ILLINOIS TOOL WORKS INC
Form DEF 14A
March 24, 2010

Table of Contents

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 x
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o 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):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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3) Filing Party:

4) Date Filed:

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Table of Contents

Illinois Tool Works Inc.
3600 West Lake Avenue
Glenview, Illinois 60026

Notice of Annual Meeting of Stockholders

Friday, May 7, 2010
3:00 P.M.

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

ITW is holding its 2010 Annual Meeting for the following purposes:

1. To elect the nine 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;

3. To consider a stockholder proposal, if presented at the Annual Meeting; and

4. To conduct any other business as may be properly brought before the meeting.

The Board of Directors recommends that you vote FOR each of the director nominees, FOR the ratification of the appointment of Deloitte & Touche LLP as ITW s independent registered public accounting firm for 2010 and AGAINST the stockholder proposal, if presented at the meeting.

Only stockholders of record at the close of business on March 9, 2010 are entitled to vote.

This year we are again furnishing materials for our 2010 Annual Meeting of Stockholders through the Internet. We believe the use of the Securities and Exchange Commission s e-proxy rule will expedite stockholders receipt of our 2010 Proxy Statement and 2009 Annual Report, as well as lower the costs and reduce the environmental impact of our Annual Meeting.

By Order of the Board of Directors,
James H. Wooten, Jr.
Secretary

March 24, 2010

Illinois Tool Works Inc.

Proxy Statement

Table of Contents

Table of Contents

Information about the Notice of Internet Availability of Proxy Materials

This year, we are again using the e-proxy rule adopted by the Securities and Exchange Commission, or SEC, to furnish proxy materials, which include our annual report to stockholders and our Annual Report on Form 10-K, to many of our stockholders through the Internet.

Stockholders who have previously signed up to Receive Proxy Materials on the Internet: On or about March 24, 2010, we will send electronically a Notice of Internet Availability of Proxy Materials (the E-Proxy Notice) to those stockholders that have previously signed up to receive their proxy materials and other stockholder communications on the Internet instead of by mail.

Stockholders who have previously signed up to Receive All Future Proxy Materials in Printed Format by Mail: On or about March 24, 2010, we will begin mailing printed copies of our proxy materials to all stockholders who previously submitted a valid election to receive all future proxy materials and other stockholder communications in written format.

All other Stockholders: On or about March 24, 2010, we will begin mailing the E-Proxy Notice to all other stockholders. If you received the E-Proxy Notice by mail, you will not automatically receive a printed copy of the proxy materials. Instead, the E-Proxy Notice instructs you as to how you may access and review our proxy materials. The E-Proxy Notice also instructs you as to how you may submit your proxy on the Internet. If you received the E-Proxy Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the E-Proxy Notice.

Receiving Future Proxy Materials Electronically: Stockholders may also sign up to receive future proxy materials, including E-Proxy Notices, and other stockholder communications electronically instead of by mail. This will reduce our printing and postage costs and eliminate bulky paper documents from your personal files. To sign up to receive stockholder communications electronically, follow the instructions on your proxy card or E-Proxy Notice under Vote by Internet by going to www.proxyvote.com, entering your 12-digit control number (which appears on your proxy card or E-Proxy Notice) and, when prompted, indicate that you agree to receive such communications electronically in the future. In order to receive the communications electronically, you must have an e-mail account and access to the Internet.

Table of Contents

Questions and Answers

Following are questions often asked by stockholders of publicly held companies. We hope that the answers will assist you in casting your vote.

What am I voting on?

We are soliciting your vote on:

1. The election of the nine directors named in this proxy statement for the upcoming year;

2. The ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2010;

3. A stockholder proposal requesting reports on political contributions and expenditures; and

4. Any other business as may be properly brought before the meeting.

Who may vote?

Stockholders at the close of business on March 9, 2010, the record date, may vote. On that date, there were 502,447,615 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.	In person:	Attend our Annual Meeting, where ballots will be provided; or
2.	By telephone:	See the instructions at www.proxyvote.com; or
3.	By Internet:	See the instructions at www.proxyvote.com; or
4.	By mail:	If you received a printed copy of these proxy materials by mail, by signing, dating and mailing the enclosed proxy card.

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 1:00 a.m., Central Time, on May 7, 2010.

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

Shares held through an ITW 401(k) plan must be voted by 11:59 p.m., Central Time, on May 5, 2010 in order to be tabulated in time for the meeting.

Table of Contents

How does discretionary voting authority apply?

If you vote by proxy, the individuals named on the proxy card (your proxies) will vote your shares in the manner you indicate. If you do not indicate how you want to vote, you give authority to William F. Aldinger, Marvin D. Brailsford and Susan Crown to vote on the items discussed in these proxy materials and on any other matter that is properly raised at our Annual Meeting. If you do 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, AGAINST the stockholder proposal and FOR or AGAINST any other properly raised matter at the discretion of Ms. Crown and Messrs. Aldinger and Brailsford.

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.

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 control number, you must vote 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 proposal because that holder does not have voting authority for that proposal and has not received voting instructions from you.

What vote is required to approve each proposal?

Election of Directors: Each nominee who receives a majority of the votes cast with respect to his or her election will be elected. A majority of the votes cast means that the number of shares voted for a director must exceed the number of shares voted against that director. Any nominee who fails to receive a majority of the votes cast for election is expected to tender his or her resignation in accordance with our Corporate Governance Guidelines as discussed more fully under Corporate Governance Policies and Practices Director Election on page 15. Abstentions and broker non-votes will not be votes cast and will have no effect on the election of directors. Please note that unlike previous years, brokers holding shares beneficially owned by their clients will no longer have the ability to cast votes with respect to the election of directors unless they have received voting instructions from their clients. 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 on the election of directors is counted.

Ratification of the Appointment of Independent Registered Public Accounting Firm: Although we are not required to submit the appointment of our independent registered public accounting firm to a vote of stockholders, we believe that it is appropriate to ask that you ratify the appointment. Ratification of the appointment of Deloitte & Touche LLP as ITW s independent registered public accounting firm requires the affirmative vote of a majority of the shares present or represented by proxy at our Annual Meeting and entitled to vote. An abstention will have the effect of a vote against the ratification since it is one fewer vote for approval. If you are a beneficial owner, your bank, broker or other holder of record is permitted to vote your shares on this ratification, even if they do not receive voting instructions from you; therefore, no broker non-votes will occur with respect to this proposal.

Stockholder Proposal Requesting Reports on Political Contributions and Expenditures: Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy at our Annual Meeting and entitled to vote. An abstention will have the effect of a vote against this proposal since it is one fewer vote for approval, but a broker non-vote will have no effect.

How do I submit a stockholder proposal?

To be considered for inclusion in our proxy statement for our May 2011 Annual Meeting, a stockholder proposal must be received no later than November 24, 2010. Your proposal must be in writing and must comply with the proxy rules of the 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 2011 Annual Meeting. We must receive your proposal in writing on or after January 7, 2011, but no later than February 6, 2011. 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.

Table of Contents

How do I nominate a director?

If you wish to nominate an individual for election as a director at our May 2011 Annual Meeting, our Secretary must receive your written nomination on or after January 7, 2011, but no later than February 6, 2011. 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 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 his or her 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 on page 15.

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.

Table of Contents

Election of Directors

Stockholders are being asked to elect the nine 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 2011 Annual Meeting, until a qualified successor director has been elected, or until he or she resigns or is removed. After over 42 years of distinguished service, Harold B. Smith is not a nominee for re-election and is retiring from the Board as of the date of the Annual Meeting. After over 11 years of distinguished service, William F. Aldinger is not a nominee for re-election at the Annual Meeting. Accordingly, Messrs. Smith and Aldinger are not included as nominees below for election at the Annual Meeting.

The Board intends to appoint Harold B. Smith as an emeritus director, effective upon his retirement as a board member, in order to continue to benefit from his wisdom, judgment and experience. Pursuant to our by-laws, an emeritus director serves as an advisor and consultant to the Board of Directors and may be appointed as advisor and consultant to committees of the Board. An emeritus director may be invited to attend Board and committee meetings and participate in discussions, but is not permitted to vote on matters brought before the Board or any committee and cannot be counted for the purpose of determining a quorum.

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.

Marvin D. Brailsford, 71, retired as Vice President of Kaiser-Hill Company LLC, a construction and environmental services company, in June 2002, a position he had held since September 1996. Prior to his employment with Kaiser-Hill, he served with the United States Army for 33 years, retiring with the rank of Lieutenant General. Gen. Brailsford is currently a director of Conn s, Inc. and has not served as a director of any other publicly traded company in the last five years. Gen. Brailsford has served as a director of ITW since 1996. Having served as the Deputy Commanding General, Materiel Readiness, and Executive Director for Conventional Ammunition for the United States Army Materiel Command, Gen. Brailsford has extensive experience in executive management, procurement and logistics. This experience, along with his executive experience in the construction and environmental services businesses, provides a valuable perspective of our global manufacturing and distribution operations.

Table of Contents

Susan Crown, 51, 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. She has extensive experience with civic and not-for-profit organizations, having served on the boards of many such organizations and having received a number of awards for her distinguished civic service. Her experience as a board member on various large nonprofit organizations has given her a valuable perspective on many current corporate responsibility topics.

Don H. Davis, Jr., 70, retired as Chairman of the Board of Rockwell Automation, Inc., a leading global provider of industrial automation power, control and information products and services, in February 2005, a position he had held since 1998. From 1997 to 2005, he also served as Rockwell s Chief Executive Officer. Mr. Davis is not currently a director of any publicly traded company other than ITW; however, he was formerly a director of Ciena Corporation, Journal Communications, Inc. and Rockwell Automation, Inc. Mr. Davis has served as a director of ITW since 2000. In addition to his experience as chief executive officer of a major global industrial manufacturing company, Mr. Davis has an extensive background in mechanical engineering. He also has many years of experience on public company boards, as well as on the boards of civic and other not-for-profit organizations. His experience and background have enabled him to develop a deep operational understanding of our global businesses and work force.

Robert C. McCormack, 70, is an Advisory Director of Trident Capital, Inc., a venture capital firm, and was a Partner of Trident from 1993 to the end of 2004. From 1987 to 1993, Mr. McCormack served successively as Deputy Under Secretary of Defense and Assistant Secretary of the Navy (Finance and Comptroller). Mr. McCormack is currently a director of MeadWestvaco Corporation and Northern Trust Corporation and its subsidiary, The Northern Trust Company, and was formerly a director of DeVry Inc. Mr. McCormack has served as a director of ITW since 1993 and previously served as a director of ITW from 1978 through 1987. Mr. McCormack s extensive experience in the investment banking industry and private equity investment, in addition to his service in the Navy, where he was responsible for the operating financial systems throughout the United States Department of the Navy, has given him vast experience in managing complex financial systems. He also has extensive experience as a director of other large cap public companies, as well as financial institutions.

Table of Contents

Robert S. Morrison, 67, 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 3M Company and Aon Corporation and was formerly a director of The Tribune Co. Mr. Morrison has served as a director of ITW since 2003 and currently serves as lead director. Mr. Morrison s experience as a former top executive of three public global consumer products companies and his long-standing experience as a director of 3M Company and Aon Corporation, as well as other public companies and civic and not-for-profit organizations, provide valuable insight and understanding of global operations.

James A. Skinner, 65, has served as Vice Chairman of McDonald s Corporation, a restaurant chain, since 2003 and Chief Executive Officer since November 2004, previously serving as President and Chief Operating Officer of McDonald s Restaurant Group from February 2002 to December 2002; President and Chief Operating Officer of McDonald s Europe, Asia/Pacific, Middle East and Africa from 2001 to 2002; and President of McDonald s-Europe from 1997 to 2001. Mr. Skinner is currently a director of Walgreen Co. and McDonald s Corporation and has not served as a director of any other publicly traded company in the last five years. Mr. Skinner has served as a director of ITW since 2005. Mr. Skinner s valuable experience serving as the chief executive officer of one of the largest global companies in the world, and his experience from holding various positions within the organization, including executive positions in McDonald s international operations throughout the world, gives him broad experience in many different management/executive roles. His experience gives him valuable insights and perspectives to our global operations.

David B. Smith, Jr., 43, 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 at the Securities and Exchange Commission serving as Associate Director, Division of Investment Management from 2001 to 2005; Assistant General Counsel for Investment Management, Office of the General Counsel, from 1998-2001; and Attorney, Office of the General Counsel, from 1996 to 1998. Mr. Smith was elected as a director of ITW in December 2009. In the last five years, Mr. Smith has not served as a director of a publicly traded company other than ITW. Mr. Smith s extensive legal and regulatory experience from serving in various legal and supervisory capacities at the Securities and Exchange Commission, as well as his executive experience in a mutual fund industry organization, enable him to bring to the Board the perspective of both a regulator and industry participant, and his experience working with independent fund directors gives him a unique perspective as an independent Board member of ITW. Mr. Smith is a nephew of Mr. Harold B. Smith, who is expected to become an emeritus director as of the date of the Annual Meeting.

David B. Speer, 58, has served as Chairman of ITW since May 2006 and as Chief Executive Officer of ITW since August 2005 and was President from August 2004 to May 2006, previously serving as Executive Vice President from 1995 to August 2004. Mr. Speer has 31 years of service with ITW. Mr. Speer is currently a director of Rockwell Automation, Inc. and Deere & Company and has not served as a director of any other publicly traded company in the last five years. Mr. Speer has served as a director of ITW since 2005. Mr. Speer, with his over 31 years of experience at the Company, has a deep understanding of the business operations, the operating philosophy and the culture of ITW. In addition, his experience as a director of Rockwell Automation, Inc. and Deere & Company gives him the perspective of a director of other global manufacturers. He also has extensive experience participating as a board member of numerous civic and nonprofit organizations. His depth of experience at ITW and as a director at other major companies with global operations enables him to lead ITW and the Board effectively.

Pamela B. Strobel, 57, 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 her employment with Exelon, and prior to the merger of PECO Energy Company and Unicom Corporation, 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 and was formerly a director of Sabre Holdings Corporation. Ms. Strobel has served as a director of ITW since 2008. With her extensive executive and legal experience in the energy industry, her experience as a director of other large public companies and her involvement in civic activities and not-for-profit organizations, Ms. Strobel s experience and perspectives are valuable contributions to the Board s overall expertise.

Board of Directors and Its Committees

The Company s Board of Directors met seven times during 2009. In addition to meetings of the full Board, directors attended meetings of Board committees. Non-employee directors, all of whom are independent, met five times in regularly scheduled executive sessions. The Chairmen of the Board of Directors standing committees rotated as the Chairman of executive sessions of the independent directors until the appointment of Robert S. Morrison as Lead Director on May 8, 2009. Thereafter, Mr. Morrison served as Chairman of the executive sessions.

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 role of Chairman and Chief Executive Officer should be combined each time the Board elects a new chief executive officer. David Speer, our current Chairman and CEO, has over 31 years of service with the Company. Robert Morrison, our lead director, is an experienced director, having served on the boards of several major public companies, and is also a former CEO of several major public companies. Our lead director is the key liaison, and serves as an effective avenue for information flow between the CEO and the independent directors. He also promotes an appropriate balance between the powers of the CEO and the independent directors. Our Board believes that in light of the blend of experience and skills of our CEO and board, the lead director structure is the appropriate leadership structure for our Board at this time. Whether the same leadership structure will be selected when our CEO s tenure with the Company ends is a matter that our Board believes should be evaluated at the time in light of the skills and experience of the new CEO and other relevant considerations.

The Board of Directors has standing audit, compensation, corporate governance and nominating, and finance committees. Under the terms of their 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 encourages its directors to attend all Board and committee meetings and the Annual Meeting of Stockholders. In 2009, 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 then serving attended our 2009 Annual Meeting of Stockholders.

Audit Committee

Meetings in 2009:	4
Members:	Don H. Davis, Jr. (Chairman)
	Marvin D. Brailsford
	Robert C. McCormack
	James A. Skinner
	David B. Smith, Jr. (appt. 12/4/09)
	Pamela B. Strobel

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 reviews and evaluates our policies and practices with respect to risk

Table of Contents

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 in the Audit Committee Report on page 47.

Compensation Committee

Meetings in 2009:	3
Members:	William F. Aldinger (Chairman)
	Susan Crown
	Robert S. Morrison
	James A. Skinner
	Pamela B. Strobel

The Compensation Committee establishes and oversees executive and director 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. 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. Cook was asked to review materials relevant to the overall compensation of our executives and to meet with our management and members of the Compensation Committee in order to gain strategic insight into the Company s compensation programs. On a limited basis, Company management has engaged Hewitt Associates LLC to provide competitive market data (including information with respect to the Company s peer group companies). From time to time, the Compensation Committee reviews the materials provided by Hewitt Associates LLC to management.

Additional information on the Compensation Committee, its activities, its relationship with its compensation consultant and the role of management in setting compensation, is provided in the Compensation Discussion and Analysis beginning on page 21.

Corporate Governance and Nominating Committee

Meetings in 2009:	3
Members:	Marvin D. Brailsford (Chairman)
	Susan Crown
	Don H. Davis, Jr.
	Robert S. Morrison (appt. Chairman 2/12/10)
	James A. Skinner

The Corporate Governance and Nominating Committee identifies, evaluates and recommends director candidates; develops, administers and recommends corporate governance

Table of Contents

guidelines; oversees the evaluations of the performance and procedures of the Board and individual directors; and makes recommendations as to Board committees and Board size. On February 12, 2010, the Corporate Governance and Nominating Committee approved the retention of Russell Reynolds Associates, Inc. to assist it in identifying potential board candidates, as several of our directors are approaching retirement age. See Corporate Governance Policies and Practices Director Candidate Selection Process below for a description of the director selection process.

Finance Committee

Meetings in 2009:	2
Members:	Robert C. McCormack (Chairman)
	William F. Aldinger
	Don H. Davis, Jr.
	Robert S. Morrison
	David B. Smith, Jr. (appt. 12/4/09)
	Harold B. Smith

The Finance Committee reviews, evaluates and recommends management s proposals to the Board relating to the Company s financing, investment portfolio, real estate investments, 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 risks arising from the Company s investments, treasury function (such as derivatives and interest rates) and liquidity.

Board s Role in Risk Oversight

The Board of Directors is responsible for the overall risk oversight of the Company. While the Board has delegated to the Audit Committee the responsibility to review and evaluate the Company s overall risk policies and practices, the responsibility for the review and evaluation of risks relating to investments and other treasury functions has been delegated to the Finance Committee, and risks arising from the Company s compensation policies and practices has been delegated to the Compensation Committee. Each of these committees reports their findings to the full Board, and the Compensation Committee is also charged with providing input to management on whether the Company s compensation policies and practices may have a material adverse effect on the Company.

Starting in 2004, the Company performed an enterprise risk management review, which identified key business risks of the Company, including, but not limited to, business environment (including industry, market, sourcing, competition and operations), tax, acquisitions, legal (including product liability), financial, regulatory and investment risks. At each Audit Committee meeting, Company management gives a presentation on at least one of these risks, providing the Committee members an opportunity to discuss the risks and the risk mitigation processes. Certain risks are reviewed and discussed annually, while others are considered on a rotating basis. The Audit Committee reports its evaluation of each risk presentation to the full Board after each Audit Committee meeting.

The risk reviews conducted by the Compensation and Finance Committees are also reported to the full Board on a regular basis. The Company believes that because each of these committees is comprised of independent board members, the Chairman 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. In that regard, we continuously review our corporate governance policies and practices not only for compliance with the provisions of the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC, and the listing standards of the NYSE, but also for good corporate governance principles.

Our Board of Directors has adopted and annually reviews charters for our Audit, Compensation, and Corporate Governance and Nominating Committees. We maintain a corporate governance section on our website that includes the charters of these committees, the Company s Corporate Governance Guidelines, the Company s Statement of Principles of Conduct (our code of business conduct and ethics for directors, officers and employees) and the Company s 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 lead director, or with the independent directors as a group by sending an e-mail to **independentdirectors@itw.com** or by writing to any of our directors c/o Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, IL, 60026, Attention: Secretary.

Board Independence

Our Board conducts an annual review 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. 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 David B. Speer, 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 Messrs. McCormack and Harold 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 on page 46; (2) Messrs. Aldinger, McCormack, Morrison, Skinner and Harold Smith serve as directors of companies that have an existing customer or supplier relationship with the Company; (3) Ms. Crown has an indirect interest in a company with which we conduct business; (4) Ms. Strobel serves as a director of a company that owns 4% of the Company s common stock and as a director of a company with which we conduct business; and (5) Mr. David B.

Table of Contents

Smith is the nephew of Harold B. Smith. The Board has concluded that these relationships are not material and, therefore, do not impair the independence of the 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 broad-based business and professional skills and experiences, a global business and social perspective, concern for the long-term interests of our stockholders, and personal integrity and judgment. Racial, ethnic and gender diversity are also considered in the director selection process, as well as diversity of experience and backgrounds, but there is no specific policy regarding Board diversity. 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 highly qualified directors who have sufficient time to attend to their duties and responsibilities to the Company.

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 criteria 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 endorsement of the selected candidate(s). Mr. David Smith was initially recommended to the Board by a non-management director.

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? on page 6.

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 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.

Table of Contents

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 2009 Annual Meeting, each director received a majority of the votes cast for his or her election.

Director Compensation

Annual Retainer and Chair Fees

In 2009, the annual cash retainer for non-employee directors is $135,000, and the annual fee for committee chairs is an additional $5,000, except for the Audit Committee chair, whose annual fee is $15,000. Non-employee directors are given the opportunity to elect annually to receive all or a portion of their annual retainer and chair fees in an equivalent value of ITW common stock pursuant to our Stock 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.

In recognition of the additional time and responsibility required of the chair of the Compensation Committee, effective January 1, 2010, the Compensation Committee chair fee was increased to $10,000.

Directors Deferred Fee Plan

Non-employee directors can defer receipt of all or a portion of their annual retainer and chair fees until retirement or resignation. Deferred fee amounts are credited with interest quarterly at current rates. A director can also elect to defer receipt of the ITW common stock received in lieu of a cash payment, in which case 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 Stock Incentive Plan), with any fractional shares paid in cash.

ITW Common Stock

The Company grants stock to its non-employee directors under our Stock Incentive Plan, which links this element of compensation to our long-term performance. Under our director compensation program, in 2009 non-employee directors received an annual stock grant equivalent in value to approximately $30,000, or 854 shares of stock.

The Compensation Committee, based on information provided by Cook, found that the equity portion of our outside director compensation was low in relation to total director compensation and that total director compensation was below median levels. Effective January 1,

Table of Contents

2010, non-employees directors will receive an annual stock grant equivalent in value to $65,000. On that basis, on February 12, 2010, each non-employee director was granted 1,489 shares of stock.

Phantom ITW Stock

To tie a further portion of their compensation to our long-term performance, non-employee directors of the Company are awarded 1,000 units of phantom stock upon first becoming a director. The value of each unit equals the market value of one share of ITW common stock. Additional units are credited to a director s phantom stock account in an amount equivalent to cash dividends paid on ITW stock. Accounts are adjusted for stock dividends, stock splits, combinations or similar changes. A director is eligible for a cash distribution from his or her account at retirement or upon approved resignation. Directors may elect to receive their phantom stock distribution in either a lump sum or in up to ten annual installments. Directors receive the value of their phantom stock accounts immediately upon a change of control.

Director Compensation in Fiscal Year 2009

The following table summarizes the compensation for our directors who served during 2009.

Name(1)	**Fees Earned or Paid in Cash ($)(3)(4)**	**Stock Awards ($)(5)**	**Total ($)**
William F. Aldinger	$ 140,000	$ 29,992	$ 169,992
Marvin D. Brailsford	$ 140,000	$ 29,992	$ 169,992
Susan Crown	$ 135,000	$ 29,992	$ 164,992
Don H. Davis, Jr.	$ 150,000	$ 29,992	$ 179,992
Robert C. McCormack	$ 140,000	$ 29,992	$ 169,992
Robert S. Morrison	$ 135,000	$ 29,992	$ 164,992
James A. Skinner	$ 135,000	$ 29,992	$ 164,992
David B. Smith, Jr.(2)	$ 10,161	$ 48,490	$ 58,651
Harold B. Smith	$ 140,000	$ 29,992	$ 169,992
Pamela B. Strobel	$ 135,000	$ 29,992	$ 164,992

(1) David B. Speer is not included in this table since he does not receive any compensation for his service as a director.

(2) David B. Smith, Jr. was elected to the Board of Directors effective December 4, 2009.

(3) The following directors elected to convert some or all fees earned in 2009 to shares of ITW common stock and to defer receipt of those shares:

Name	**Fees Deferred in 2009**	**Number of Shares**
Marvin D. Brailsford	$ 70,000	1,834
Susan Crown	$ 67,500	1,769
Don H. Davis, Jr.	$ 150,000	3,931

Robert S. Morrison	$ 135,000	3,538
James A. Skinner	$ 135,000	3,538
Pamela B. Strobel	$ 135,000	3,538

(4) In addition to $135,000 annual retainer, includes committee chair fees ($5,000 for Mr. Aldinger; $5,000 for Mr. Brailsford; $15,000 for Mr. Davis; $5,000 for Mr. McCormack; and $5,000 for Mr. Harold Smith).

(5) In 2009, each director, with the exception of Mr. David Smith, received an annual stock grant of 854 shares equivalent in value to approximately $30,000. On December 4, 2009, Mr. David Smith received an award of 1,000 phantom stock units with a grant date fair value of $48,490. As of December 31, 2009, the directors phantom stock accounts had phantom stock unit balances as follows: Mr. Aldinger, 2,393; Mr. Brailsford, 4,872; Ms. Crown, 4,925; Mr. Davis, 2,357; Mr. McCormack, 4,925; Mr. Morrison, 2,262, Mr. Skinner, 2,200 and Ms. Strobel, 1,055.

Table of Contents

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, 2009. The named executive officers are our Chief Executive Officer, our Chief Financial Officer, 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) and one executive officer who retired in 2009. The percent of class calculation is based on 502,336,201 shares of ITW common stock outstanding as of December 31, 2009.

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 that are exercisable currently or that become exercisable 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, 2009. Phantom stock units are not transferable and have no voting rights. The units 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)			
William F. Aldinger	31,162(1)	2,393	*
Marvin D. Brailsford	19,488	4,872	*
Susan Crown	28,845(2)	4,925	*
Don H. Davis, Jr.	31,125	2,357	*
Robert C. McCormack	17,111,665(3)	4,925	3.4%
Robert S. Morrison	61,356	2,262	*
James A. Skinner	14,266	2,200	*
David B. Smith, Jr.	117,887(4)	1,000	*
Harold B. Smith	45,737,361(5)		9.1%
Pamela B. Strobel	7,929	1,055	*
Named Executive Officers			
David B. Speer	1,594,097(6)		*
Ronald D. Kropp	141,582(7)		*
Thomas J. Hansen	735,089(8)		*
E. Scott Santi	289,850(9)		*
Russell M. Flaum	536,861(10)		*
Philip M. Gresh, Jr.	365,432(11)		*
			*
	51,375,516(12)	25,989	10.2%

Directors and Executive Officers as a Group
(29 Persons)

* Less than 1%

(1) Includes (a) 6,000 shares owned by a charitable foundation of which Mr. Aldinger is an officer and a director; and (b) 200 shares owned by Mr. Aldinger s spouse, as to which he disclaims beneficial ownership.

(2) Includes (a) 4,000 shares owned by Ms. Crown s spouse, as to which she disclaims beneficial ownership; and (b) 4,000 shares held in trusts of which Ms. Crown s children are beneficiaries, as to which she disclaims beneficial ownership.

(3) Includes (a) 800 shares owned in a trust, as to which Mr. McCormack shares voting and investment power with The Northern Trust Company; (b) 17,062,528 shares owned in twelve 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 (4,858,914 of these shares are pledged to secure lines of credit); (c) 12,550 shares owned in a limited partnership in which Mr. McCormack owns 99% of the limited partnership units; and (d) 27,534 shares owned in a limited partnership, as to which Messrs. McCormack and Harold Smith and The Northern Trust Company are co-trustees of the four trusts that hold 100% of the limited partnership units.

(4) Includes (a) 45,000 shares owned in a trust as to which Mr. David Smith shares voting and investment power with his spouse; (b) 57,901 shares owned jointly with his spouse (all 57,901 of these shares are pledged to secure lines of credit); and (c) 14,986 shares held in trusts of which Mr. Smith s children are beneficiaries, as to which he disclaims beneficial ownership.

(5) Includes (a) 25,848,414 shares owned in 11 trusts, one family limited partnership, and one limited liability company as to which Mr. Harold Smith shares voting and investment power with The Northern Trust Company and others (all 25,848,414 of these shares are pledged to secure lines of credit); (b) 2,032,322 shares owned in nine trusts as to which Mr. Harold Smith shares voting and investment power (1,508,592 of these shares are pledged to secure lines of credit); (c) 17,062,528 shares owned in twelve trusts as to which Messrs. Harold Smith and McCormack and The Northern Trust Company are trustees and share voting and investment power; (d) 732,843 shares owned in a revocable trust; (e) 31,667 shares owned by a charitable foundation of which Mr. Harold Smith is a director; and (f) 27,534 shares owned in a limited partnership, as to which Messrs. Harold Smith and McCormack, one other individual, and The Northern Trust Company are co-trustees of the four trusts that hold 100% of the limited partnership units. Mr. Harold Smith s address is c/o Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, Illinois, 60026, Attention: Secretary.

(6) Includes (a) 1,916 shares allocated to Mr. Speer s account in the ITW Savings and Investment Plan; and (b) 1,478,398 shares covered by options exercisable within 60 days.

(7) Includes (a) 2,567 shares allocated to Mr. Kropp s account in the ITW Savings and Investment Plan; and (b) 135,176 shares covered by options exercisable within 60 days.

(8) Includes 713,359 shares covered by options exercisable within 60 days.

(9) Includes (a) 3,113 shares allocated to Mr. Santi s account in the ITW Savings and Investment Plan; and (b) 273,375 shares covered by options exercisable within 60 days.

(10) Includes (a) 6,747 shares allocated to Mr. Flaum s account in the ITW Savings and Investment Plan; and (b) 437,344 shares covered by options exercisable within 60 days.

(11) Includes (a) 7,488 shares allocated to Mr. Gresh s account in the ITW Savings and Investment Plan; and (b) 357,344 shares covered by options exercisable within 60 days.

(12) Includes 4,939,862 shares covered by options exercisable within 60 days and 41,045,245 shares pledged as security.

Table of Contents

Other Principal Stockholders

This table shows, as of December 31, 2009, the only stockholder other than a director that we know to be a beneficial owner of more than 5% of ITW common stock. 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	58,284,290(1)	11.6%

(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 58,284,290 shares. They have sole voting power with respect to 21,936,503 shares and share voting power with respect to 34,519,236 shares. They have sole investment power with respect to 6,435,080 shares and share investment power with respect to 43,007,630 shares. In addition, The Northern Trust Company holds in other accounts, but does not beneficially own, 35,665,983 shares, resulting in aggregate holdings by The Northern Trust Company of 93,950,273 shares, or 18.7%. This information was provided in a Schedule 13G/A filed with the SEC on February 16, 2010.

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 2009 and written representations from executive officers and directors, we believe that all filing requirements were timely met during 2009.

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, 2009, are available without charge upon written request to Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, IL, 60026, Attention: Secretary. You may also review Company SEC filings by visiting the Company s website at **www.itw.com**.

Table of Contents

Compensation Discussion and Analysis

Introduction

The Company emphasizes a total compensation approach in establishing individual executive compensation levels, with each element of compensation serving a specific purpose. The Company s compensation program consists primarily of three elements: short-term cash compensation (base salaries and annual cash incentives), longer-term equity compensation (stock options, restricted stock and restricted stock units), and retirement benefits, as illustrated below:

Annual Cash Compensation (27-40% of Total Compensation)*	Base Salary	Objective: Provide a base wage that is competitive and reflective of individual performance Generally represents 10-18% of total compensation for the named executive officers*
	Annual Incentive	Objective: Motivate executives to achieve annual business and individual goals Key Performance Metrics: Income growth Generally represents 17-22% of total compensation for the named executive officers*
Long-Term Incentives (60-73% of Total Compensation)*	Cash-Based Company Wide Growth Plan Performance-Based Restricted Stock Units Stock Options	Objective: Motivate executives to make decisions that focus on long-term stockholder value creation Core long-term incentive program consists of three distinct components with the sum targeting delivery of long-term incentive compensation within the median range of our competitive market Cash-based company-wide growth plan is new for FY 2010 Key Performance Metrics: Revenue Growth, ROIC, and EPS Generally represents 60-73% of total compensation for the named executive officers*
Retirement Benefits		Company provides two retirement savings plans: a 401(k) plan and a nonqualified deferred compensation plan Company provides 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

* Total compensation, as used in the table above, is defined as the sum of base salary, target annual cash incentives and the grant date fair value of long-term equity incentives and does not necessarily tie to the values disclosed in the Summary Compensation Table and supplemental tables.

The depth and breadth of economic recession in 2009 adversely affected the Company s financial performance during the year. End market conditions in North America, Europe and Asia-Pacific were extremely challenging as both consumer and industrial markets were impacted by the worldwide recession. As a result, the Company s revenues declined approximately 19% for 2009 versus the year-earlier period. In late 2008 and early 2009, management took aggressive steps to implement effective cost savings programs throughout the Company. As a result, the Company incurred $161 million of restructuring expense in 2009. Excluding the impact of first quarter impairment charges, these restructuring activities helped the Company move operating margins from 5.8% in the first quarter of 2009 to 12.7% in the fourth quarter of 2009. In addition, the Company s increasing diversification of revenues from both an end market and geographic basis helped to mitigate the effects of the recession. Notably, the Company s geographic mix has changed substantially since 1999. In 2009, the Company s North American revenues constituted 48% of total revenues versus 67% of total revenues in 1999. Our Europe, Middle East and Africa region accounted for 34% of total Company revenues in 2009 versus 26% in 1999; and our Asia-Pacific and Other region accounted for 18% of total Company revenues in 2009 versus 7% in 1999. Finally, the Company generated free operating cash flow of

Table of Contents

$1.9 billion for 2009. The Company continues to use free operating cash flow to reinvest in its businesses and technologies as well as acquire companies and technologies that both complement and add to its business portfolio.

In response to those economic conditions, the Compensation Committee made the following compensation decisions with respect to our named executive officers:

- We froze base salaries at 2008 levels;
- For 2009, the year-over-year income growth component of our annual cash incentive awards was replaced with a performance goal measured against our 2009 annual plan target income, and the maximum payout for elected officers was reduced from 100% to 53%;
- We replaced one-third of the annual equity award to named executive officers with performance-based restricted stock units under our long-term incentive program;
- We eliminated our financial counseling perquisite and reduced the above-market interest returns on deferrals after 2009 under our nonqualified deferred compensation program;
- Effective for 2010, we redesigned the Business Growth Incentive Plan component of our long-term incentive program to provide a cash-based company-wide growth plan based on annual awards with 3-year performance cycles tied to revenue growth and return on invested capital goals;
- The Compensation Committee engaged an independent advisor to work on its behalf in cooperation with management to review the ITW Executive Compensation Program, confirm appropriateness of comparison (peer) companies, and assess our compensation governance process; and
- We reviewed our programs and believe that our compensation programs and policies are not designed to encourage our executives to take unnecessary or excessive risks that could harm the long-term value of the Company.

These changes do not adversely impact the Company s flexibility to recognize and reward superior company, business unit and individual performance by differentiating the cash incentive and equity awards made to individual executives.

In making its executive compensation decisions and recommendations, the Compensation Committee is guided by the following factors:

- Our compensation philosophy.
- Compensation comparisons from a peer group of diversified multinational industrial companies.
- Management s contribution to our short-term and long-term growth.

See Board of Directors and Its Committees Compensation Committee for more information about the function of the Compensation Committee.

Table of Contents

Compensation Philosophy

Our compensation philosophy is reflective of our overall operating philosophy and management structure and is intended to:

- Provide employees with a competitive pay arrangement.
- Over the long-term, target base salaries at market, which would be median or 50th percentile.
- Drive pay for performance through a competitive short-term incentive cash bonus program, which links pay primarily to business unit performance and individualized objectives.
- Reward long-term performance and provide for capital accumulation through equity-based awards.

Peer Companies

In 2007, we selected a group of comparable companies to benchmark executive pay, providing competitive market data to be used in establishing and recommending each element of compensation. This group was selected using the following criteria:

- Companies that are within a reasonable size range in various measures, such as revenue, operating income, total assets, total equity, employees, and market cap;
- Companies with comparable financial characteristics that investors view similarly, such as multinational, diversified, and industrial;
- Companies that compete for the same customers with similar products/services; and
- Companies with whom we may compete for executive talent.

Every year the group is reviewed to ensure the appropriateness of the companies in the group. Additionally, in 2009, the Compensation Committee asked Frederic W. Cook & Co., or Cook, to review the peer group. After both reviews, no changes were made and the following 18 companies were retained as the peer group:

3M Company	Eaton Corporation	Masco Corporation
Caterpillar Inc.	Emerson Electric Company	Parker-Hannifin Corporation
Cooper Industries Ltd.	Honeywell International Inc.	Textron Inc.
Danaher Corporation	Ingersoll-Rand Company Ltd.	TRW Automotive Holdings Corporation
Deere & Company	ITT Corporation	Tyco International Ltd.
Dover Corporation	Johnson Controls, Inc.	United Technologies Corporation

The nature of the Company s highly decentralized and diverse lines of business presents challenges in identifying similar organizations for comparison purposes; however, we believe that the peer group selected provides relevant comparisons. While peer group data is not directly used to set any particular element of compensation, the Compensation Committee believes that in order to attract, retain and motivate our named executives, total compensation levels for these executives should be considered against the median peer group level over the long term.

Management s Contributions to Our Growth

The Company s decentralized management structure emphasizes line management. This structure allows us to give unusually substantial operating authority to executive officers and is

23

an important element in developing and retaining our senior managers and in creating high job satisfaction. The general managers of our businesses are empowered to make the decisions necessary to serve their customers and grow their businesses and are accountable for their business unit s results. Our executive management s role is to ensure that these decisions are carried out in accordance with our values and expectations for the near and long term and are, in general, in the best interests of our stockholders.

Use of Discretion in Setting Compensation

The Company s compensation programs recognize the importance of ensuring that discretion as related to market conditions and both individual and business unit performance is provided to the Chief Executive Officer (the CEO) and Compensation Committee in determining compensation levels and awards. In setting base salaries and annual cash incentive award maximums, and in determining grants of longer-term equity awards, the CEO and Compensation Committee use judgment to align compensation with respect to both external data and an internal comparison of individual responsibilities, potential and achievement.

Compensation Decisions and Individual Compensation Levels

There are no material differences in the policies and decision processes used in setting compensation for the CEO and the other named executive officers. However, the different levels of compensation for the named executive officers as shown in the Summary Compensation Table of this proxy statement reflect internal factors such as each executive s scope of responsibility, impact on profitable growth, and breadth of experience, as well as external market data from the peer companies. On an annual basis, the CEO reviews the total compensation of senior executives and makes recommendations to the Compensation Committee based on his assessment of each executive s individual performance and the peer company compensation information. The Compensation Committee makes recommendations to the independent directors regarding the CEO s compensation based on an assessment of the CEO s performance and information relative to compensation of CEOs of the peer companies. The Compensation Committee believes that it is appropriate to benchmark total compensation for the CEO to the levels of base salary, annual incentive, and longer-term incentives being provided to CEOs of comparable multinational and diversified industrial organizations previously described under Peer Companies.

Base Salary

In determining base salary, the CEO and the Compensation Committee consider the size and scope of the executives responsibilities and the median base salary of similar positions at our peer companies, as well as the executive officers past experience, performance and future potential. The Compensation Committee believes that the median base salary is an appropriate general reference point to use for encouraging solid performance. Base salaries are reviewed annually and adjustments are intended to recognize an executive officer s performance and contributions over the prior year, as well as any significant changes in duties or scope of responsibility. Adjustments to base salary also take into account peer group information and such officer s total compensation.

We have a common review process for base salary and incentive compensation for our senior executive officers. This process allows the Compensation Committee and the CEO to review base compensation and discuss recommended changes considering individual contributions to overall financial and operating results for the year and to set objectives for the upcoming year.

In response to the deteriorating economic environment our businesses faced at the end of 2008, management recommended, and the Compensation Committee agreed, that there be no base salary increases in 2009 for any of our executive officers.

Annual Cash Incentives

We believe that generally, management should be rewarded for contributions to our overall financial success measured by income growth of their business unit, their group or the Company as a whole, as well as for individual accomplishments that contribute to the longer-term health of the business. Annual cash incentive awards are made under the stockholder-approved provisions of the ITW Executive Incentive Plan. The Compensation Committee considers recommendations from the CEO and approves annual cash incentives for our executive officers. The Compensation Committee determines and recommends for approval by the independent directors the award amount for the CEO.

The plan is designed around two elements: income performance (the P factor) and personal objectives (the O factor). The P factor weighting is 60% of each named executive officer s potential award opportunity with the remaining 40% based on the O factor objectives. In addition, the weighting of the P factor for operating executives is 33% of corporate results and 67% of their respective businesses. These weightings are intended to emphasize the financial performance element and reinforce the increasing need to collaborate across businesses.

Participation in our Executive Incentive Plan is limited to those who have an impact on the profitable growth of the business or who have significant responsibility for a major element of business growth. The P factors are recommended by management and must be approved by the Compensation Committee annually. The individual O factors for the CEO are established by the Compensation Committee annually, and the individual O factors for each other named executive officer are recommended by the CEO and must be approved by the Compensation Committee.

Individual award maximums, expressed as percentages and applied to year-end base salary, are determined in accordance with the executive s level of responsibilities and accountability. Both the P and O factors have a payout range of 0% to 100% of the maximum for the named executive officers. Although we generally do not establish any specific target or prescribed value in relation to peer groups, comparisons are made to median annual cash incentive levels in the peer group compensation data. The Company s annual cash incentives are variable and structured to provide awards above these median levels only upon the achievement of exceptional financial results and individual performance objectives. Payments under the plan are made following the end of the fiscal year after approval by the Compensation Committee.

Income-Based Annual Cash Incentive (P Factor)

For 2007 and 2008, the P factor was calculated based on year-over-year income growth. This means that the current year income was compared to the prior year to measure the percentage of increase. Participants began to earn payment for the P factor once 80% of the applicable prior year income was achieved. At the 80% achievement level, the P factor award payout was 34% of the maximum payment. At the 100% achievement level, the payout was 75%

of the maximum payment. For the named executive officers, a maximum P factor payout of 100% would only occur when 115% achievement of prior year income was reached.

For 2009, a change was made in the calculation of the P factor. Instead of year-over-year increase in income, the basis for the P factor award calculation was 2009 income performance versus the annual plan target income for the Company as a whole and for the named executive officers respective businesses. This change acknowledged the extraordinarily difficult business environment in which many of our business units were operating. For the CEO, named executive officers and other elected officers, the P factor award maximum was reduced from 100% to 53% of year-end base salary. The award maximum of 53% for named executive officers would be earned upon 100% income achievement versus plan. The threshold payout remained 34% upon 80% income achievement. The following was the P factor calculation for 2009 for the Company as a whole and for the named executive officers respective businesses:

2009 Income Achievement vs. Plan	Maximum P Factor Award% (Elected Officers)
100%	53% Max
95%	48%
90%	43%
85%	39%
80%	34%
Below 80%	0%

The 2009 P factors for Messrs. Speer and Kropp were entirely based on the 2009 income from continuing operations of the Company as a whole. For the other named executive officers, the P factor was based 67% on 2009 income achievement for their respective businesses and 33% on 2009 income achievement for the Company as a whole. The following table shows the respective income levels as planned and achieved in 2009 in connection with the determination of the P factor award for the named executive officers:

Named Executive Officer	2009 Planned Corporate or Unit Income Levels (Millions)	2009 Actual Corporate or Unit Income Levels (Millions)	% of Achievement (Actual)	% of Achievement (as Adjusted)(1)	% of P Factor Award
David B. Speer	$ 1,078.5	$ 969.5	89.9%	81.2%	35.2%
Ronald D. Kropp	$ 1,078.5	$ 969.5	89.9%	81.2%	35.2%
Thomas J. Hansen(2)	$ 756.2	$ 533.3	70.5%	70.5%	11.6%
E. Scott Santi(2)	$ 1,068.4	$ 824.1	77.1%	77.1%	11.6%
Russell M. Flaum(2)	$ 312.0	$ 163.8	52.5%	52.5%	11.6%
Philip M. Gresh, Jr.(2)	$ 392.4	$ 347.4	88.5%	88.5%	39.9%

(1) The Compensation Committee used its discretion to adjust the achievement level for the Company as a whole downward from 89.9% to 81.2% in order to take into account the return of our Decorative Surfaces segment to continuing operations, which occurred after the initial annual plan income target was established in February 2009. If Decorative Surfaces had been in continuing operations at the time the annual plan income target was set,

the income achievement level would have been 81.2% rather than 89.9%, and the Committee felt that using 81.2% as the achievement level results in a more reasonable comparison of 2009 performance vs. 2009 annual plan.

(2) For these executives, the first four columns above show the income levels as planned and achieved for their respective businesses. The composite award percentages shown in column 5 above for these executives combine

the achievement level for their respective businesses with that of the Company as a whole, as follows: Mr. Hansen, 11.6% (.33 at 35.2% + .67 at 0%); Mr. Santi, 11.6% (.33 at 35.2% + .67 at 0%); Mr. Flaum, 11.6% (.33 at 35.2% + .67 at 0%); and Mr. Gresh, 39.9% (.33 at 81.2% + .67 at 88.5% = 86.1%; the 86.1% is then applied to the P factor calculation table to yield 39.9%).

For 2010, as in years prior to 2009, the P factor will again be calculated by comparing current year income to the prior year to measure the percentage of increase.

Personal Objectives-Based Annual Cash Incentive (O Factor)

The O factors represent the personal objectives element of the annual cash incentive awards, and are more subjective than P factors. Relative weightings for the O factor objectives, which altogether represent 40% of the potential award opportunity, are established at the beginning of the year for each named executive. In early 2009, each executive submitted in writing his own proposed O factor objectives, as well as weightings assigned to each objective for that year. Each named executive other than the CEO discussed his proposed objectives and weightings with the CEO, and after these discussions had the opportunity to revise his proposal. The CEO used his judgment of each executive s role and responsibilities, as well as the strategic goals of the Company, to review and approve the objectives before recommending them to the Compensation Committee. The Compensation Committee discussed these recommendations with the CEO prior to final approval. The CEO discussed his proposed O factor objectives and weightings for 2009 with the Compensation Committee. The Compensation Committee used its judgment and understanding of the strategic goals of the Company to review and approve the objectives and weightings of the CEO.

The following is a description of the 2009 objectives and weightings as approved. Mr. Speer s objectives focused on leadership development/diversity (35%), innovation (35%), Board meeting effectiveness (10%) and acquisitions (20%). Mr. Kropp s objectives focused on leadership development (45%), organization structure (30%) and acquisitions (25%). Mr. Hansen s objectives focused on strategic tools (30%), innovation (40%) and leadership development (30%). Mr. Santi s objectives focused on leadership development (35%), strategy for specified businesses (30%) and development plans (35%). Mr. Flaum s objectives focused on leadership development (40%), emerging market growth (30%) and organizational structure and training system improvement for a specified business (30%). Mr. Gresh s objectives focused on establishing a leadership development program (30%), strategy for specified businesses (30%) and leadership development/diversity (40%).

Following the end of the year, each named executive submitted a written self-appraisal with his own assessment of the level of achievement reached in 2009, expressed as a percentage, for each of his personal objectives. The self-appraisals of the named executives other than the CEO were reviewed by the CEO, and the CEO had collaborative discussions with each of these executives. The CEO used his judgment of each executive s performance against the objectives, considering completion of objectives, relative weightings and the quality of the work performed, to reach his assessment of the achievement levels prior to submitting them for final approval by the Compensation Committee. Any adjustments made by the CEO to the self-scored achievement levels for 2009 were not material. The self-appraisal of the CEO for 2009 was reviewed by the Compensation Committee, which held collaborative discussions with the CEO and used its judgment of the CEO s performance against his objectives to reach its assessment of the achievement levels. The Compensation Committee adjusted the CEO s self-scored achievement level from 85% to 90% because it thought his self-score for acquisitions did not take into account that he maintained the Company s acquisition discipline in a very difficult environment. The independent directors approved the Compensation Committee s recommendation. There were no pre-determined factors that were considered by the CEO or the Compensation Committee during this process.

The weighting for each objective was multiplied by the relevant achievement level, and the amounts so calculated were totaled to reach the O factor achievement percentage. Based on the Compensation Committee s determination of the individual 2009 O factor objectives and actual achievements for Mr. Speer, and upon Mr. Speer s recommendations for the other named executive officers, the following O factor achievement percentages were assigned: 90% for Mr. Speer; 93.5% for Mr. Kropp; 95% for Mr. Hansen; 90.5% for Mr. Santi; 90% for Mr. Gresh; and 80% for Mr. Flaum.

2009 Annual Cash Incentive Total Payouts

The total 2009 awards for the named executive officers ranged from 39% to 60% of the individual maximum award level, and were determined as follows:

Named Executive Officer	Award Maximum	Year-End 2009 Salary	P Factor Achievement	Amount	O Factor Achievement	Amount	Total Award(1)
David B. Speer	200%	$ 1,100,000	35.2%	$ 464,640	90.0%	$ 792,000	&n