's fees.
- (8) Includes (a) 102,901 shares owned jointly with Mr. Smith's spouse (all of which are pledged to secure lines of credit); (b) 15,517 shares held in trusts of which Mr. Smith's children are beneficiaries, as to which he disclaims beneficial ownership; and (c) 2,000 shares owned in two trusts as to which Mr. Smith shares voting and investment power.
- (9) Includes 16,897 deferred shares in lieu of director's fees.
- (10) Includes 1,000 shares beneficially owned by Mr. Warren's spouse.
- (11) Includes (a) 3,477 shares allocated to Mr. Santi's account in the ITW Savings and Investment Plan; (b) 539,813 shares covered by options exercisable within 60 days; and (c) 13,463 performance restricted stock units which vest within 60 days.
- (12) Includes 31,233 shares covered by options exercisable within 60 days.
- (13) Includes (a) 1,150 shares allocated to Mr. Parry's account in the ITW Savings and Investment Plan; (b) 360,065 shares covered by options exercisable within 60 days; and (c) 13,463 performance restricted stock units which vest within 60 days.
- (14) Includes (a) 1,533 shares allocated to Mr. O'Herlihy's account in the ITW Savings and Investment Plan; (b) 118,148 shares covered by options exercisable within 60 days; and (c) 5,385 performance restricted stock units which vest within 60 days.

- (15) Includes (a) 311,256 shares covered by options exercisable within 60 days; and (b) 6,462 performance restricted stock units which vest within 60 days.

- (16) Includes (a) 2,055,463 shares covered by options exercisable within 60 days; (b) 65,833 restricted stock units and performance restricted stock units which vest within 60 days; and (c) 2,529,248 shares pledged as security prior to April 1, 2013.

Other Principal Stockholders

The following table shows, as of December 31, 2014, the only stockholders that we know to be beneficial owners of more than 5% of ITW common stock. The percent of class calculation is based on 383,196,213 shares of ITW common stock outstanding as of December 31, 2014. See Certain Relationships and Related Transactions for a description of the commercial banking services provided by The Northern Trust Company and its subsidiaries to the Company and the amount paid by the Company for these services.

Name and Address of

Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Class
The Northern Trust Company 50 South LaSalle Street Chicago, IL 60603	42,881,332(1)	11.2%
Harold B. Smith c/o Illinois Tool Works Inc. 155 Harlem Avenue Glenview, IL 60025	34,005,956(2)	8.9%
State Farm Mutual Automobile Insurance Company Investment Dept. E-9 One State Farm Plaza Bloomington, IL 61710	23,322,178(3)	6.1%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	21,280,849(4)	5.6%

- (1) The Northern Trust Company and its affiliates act as sole fiduciary or co-fiduciary of trusts and other fiduciary accounts that own an aggregate of 42,881,332 shares. They have sole voting power with respect to 14,132,211 shares and shared voting power with respect to 27,494,104 shares. They have sole investment power with respect to 3,231,777 shares and shared investment power with respect to 33,232,318 shares. The information above regarding number of shares was provided in a Schedule 13G/A filed with the SEC on February 12, 2015. In addition, The Northern Trust Company holds in other accounts, but does not beneficially own, 24,405,256 shares, resulting in aggregate holdings by The Northern Trust Company of 67,286,588 shares, or 17.6%.
- (2) Includes (a) 3,542 shares directly owned; (b) 23,144,327 shares owned in 11 trusts, and 6 family limited partnerships as to which Mr. Smith shares voting and investment power with The Northern Trust Company and others (22,877,325 of these shares are pledged to secure lines of credit); (c) 2,110,037 shares owned in 16 trusts and one family limited partnership as to which Mr. Smith shares voting and investment power with others (1,508,507 of these shares are pledged to secure lines of credit); (d) 8,147,664 shares owned in 8 trusts as to which Messrs. Smith and McCormack share voting and investment power with The Northern Trust Company and a third individual; (e) 598,150 shares owned in a revocable trust as to which Mr. Smith has sole voting and investment powers (598,150 of these shares are pledged to secure lines of credit); and (f) 2,236 shares owned by a charitable foundation of which Mr. Smith is a director.
- (3) State Farm Mutual Automobile Insurance Company has sole voting and investment power with respect to 23,154,700 shares and shared voting and investment power with respect to 167,478 shares. The information above regarding number of shares beneficially owned was provided in a Schedule 13G filed with the SEC on February 4, 2015.
- (4) The Vanguard Group has sole voting power with respect to 619,855 shares, sole investment power with respect to 20,686,073 shares and shared investment power with respect to 594,776 shares. The information above regarding number of shares beneficially owned was provided in a Schedule 13G filed with the SEC on February 10, 2015.

Section 16(a) Beneficial Ownership

Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's executive officers, directors and greater than 10% stockholders file reports of ownership and changes of ownership of ITW common stock with the SEC and the NYSE. Based on a review of copies of these reports provided to us during fiscal 2014 and written representations from executive officers and directors, we believe that all filing requirements were timely met during 2014.

Availability of Form 10-K and Annual Report

The Company is providing its annual report and its Annual Report on Form 10-K to stockholders who receive this proxy statement. The Company will provide copies of these reports to brokers, dealers, banks, voting trustees and their nominees for the benefit of their beneficial owners of record. Additional copies of this proxy statement, the annual report and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 are available without charge upon written request to Illinois Tool Works Inc., 155 Harlem Avenue, Glenview, IL, 60025, Attention: Secretary. You may also review the Company's SEC filings by visiting the Company's website at www.itw.com.

Compensation Discussion and Analysis

The Compensation Discussion and Analysis provides detailed information about ITW's compensation programs, policies, and practices as well as the principles and philosophy utilized by the Compensation Committee (the Committee) regarding these programs for the named executive officers (NEOs) in the Summary Compensation Table. For 2014, our NEOs are:

E. Scott Santi, President & Chief Executive Officer

David C. Parry, Vice Chairman

Michael M. Larsen, Senior Vice President, Chief Financial Officer

Roland M. Martel, Executive Vice President

Christopher A. O'Herlihy, Executive Vice President

Executive Summary

The Company emphasizes a total compensation approach in establishing individual executive compensation levels with each element of compensation serving a specific purpose. In addition to paying a competitive base salary, we use a mix of different performance-based elements of compensation that reward different aspects of both Company and individual performance. The Company's executive compensation program consists primarily of three elements: short-term cash compensation (base salaries and annual cash incentives), long-term incentive compensation (stock options, restricted stock units and cash), and retirement benefits as illustrated in the table on the following page.

Component	Objective	Alignment with Stockholder Value Creation
Annual Cash Compensation		
Base Salary	Provide a base wage that is competitive to attract and retain highly qualified leaders Reflective of individual performance, experience, and scope of responsibility	
Annual Executive Incentive Plan (EIP)	Motivate executives to achieve annual company and business performance and individual goals	Focused on diluted income per share from continuing operations (EPS), income growth and individual objectives designed to deliver strategic business imperatives
Long-Term Incentives		
Stock Options	Motivate executives to make decisions that focus on long-term stockholder value	Award value based on sustained long-term growth in ITW stock price
Performance-Based RSUs (PRSUs)	Retain highly qualified leaders	Use EPS metric and payout based on sustained long-term growth in ITW stock price
Long-Term Incentive Cash (LTI Cash)	Reward executives for delivering on the Company's long-term performance goals	Focused on operating margins, return on average invested capital* (ROIC), and organic revenue growth metrics in alignment with ITW's current enterprise strategy and progress towards the Company's stated 2017 performance goals
U.S. Retirement Plans		

Two retirement savings plans: a 401(k) plan and a nonqualified deferred compensation plan.

Two pension plans: a qualified pension plan and a nonqualified pension plan to restore benefits otherwise lost due to IRS limitations on qualified plan compensation. The U.S. pension plans were closed to new entrants effective January 1, 2007.

Other Programs

Change in Control Severance Policy: two times annual cash compensation (base salary plus average annual incentive) and a pro rata payout of outstanding cash incentive awards upon a qualifying termination after change in control. Same double-trigger (qualifying termination after change in control) applies to equity acceleration. No tax gross-ups.

* The definition of ROIC can be found in **Appendix C**.

2014 Target Compensation

Our target pay mix is intended to create a strong correlation between the executive's pay and corporate or segment performance. The compensation elements based on corporate or business segment performance include our EIP, LTI Cash, and equity incentives. The largest single element of pay is delivered through equity awards with multi-year vesting schedules to align the interests of our executive officers with the long-term interests of our stockholders. The following charts illustrate the allocation of our total direct compensation opportunity at target levels for 2014 between fixed and variable elements, as well as between short- and long-term elements.

Total target compensation as used in the charts above is the sum of base salary, target EIP and the grant date fair value of LTI Cash and equity incentives.

2014 Financial Performance

2014 was another successful year for ITW as the Company delivered solid operational and financial performance. In the second year of the Company's five-year Enterprise Strategy, the Company achieved strong financial results, which impacted the annual and long-term incentive compensation earned by ITW's executives, including the NEOs. Financial highlights of the year include:

Total shareholder return (stock price appreciation plus dividends) of 117.21% over the three years ended on December 31, 2014, which compares favorably with the performance of companies included in the Company's executive compensation peer group, where the median total shareholder return over the same three-year period was 78.54%. ITW's common stock provided a total shareholder return of 14.98% during 2014.

Earnings of \$4.67 per share increased 28.7% from 2013.

Total revenues of approximately \$14.5 billion, increased 2.5% from 2013, as ongoing product line simplification activities associated with the portfolio management component of ITW's Enterprise Strategy reduced 2014 revenue growth by approximately one percentage point.

Operating margins increased by 210 basis points to 19.9%, an all-time high for the Company. Operating income was \$2.9 billion, also an all-time high for the Company and an increase of 14.9% from 2013.

