

GRAINGER W W INC  
Form DEF 14A  
March 13, 2015

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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 under §240.14a-12

**W.W. Grainger, Inc.**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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W.W. GRAINGER, INC.  
100 GRAINGER  
PARKWAY,  
LAKE FOREST, ILLINOIS  
60045-5201  
(847) 535-1000

March 13, 2015

Dear Grainger Shareholder:

The W.W. Grainger, Inc. 2015 annual meeting of shareholders will be held at our headquarters located at 100 Grainger Parkway, Lake Forest, Illinois (see map overleaf), on Wednesday, April 29, 2015, at 10 A.M. (CDT).

At the meeting we will report on our operations and other matters of current interest. We also will present a slate of nominees for election as directors as well as proposals to ratify the appointment of our independent auditor, to consider and hold an advisory vote on the compensation of our Named Executive Officers, and to approve the W.W. Grainger, Inc. 2015 Incentive Plan. The Board of Directors and management cordially invite you to attend.

The formal notice of the annual meeting and the proxy statement follow. Whether or not you plan to attend the meeting, please ensure that your shares are represented by giving us your proxy. You can do so by telephone, by Internet, or by signing and dating the enclosed proxy form and returning it promptly in the envelope provided.

Sincerely,

/s/ J. T. RYAN

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James T. Ryan  
*Chairman of the Board, President  
and Chief Executive Officer*

## YOUR VOTE IS IMPORTANT

**A majority of the outstanding shares entitled to vote on a matter must be represented either in person or by proxy to constitute a quorum for consideration of that matter at the annual meeting of shareholders. If your shares are held by a broker, unless you provide specific voting instructions, your broker will not be able to vote your shares for the election of directors, on the advisory vote related to executive compensation, on the W.W. Grainger, Inc. 2015 Incentive Plan or on other non-routine matters.**

**Please make sure your shares are voted.**

2015 PROXY STATEMENT

W.W. GRAINGER,  
INC.

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**W.W. GRAINGER, INC.**  
2015 Annual Meeting of Shareholders  
Wednesday, April 29, 2015 10 A.M. (CDT)  
Location: W.W. Grainger, Inc.  
100 Grainger Parkway  
Lake Forest, Illinois 60045-5201  
(847) 535-1000

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W.W. GRAINGER, INC.  
100 GRAINGER  
PARKWAY,  
LAKE FOREST, ILLINOIS  
60045-5201  
(847) 535-1000

NOTICE OF

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD

APRIL 29, 2015

The annual meeting of shareholders of W.W. Grainger, Inc., will be held at its headquarters at 100 Grainger Parkway, Lake Forest, Illinois (see map on previous page), on April 29, 2015, at 10 A.M. (CDT) for the following purposes:

1. To elect eleven directors for the ensuing year;
2. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent auditor for the year ending December 31, 2015;
3. To consider and hold an advisory vote on the compensation of Grainger's Named Executive Officers;
4. To consider and act upon a proposal to approve the W.W. Grainger, Inc. 2015 Incentive Plan, under which Grainger may provide equity and other awards to its employees and directors; and
5. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board has fixed the close of business on March 2, 2015, as the record date for the meeting. Shareholders may vote either in person or by proxy.

By order of the Board of Directors.

D. L. Rawlinson  
*Corporate Secretary*  
Lake Forest, Illinois  
March 13, 2015

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 29, 2015**

Grainger's Proxy Statement and Annual Report on Form 10-K are available in the 2015 Annual Shareholder Meeting/Proxy Information section of Grainger's website at <http://www.grainger.com/investor> and also may be obtained free of charge on written request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.

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**W.W. GRAINGER, INC.**

100 Grainger Parkway  
Lake Forest, Illinois 60045-5201  
(847) 535-1000

**PROXY STATEMENT**

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## Introduction

### What is the purpose of this proxy statement?

This proxy statement relates to Grainger's 2015 annual meeting of shareholders to be held on April 29, 2015, and any adjournment of that meeting to a later date. It contains information intended to help you make your voting decisions. We are sending the proxy statement to you because Grainger's Board of Directors is soliciting your proxy to vote your shares at the meeting. The mailing of the proxy statement and other proxy-soliciting materials to you and other shareholders began on or about March 13, 2015.

### What matters are scheduled to be presented?

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The election of eleven directors;

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A proposal to ratify the appointment of Ernst & Young LLP as Grainger's independent auditor for the year ending December 31, 2015;

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A proposal to consider and hold an advisory vote on the compensation of Grainger's Named Executive Officers; and

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A proposal to approve the W.W. Grainger, Inc. 2015 Incentive Plan, under which Grainger may provide equity and other awards to its employees.

### Who is entitled to vote?

Holders of shares of common stock outstanding on Grainger's books at the close of business on March 2, 2015, the record date for the meeting, may vote. There were 67,152,257 shares of common stock outstanding on that date.

### If my shares are held in street name can my broker vote for me?

Unless you have given specific voting instructions to your broker, your broker cannot vote your shares on the election of directors, on the advisory vote related to executive compensation, on the approval of the W.W. Grainger, Inc. 2015 Incentive Plan or on any non-routine matters.

### What is the difference between holding shares as "shareholder of record" and as "beneficial owner"?

If your shares are registered directly in your name with Grainger's transfer agent, Computershare Trust Company, N.A., you are the shareholder of record with respect to those shares and you have the right to instruct us directly how to vote your shares or to vote in person at the meeting.

If your shares are held in street name by a brokerage firm, bank, or other nominee, you are the beneficial owner of the shares. Your nominee is required to vote your shares according to your direction. **If you do not instruct your nominee how you want your shares voted, your shares cannot be voted for the election of directors, on the advisory vote on the compensation of Grainger's Named Executive Officers, or on the approval of the W.W. Grainger, Inc. 2015 Incentive Plan.** Please contact your brokerage firm, bank, or other nominee with instructions to vote your shares for the election of directors and on other matters to be considered at the meeting.

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**How many votes do I have?**

You have the right to cumulative voting in the election of directors. This means that you have a number of votes in the election equal to the number of shares you own multiplied by the number of directors being elected. You can cast those votes for the nominees as you choose. For example, you may cast all your votes for one nominee or you may apportion your votes among two or more nominees.

In any matter other than the election of directors, each of your shares is entitled to one vote.

**Does Grainger have majority voting for election of directors?**

Yes. Directors are elected by the votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

**What voting standard applies to the ratification of the appointment of independent auditor?**

Ratification of the appointment of independent auditor requires the affirmative votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

**What voting standard applies to the advisory vote on the compensation of the Named Executive Officers?**

Although the shareholders' vote is advisory and therefore non-binding, the vote on the compensation of the Named Executive Officers Grainger's five highest paid officers whose compensation is discussed in the Compensation Discussion and Analysis section of this proxy statement is determined by the votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

**How frequently does Grainger conduct an advisory vote on the compensation of its Named Executive Officers?**

The Board of Directors has determined to hold an advisory vote on the compensation of the Named Executive Officers at every annual meeting of shareholders.

**What voting standard applies to the approval of the W.W. Grainger, Inc. 2015 Incentive Plan?**

Approval of the W.W. Grainger, Inc. 2015 Incentive Plan requires the affirmative votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

**What if I don't indicate my voting choices?**

If Grainger receives your proxy in time to permit its use at the meeting, your shares will be voted in accordance with the instructions you indicate. If we have received your proxy and you have not indicated otherwise, your shares will be voted as recommended by Grainger's Board. Specifically, your shares will be voted, either individually or cumulatively:

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FOR the election of the director nominees;

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FOR the proposal to ratify the appointment of the independent auditor;

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FOR the approval of the advisory resolution on the compensation of Grainger's Named Executive Officers; and

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FOR the approval of the W.W. Grainger, Inc. 2015 Incentive Plan.

If you are a beneficial owner and the shares you own are held in street name by a brokerage firm, bank, or other nominee **you must specifically instruct your nominee how you want your shares voted for the election of directors, on the advisory resolution on the compensation of Grainger's Named Executive Officers, and on the approval of the W.W. Grainger, Inc. 2015 Incentive Plan; otherwise your nominee is not allowed to vote your shares.** Please contact your brokerage firm, bank, or other nominee with instructions to



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vote your shares for the election of directors and on other matters to be considered at the meeting.

**How does discretionary voting apply?**

Grainger is not aware of any matter not described in this proxy statement that will be presented for consideration at the meeting. If another matter is properly presented, your shares will be voted on the matter in accordance with the judgment of the person or persons voting the proxy unless your proxy withholds discretionary authority.

**May I revoke my proxy?**

Yes. You may revoke your proxy at any time before the voting at the meeting. You can do so in one of the following ways:

1. Deliver to Grainger's Corporate Secretary timely written notice that you are revoking your proxy; or
2. Provide to Grainger another proxy with a later date (which can be done by telephone, by Internet, or by signing, dating, and returning a proxy form); or
3. Vote in person at the meeting.

**What does it mean if I receive more than one set of proxy materials?**

Receiving multiple sets of proxy-soliciting materials generally means that your Grainger shares are held in different names or in different accounts. You must vote all of the proxy requests to ensure that all your shares are voted.

**What constitutes a quorum at the meeting?**

A majority of the outstanding shares entitled to vote on a matter, whether present in person or by proxy, constitutes a quorum for consideration of that matter at the meeting. A quorum is necessary for valid action to be taken on the matter. Your shares will be present by proxy and count toward the quorum if you give us your proxy by telephone, by Internet, or by signing, dating, and returning a proxy form.

**Describe what types of shareholder engagement occurred in 2014?**

Grainger has a very expansive shareholder engagement process. We hosted our annual investor day in November with over 75 investors in attendance and several hundred via webcast. In addition, we presented at 13 investor conferences and met with over 500 firms and over 800 unique investors in 2014. Our investor outreach includes both existing and potential shareholders and we ensure that we meet with at least 85% of our largest investors each year. We also meet with 90% of our top 15 investors between January and April prior to our annual shareholder meeting to answer any questions they may have regarding company strategy, results, governance or executive compensation. Management, including the Chairman/CEO, CFO and the two top operating leaders, actively engages with investors throughout the year, in addition to the investor relations team.

**Who pays the costs of soliciting proxies?**

Grainger will pay all the costs of soliciting management proxies. Brokerage firms, custodians, nominees, fiduciaries, and other intermediaries are being asked to forward the proxy-soliciting materials to beneficial owners of Grainger common stock and to obtain their authority to give proxies. Grainger will reimburse these intermediaries for their reasonable expenses.

In addition to mailing proxy-soliciting materials, Grainger's directors, officers, and regular employees may solicit proxies personally, by telephone, or by other means. They will not receive additional compensation for these services, other than normal overtime pay, if applicable. Representatives of Grainger's transfer agent may also solicit proxies. Grainger

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additionally has employed D.F. King & Co., Inc. to help solicit proxies and will pay that firm approximately \$7,000 for its services, plus reasonable costs and expenses.

**Where can I find the voting results?**

We will report the voting results on either a Form 10-Q or on a Form 8-K within four business days after the end of our annual meeting.

**How do I submit a shareholder proposal or directly nominate a director at the 2016 annual meeting?**

If you wish to have a shareholder proposal included in Grainger's proxy-soliciting materials for the 2016 annual meeting of shareholders, please send a notice of intent to submit your proposal at that meeting to the Corporate Secretary at Grainger's headquarters. The notice, including the text of the proposal, must be in writing, signed, and in compliance with the timing and other requirements of the proxy rules of the Securities and Exchange Commission. For a shareholder proposal relating to the 2016 annual meeting to be timely, Grainger must receive the notice no later than November 14, 2015.

Grainger's by-laws require written notice concerning a shareholder submission of a proposal or a shareholder nomination of a person for election as a director at a meeting of shareholders. For a shareholder proposal, certain information about the shareholder and the proposal is required. For the submission of a proposal, the notice must be furnished generally not less than 90 days and not more than 120 days before the anniversary date of the prior year's annual meeting. Likewise, for a shareholder nomination, certain information about the shareholder and the nominee is required. For a nomination to be considered at Grainger's 2016 annual meeting, the notice must be furnished no later than November 14, 2015.

A copy of the by-laws is available in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor) or may be obtained free of charge on written request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.

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## Directors

### Recommending Candidates for Board Membership

The Board Affairs and Nominating Committee recommends candidates for Board membership based on a number of criteria, including ethical standards, judgment, independence and objectivity, strategic perspective, record of accomplishment, business knowledge and experience applicable to Grainger's goals. Suggestions as to candidates are received from members of the Board Affairs and Nominating Committee, other directors, employees, search firms and others, including shareholders.

Any shareholder who would like the Board Affairs and Nominating Committee to consider a candidate for Board membership should send a letter of recommendation containing the name and address of the proposing shareholder and of the proposed candidate and setting forth the business, professional, and educational background of the proposed candidate, as well as a description of any agreement or relationship between the proposing shareholder and proposed candidate. A written consent of the proposed candidate to being identified as a nominee and to serve as a director if elected must also be provided. The communication should be sent by mail or other delivery service to the attention of the Corporate Secretary at Grainger's headquarters.

### Director Independence

The Board has adopted "categorical standards" to assist it in making independence determinations of nominees. The categorical standards are intended to help the Board in determining whether certain relationships between nominees and Grainger are "material relationships" for purposes of the New York Stock Exchange (NYSE) independence standards. The categorical standards adopted by the Board have more restrictive thresholds than the NYSE's bright line revenue test for non-independence. The categorical standards adopted by the Board are set forth in Appendix A to this proxy statement and are also available in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor).

In the ordinary course of its operations during 2014, Grainger engaged in various types of transactions with organizations with which Grainger directors are associated in their principal business occupations or otherwise. Specifically, in the ordinary course of its business during 2014, Grainger bought products and/or services from, or sold products and/or services to, companies with which Messrs. Adkins, Hall, Levenick, Santi, and Slavik are or were associated as executive officers or otherwise as of December 31, 2014. In no instance did the total amount of the purchases from or sales to any such company during 2014 represent more than 0.236% of the projected consolidated gross revenues of that company for the year or more than 0.381% of the consolidated gross revenues of Grainger for the year.

In addition, as part of its overall 2014 charitable contributions program, Grainger made donations to tax-exempt organizations with which Messrs. Hall, Novich, and Santi serve as officers, directors or trustees. In no instance did the total amount of the contributions to such an organization during 2014 represent more than 0.062% of that organization's projected total receipts for the year.

The Board considered these transactions and donations in assessing the independence of the directors involved against the NYSE's independence standards and Grainger's categorical standards, and determined that none of the directors had any direct or material indirect interest

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in the transactions and donations. Similar transactions and donations are likely to occur in the future, and are not expected to impair the independence of the directors involved.

The Board has determined that each of Messrs. Adkins, Anderson, Hall, Levenick, Novich, Roberts, Rogers, Santi, and Slavik, and Ms. Hailey has no material relationship with Grainger within the meaning of the NYSE independence standards and Grainger's categorical standards. The other nominee, Mr. Ryan, is a Grainger employee and, accordingly, is not considered "independent." All of the nominees except for Mr. Adkins, who was appointed in July 2014, previously were elected by the shareholders at the 2014 annual meeting of shareholders. The Board Affairs and Nominating Committee identified Mr. Adkins as a potential director with the assistance of a search firm.

**Annual Election of Directors**

Grainger's directors are elected each year at the annual meeting. As set forth in the Operating Principles for the Board of Directors, Grainger expects all directors and nominees to attend annual meetings. At the 2014 annual meeting, all of the persons serving as directors at the time were in attendance. In addition, all directors attended at least 75% of Board and Committee meetings.

Eleven directors have been nominated for election at this year's annual meeting of shareholders. All directors are elected for a one-year term. Each director will therefore serve until the 2016 annual meeting of shareholders or until his or her successor has been qualified and elected. Details concerning the nominees are provided below.

Majority (rather than plurality) voting applies to Grainger's director elections. Accordingly, directors are elected by the votes of a majority of the shares of Grainger common stock represented in person or by proxy at the meeting and entitled to vote. A shareholder directing to withhold authority for re-election of a director will have the same effect as votes against the election of that director. Assuming a quorum is present, broker non-votes will not affect the outcome of the vote. If any of the nominees for director mentioned below should be unavailable for election, a circumstance that is not expected, the person or persons voting your proxy may exercise discretion to vote for a substitute nominee selected by the Board.

**Nominees and Director Experience, Qualifications, Attributes, and Skills**

The nominees have provided the following information about themselves, including their ages in March 2015. Each nominee has provided information on their relevant background that includes their experience for at least the past five years.

Grainger's directors and nominees have varied experiences, qualifications, attributes, and skills that assist them in providing guidance and oversight to Grainger's management as it operates business through a network of branches, distribution centers, sales representatives, direct marketing, including catalogs, and a variety of electronic and Internet channels and with more than 23,600 employees in the United States, Canada, Europe, Asia, and Latin America. With 2014 sales of \$10 billion and as a leading broad-line distributor of maintenance, repair and operating supplies and other related products and services in North America and operations in Europe, Asia and Latin America, Grainger has a diverse customer base necessitating depth and breadth of product lines and offerings.

The Board has identified experience, qualifications, attributes, and skills that in light of Grainger's business and structure are relevant to service on the Board of Directors. The Board considers nominees who have demonstrated integrity and accomplishment in their business and professional careers and who possess the necessary experience, qualifications, attributes, and skills to contribute to the Board and Grainger. In addition, ongoing director education, whether provided by Grainger or by a third party, are important to service on the Board of Directors. Current nominees have engaged in continuing education and other programs to remain current in their particular areas of expertise as well as to further their understanding of corporate governance and in other matters relevant to Grainger.



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The Board believes the experience, qualifications, attributes, and skills of each nominee qualify the nominee for service on the Board of Directors. Each of the current nominees has significant leadership experience in large, multifaceted organizations. This experience includes developing and executing corporate strategy, overseeing operations, and managing risks in organizations similar in size or complexity to Grainger. The summary provided below is not a comprehensive statement of each nominee's background but is provided to describe the primary experiences, qualifications, attributes, and skills that led the Board to nominate each individual.

**Rodney C. Adkins**

**Rodney C. Adkins**, age 56, is President of 3RAM Group LLC, a privately held company specializing in capital investments, business consulting services and property management. Formerly, Mr. Adkins was Senior Vice President of International Business Machines Corporation (IBM), a leading manufacturer of information technologies, having served in that position from 2007 until 2014. In his over 30-year career with IBM, Mr. Adkins held a number of development and management roles, including Senior Vice President of Corporate Strategy from 2013 to 2014, Senior Vice President of Systems and Technology Group from 2009 to 2013, Senior Vice President of Development & Manufacturing from 2007 to 2009, and Vice President of Development of IBM Systems and Technology Group from 2003 to 2007. He is also a director of PPL Corporation and United Parcel Service, Inc. where he serves on the Audit Committee. During the past five years, Mr. Adkins served on the board of directors of Pitney Bowes Inc. Mr. Adkins, an independent director, was first appointed a director of Grainger in July 2014 and is a member of the Compensation Committee and a member of the Board Affairs and Nominating Committee.

**Director Qualifications**

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**Mr. Adkins** served as the Senior Vice President of a global information technology and innovation-focused public company and held senior positions responsible for development, management and strategy. Over the course of 30 years with this company, he developed deep product development and brand management experience. He also gained significant experience managing and understanding corporate finance, financial statements and accounting through his many operational roles with the company. Additionally, Mr. Adkins managed the company's supply chain and procurement, giving him direct insight into global trade and supply chains, and the role of distributors in those efforts. Mr. Adkins has extensive experience in corporate governance matters and is a director with two public companies, in addition to Grainger, and serves on the audit committee of one of them.

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**Brian P. Anderson**

**Brian P. Anderson**, age 64, is the former Executive Vice President of Finance and Chief Financial Officer of OfficeMax Incorporated, a distributor of business-to-business and retail office products, having served in that position until January 2005. Prior to assuming this position in 2004, Mr. Anderson was Senior Vice President and Chief Financial Officer of Baxter International Inc., a position he assumed in 1998. He is also a director of A. M. Castle & Co., for which he is Chairman of the Board as well as a director of James Hardie Industries SE where he chairs the audit committee and serves on the remuneration committee, and PulteGroup, Inc. where he chairs the audit committee and serves on the nominating and governance committee. He is a director of The Nemours Foundation. Mr. Anderson, an independent director, was first elected a director of Grainger in 1999 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.'

**Director Qualifications**

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**Mr. Anderson** served as the chief financial officer (CFO) of two public companies, held finance positions including corporate controller and vice president of audit and was an audit partner at an international public accounting firm. As a result, Mr. Anderson has in-depth knowledge of accounting and finance as well as familiarity in risk management and risk assessment and the application of the Committee of Sponsoring Organizations of the Treadway Commission internal controls framework. In addition, while serving as a CFO of one of the two public companies, Mr. Anderson had primary responsibility for the supply chain and logistics of that company. Mr. Anderson also has in-depth experience in corporate governance matters and is the Chairman of the Board of a public company as well as a member of the governance committee of two other public companies. In addition, Mr. Anderson serves on the audit committee of three public companies, including Grainger.

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W.W. GRAINGER,  
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Table of Contents**V. Ann Hailey**

**V. Ann Hailey**, age 64, is the former President, Chief Executive Officer and Chief Financial Officer of Famous Yard Sale, Inc., an online marketplace for celebrities to connect with their fans by offering items in a virtual yard sale format, having served in that position until March 2014. Formerly, Ms. Hailey served as Chief Financial Officer of Gilt Groupe, an Internet retailer of discount luxury goods from January 2009 until January 2010. Previously she was with Limited Brands, Inc., where she served as Executive Vice President and Chief Financial Officer from 1997 to 2006 and as Executive Vice President, Corporate Development from 2006 to 2007. Prior to joining Limited Brands in 1997, Ms. Hailey was Senior Vice President and Chief Financial Officer of the Pillsbury Company. She is also a director of Avon Products, Inc. and serves on its audit and finance committees, and is a director of Realogy Holdings Corp where she chairs its audit committee and is a member of its nominating and corporate governance committee. During the past five years, Ms. Hailey served on the board of directors of the Federal Reserve Bank of Cleveland. Ms. Hailey, an independent director, was first elected a director of Grainger in 2006 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

**Director Qualifications**

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**Ms. Hailey** has spent her career in consumer businesses and has extensive financial and operations experience. In particular, Ms. Hailey possesses broad expertise in strategic planning, branding and marketing, retail goods and sales and distribution on a global scale. Ms. Hailey's positions as CFO, her current and prior service on the audit committees of other companies and as Audit Chair of the Cleveland Federal Reserve Bank as well as her accounting and financial knowledge, also impart significant expertise to the board, including an understanding of financial statements, corporate finance, accounting and capital markets. Further, as an executive at internet-based businesses, Ms. Hailey has added expertise in internet site development and selling as well as new venture management and funding.

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**William K. Hall**

**William K. Hall**, age 71, is a founding partner of Procyon Advisors, LLP and former Chairman of Procyon Technologies, Inc., a privately owned, Chicago-based holding company. Prior to assuming that position in 2000, Mr. Hall was Chairman and Chief Executive Officer of Falcon Building Products, Inc., a manufacturer and distributor of products for residential and commercial construction and home improvement markets. He currently serves on the boards of Actuant Corporation and Stericycle, Inc. and serves on the audit committee of both of those companies. During the past five years, Mr. Hall served on the board of directors of A. M. Castle & Co. Mr. Hall, an independent director, was first elected a director of Grainger in 2005 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

**Director Qualifications**

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**Mr. Hall** has served as a senior executive at five multinational enterprises and as Chief Executive Officer (CEO) of three manufacturing companies. Included in his responsibilities was the management of foreign operations. Mr. Hall also served as the chief marketing officer of a large manufacturing company for over five years. Through his years of service with public and private companies as well as on a university's faculty, Mr. Hall has in-depth experience in finance, strategy, business ethics and governance. In addition, Mr. Hall has extensive experience as a strategic management consultant providing planning services, including analyzing and evaluating company financials and assessing acquisition and divestiture opportunities.

**Stuart L. Levenick**

**Stuart L. Levenick**, age 62, is a retired Group President of Caterpillar Inc., a manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines. Prior to assuming that position in 2004, Mr. Levenick served as Vice President, Caterpillar Inc., and Chairman of Shin Caterpillar Mitsubishi Ltd. from 2000 to 2004, and as Vice President, Asia Pacific Division, from 2001 to 2004. He is also a director of Entergy Corporation, where he chairs its finance committee and is a member of its audit committee. Mr. Levenick, an independent director, was first appointed a director of Grainger in 2005, and is the Lead Director, Chair of the Board Affairs and Nominating Committee and a member of the Compensation Committee.

**Director Qualifications**

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**Mr. Levenick** has served as the president of a multinational manufacturing company and has had extensive international operations experience including positions outside the United States in numerous countries for more than 20 years.

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Mr. Levenick also had operational responsibility for supply chain and logistics and responsibility for the global parts and product support business as well as global marketing of his present employer. In addition, he has led his employer's global human resources function and had responsibility for that company's enterprise risk assessment.

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**Neil S. Novich**

**Neil S. Novich**, age 60, is the former Chairman, President, and Chief Executive Officer and a former director of Ryerson Inc., a major metal distributor and fabricator. Mr. Novich became Ryerson's President and Chief Executive Officer in 1996 and also Chairman in 1999, a position he held through 2007. He is also a director of Analog Devices, Inc., where he chairs the compensation committee, Beacon Roofing Supply, Inc., where he chairs the audit committee, and Hillenbrand, Inc., where he chairs the compensation and management development committee. He is a trustee of The Field Museum of Natural History and Children's Home & Aid, and a member of the Visiting Committee to the Physical Sciences Division, University of Chicago. Mr. Novich, an independent director, was first elected a director of Grainger in 1999 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

**Director Qualifications**

§

**Mr. Novich** has served as the CEO and chairman of the board of a public multinational metal distributor and fabricator, where he was deeply engaged in that company's distribution operations on a domestic and international basis, and also in the leadership development and human resources functions. He was also a consultant for a management consulting firm for over 10 years developing strategies for its clients. As a result, Mr. Novich has in-depth operational experience in supply chain, distribution and logistics and experience in developing strategy across a variety of industries. Mr. Novich also serves on the following committees of one or more public companies: the nominating and governance committee, the audit committee, and the compensation committee.

**Michael J. Roberts**

**Michael J. Roberts**, age 64, is the Founder of LYFE Kitchen restaurant. Formerly, he was Global President and Chief Operating Officer of McDonald's Corporation from 2004 to 2006. His previous positions at McDonald's Corporation included Chief Executive Officer McDonald's USA during 2004; President McDonald's USA from 2001 to 2004; and President, West Division McDonald's USA from 1997 to 2001. Mr. Roberts is also a director of CenturyLink, Inc., where he serves on its audit committee. During the past five years, Mr. Roberts served on the board of directors of Qwest Communications International, Inc. and Standard Parking Corporation. Mr. Roberts, an independent director, was first appointed a director of Grainger in 2006 and is Chair of the Compensation Committee and a member of the Board Affairs and Nominating Committee.

**Director Qualifications**

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**Mr. Roberts** served as president and chief operating officer of a multinational public food-service company and in this capacity had extensive management and profit and loss responsibilities. Further, he was responsible for the marketing and international operations of that company. Mr. Roberts also has significant human resources experience and serves on the compensation committees of two other public companies.

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**Gary L. Rogers**

**Gary L. Rogers**, age 70, was Vice Chairman of General Electric Company from 2001 until his retirement in December 2003. Previously, Mr. Rogers was Senior Vice President of General Electric Company and President and Chief Executive Officer of GE Plastics from 1992 to 2001. During the past five years, Mr. Rogers served on the board of directors of Rohm and Haas Company. Mr. Rogers, an independent director, was first appointed a director of Grainger in 2004 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

**Director Qualifications**

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**Mr. Rogers** served as president and CEO of a global enterprise with products that served multiple industries and with responsibilities including international operations, global supply chain, distribution and logistics. Mr. Rogers also has a background in finance and accounting serving as part of the corporate audit staff and as division chief financial officer for that same enterprise.

**James T. Ryan**

**James T. Ryan**, age 56, is Chairman of the Board, President and Chief Executive Officer of Grainger, positions assumed in 2009, 2006 and 2008, respectively. Mr. Ryan became Chief Operating Officer and was appointed to Grainger's Board of Directors in 2007. Prior to that, Mr. Ryan served as Group President, a position assumed in 2004. He has served Grainger in increasingly responsible roles since 1980, including Executive Vice President, Marketing, Sales and Service; President, Grainger.com; Vice President, Information Services; and President, Grainger Parts. He is a trustee of the Museum of Science and Industry and DePaul University. He is also a member of the Civic Committee of the Commercial Club of Chicago, the Economic Club of Chicago, and Business Roundtable.

**Director Qualifications**

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**Mr. Ryan** is the Company's Chairman, President and CEO. He has served Grainger in many capacities over his 30 years with the Company including direct responsibility for purchasing and varied management roles in the supply chain operations of the Company. Previously, Mr. Ryan was directly responsible for the sales and marketing of Grainger's United States operations. Mr. Ryan also has extensive experience in strategic planning, development and execution.





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**E. Scott Santi**

**E. Scott Santi**, age 53, is President and Chief Executive Officer and a member of the board of directors of Illinois Tool Works Inc. (ITW), a worldwide manufacturer and marketer of engineered components and industrial systems and consumables. Mr. Santi was promoted to his current position in November 2012 after having served as acting Chief Executive Officer since October 2012. Previously, Mr. Santi served as Vice Chairman of ITW from 2008 to 2012, and Executive Vice President from 2004 until 2008. Mr. Santi, an independent director, was first elected a director of Grainger in 2010 and is Chair of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

**Director Qualifications**

§

**Mr. Santi** is the CEO of a public manufacturer and marketer of products. Prior to assuming this position, he served in various management roles for the same company including positions requiring significant operational and financial responsibility. During his tenure he has had extensive international responsibility including operating responsibility for a business with annual international revenues of several billion dollars. Mr. Santi has significant experience with mergers and acquisitions and with integrating acquired companies. He has also had significant strategic marketing responsibilities and human resource experience including compensation policy, leadership development and succession planning.

**James D. Slavik**

**James D. Slavik**, age 62, is Chairman and a director of Mark IV Capital, Inc., a private commercial real estate development and investment company that was founded in 1974. Mark IV Capital acquires, invests in, develops and manages commercial real estate projects. Mr. Slavik was named to his current position in 2003, after serving as Mark IV Capital, Inc.'s Chairman and Chief Executive Officer from 1990 to 2003. He is also a director of the Hoag Hospital Foundation. Mr. Slavik, an independent director, was first elected a director of Grainger in 1987 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

**Director Qualifications**

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**Mr. Slavik** is the chairman of a private commercial real estate development and investment company and was previously that company's CEO. As a result, Mr. Slavik has expansive knowledge in investments, financing and real estate. Mr. Slavik also worked at multiple commercial brokerage companies as an investment properties broker and led the marketing programs for clients' commercial properties.



Table of Contents**Board Diversity**

One of the primary objectives of Grainger's corporate governance structure is to have a highly functional Board that properly oversees Grainger's strategies and operations. The Board's Criteria for Membership on the Board of Directors (Criteria) list the various characteristics that the Board Affairs and Nominating Committee should consider in reviewing candidates for the Board. In addition to relevant business experience, qualifications, attributes, skills, and the willingness to become involved with Grainger, the Criteria also enumerate personal characteristics that should be considered, including reputation for ethics and integrity, common sense and judgment, independent and objective thought, and the consideration of diverse opinions.

Regarding diversity, the Criteria specify that consideration shall be given to candidates without regard to race, color, religion, gender or national origin. To ensure that the Board benefits from diverse perspectives, it seeks qualified nominees from a variety of backgrounds, including candidates of gender and racial diversity, and in any retained search for Board candidates, Grainger specifies that the Board is seeking candidates with gender and racial diversity. The Board actively reviews diversity recruiting efforts.

**Board of Directors and Board Committees**

Five meetings of the Board were held in 2014. Each regular Board meeting included at least one executive session, during which only independent directors were present. In addition, the directors acted once by unanimous written consent during the year.

The Board has three standing committees: Audit, Board Affairs and Nominating, and Compensation. All members of these committees are required to be "independent" directors.

All non-employee directors have been determined to be independent. Committee memberships are shown in the following table:

**Independent Directors' Committee Assignments**

<b>Name</b>	<b>Audit</b>	<b>Board Affairs and Nominating</b>	<b>Compensation</b>
Rodney C. Adkins		Member	Member
Brian P. Anderson	Member	Member	
V. Ann Hailey	Member	Member	
William K. Hall	Member	Member	
Stuart L. Levenick		Chair	Member
Neil S. Novich	Member	Member	
Michael J. Roberts		Member	Chair
Gary L. Rogers		Member	Member
E. Scott Santi	Chair	Member	
James D. Slavik		Member	Member



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*Lead Director*

The Operating Principles for the Board of Directors and Grainger's by-laws created the leadership position of Lead Director, to be elected annually by and from the Board's independent directors. Mr. Stuart L. Levenick was elected to serve as Lead Director after the April 2014 annual meeting of shareholders.

*Audit Committee*

The Audit Committee met five times in 2014. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the Securities and Exchange Commission (SEC) and standards of the New York Stock Exchange (NYSE). The Board has also determined that each of Mr. Santi, Chair of the Audit Committee, Mr. Anderson, Mr. Hall, and Mr. Novich and Ms. Hailey, is an "audit committee financial expert," as that term is defined in the applicable rules of the SEC.

The Audit Committee assists the Board in its oversight responsibility with respect to Grainger's financial reporting process, Grainger's systems of internal accounting and financial controls, the integrity of Grainger's financial statements, Grainger's compliance with legal and regulatory requirements, the qualifications and independence of Grainger's independent auditor, and the performance of Grainger's internal audit function and independent auditor. It also has oversight responsibilities for various aspects of certain employee benefit plans. Additionally included among the responsibilities of the Audit Committee are the appointment, compensation, retention, and oversight of the independent auditor; the establishment of procedures for the treatment of complaints regarding accounting, internal accounting controls, and auditing matters; and the pre-approval of audit and non-audit services to be provided by the independent auditor. The Audit Committee has the further responsibility to review Grainger's risk assessment and risk management process and policies and to oversee compliance with Grainger's Business Conduct Guidelines.

*Board Affairs and Nominating Committee*

The Board Affairs and Nominating Committee met five times in 2014. The Board has determined that each of the members of the Board Affairs and Nominating Committee is "independent," as that term is defined in the independence requirements for members of nominating committees contained in the applicable standards of the NYSE.

The Board Affairs and Nominating Committee makes recommendations to the Board regarding the makeup of the Board and its committees, establishes specific criteria by which potential directors shall be qualified, identifies potential nominees, makes recommendations concerning director and nominee independence, reviews transactions between Grainger and related persons (as further discussed below) as well as evaluates the overall performance of the Board. It also has primary oversight responsibility for corporate governance, including the responsibility to recommend corporate governance principles, recommend Board committee responsibilities and members, evaluate the Board in the area of corporate governance, including the adequacy of the information supplied to the Board and the Board's performance of its oversight responsibilities relative to the management of Grainger, and to recommend retirement, compensation, and other policies applicable to directors; and oversight responsibility of corporate citizenship activities to advance the interest of shareholders including involvement in the communities Grainger serves and promotion of a sustainable environment. Additional responsibilities of the Board Affairs and Nominating Committee are to make initial assessments regarding major issues or proposals and work with the Compensation Committee to review senior management organization and succession.

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*Compensation Committee*

The Compensation Committee of the Board met five times in 2014.

The Compensation Committee oversees Grainger's compensation and benefits policies and programs (generally with regard to all employees and specifically with regard to executives), makes executive compensation decisions, and reviews and makes recommendations concerning other compensation related matters to be submitted to the Board and/or shareholders for approval. The general responsibilities of the Committee are to oversee that:

- § Compensation is aligned to shareholder value creation;
- § Compensation, especially senior management compensation, is linked to both personal and Company performance;
- § A market competitive compensation structure is designed to attract, motivate, develop, and retain key talent to deliver performance that will increase shareholder value;
- § The Company's compensation policies and practices for all employees are designed so as not to encourage inappropriate risk taking;
- § Compensation and benefit policies and practices reflect the highest level of integrity; and
- § All stock and incentive plans are appropriately administered.

The Board has determined that each of the members of the Compensation Committee is "independent," as that term is defined in the independence requirements for members of compensation committees contained in the applicable standards of the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE).

The Compensation Committee annually reviews and approves corporate goals and objectives relevant to CEO compensation, evaluates CEO performance in light of those financial goals and objectives, and, together with the other independent directors (as directed by the Board), determines and approves the CEO's compensation based on this evaluation, in executive session without members of management present, and approves the compensation paid to the most highly compensated executives, the Named Executive Officers (NEOs).

In overseeing the Company's compensation programs, the Compensation Committee (the Committee) develops programs based on its own deliberations. It also considers alternatives and recommendations from its independent compensation consultant, a variety of other compensation and benefits consultants, and management. Since 2004, the Committee has retained Deloitte Consulting LLP (Deloitte Consulting) as its independent compensation consultant. After a review of the factors prescribed by the Securities and Exchange Commission and the New York Stock Exchange, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, is an independent advisor under the rules and regulations.

The independent compensation consultant is solely hired by and reports directly to the Committee. The Committee's practice is to routinely meet with the independent compensation consultant in executive session, without management present, following each Compensation Committee meeting. The Committee has sole authority to retain and terminate the independent compensation consultant, including sole authority to approve the consultant's fees. At the Committee's direction, the independent compensation consultant:

- § attends Committee meetings;
- § assists the Committee in evaluating compensation proposals;
- § helps analyze recommendations proposed by management;





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- § assists with the design of the structure and metrics for incentive compensation programs;
- § responds to specific compensation-related inquiries, such as determining comparator companies used for compensation studies;
- § conducts or assists in risk reviews of the Company's performance and incentive-based compensation programs; and
- § undertakes special projects.

The Committee seeks advice from the independent compensation consultant on compensation trends and best practices, as well as in reviewing the Company's programs and policies to ensure they are designed and operate to achieve their purposes and goals. During 2014, the independent compensation consultant performed a number of specific projects, including providing advice on executive compensation trends, reviewing the design of the W.W. Grainger, Inc. 2015 Incentive Plan that is being submitted for shareholder approval, and attending all Compensation Committee meetings and select executive sessions.

Members of management (including some of the NEOs) assist the Compensation Committee in performing its responsibilities by providing recommendations for the design of Grainger's compensation program for its NEOs, other officers, and other employees. Management also recommends salary and award levels, except those related to Mr. Ryan, Chairman of the Board, President and Chief Executive Officer. Mr. Ryan's salary and awards are reviewed by the Compensation Committee, either alone or together with the other independent directors (as directed by the Board), in executive session without members of management present. On issues of compensation, the independent directors of the Compensation Committee, in their sole discretion, determines the appropriate compensation design and level.

The Compensation Committee grants equity awards (stock options, restricted stock units (RSUs), and performance shares) to officers and other employees under the 2010 Incentive Plan. The Committee delegates to management a limited authority to grant stock options and RSUs to non-officer employees. Awards under this authority are granted under the terms and conditions that have been approved by the Committee. The pool of shares available to management under this delegation is refreshed annually by the Committee to 20,000 stock options and 35,000 RSUs. The maximum amount that management is authorized to award to any individual is 5,000 stock options and 2,500 RSUs, and to avoid any perception of manipulated timing, all awards are effective the first business day of the month following the award. Information concerning the grants by management is shared with the Committee at its next meeting. The Committee may terminate this delegation of authority at its discretion.

**Leadership Structure**

The Board has carefully considered its leadership structure and believes that a combined Chairman/Chief Executive Officer position represents the best leadership structure for Grainger.

The Board has strong governance structures and processes in place to ensure the independence of the Board. These established structures and processes, which are reflected in the Operating Principles for the Board of Directors and the various committee charters, provide for the independent directors to exercise authority so that the Board is effective in overseeing critical matters of strategy, operations, and reporting. Important duties performed by the independent directors, either collectively or through committees made up solely of independent directors, are selecting the Chairman and Chief Executive Officer and evaluating his or her performance and the resulting compensation.

The Board believes that a single individual serving in the combined position of Chairman and Chief Executive Officer provides a useful and effective connection between the Board and

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Company management to help them act with a common understanding and purpose. This structure assists in the timely flow of relevant information that supports effective Board decision-making.

The Board does not believe that separating the role of the Chairman and Chief Executive Officer would result in strengthening Grainger's corporate governance or in creating or enhancing long-term value for our shareholders. While the Board generally believes that splitting the positions is unnecessary and not in the best interest of shareholders, in 2008, as part of a planned leadership succession process, it temporarily separated the two positions. The separation of these functions helped promote an orderly transition in Company leadership. At the end of the transition period, after consideration of Grainger's governance structures, the Board determined it was appropriate to recombine the Chairman and Chief Executive Officer positions.

In deciding that a combined Chairman and Chief Executive Officer position is the appropriate leadership structure for Grainger, the Board also recognized the need for independent leadership and oversight. Since 1995, Grainger's Operating Principles for the Board of Directors have assigned a leadership role to the independent director serving as Chair of the Board Affairs and Nominating Committee. Over time, this director has been responsible for facilitating Board involvement on major issues and/or proposals, reviewing meeting agenda and information to be provided to the Board, consulting with directors, the Chief Executive Officer, and management and presiding at executive sessions of the Board.

In 2010, the Board revised its Operating Principles and by-laws to create the leadership position of Lead Director, to be elected annually by and from the Board's independent directors. Among the duties assigned to the Lead Director is the responsibility for:

- § Presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- § Serving as the primary liaison between the Chairman and the independent directors;
- § Reviewing and approving the types of information sent to the Board;
- § Reviewing and approving meeting agenda for the Board to ensure that critical issues are included;
- § Reviewing and approving meeting schedules to ensure that there is sufficient time for discussion of all agenda items;
- § Conducting the Board's annual self-evaluation, including coordinating Board committee evaluations;
- § Working with the Compensation Committee and leading the Chairman/Chief Executive Officer evaluation and communicating to the Chairman/Chief Executive Officer the independent directors' annual evaluation of the Chairman/Chief Executive Officer's performance; and
- § Calling meetings of the independent directors if appropriate.

The Board believes that given Grainger's corporate governance structures and processes, a combined Chairman and Chief Executive Officer position in conjunction with an independent Lead Director provides effective oversight of management by the Board and results in a high level of management accountability to shareholders.

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**Board and Committee Evaluations**

The Board and each of its Committees conduct annual reviews to determine their effectiveness and identify opportunities for improvement. All of the Board and Committee evaluations are completed annually and discussed at the December meetings. Every October, each Director completes an evaluation of his or her effectiveness, the effectiveness of the Committees upon which he or she serves, and the effectiveness of the Board. The evaluations focus on a range of questions relating to how the Board and its Committees can improve its key function of maximizing long term shareholder value by being appropriately involved in strategic decisions. The process solicits ideas from Directors about:

- § The priority of Board issues, including issues and items that should be discussed at future meetings;
- § The quality and timeliness of information provided to the Board;
- § The quality of discussions, including Director candor and engagement; and
- § The areas for improvement in overall Board effectiveness.

In preparation for discussions at the December meetings, the Committee Chairs collect comments from each Committee member, which are discussed with the Lead Director and then discussed with the members of each Committee. The Lead Director also facilitates a discussion of Board evaluations with the full Board.

**Board's Role in Risk Oversight**

Grainger is a broad-line distributor of maintenance, repair and operating supplies and other related products and services serving businesses and institutions, providing customers with access to more than 1.5 million products. Grainger has a broad and diverse customer base. In 2014, sales transactions were made to approximately 1.2 million customers with no single customer's aggregate purchases representing more than 3 percent of Grainger's total sales. Grainger also has a diverse supplier base. In 2014, Grainger purchased products from more than 2,900 key suppliers, and no single supplier represented more than 5 percent of the total purchases.

Grainger's Board has overall responsibility for risk oversight. Its role is to oversee risk assessment and risk management processes and policies used by Grainger to identify, assess, monitor and address potential financial, compensation, operational, strategic and legal risks on an enterprise-wide basis. The risks monitored include threats to information technology systems and other issues of cyber security. The Audit Committee of the Board also regularly reviews Grainger's risk assessment and risk management processes and policies, including receiving regular reports from the members of Grainger's management who are responsible for risk assessment and risk management on the effectiveness of Grainger's Enterprise Risk Management (ERM) initiatives. As part of its oversight responsibility, the Compensation Committee of the Board assesses the relationship between potential risk created by Grainger's compensation programs and their impact on long-term shareholder value.

**Available Information**

Grainger has adopted Business Conduct Guidelines for directors, officers, and employees, incorporating the Code of Ethics required by rules of the SEC to be applicable to a company's chief executive officer, chief financial officer, and chief accounting officer or controller, and intends to satisfy any disclosure requirements with respect to the Business Conduct

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Guidelines by posting the information on its website. Grainger also has adopted Operating Principles for the Board of Directors, which represent its corporate governance guidelines.

Grainger's Business Conduct Guidelines and Operating Principles for the Board of Directors are available in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor).

Also available in the Governance section of that website are the charters, adopted by the Board, of the Board's Audit Committee, Board Affairs and Nominating Committee, and Compensation Committee.

All of these documents are also available to shareholders in print, free of charge, upon request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.

### *Other Communications with Directors*

Grainger has established a process by which shareholders and other interested parties may communicate with the Board, Board committees, and/or individual directors on matters of interest. Such communications should be sent in writing to:

[Name(s) of director(s)]  
or  
[Non-management directors]  
or  
[Board of Directors]  
W.W. Grainger, Inc.  
P.O. Box 856  
Skokie, Illinois 60076-0856

If the matter is confidential in nature, please mark the correspondence accordingly. Additional information concerning this process is available in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor).

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**Director Compensation**

*Grainger's ten independent directors each receive an annual cash retainer of \$85,000 and an annual deferred stock grant of \$125,000. Directors serving as Committee Chairs receive an additional annual cash retainer.*

Grainger's ten independent directors (directors) are compensated at a level that approximates median market practice. For 2014, Grainger paid these directors an annual cash retainer of \$85,000 each for the year upon election at the annual meeting of shareholders, which covered all regularly scheduled meetings of the Board and its committees. A per-meeting fee of \$1,500 would be paid to each attending director if additional meetings are held. In 2014, no additional meetings were held. The Chairs of Board committees and the Lead Director received additional annual retainers. For the Chair of the Audit Committee, the retainer was \$20,000; for the Chair of the Compensation Committee, the retainer was \$15,000; for the Chair of the Board Affairs and Nominating Committee, the retainer was \$10,000; and for the Lead Director, the retainer was \$20,000.

All independent directors also receive an annual deferred stock unit grant. The number of shares covered by each grant is equal to \$125,000 (based on the 200-day average stock price as of January 31, in the year of the grant, a methodology consistent with the calculation used for equity awards to Grainger executives), rounded up to the next ten-share increment. The deferred stock units are settled in shares upon termination of service as a director. Directors may also defer their annual cash retainers, lead director retainer, committee chair retainers (as applicable), and meeting fees in a deferred stock unit account.

In benchmarking director pay, Grainger uses the same compensation comparator group that is used to benchmark compensation for Grainger's executives as described in the Compensation Discussion and Analysis. The Compensation Committee's independent compensation consultant periodically reviews the comparative information and advises on director compensation.

Stock ownership guidelines applicable to non-employee directors were established in 1998. These guidelines provide that within five years after election, a director must own Grainger common stock and common stock equivalents having a value of at least five times the annual cash retainer fee for serving on the Board. The policy also states that any pledged shares cannot be used to meet the ownership guidelines. All directors are currently in compliance with the ownership guidelines.

Grainger provides travel and reimburses travel expenses relating to their service as a director and reimburses directors for attending continuing education programs. In addition, Grainger matches directors' charitable contributions on a three to one basis up to a maximum company contribution of \$7,500 annually and provides discounts on product purchases, both on the same basis as provided to U.S. Grainger employees.

A director who is an employee of Grainger or any Grainger subsidiary does not receive any compensation for serving as a director.

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Name	Fees Earned or Paid in Cash <sup>1</sup>	Stock Awards <sup>2</sup>	Option Awards	Non-equity Incentive Plan Compensation	Change in Pension Value and Non- qualified Deferred Compensation Earnings	All Other Compensation <sup>3</sup>	Total
Rodney C. Adkins	\$ 63,750	\$ 94,506	\$ 0	\$ 0	\$ 0	\$ 0	\$ 158,256
Brian P. Anderson	\$ 85,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 2,250	\$ 213,087
V. Ann Hailey	\$ 85,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 4,500	\$ 215,337
William K. Hall	\$ 85,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 218,337
Stuart L. Levenick	\$ 115,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 0	\$ 240,837
Neil S. Novich	\$ 85,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 218,337
Michael J. Roberts	\$ 100,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 0	\$ 225,837
Gary L. Rogers	\$ 85,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 0	\$ 210,837
James T. Ryan	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
E. Scott Santi	\$ 105,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 238,337
James D. Slavik	\$ 85,000	\$ 125,837	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 218,337

1

Represents cash fees received in 2014.

2

Represents the grant date fair value of an award of 490 deferred stock units made on April 30, 2014, with immediate vesting that will be paid upon termination from service, computed in accordance with FASB ASC Topic 718. The stock units were determined by dividing the grant dollar value by the 200-day average stock price as of January 31 in the year of the grant, a methodology consistent with the calculation used for other

executive equity awards.

3

Represents amount paid by the Company on behalf of independent directors to charitable organizations as part of the Company's matching gift program.

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The table below shows how many shares of Grainger common stock the directors, certain executive officers, and all directors and executive officers as a group beneficially owned as of March 2, 2015.

Beneficial ownership is a term broadly defined by the SEC. In general, a person beneficially owns securities if the person, alone or with another, has voting power or investment power (the power to sell) over the securities. Being able to acquire either voting or investment power within 60 days, such as by exercising stock options, also results in beneficial ownership of securities. Unless otherwise indicated in the footnotes following the table, each of the named persons had sole voting and investment power with respect to the indicated number of Grainger shares.

<b>Beneficial Owner</b>	<b>Shares</b>	<b>Stock Option Shares Exercisable Within 60 Days<sup>1</sup></b>	<b>Stock Units<sup>2</sup></b>	<b>Total</b>	<b>Percentage of Common Stock<sup>3</sup></b>
James D. Slavik <sup>4,5,6,7</sup> 100 Bayview Circle Suite 4500 Newport Beach, CA 92660	3,831,253	0	17,089	3,848,342	5.7%
Rodney C. Adkins	0	0	373	373	*
Brian P. Anderson	4,340	0	14,015	18,355	*
Court D. Carruthers	22,754	41,799	0	64,553	*
V. Ann Hailey	200	0	8,567	8,767	*
William K. Hall	1,468	0	17,778	19,246	*
John L. Howard <sup>8</sup>	882,491	88,206	20,000	990,697	1.4%
Ronald L. Jadin <sup>9</sup>	19,417	120,563	0	139,980	*
Stuart L. Levenick	400	0	14,477	14,877	*
Donald G. Macpherson	23,210	73,799	0	97,009	*
Neil S. Novich	4,605	0	20,517	25,122	*
Michael J. Roberts	1,000	0	15,452	16,452	*
Gary L. Rogers	310	0	10,037	10,347	*
James T. Ryan	132,903	513,500	40,000	686,403	1.0%
E. Scott Santi	300	0	4,121	4,421	*
Directors and Executive Officers As a group <sup>10,11</sup>	4,937,563	894,514	201,297	6,033,374	8.6%



1

In computing the percentage of shares owned by each person and by the group, these shares were added to the total number of outstanding shares for the separate calculations.

2

Represents the number of stock units credited to the accounts of non-employee directors under the 2005 Incentive Plan, and the 2010 Incentive Plan, and the number of restricted stock units credited to the accounts of executive officers under the 1990 Long Term Stock Incentive Plan, the 2005 Incentive Plan, and the 2010 Incentive Plan. Each stock unit is intended to be the economic equivalent of a share of Grainger common stock. These units are excluded from the computations of percentages of shares owned.

3

An asterisk (\*) indicates less than 1%.

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- 4 Mr. Slavik is known to be the beneficial owner of more than 5% of Grainger's common stock.
- 5 Includes 2,510,088 shares as to which Mr. Slavik has shared voting and/or investment power.
- 6 Excludes 1,039,490 shares held by certain of Mr. Slavik's family members, as to which shares Mr. Slavik disclaims voting or investment power.
- 7 Includes 766,747 shares that are pledged as collateral. In March 2013, when the number of shares beneficially owned by Mr. Slavik that were pledged as collateral was 1,536,117, Mr. Slavik began to implement a plan to reduce the pledged shares attributable to him. At that time, Mr. Slavik committed to the Board of Directors that so long as he remains a director he will not pledge any additional shares, that he will reduce his outstanding pledges by 20% per year, and that within five years of March 2013, by March 2018, he will terminate all of his pledging arrangements. Consistent with this commitment, Mr. Slavik reduced his pledge by 252,804 shares in March 2013, and then continued with a reduction of 238,747 shares in January 2014 and 241,759 shares in January 2015.
- 8 Includes 877,519 shares as to which Mr. Howard may be deemed to have shared voting and investment power by virtue of his serving as a director of The Grainger Foundation, Inc. The Grainger Foundation was established in 1949 by William Wallace Grainger, the founder of Grainger, and is not affiliated with Grainger.
- 9 Excludes 5,936 shares held by Mr. Jadin's wife, as to which Mr. Jadin disclaims voting or investment power.
- 10 Includes 3,389,137 shares as to which members of the group have shared voting and/or investment power.
- 11 Excludes 1,045,426 shares held by certain family members, as to which shares members of the group disclaim voting or investment power.

The following table sets forth information concerning all other persons known to Grainger to beneficially own more than 5% of Grainger's common stock on December 31, 2014, as reported in Schedules 13D/13G. Schedule 13G filers generally are institutional investors who acquire beneficial ownership of more than 5% of a public company's voting securities in the ordinary course of business without the purpose of changing or influencing control of the company.

<b>Beneficial Owner</b>	<b>Shares Beneficially Owned*</b>	<b>Percentage of Common Stock</b>
The Vanguard Group 100 Vanguard Boulevard Malvern, Pennsylvania 19355	5,046,051**	7.40%

\*

Includes shares beneficially owned by affiliated entities.

\*\*

Includes 104,312 shares as to which there is sole voting power and no shares as to which there is shared voting power. Includes 4,944,853 shares as to which there is sole dispositive and 101,198 shares as to which there is shared dispositive power.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires that Grainger's directors, executive officers, and 10% shareholders file with the SEC reports concerning their ownership, and changes in their ownership, of Grainger equity securities. Based on a review of copies of the reports provided to Grainger and representations of those persons, Grainger believes that these filing requirements were met during 2014, except for an administrative error related to Joseph C. High, who filed a late Form 4 reporting the settlement of a grant of restricted stock units and related non-discretionary withholding of shares for tax.

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**Report of the Audit Committee of the Board**

The Audit Committee of the Board of Directors assists the Board in fulfilling its oversight responsibilities. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the Securities and Exchange Commission and standards of the New York Stock Exchange. The Audit Committee acts under a charter that is reviewed annually, was last amended by the Board on October 26, 2010, and is available on the Company's Web site at [www.grainger.com/investor](http://www.grainger.com/investor).

Management is responsible for the Company's internal controls and the financial reporting process and for compliance with applicable laws and regulations. Ernst & Young LLP ("EY"), the Company's independent auditor, was responsible for performing an independent audit of the Company's most recent consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on the effectiveness of the Company's internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes.

In performing these responsibilities, the Audit Committee reviewed and discussed the Company's audited consolidated financial statements and the effectiveness of internal control over financial reporting with management and EY. The Audit Committee discussed with EY matters required to be discussed under Statement on Auditing Standards No. 16 "*Communications with Audit Committees*" adopted by the Public Company Accounting Oversight Board ("PCAOB"). EY also provided to the Audit Committee the letter and written disclosures required by PCAOB standards concerning EY's independence and the Audit Committee discussed with EY the matter of the firm's independence.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.

E. Scott Santi, Chair  
Brian P. Anderson  
V. Ann Hailey  
William K. Hall  
Neil S. Novich

Members of the Audit Committee of the  
Board of Directors

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**Audit Fees and Audit Committee Pre-Approval Policies and Procedures**

The following table sets forth the fees for professional services rendered by Ernst & Young LLP with respect to fiscal years 2014 and 2013, respectively:

<b>Fee Category</b>	<b>2014</b>	<b>2013</b>
Audit Fees	3,737,073	\$ 2,988,931
Audit-Related Fees	193,000	191,500
Tax Fees	761,555	687,974
All Other Fees	3,000	3,000
Total Fees	4,694,628	\$ 3,871,405

**Audit Fees.** Consists of fees billed for professional services rendered for the audits of Grainger's annual financial statements and internal control over financial reporting, review of the interim financial statements included in Grainger's quarterly reports on Form 10-Q, and other services normally provided in connection with Grainger's statutory and regulatory filings or engagements.

**Audit-Related Fees.** Consists of fees billed for professional services rendered for assurance and related services that are reasonably related to the performance of the audit or review of Grainger's financial statements. These services include the audits of Grainger's employee benefit plans and various attest services.

**Tax Fees.** Consists of fees billed for professional services rendered for tax compliance, tax advice and tax planning. These services include assistance with the preparation of various tax returns.

**All Other Fees.** Consists of fees billed for all other professional services rendered to Grainger.

**Pre-Approval Policy for Audit and Non-Audit Services**

The Audit Committee has adopted a policy for the pre-approval of all audit and permitted nonaudit services to be provided by Grainger's independent auditor. Also, specific pre-approval by the Audit Committee is required for any proposed services exceeding pre-approved cost levels.

The Audit Committee may delegate pre-approval authority for audit and non-audit services to one or more of its members, and such authority has been delegated to the Chair of the Audit Committee. The decisions of any member to whom such authority is delegated must be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee periodically reviews reports summarizing all services provided by the independent auditor.

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**Report of the Compensation Committee of the Board**

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's proxy statement for its 2015 annual meeting of shareholders and in its Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission. The Compensation Committee acts under a charter that is reviewed annually, was last reviewed by the Board on December 10, 2014 and is available on the Company's website at [www.grainger.com/investor](http://www.grainger.com/investor).

Michael J. Roberts, Chairman  
Rodney C. Adkins  
Stuart L. Levenick  
Gary L. Rogers  
James D. Slavik

Members of the Compensation Committee of the Board of Directors

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The Compensation Committee of the Board has engaged Deloitte Consulting LLP (Deloitte Consulting) as its independent compensation consultant. The following table sets forth the fees for services rendered by Deloitte Consulting and its affiliates with respect to fiscal year 2014:

<b>Type of Fee</b>	<b>2014</b>
Executive Compensation Consulting	\$ 136,134
All Other Consulting	\$ 3,168,114
Total Fees	\$ 3,304,248

**Executive Compensation Consulting Fees:** Consists of fees billed for services provided to advise the Compensation Committee of the Board with respect to executive and director compensation.

**All Other Consulting Fees:** Consists of fees billed for all other services provided to Grainger. None of these fees are related to compensation matters.

Since 2003, affiliates of Deloitte Consulting have provided other services to Grainger that are unrelated to executive compensation matters. The decision to engage an affiliate of Deloitte Consulting for these other services was made by management. The Board has been informed of this ongoing work and the use of an affiliate of Deloitte Consulting but neither the Board nor the Compensation Committee specifically approved these services. After a review of the factors prescribed by the Securities and Exchange Commission and the New York Stock Exchange, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, was found not to have any conflicts of interest.

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**Compensation Discussion and Analysis**

**Compensation Discussion & Analysis Topics:**

1. **Executive Summary**
2. **Compensation Philosophy, Plans and Practices**
3. **Compensation Committee of the Board**
4. **Risk Assessment**
5. **Say-on-Pay**
6. **Role of Management**
7. **Compensation Comparator Group**
8. **Base Salaries**
9. **Annual Incentives**
10. **Long-Term Incentives**
11. **Stock Ownership Guidelines**
12. **Hedging and Pledging Prohibition**
13. **Other Benefits**
14. **Employment Contracts, Change in Control Arrangements, and Termination of Employment Arrangements**
15. **Compensation Recoupment Policy (Clawbacks)**



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**1. Executive Summary**

*The Company's compensation program is based upon a philosophy that is applied to all Company employees to attract and retain the best people and provide them appropriate performance-based incentives that encourage them to achieve results that create long-term shareholder value.*

The overall compensation structure is designed to drive profitable growth leading to shareholder value creation. Employees at all levels of the Company, including its executives, are provided incentives to grow the business (Sales Growth) while achieving attractive investment returns (Return on Invested Capital, or ROIC) for the Company's shareholders. For executives, the compensation program is designed to link pay to performance and is structured to reward both annual and long-term Company performance while not encouraging excessive risk taking.

The Company made relatively minor changes to its compensation programs in 2014. The primary change scheduled for the current year includes the proposed 2015 Incentive Plan that will serve as the single source of all future long term incentive awards. The 2015 Incentive Plan, which is subject to shareholder approval, generally replicates all features of the 2010 Incentive Plan, including:

1. the explicit ability to award restricted stock units, performance shares, performance units and cash-based awards;
2. explicitly prohibiting repricing of awards; and
3. maximizing tax deductions under I.R.C. Section 162(m).

In addition, the proposed 2015 Incentive Plan incorporates these best practices:

1. Prohibits Cash Buyouts: Includes a prohibition of cash buyouts of underwater stock options without shareholder approval, which is consistent with the current practice.
2. Minimum Vesting: Adds a default vesting provision in the Plan.
3. Double Trigger upon Change in Control: Requires both a change in control and involuntary termination of employment for an award to accelerate vesting.

This Compensation Discussion and Analysis (CD&A) describes the Company's compensation philosophy and programs generally, and explains the compensation paid to the five most highly compensated executives the Named Executive Officers (NEOs). In 2014, the Company had five NEOs.

**Named Executive Officers (NEOs) for 2014**

<b>Officer</b>	<b>Title</b>
James T. Ryan	Chairman of the Board, President and Chief Executive Officer (CEO)
Ronald L. Jadin	Senior Vice President and Chief Financial Officer (CFO)
Donald G. Macpherson	

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Senior Vice President and  
Group President, Global Supply Chain and  
International

Court D. Carruthers

Senior Vice President and  
Group President, Americas

John L. Howard

Senior Vice President and  
General Counsel

Compensation includes a combination of base salary, short-term incentives, long-term equity incentives including performance shares and stock options, and a performance-based retirement vehicle. These components are combined to provide Company executives with appropriate incentives for profitable long-term growth.

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The Company makes use of the following components for NEO compensation:

<b>Compensation Element</b>	<b>Purpose</b>	<b>Link to Performance</b>	<b>Fixed/ Performance Based</b>	<b>Short/Long Term</b>
Base Salary	Establishes a market competitive level and provides an appropriate level of fixed compensation to attract and retain leaders.	Based on individual performance.	Fixed	Short-Term
Annual Incentives (Management Incentive Program)	Encourages annual results that create shareholder value.	Linked to annual achievement of predetermined Company objectives sales growth and ROIC.	Performance Based	Short-Term
Stock Options	Directly links managers' and shareholders' interests by tying long-term incentives to stock appreciation.	The initial grant value (above or below target) is linked to individual performance, however the ultimate value of the program is linked to stock price performance for up to 10 years.	Performance Based	Long-Term
Performance Shares	Aligns compensation with the Company's business strategy and the long-term creation of shareholder value.	Linked to achieving specific pre-determined Company objectives and stock price over the three-year performance period sales growth and 3-year ROIC.	Performance Based	Long-Term
Retirement/Profit Sharing Trust (PST)	Aligns the interests of the employees and shareholders as the Company's annual contribution is based on a formula that incorporates two key drivers of shareholder value earnings performance and capital employed.	Linked to financial performance contributions greater than 8% are based on Company performance.	Performance Based	Long-Term

In order to protect shareholders' interests, the Company has the following risk mitigating procedures in place:

<b>Compensation Program vs. Risk Mitigating Action</b>	<b>Annual Incentives</b>	<b>Stock Options</b>	<b>Performance Shares</b>
Balanced Performance Measures (Growth and Profits)	ü	ü	ü
Robust Goal Setting	ü	ü	ü
Retention Ratio	N/A	ü	ü
Clawback Policies	ü	ü	ü
Stock Ownership Requirements	N/A	ü	ü
Awards Capped (Number of Shares)	ü	ü	ü
Compensation Committee Oversight	ü	ü	ü
Internal and Independent External Audit	ü	ü	ü
Restrictions on Hedging and Pledging	N/A	ü	ü

Target total compensation for the Company's employees is generally set to approximate the market median. The weighting of the individual compensation components varies by level, with more senior level executives having a greater emphasis on performance-based long-term compensation which align management to shareholders. NEO compensation is structured so that the largest component is long-term equity (stock options and performance shares), followed by base salary and the performance-based annual incentives (this detail is shown in the following table). Each NEO's compensation is compared to equivalent positions in a comparator group selected by the Board's Compensation Committee (with assistance from the Committee's independent compensation consultant). NEO base salaries and long-term incentive grants are determined based on many factors including individual performance, responsibilities, and the overall relation to market levels of compensation.

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The Company's compensation is structured to align a substantial portion of NEO pay to the performance of the Company and the use of performance-based pay is consistent with the mix seen in the comparator group. The tables below shows NEO compensation components as a percentage of the total target compensation package.

**Performance vs. Fixed Compensation**

NEO	Performance Based Compensation		Fixed/Individual Based Compensation	
	Company	Peers	Company	Peers
Mr. Ryan	89%	88%	11%	12%
Mr. Jadin	79%	78%	21%	22%
Mr. Macpherson	83%	79%	17%	21%
Mr. Carruthers	84%	79%	16%	21%
Mr. Howard	73%	73%	27%	27%

**Annual vs. Long-Term Compensation**

NEO	Annual Compensation		Long-Term Compensation	
	Company	Peers	Company	Peers
Mr. Ryan	26%	28%	74%	72%
Mr. Jadin	39%	39%	61%	61%
Mr. Macpherson	31%	39%	69%	61%
Mr. Carruthers	29%	39%	71%	61%
Mr. Howard	47%	45%	53%	55%

"Performance Based Compensation" consists of the annual incentive plan, long-term incentives, and the Profit Sharing Trust (PST).

"Fixed/Individual Based Compensation" consists of base salary.

"Annual Compensation" consists of base salary and the annual incentive plan.

"Long-term Compensation" consists of stock options, performance shares, and the PST. Annual PST contributions are based on short-term performance and grow over time, distributions are restricted, and full vesting occurs after six years of service, making this component a long-term benefit.

"Peers" was determined from the comparator group in the 2014 Aon Hewitt Compensation Study as described further within Topic 7.

#### *2014 Performance*

The Company believes that revenue growth coupled with a focus on ROIC leads to shareholder value creation. Therefore, the two metrics used to determine performance-based compensation are year over year sales growth and ROIC. In 2014, Company sales were \$9.96 billion (daily sales growth of 5.3% over 2013) and ROIC was 31.3%.

The Company's 2014 financial performance resulted in strong alignment between management compensation and company performance.

§

The 2014 Company MIP achieved 74% of target as we fell short of our 2014 sales growth goal of 7.7%.

§

Awards under the long-term 2012-2014 Performance Share Program will be 77% of target based on 2013 sales growth and the 2012-2014 ROIC performance.

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The Company is focused on profitable daily sales growth over the short- and long-term. Any potential risk created by using ROIC and sales growth for both short-term and long-term incentive awards is mitigated by:

§

**Different Performance Goals:** The short-term incentive program focuses on sales growth compared to the prior year and a pre-determined ROIC, with both measures linked to the Company's one-year Plan. The long-term incentive program (for cycles commencing in 2013) focuses on a specific sales dollar goal in the third year of the performance period. In addition, the long-term incentive program requires a threshold level of ROIC over the performance period in order for the awards to vest.

§

**Different Time Periods:** The short-term incentive program focuses on the achievement of sales growth and ROIC over one year. The long-term incentive program focuses on sales growth over three years, while maintaining an ROIC above 18% during the three-year period.

§

**Mergers and Acquisitions (M&A):** The short-term incentive program does not include the impact from acquisitions/divestitures. The long-term incentive program includes M&A results which are designed to encourage successful acquisitions and profitable integrations.

§

**Company-Wide Performance Measures:** Performance is measured at the company-wide level as opposed to specific business unit or regional levels.

§

**Maximum Payout is Capped:** Incentive plans are capped at 200% of the target award.

## 2. Compensation Philosophy, Plans and Practices

*As part of the Company's pay for performance philosophy, the Company's compensation program includes several features that maintain alignment with shareholders:*

§

**Emphasis on Variable Performance-based Compensation.** Over 73% of the NEOs' compensation is tied to Company performance that the Company believes drives shareholder value.

§

**Double-Trigger Change in Control Requirements.** The existing Change in Control Agreements have a double trigger feature and the proposed 2015 Incentive Plan has a double-trigger provision that will apply to all future equity grants.

§

**Ownership Requirements.** The CEO is required to hold equity in the Company worth at least 6x his base salary, and all other NEOs are required to hold at least 3x base salary.

§

**Holding / Retention Periods.** NEOs are required to hold exercised stock option shares and other stock awards until ownership requirements are met. Those who fail to achieve ownership requirements will not receive future equity-based awards.

§

**Prohibition on Hedging and Pledging.** NEOs and directors are prohibited from hedging and future pledging of Company shares.

§

**Clawback Provisions.** The Company has established recoupment policies for financial fraud and/or material inaccuracies for NEOs as well as recoupment for violations of non-competition agreements and non-solicitation agreements.

§

**Performance Thresholds and Caps.** Both the annual incentive and performance share programs require a threshold level of performance in order to achieve any payment, and the maximum payments are capped.

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§

**Annual Risk Reviews.** The Company conducts an annual risk review based on a process recommended by the Compensation Committee's independent compensation consultant.

§

**Minimal Perquisites.**

*The Company's compensation programs also maintain alignment with shareholders by not including certain features:*

§

**No** Cash Buyouts of Underwater Stock Options, Repricing, or Stock Options issued at a discount. Stock options issued will not be repriced, replaced, or regranted through cancellation or by lowering the stock option price of a previously granted stock option.

§

**No** Excessive Change in Control Agreements. The maximum cash benefit is equal to 2x salary and target bonus.

§

**No** Change in Control Agreements with Excise Tax Gross-ups.

§

**No** Tax Gross-ups on Perquisites.

§

**No** Employment Agreements. The Company does not maintain any employment agreements with its NEOs.

§

**No** Payment of Dividend Equivalents on Unearned Performance Shares or Stock Options.

Overall, the Company's compensation program is designed to be straightforward and understandable to its employees and shareholders, and to drive long-term shareholder value creation by aligning compensation with both individual and Company performance.

### 3. Compensation Committee of the Board

*The Compensation Committee of the Board is responsible for the Company's compensation programs.*

The Compensation Committee oversees the Company's compensation and benefit programs for all officers and employees. The Committee is responsible for ensuring that the Company's compensation practices provide appropriate incentives to increase long-term shareholder value, reflect the highest level of integrity, and protect the interests of shareholders. One of its responsibilities is to make certain that a competitive compensation structure is in place that will attract, reward, and retain employees and to motivate them to grow the business profitably. The Committee is also charged with ensuring that compensation, especially for executives, is linked to both personal and Company performance, and ensuring that compensation policies and practices for all employees do not include incentives to take inappropriate risk.

In setting individual compensation levels, the Compensation Committee selects a compensation comparator group of companies and reviews studies of total compensation paid to executives in those comparator group companies with similar duties and responsibilities. The Committee then considers a variety of reference points, including competitive compensation data at the 25th, 50th, and 75th percentiles, individual and Company performance, the executive's overall experience, replaceability, internal equity, unique skills, and management's recommendation to determine appropriate compensation for each executive. All elements of compensation are valued and reviewed in evaluating the relative competitiveness of the Company's compensation practices against the comparator group. Target total compensation for the Company's employees and executives as a whole (including the NEOs) is generally set to approximate the market median.

The Compensation Committee reviews at least annually a tally sheet for each NEO to evaluate the potential value of all compensation. The tally sheet includes each NEO's current



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base salary, annual incentive award, and the value of all outstanding equity-based awards (both vested and unvested), deferrals, benefits, and perquisites, as well as potential payments under retirement and certain change in control situations. Since no NEO has an employment agreement with the Company that guarantees continued employment, the tally sheets also facilitate the Committee's evaluation of the reasonableness of awards and their likely retention value.

Under its charter, the Compensation Committee makes executive compensation decisions and recommends actions to the Board of Directors and to shareholders (for example, related to the advisory Say-on-Pay vote or equity plan proposals), as appropriate.

In discharging its responsibilities, the Committee regularly consults with independent advisors, compensation consultants, and the Company's management. After a review of the factors prescribed by the Securities and Exchange Commission and the New York Stock Exchange, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, is an independent advisor under the rules and regulations. The Compensation Committee's charter can be found in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor).

**4. Risk Assessment**

*The Compensation Committee's oversight responsibility includes assessing the relationship between potential risk created by the Company's compensation programs and their impact on long-term shareholder value. The Company's compensation programs are designed to include risk-mitigating features, and the Committee also engaged its independent compensation consultant (Deloitte Consulting) to assist with the process of an annual internal risk assessment of all incentive-based compensation, including short-term and long-term incentive programs.*

The incentive compensation programs include risk-mitigating components, such as:

- § Balanced performance measures – sales growth combined with profitability;
- § Robust performance measure selection and goal setting;
- § Balanced mix of short-term and long-term incentives;
- § Balanced mix of equity vehicles – stock options are combined with performance shares;
- § Clawback provisions to recoup incentive compensation; and
- § Stock ownership, retention, and holding requirements.

Since 2009, the Committee has engaged its independent compensation consultant (Deloitte Consulting) to conduct a third-party risk assessment that would be completed every three years. For the interim years, the Company conducts an annual internal risk review based on practices and methodologies recommended by the Committee's independent compensation consultant. The results of the Company-conducted 2014 risk review were discussed with the Committee and Deloitte Consulting. Deloitte Consulting will conduct an external risk review in 2015.

Based on the risk review and the Committee's discussions, the Committee does not believe that the Company's compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

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**5. Say-on-Pay**

At the 2014 annual meeting of shareholders, the advisory vote to approve the compensation of the Company's NEOs received the support of 98% of the shareholders voting on the proposal. The Compensation Committee has considered these results and believes that they confirm the appropriateness of the Company's current executive compensation policies and practices. The Company routinely discusses its compensation philosophy with its shareholders as part of investor relations activities.

**6. Role of Management**

*Management assists the Compensation Committee in the design, recommendation, and implementation of compensation programs.*

Members of management assist the Compensation Committee by routinely recommending programs that management believes will provide the appropriate level of compensation and incentives consistent with the Company's compensation philosophy. Consistent with this process, management works with advisors from Aon Hewitt to develop market information and recommends adjustments in base salaries, annual incentive targets, and long-term incentive awards to be reviewed by the Compensation Committee and approved by the Board. For NEOs other than Mr. Ryan, the recommendations also include the structure and targets of short-term and long-term incentive programs, as well as changes to programs required for regulatory compliance. These recommendations are reviewed and approved by the CEO before they are presented to the Compensation Committee. Mr. Ryan's compensation is reviewed by the Compensation Committee in conjunction with its independent compensation consultant, either alone or together with other independent directors (as directed by the Board), in executive session without members of management present.

**7. Compensation Comparator Group**

*The Company's compensation program is regularly benchmarked against a Compensation Committee-approved comparator group of companies that are similar to the Company in size and complexity. The Company performs these studies to understand current market practices and to provide a reference point for compensation discussions.*

Every other year, the Compensation Committee determines a compensation comparator group of companies and undertakes a study of total compensation paid to executives occupying similar positions with similar duties and responsibilities in the comparator companies. All elements of compensation are valued and considered when determining the relative competitiveness of the Company's compensation practices. A comparator group compensation study was conducted in 2014 (2014 Compensation Study).

The 2014 comparator group consists of 22 businesses that are relatively similar in complexity and size to the Company and represent the types of major companies with which the Company historically competes for executive talent. The companies that were selected for the 2014 Compensation Study are generally within a range of half of Grainger's annual revenue to a maximum of two times Grainger's annual revenue. The competitive market for executive talent includes companies both within and outside the same industry or sector as the Company. Most of the Company's publicly-traded direct competitors tend to be too small in sales or scope of operations for direct compensation comparisons with the Company. Including a broader range of companies provides a more representative depiction of the Company's competitive market for talent. Therefore, companies used for compensation comparison purposes differ from those in the industry indices used in the Company Performance Graph in Part II, Item 5 of the Company's most recent Annual Report on Form 10-K.

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Management played a minimal role in selecting the 2014 compensation comparator group, as the Committee relied on Aon Hewitt for survey and market data and its independent compensation consultant (Deloitte Consulting) for assistance. The role of management in selecting the comparator group was limited to providing general comments on the relevance of each industry represented by the comparator companies.

Listed below is the 2014 Compensation Study comparator group and the 2013 revenues and enterprise values for each company.

<b>Company Name</b>	<b>2013 Revenue (\$mil)</b>	<b>2013 Enterprise Value* (\$mil)</b>
Air Products & Chemicals Inc.	\$ 10,180	\$ 28,568
AutoZone, Inc.	\$ 9,148	\$ 18,763
Ball Corp	\$ 8,468	\$ 11,013
The Clorox Co	\$ 5,623	\$ 13,084
Cummins Inc.	\$ 17,301	\$ 25,735
Dover Corp	\$ 8,730	\$ 18,570
Eastman Chemical Co	\$ 9,350	\$ 16,709
Eaton Corporation plc	\$ 22,046	\$ 44,600
Genuine Parts Co	\$ 14,078	\$ 13,364
Illinois Tool Works Inc.	\$ 14,135	\$ 39,442
Ingersoll-Rand Plc	\$ 12,351	\$ 20,281
Mattel Inc	\$ 6,485	\$ 17,424
Meadwestvaco Corp	\$ 5,389	\$ 8,236
Owens-Illinois, Inc.	\$ 6,967	\$ 9,515
Parker-Hannifin Corporation	\$ 13,016	\$ 15,588
PPG Industries Inc.	\$ 15,108	\$ 28,347
Rockwell Automation Inc.	\$ 6,352	\$ 14,557
Ross Stores Inc.	\$ 9,721	\$ 12,741
Textron Inc.	\$ 12,104	\$ 13,153
The Mosaic Company	\$ 8,170	\$ 17,843
The Sherwin-Williams Co	\$ 10,186	\$ 19,489

WESCO International Inc.	\$	7,513	\$	5,504
<b>25th %ile</b>	\$	<b>7,678</b>	\$	<b>13,102</b>
<b>Median</b>	\$	<b>9,536</b>	\$	<b>17,067</b>
<b>75th %ile</b>	\$	<b>12,849</b>	\$	<b>20,083</b>
<i>W.W. Grainger, Inc.</i>	\$	<i>9,438</i>	\$	<i>17,821</i>
<i>W.W. Grainger, Inc. Percentile Rank</i>		<i>49%</i>		<i>57%</i>

\*

Enterprise Value is calculated as market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

The Compensation Committee reviews the Compensation Study in conjunction with a tally sheet listing the potential value of all compensation available for the NEOs. The

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Compensation Committee concluded that the earned and potential awards for 2014 were consistent with the Company's pay philosophy, Company and individual performance, and market practices. Based on this review and the strong support from shareholders on our Say-on-Pay proposal, the Committee did not make specific adjustments to the design of the Company's compensation programs.

**8. Base Salaries**

*Base salaries are intended to provide an appropriate level of fixed compensation to attract and retain executives. Base salaries are determined after a detailed evaluation of individual performance, competitive market levels, and executive experience.*

Annual base salary adjustments are considered and implemented to reflect individual performance, contribution and experience, and to maintain market competitiveness. The 2014 Compensation Study showed that, on average, the Company's base salaries for NEOs were approximately 4% above the market median.

Base salary increases for the NEOs, with the exception of Mr. Ryan, are reviewed and approved by the CEO before they are presented to the Compensation Committee. In approving recommendations, the Committee reviews these recommendations in conjunction with its independent compensation consultant.

The compensation awarded to Mr. Ryan is determined by the Board with assistance from the Compensation Committee and its independent compensation consultant. The Compensation Committee reviews and approves the corporate goals and objectives relevant to Mr. Ryan's compensation and evaluates his performance in light of those goals and objectives. Together with the other independent directors (as directed by the Board), the Compensation Committee determines and approves Mr. Ryan's compensation level based on this evaluation, in executive session without members of management present.

Following the annual performance management review process (which is similar to the process in which all employees participate), base salaries are reviewed and adjusted (if appropriate) to reflect individual and Company performance, base salaries for comparable positions from market studies, experience, tenure, and internal equity.

Based on the above mentioned process, on April 1, 2014, Mr. Ryan's base salary was increased to \$1,129,000 (+2.0%). In addition, the following base salary adjustments were made for the other NEOs: Mr. Jadin's base salary was increased to \$688,500 (+2.0%); Mr. Macpherson's base salary was increased to \$663,000 (+2.0%); Mr. Carruthers' base salary was increased to CAD 676,000 (+4.0%); Mr. Howard's base salary was increased to \$642,600 (+2.0%).

**9. Annual Incentives**

*Annual incentives are intended to provide an appropriate level of variable compensation to encourage executives to achieve annual results that create shareholder value without encouraging excessive risk taking.*

NEOs are eligible to receive short-term cash-based incentives on the achievement of specified annual Company-wide financial performance measures set forth in the Company Management Incentive Program (MIP). The Company structures the MIP to motivate performance that balances short-term and long-term results and aligns the interests of management with shareholders.

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Each NEO's target incentive award under the annual incentive program is based on a review of competitive market practice and is designed to approximate a market value that is generally at the median of the comparator group. The following table displays the 2014 MIP target (program and payment) applicable to each NEO.

<b>Name</b>	<b>2014 Target Incentive % (as a % of base salary)</b>	<b>Program</b>	<b>Actual Payment % (as a % of the target)</b>
James T. Ryan	125%	Company	74%
Ronald L. Jadin	85%	Company	74%
Donald G. Macpherson	85%	Company	74%
Court D. Carruthers	85%	Company	74%
John L. Howard	75%	Company	74%

The Compensation Committee and management perform a thorough analysis in setting financial measures and goals for the Company MIP to ensure the program appropriately balances the Company's objectives, is aligned with long-term shareholder interest, and has appropriate and effective risk-mitigating components. While the measures and goals are clearly aligned with the Company's strategy, they also account for current economic conditions. The combination of sales growth and ROIC performance, as well as threshold, target, and maximum payment levels, serves to mitigate risk to the Company's shareholders.

The Company believes the design of the annual incentive program creates shareholder value and encourages performance by focusing on profitable sales growth and ROIC. The basic framework of the MIP has been in place for over ten years, although specific objectives and performance target levels have been modified on a year-by-year basis. This framework was selected to align with Company strategy and to balance sales growth with profitability, efficiency, expense management, and asset management. These measures are consistent with the Company's objective of growing profitably over time, which it believes is closely linked with shareholder value creation. The MIP framework allows the Compensation Committee the annual opportunity to adjust performance objectives in light of the current economic and competitive environment. Sales growth and ROIC remained the key structural components for the 2014 MIP. ROIC reflects how effectively management uses Company assets and is generally defined by the Company as pre-tax operating earnings divided by net working assets. Year-over-year daily sales growth is determined by year-over-year results. Acquisitions and divestitures are not included in the calculation of daily sales growth or ROIC. The total MIP payment is calculated as follows:

$$\text{MIP Payment} = (\text{Sales Growth Performance} + \text{ROIC Performance})$$

The 2014 Company MIP was based on the Company's ROIC and year-over-year daily sales growth. The Company determined the payment earned for ROIC and the payment earned for sales growth, and the two amounts were added together.



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The following table shows various payout scenarios the performance and payout curve that was established at the beginning of the year:

**2014 Management Incentive Program**

<b>ROIC Performance</b>	<b>% Payout*</b>
<18.0%	0%
24.0%	25%
29.9%	50%
<b>31.3%**</b>	<b>56%</b>
>32.3%	60%

<b>Daily Sales Growth Performance</b>	<b>% Payout*</b>
<4.0%	0%
<b>5.3%**</b>	<b>18%</b>
5.9%	25%
7.7%	50%
9.6%	100%
>11.5%	150%

\*

Payouts are interpolated on a straight-line basis.

\*\*

For the year 2014, ROIC was 31.3% and sales growth was 5.3%. Based on these results, Company MIP paid at 74% of target.

The Company believes that it establishes the sales growth and ROIC targets to provide an appropriate level of motivation. Under the terms of the annual incentive program, the Committee has the discretion to adjust MIP payment amounts to correct for any unusual circumstances, both positive and negative, that might affect ROIC or sales growth. No discretionary adjustments were made in 2014.

Incentive amounts paid to Messrs. Ryan, Jadin, Macpherson, Carruthers, and Howard were based on the performance targets established for the 2014 MIP and were made under a separate annual incentive program described in the 2010 Incentive Plan. This program is designed to ensure that annual incentives are performance-based and fully tax deductible by the Company under Section 162(m) of the Internal Revenue Code. Under the program, the Committee allocates a portion of an incentive pool to each participant. The pool is funded with 5% of the Company's net

earnings and the independent members of the Board have the authority to make specific awards. The sum of the individual participants' percentages may not be greater than 100% of the pool. The independent members of the Board may use their discretion to reduce these amounts but may not increase them. Consistent with prior years, the independent members of the Board used their discretion to reduce the amounts to yield payments equal to those that would have made using the same financial target and measures as the 2014 MIP.

Consistent with current practices, the 2015 MIP will continue to utilize daily sales growth along with ROIC as performance measures and all NEOs will be aligned to the Company MIP.

**10. Long-Term Incentives**

*The Company annually provides long-term incentives to NEOs and other key managers in order to align with the following elements of the Company's strategy to improve shareholder value:*

§

*Achieve long-term business goals and objectives that increase shareholder value (including achieving financial performance that balances growth, profitability, and asset management);*

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§	<i>Reward management for taking prudent action and achieving results that create shareholder value;</i>
§	<i>Attract qualified managers to join the Company; and</i>
§	<i>Retain management through business cycles.</i>

The Company's long-term incentives for NEOs consist of stock options and performance shares and are provided under shareholder-approved incentive plans. In 2014, the Company structured awards such that stock options represent approximately 70% of the total value of long-term incentive compensation and performance shares represent approximately 30% of the total value. Providing a mix of different types of equity awards is consistent with market practice for senior executives. The <sup>70</sup>/<sub>30</sub> (stock options/performance share) mix provides incentives to drive shareholder value creation and the three year vesting schedule aids in executive retention.

The target number of shares provided for stock options and performance share awards is designed to approximate an economic value that targets the median of the compensation comparator group for comparable jobs. The Compensation Committee annually establishes the target value of the award based on the executive's position. The actual award may be adjusted up or down to reflect individual performance. The value is converted to shares using the 200-day average stock price as of January 31 in the year of grant. The use of the 200-day average to calculate the number of shares is intended to smooth stock price volatility that can distort the number of shares awarded.

**NEO Long-Term Incentives**

<b>Award</b>	<b>Weight</b>	<b>Vesting &amp; Term</b>	<b>Performance Measure</b>
Stock Options	70%	3-year cliff vesting; 10 year term	Grant allocated based on individual performance, long-term value based on appreciation in stock price.
Performance Shares	30%	3-year cliff vesting contingent on performance	Sales growth measured in year 3 of the performance cycle, with 3-year average ROIC.

**Stock Options**

The Company's stock options provide the right to purchase Company stock at a specified price over a ten-year term with three-year cliff vesting. They are intended to directly link management's and shareholders' interests by tying a substantial portion of long-term incentives to stock price appreciation. The ten-year term is designed to focus the NEOs on long-term value creation. Three-year cliff vesting encourages meaningful retention before an executive can realize any value created by stock price appreciation. In 2014, stock options were awarded at an exercise price equal to the closing price of the Company's common stock reported for the business day before the grant. Beginning in 2015, stock options will be awarded at an exercise price equal to the closing price of the Company's common stock reported on the business day of the grant. Stock option repricing is not permitted under any of the Company's equity incentive plans.

**Performance Shares**

The Company's performance share program provides the NEOs and other executives with a potential share payout depending on sales growth (including the impact of acquisitions / divestitures) and ROIC achievement over a three-year cycle. The actual number of shares paid to an NEO can range from 0 to 200% of the target number of performance shares awarded. The Compensation Committee (with the assistance of its independent compensation consultant) and management perform a thorough analysis in setting the financial measures and goals for a three-year performance cycle that begins January 1 of the first year. The sales



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growth component is measured at the end of the cycle's third year and the ROIC component is measured at the end of the third year based on the three-year average. These measurement dates reinforce a long term focus. Dividend equivalents are not paid on performance shares. Due to the three-year cycle that each award covers, the Company has three performance share cycles ongoing at all times.

*2012-2014 Performance Share Cycle*

For the 2012-2014 performance share cycle, the 2013 sales target of \$10.3 billion was established when 2011 sales were \$8.1 billion. The Company's net sales in 2013 determined the number of shares conditionally earned, while vesting remains dependent on meeting a three-year average ROIC hurdle of 18%. The payout of the target performance share awards for this program cycle was made according to the following table:

<b>2013 Total Company Sales</b>	<b>Payout as a Percent of Target</b>
<\$8.4B	0%
\$8.4B	50%
<b>\$9.4B*</b>	<b>77%*</b>
\$10.3B	100%
\$10.8B	200%

\* In 2013, sales were \$9.4 billion and the participants conditionally earned 77% of their target. The Compensation Committee determined that the award vested because the Company's average ROIC for the three year period 2012-2014 was greater than 18%.

*2013-2015 Performance Share Cycle*

For the 2013-2015 performance share cycle, the sales growth measure was changed from sales in the second year to sales in the third year. The 2015 sales target of \$11.3 billion was established when 2012 sales were \$9.0 billion. The Company's net sales in 2015 will determine the number of shares earned, while vesting remains dependent on meeting a three year average ROIC hurdle of 18%. The payout of the target performance share awards for this program cycle will be made according to the following table:

<b>2015 Total Company Sales</b>	<b>Payout as a Percent of Target</b>
<\$9.5B	0%
\$9.5B	50%
\$11.3B	100%
\$11.9B	200%

Sales of \$11.3 billion in 2015 are required for participants to earn 100% of target award assuming the average ROIC for the three year period 2013-2015 is greater than 18%. This award will remain at risk through 2015.

*2014-2016 Performance Share Cycle*

For the 2014-2016 performance share cycle, the 2016 sales target of \$11.9 billion was established when 2013 sales were \$9.4 billion. The Company's net sales in 2016 will determine the number of shares earned, while vesting remains dependent on meeting a



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three year average ROIC hurdle of 18%. The payout of the target performance share awards for this program cycle will be made according to the following table:

<b>2016 Total Company Sales</b>	<b>Payout as a Percent of Target</b>
<\$10.0B	0%
\$10.0B	50%
\$11.9B	100%
\$12.6B	200%

The Compensation Committee selected these performance measures because they balance sales growth with long-term profitability, expense management, and asset management and align with objectives established in the annual incentive program. The Committee may use different sales growth and ROIC objectives and targets from year to year to maximize alignment with then-current business objectives and to reflect economic conditions.

*Performance Vested Restricted Stock Units*

The Company's performance vested restricted stock units (PRSUs) were new for 2014 and used for retention and promotions. They provide a potential share payout depending on ROIC achievement over a three year cycle. The ROIC performance objective is the same as that used in the Performance Share Programs. The actual number of PRSUs paid to an NEO is either 0% or 100% of the grant number awarded, based on achievement of the ROIC goal. Dividend equivalents are not paid on PRSUs.

Effective January 1, 2014, the Company granted Mr. Macpherson and Mr. Carruthers 3,894 shares of PRSUs and granted Mr. Jadin and Mr. Howard 779 shares. All PRSUs have 3-year cliff vesting.

To make the PRSUs consistent with the Company's existing Performance Share program design, an 18% threshold level of average ROIC performance over a three year period (2014-2016) must be achieved in order for the PRSUs to vest. If this threshold is achieved, 100% of the PRSUs will be settled into shares; if this threshold is not achieved, all of the PRSUs will be forfeited.

*Award Agreements / Non-competition / Clawbacks*

In 2010 the Company added additional clawback policies that would address a material restatement of reported earnings and fraud (see the "Compensation Recoupment Policy" section for additional details). In addition to and in connection with their long-term incentive awards, the NEOs and all other recipients are required to sign an agreement containing confidentiality and non-competition obligations designed to protect the Company's confidential and proprietary information and to preserve the Company's competitive advantages. Under these clawback agreements, should an executive violate his or her confidentiality or non-compete obligations, any award is automatically forfeited. The agreements also require, in certain circumstances, that an executive who has breached the confidentiality and non-compete agreements return vested shares and/or gains from disposition of shares to the Company.

**11. Stock Ownership Guidelines**

*As of December 31, 2014, all officers subject to stock ownership guidelines, including the NEOs, are in compliance with the guidelines.*

The Company continues to believe that requiring executive ownership of Company stock creates alignment between executives and shareholders and encourages executives to act to

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increase shareholder value. In 1996, the Company established stock ownership guidelines for its NEOs and other officers. In 2011, the Company increased the minimum ownership requirement for the CEO from 5x base salary to 6x and established a retention ratio for equity awards. The stock ownership guidelines for the NEOs are as follows:

NEO	Minimum Ownership Requirement as a Percentage of Base Salary	Currently in Compliance?
James T. Ryan	6x	Yes
Ronald L. Jadin	3x	Yes
Donald G. Macpherson	3x	Yes
Court D. Carruthers	3x	Yes
John L. Howard	3x	Yes

These stock ownership guidelines must be met within three years of being elected an officer or assuming a new position, and are reviewed annually by the Board. NEOs are required to hold exercised option shares and other stock awards until ownership requirements are met. Officers who fail to achieve these ownership levels will not receive future equity-based awards. Shares owned directly by the officer (including those held as a joint tenant or as tenant in common), RSUs, shares owned in a self-directed IRA, and certain shares owned or held for the benefit of a spouse or minor children are counted toward meeting the guidelines. Stock options (whether vested or unvested) and performance share awards are not counted toward meeting the ownership guidelines.

**25% Retention Ratio**

It is the Company's long-term goal for executives to also meet a second ownership requirement that is expressed in outright ownership (in actual shares and/or deferred vested shares). The Company has implemented a required 25% after-tax share retention ratio for NEOs. Upon receiving shares from the Company following the exercise or settlement of equity awards, if the NEO does not hold outright ownership of shares worth his required ownership multiple, he will be required to retain 25% of the shares received from all such equity awards (net of any shares used to satisfy tax withholding obligations) until the stock ownership guidelines are met with shares owned outright. All NEOs meet this requirement.

**12. Hedging and Pledging Prohibition**

The Company's Business Conduct Guidelines (which are available in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor)) prohibit employees and the Board of Directors from engaging in any financial arrangement (including, without limitation, put and call options and short sales) that establish a short position in Company stock and are designed to hedge or offset a decrease in market value. Effective January 1, 2013, by policy, Company officers and directors are also prohibited from the pledging of any additional Company stock at any amount as collateral for a loan or for a margin account. One of the Company's directors who had a long-standing pledge arrangement prior to the anti-pledging policy has committed to reduce his outstanding pledges by 20% per year and that pledges would be eliminated by March 2018 (see further details under the Ownership of Grainger Stock section).

**13. Other Benefits**

The other components of the Company's compensation program for NEOs are substantially similar to those available for most of the Company's employees. This includes the same health and welfare benefits and the same performance-based PST contribution methodology that is applied to the U.S.-based employees who are PST participants. The Company provides Supplemental Profit Sharing Plans solely to maintain an equal percentage of PST





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compensation contribution to approximately 215 employees, including NEOs, who would be subject to contribution limitations imposed on qualified plans by the Internal Revenue Code. The Company does not provide any other supplemental retirement benefits to its NEOs or other employees based in the United States.

The PST is the primary Company-sponsored retirement vehicle for U.S.-based employees. The PST aligns the interests of the Company's employees, management, and shareholders as the Company's annual contribution to the PST is based on a formula that incorporates two key drivers of shareholder value—earnings performance and capital employed. The Company contributes a minimum of eight percent of payroll to the program and provides employees the opportunity to share in the success of the Company beyond this amount only if a threshold return on capital is achieved. The contribution percentage that each participating employee receives is a function of his or her years of service with the maximum contribution occurring at five or more years of service. The Company's U.S. NEOs participate in the PST on the same basis as all other employees. The Company does not maintain a defined benefit pension plan for U.S.-based employees.

Effective February 2010, the Company implemented a 401(k) plan for certain newly acquired or established businesses in the U.S. whose employees do not participate in the PST. Approximately 225 employees of the Company's employees (less than 1%) are currently eligible for the 401(k) plan. None of the Company's NEOs are eligible for the 401(k) plan.

Mr. Carruthers is an employee of the Company's Canadian subsidiary, Acklands Grainger Inc. (AGI), and therefore participates in the AGI Notional Account Plan. The AGI Notional Account Plan (for designated executives) provides an 11% contribution (of earnings above CAD 258,000), which earns an investment return equal to the Canadian prime interest rate plus 1%.

NEOs and certain other officers may elect to defer receipt of up to 50% of base salary and/or 85% of annual cash incentives under the 2004 Voluntary Salary and Incentive Deferral Plan, an unfunded deferred compensation plan. The purpose of the plan is to provide executives with retirement savings and financial planning opportunities that are not available to them in tax-qualified retirement plans due to Internal Revenue Code limitations. The investment choices and returns for their nonqualified programs are the same as those offered to participants in the PST.

Effective April 2011, the Company requires that the NEOs and certain other Company officers have periodic physical examinations at a facility selected by the Company. The Company believes that periodic physical exams are important to maintain the effectiveness of its executive talent.

The NEOs (except for Mr. Carruthers) and certain other Company officers have grandfathered participation in the Company's former Executive Death Benefit Plan. The beneficiary of a participant who dies while employed by the Company is entitled to a taxable benefit of 120 monthly payments of 50% of the participant's monthly compensation, calculated on the basis of salary and target annual incentive under the applicable cash incentive program. The Company has discontinued its executive death benefit program for executives hired or promoted after December 31, 2009. Unless offered to other Company employees, the Company will not make payments, grants, or awards following the death of an executive in the form of unearned salary or unearned bonuses, accelerated vesting or the continuation in force of unvested equity grants, awards or ungranted equity, perquisites, and other payments or awards made in lieu of compensation.

NEOs were eligible to be reimbursed for up to \$10,000 in financial services in 2014. The financial service reimbursements are fully taxable and not grossed-up to cover taxes. Officers are allowed the business use of corporate aircraft and car and driver, while Mr. Ryan is also allowed personal use of both, subject to his reimbursement of the incremental cost of use. These benefits represent a cost-effective method of allowing the Company's top executives

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to more effectively use their time. In 2014, Mr. Ryan did not utilize the corporate aircraft for personal use and he reimbursed the Company for all personal use of the car and driver. All other benefits, including the PST contribution percentages and various welfare benefits provided to U.S. NEOs and other executive officers, are comparable to those provided to the majority of salaried and hourly U.S.-based Company employees.

Mr. Carruthers receives a competitive Canadian benefits package, which includes benefits over and above those offered to regular Canadian AGI employees. These benefits include Group Life Insurance, Accidental Death & Dismemberment Insurance, Dependent Life Insurance, Dental Insurance, extended Health Insurance, and Annual Executive Medical Insurance.

Effective January 1, 2012, Mr. Carruthers relocated to the United States to assume new responsibilities. In addition to the relocation benefits generally made available to employees on international assignments, Mr. Carruthers receives supplemental benefits commensurate with his level. In 2014, these included a housing allowance of \$95,000 per year, and support for automobile expenses with a cap of \$40,000 per year.

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## Summary Compensation Table

	<b>Year</b> <b>(b)</b>	<b>Salary</b> <b>(c)</b>	<b>Bonus</b> <b>(d)</b>	<b>Stock Awards<sup>1</sup></b> <b>(e)</b>	<b>Option Awards<sup>2</sup></b> <b>(f)</b>	<b>Non-Equity Incentive Plan Comp.<sup>3</sup></b> <b>(g)</b>	<b>Change in Pension Value and NQDC Earnings<sup>4</sup></b> <b>(h)</b>	<b>All Other Comp.<sup>5,6</sup></b> <b>(i)</b>		
	2014	\$ 1,123,500	\$ 0	\$ 1,960,612	\$ 3,028,115	\$ 1,044,325	\$ 0	\$ 554,908	\$ 7,000,000	\$ 12,550,450
	2013	\$ 1,099,000	\$ 0	\$ 1,926,230	\$ 3,614,855	\$ 1,037,813	\$ 0	\$ 491,484	\$ 8,000,000	\$ 13,138,342
	2012	\$ 1,056,250	\$ 0	\$ 1,990,800	\$ 3,435,619	\$ 1,088,438	\$ 0	\$ 919,435	\$ 8,000,000	\$ 13,490,102
	2014	\$ 685,125	\$ 0	\$ 642,780	\$ 700,517	\$ 433,067	\$ 0	\$ 316,338	\$ 2,000,000	\$ 3,135,727
	2013	\$ 623,750	\$ 0	\$ 459,073	\$ 861,327	\$ 400,815	\$ 0	\$ 363,370	\$ 2,000,000	\$ 2,654,862
	2012	\$ 570,000	\$ 0	\$ 495,745	\$ 858,993	\$ 346,275	\$ 0	\$ 385,977	\$ 2,000,000	\$ 2,661,985
	2014	\$ 659,750	\$ 0	\$ 1,370,245	\$ 656,722	\$ 417,027	\$ 0	\$ 272,617	\$ 3,000,000	\$ 4,715,354
	2013	\$ 595,583	\$ 0	\$ 430,369	\$ 807,513	\$ 385,970	\$ 0	\$ 303,568	\$ 2,000,000	\$ 3,723,033
	2012	\$ 539,000	\$ 0	\$ 429,800	\$ 744,443	\$ 327,443	\$ 0	\$ 326,044	\$ 2,000,000	\$ 3,036,720
	2014	\$ 576,261	\$ 0	\$ 1,370,245	\$ 656,722	\$ 365,987	\$ 4,553	\$ 104,888	\$ 3,000,000	\$ 4,973,593
	2013	\$ 582,385	\$ 0	\$ 430,369	\$ 807,513	\$ 460,325	\$ 4,113	\$ 86,518	\$ 2,000,000	\$ 3,870,803
	2012	\$ 550,045	\$ 0	\$ 429,800	\$ 744,443	\$ 334,153	\$ 13,240	\$ 111,637	\$ 2,000,000	\$ 3,773,288
	2014	\$ 639,450	\$ 0	\$ 444,292	\$ 394,054	\$ 356,643	\$ 0	\$ 330,757	\$ 2,000,000	\$ 3,525,146
	2013	\$ 622,500	\$ 0	\$ 315,553	\$ 592,156	\$ 354,375	\$ 0	\$ 227,967	\$ 2,000,000	\$ 3,207,048
	2012									

1

Represents the grant date fair value of stock awards computed in accordance with FASB ASC Topic 718. Performance share grants are calculated at target achievement and may pay out up to 200% of the target award. Performance vested restricted stock awards are calculated at target achievement and may pay out up to 100% of the target award. The maximum value of the stock awards shown are \$3,921,224, \$1,096,535, \$1,795,610, \$1,795,610, and \$699,560 for Messrs. Ryan, Jadin, Macpherson, Carruthers, and Howard respectively.

2

Represents the grant date fair value of option awards computed in accordance with FASB ASC Topic 718.

3

Represents amounts paid under a 162(m)-qualified, shareholder-approved annual cash incentive plan.

4

The Company maintains a Non-Qualified Defined Contribution plan for Acklands Grainger Inc.'s ("AGI") Designated Executives. The plan accrues an additional pension benefit equivalent to 11% of earnings in excess of the maximum earnings threshold of CAD 258,000 for 2014 and provides interest on the prior year balance at the prime rate, plus 1%. For 2014, the 1% additional interest totals CAD 5,289 for Mr. Carruthers. The Company does not maintain an employee pension plan nor does it issue above-market earnings on nonqualified deferred accounts for non-AGI officers.

5

For 2014, includes contributions accrued under the Company's profit sharing plan, the related supplemental profit sharing plan, and for deferred compensation plan participants, Company contributions that would otherwise have been made to the supplemental profit sharing plan (\$466,373, \$234,315, \$225,636, and \$214,437 for Messrs. Ryan, Jadin, Macpherson, and Howard, respectively). Also includes contributions accrued under the AGI Defined Contribution Plan and the AGI Notional Account Plan (CAD 98,985 Notional + CAD 13,694 pension contributions) for Mr. Carruthers. Also includes reimbursement for financial services (\$10,000, \$10,000, \$10,000, \$0, and \$10,000, for Messrs. Ryan, Jadin, Macpherson, Carruthers, and Howard, respectively).

Also includes the incremental cost of the frozen Executive Death Benefit Program (\$74,785, \$67,523, \$32,406, and \$106,320 for Messrs. Ryan, Jadin, Macpherson, and Howard). Also includes the cost of executive physicals (\$3,750, \$4,500, \$4,575, and \$4,200 for Messrs. Ryan, Jadin, Macpherson, and Carruthers).

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6

Mr. Carruthers receives a Canadian benefits package, which includes additional benefits not available to regular Canadian AGI employees. The incremental value includes Group Life Insurance, Accidental Death & Dismemberment Insurance, and Dependent Life Insurance and totals CAD 3,762.

7

Reflects the amount paid to Mr. Carruthers in Canadian dollars, which were converted into U.S. dollars at a rate of CAD 1.1618 to U.S. \$1.000. This is the spot conversion rate at the close of business on December 31, 2014.

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## Grants of Plan-Based Awards

Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>1</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>2,3</sup>			All Other Stock Awards: No. of Shares of Stock or Units	All Other Option Awards: No. of Securities Underlying Options <sup>4</sup>	Exercise or Base Price of Option Awards
Threshold	Target	Maximum	Threshold	Target	Maximum			
0	\$ 1,411,250	\$ 2,822,500	4,040	8,080	16,160		56,558	\$ 248.2
0	\$ 585,225	\$ 1,170,450	0 935	779 1,870	779 3,740		13,084	\$ 248.2
0	\$ 563,550	\$ 1,127,100	0 877	3,894 1,753	3,894 3,506		12,266	\$ 248.2
0	\$ 494,577	\$ 989,155	0 877	3,894 1,753	3,894 3,506		12,266	\$ 248.2
0	\$ 481,950	\$ 963,900	0 526	779 1,052	779 2,104		7,360	\$ 248.2

1

Represents potential amounts under the annual cash incentive award in the 2010 Incentive Plan, a 162(m)-qualified, shareholder-approved plan. The plan establishes a pool equal to five percent (5%) of the Company's Net Earnings for the plan year. For 2014, the Board used its discretion to reduce amounts to yield payments equal to those that would have been made using the same financial measures as the Management Incentive Plans for the other employees. The estimated plan award for Mr. Carruthers was converted into U.S.

dollars at a rate of CAD 1.1618 to U.S. \$1.000.

2

The number of shares that may be earned for the 2014 grant of performance shares range from 0% to 200% of the target award and will be determined based on the Company's sales revenue performance in 2016. These shares will vest at the end of 2016 if the three-year average ROIC is greater than 18%.

3

This column includes the 2014 grant of performance-vested restricted stock units, an award of either 0% or 100% of the target value and will be determined based on the Company's three year average ROIC between 2014 and 2016. These shares will vest at the end of 2016 if the three year average ROIC is 18% or higher.

4

Represents stock option awards with a ten-year term and three-year cliff vesting.

5

Awards were issued at fair market value, which the Company has consistently determined as the closing price on the day before the award was approved.

6

Represents the actual closing price on the day the award was approved.

7

Represents the full grant date fair value of awards as calculated under FASB ASC Topic 718 without allocating over the vesting period.

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## Outstanding Equity Awards at Fiscal Year-End

## Option Awards

## Stock Awards

No. of Securities Underlying Unexercised Options Exercisable <sup>1</sup>	No. of Securities Underlying Unexercised Options Unexercisable <sup>1</sup>	Equity Incentive Plan Awards: No. of Securities Underlying Unexercised Options	Option Exercise Price <sup>2</sup>	Option Expiration Date <sup>3</sup>	No. of Shares or Units of Stock That Have Not Vested <sup>4</sup>	Market Value of Shares or Units of Stock That Have Not Vested <sup>5</sup>	Equity Incentive Plan Awards: No. of Unearned Shares, Units or Other Rights That Have Not Vested <sup>6</sup>
30,000			\$ 83.08	4/24/17	20,000	\$ 5,097,800	26,770
57,000			\$ 85.82	4/29/18			
130,000			\$ 81.49	4/28/19			
122,000			\$ 108.15	4/27/20			
96,400			\$ 149.02	4/26/21			
	78,100		\$ 204.01	4/24/22			
	70,465		\$ 245.86	4/23/23			
	56,558		\$ 248.22	4/29/24			
3,200			\$ 83.08	4/24/17	10,000	\$ 2,548,900	7,196
13,500			\$ 85.82	4/29/18			
30,000			\$ 81.49	4/28/19			
29,000			\$ 108.15	4/27/20			
25,336			\$ 149.02	4/26/21			
	19,527		\$ 204.01	4/24/22			

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16,790	\$	245.86	4/23/23			
13,084	\$	248.22	4/29/24			
3,000	\$	81.49	4/28/19	20,000	\$ 5,097,800	9,758
29,000	\$	108.15	4/27/20			
24,876	\$	149.02	4/26/21			
16,923	\$	204.01	4/24/22			
15,741	\$	245.86	4/23/23			
12,266	\$	248.22	4/29/24			
24,876	\$	149.02	4/26/21	0	\$ 0	9,758
16,923	\$	204.01	4/24/22			
15,741	\$	245.86	4/23/23			
12,266	\$	248.22	4/29/24			
10,000	\$	83.08	4/24/17	0	\$ 0	4,769
11,000	\$	85.82	4/29/18			
21,000	\$	81.49	4/28/19			
19,500	\$	108.15	4/27/20			
14,990	\$	149.02	4/26/21			
11,716	\$	204.01	4/24/22			
11,543	\$	245.86	4/23/23			
7,360	\$	248.22	4/29/24			

1

Represents stock option awards with a ten-year term and three-year cliff vesting. Upon retirement from the Company, unvested options automatically vest and may be exercised within the lesser of six years or the remaining term of the option. Mr. Ryan is currently retirement-eligible.

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- 2 Awards were issued at fair market value, which the Company has consistently determined as the closing price on the day before the award is approved.
- 3 Represents ten years after the award date.
- 4 Represents unvested restricted stock units with three- to seven-year cliff vesting.
- 5 Represents the aggregate unvested restricted stock units outstanding multiplied by the year-end closing price (\$254.89).
- 6 Represents the aggregate performance shares with a three-year cycle as described further in the Compensation Discussion & Analysis.
- 7 Represents the aggregate performance shares outstanding multiplied by the year-end closing price (\$254.89).

Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	No. of Shares Acquired on Exercise1	Value Realized on Exercise2	No. of Shares Acquired on Vesting3	Value Realized on Vesting4
James T. Ryan	0	\$ 0	37,540	\$ 9,514,267
Ronald L. Jadin	3,500	\$ 623,880	7,000	\$ 1,787,940
Donald G. Macpherson	12,000	\$ 2,042,527	5,600	\$ 1,430,352
Court D. Carruthers	34,000	\$ 5,352,648	13,600	\$ 3,424,992
John L. Howard	10,000	\$ 1,693,067	4,000	\$ 1,021,680

- 1 Represents the number of stock options exercised.
- 2 Represents the difference between the exercise price and the market price of the common stock on the date of exercise.

3

For Mr. Ryan, this represents 10,000 restricted stock units, issued on February 20, 2007. For Mr. Carruthers this represents 8,000 restricted stock units issued on April 27, 2011. For Messrs. Ryan, Jadin, Macpherson, Carruthers, and Howard this represents 27,540, 7,000, 5,600, 5,600, and 4,000 shares, respectively, vested on February 20, 2014, in settlement of performance share awards granted on January 1, 2011.

4

Represents the value of the restricted stock units and performance shares awards on the vesting date.

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## Pension Benefits

Name	Plan Name	No. of Years Credited Service	Present Value of Accumulated Benefit	Payouts During Last Fiscal Year
James T. Ryan	None	n/a	n/a	n/a
Ronald L. Jadin	None	n/a	n/a	n/a
Donald G. Macpherson	None	n/a	n/a	n/a
Court D. Carruthers	None	n/a	n/a	n/a
John L. Howard	None	n/a	n/a	n/a

## Nonqualified Deferred Compensation

Name	Plan	Executive Contributions in Last FY1	Registrant Contributions in Last FY2	Aggregate Earnings in Last FY3	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE4
James T. Ryan	Deferred RSUs	\$ 0	\$ 0	\$ 61,200	\$ 0	\$ 5,097,800
	SPSP & SPSP II	\$ 0	\$ 422,905	\$ 93,713	\$ 0	\$ 4,041,335
	<b>Total</b>	<b>\$ 0</b>	<b>\$ 422,905</b>	<b>\$ 154,913</b>	<b>\$ 0</b>	<b>\$ 9,139,135</b>
Ronald L. Jadin	SPSP & SPSP II	\$ 0	\$ 158,693	\$ 32,440	\$ 0	\$ 700,867
	Voluntary Salary & Incentive Deferral	\$ 340,693	\$ 37,521	\$ 113,795	\$ 0	\$ 2,930,802
	<b>Total</b>	<b>\$ 340,693</b>	<b>\$ 196,214</b>	<b>\$ 146,235</b>	<b>\$ 0</b>	<b>\$ 3,631,669</b>
Donald G. Macpherson	SPSP & SPSP II	\$ 0	\$ 148,477	\$ 29,962	\$ 0	\$ 647,424
	<b>Total</b>	<b>\$ 0</b>	<b>\$ 148,477</b>	<b>\$ 29,962</b>	<b>\$ 0</b>	<b>\$ 647,424</b>
Court D. Carruthers	AGI Notional	\$ 0	\$ 96,986	\$ 6,425	\$ 0	\$ 558,689

	Account Plan <b>Total</b>	\$	<b>0</b>	\$	<b>96,986</b>	\$	<b>6,425</b>	\$	<b>0</b>	\$	<b>558,689</b>
John L. Howard	Deferred RSUs	\$	0	\$	0	\$	61,200	\$	0	\$	5,097,800
	SPSP & SPSP II	\$	0	\$	162,767	\$	53,634	\$	0	\$	1,450,742
	Voluntary Salary & Incentive Deferral	\$	184,468	\$	36,015	\$	77,649	\$	0	\$	2,058,007
	<b>Total</b>	\$	<b>184,468</b>	\$	<b>198,782</b>	\$	<b>192,483</b>	\$	<b>0</b>	\$	<b>8,606,549</b>

1

Represents voluntary short term incentive deferrals for Messrs Jadin and Howard. These contributions were disclosed as part of salary or non-equity incentive plan compensation in the 2014 Summary Compensation Table.

2

The Company provides the supplemental profit sharing plans (SPSPs) solely to maintain an equal percentage of PST contribution to approximately 215 employees (including all NEOs) who would be subject to contribution limits imposed on qualified plans by the Internal Revenue Code. For Messrs. Ryan, Jadin, and Macpherson, this represents the Company SPSP contribution. For Mr. Carruthers, this represents the Company contribution to the AGI Notional Account Plan. These contributions were disclosed as part of "All Other Comp." in the 2014 Summary Compensation Table.

For Messrs. Jadin and Howard, this represents make-whole contributions to the SPSPs that would otherwise have been made had they not voluntarily deferred salary in 2014.

3

Represents earnings on all nonqualified deferred compensation balances, including SPSP earnings, stock price appreciation and dividend equivalent payments for vested, deferred restricted stock units, and for Mr. Jadin, earnings on voluntary deferrals. Investment choices for any officer, including an NEO, who elects to defer salary and/or bonus may be made only from the same investment funds

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available to all employees under the Company's profit sharing plan. The rate of return on the individual accounts (positive or negative) is a function of the participant-selected investment funds.

Messrs. Jadin and Howard and other officers voluntarily participated in this plan in 2014. None of the amounts reported in this column are reported in the 2014 Summary Compensation Table.

4

Aggregate year-end balances for the SPSPs, vested deferred restricted stock units, and for Messrs. Jadin, and Howard, year-end balances for their voluntary deferral accounts. Messrs. Ryan, and Howard each have 20,000 vested, deferred RSUs outstanding.

**14. Employment Contracts, Change in Control Arrangements, and Termination of Employment Arrangements**

*The Company does not maintain any employment agreements with its executives.*

*Change in Control Equity Plans*

Under the terms of the Company's 2001 Long-Term Incentive Plan, 2005 Incentive Plan, and 2010 Incentive Plan, as amended, a change in control generally results in the following:

- § Accelerated vesting of any unexercised stock options, whether or not exercisable on the date of such change in control;
- § Accelerated vesting of unvested RSU awards; and
- § Settlement of performance share awards in common stock equal to 100 percent of the executive's performance share target.

As proposed in the 2015 Incentive Plan, vesting for all future awards will require a double trigger in order to accelerate vesting (both a change in control occurs and involuntary termination of employment within one year of the change in control).

*Change in Control Agreements*

The Company has 2x Change in Control Agreements (CIC Agreements) with a number of executives. These CIC Agreements are intended to ensure that in the event of a pending or threatened change in control, the Company retains its management and that their full attention is focused on the best interests of the Company and its shareholders and not on the uncertainty of their future employment prospects under those circumstances.

§ The Company's CIC Agreements are "double-trigger" arrangements that require both a change in control of the Company and within the following two-year period: (a) the Company terminates the executive's employment other than for cause, or (b) the executive terminates employment for good reason (for example, because the Company reduced the executive's authority or aggregate benefits). Under each CIC Agreement, the executive is entitled to certain benefits which include a lump-sum payment generally equal to 2x the sum of (i) the executive's annual salary, (ii) the executive's target annual incentive, and (iii) in connection with the Company's non-contributory profit sharing plans, a percentage of annual salary and annual incentive equal to the average percentage of covered compensation contributed by the Company under the plans for the last three fiscal years. The executive is also entitled to two years of continued health and dental benefits.

§ The Company has committed that only 10 positions will be eligible for CIC Agreements in the future. Existing agreements remain in place.

**Deductibility of Executive Compensation; Accounting Considerations**



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Section 162(m) of the Internal Revenue Code generally disallows a federal income tax deduction to a public company for compensation over \$1 million per fiscal year paid to the Company's NEOs. Compensation that qualifies as "performance-based" compensation is not subject to the deductibility limit. A Company objective is to attempt to maximize the

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deductibility of compensation under Section 162(m) to the extent doing so is reasonable and consistent with Company strategies and goals. Awards under the annual incentive plan in which the NEOs participate, gains on exercises of stock options, and shares received as the result of performance share awards are considered to be "performance-based" compensation not subject to the Section 162(m) deductibility limit. Awards of RSUs are not exempt from the Section 162(m) deductibility limit and all or a portion of these awards may be nondeductible when the awards vest. While the tax treatment applicable to the Company's compensation programs was taken into account in designing those programs, it was not a significant consideration. The Company does not time the grant of long-term incentive awards in respect of the release of material, non-public information nor for the purpose of affecting the value of executive compensation.

Upon vesting, settlement, or maturity, equity awards under the 2010 Incentive Plan and predecessor plans are distributed in the form of shares of the Company's common stock. Under the Accounting Standards Codification (ASC) 718 (formerly FAS 123R), these types of awards are considered equity awards. As a result, the total amount of compensation expense to be recorded for the awards is based on the fair value of the awards on the grant date. This fair value is then recorded over the vesting period, usually three years, and is recorded to compensation expense and as an increase in paid-in capital. The amount of compensation expense is not subsequently adjusted for changes in the Company's share price, but it is adjusted for the estimated number of shares to be distributed. If an equity award is forfeited, all previously recorded compensation expensed is reversed. While the accounting treatment described above was considered in the development of our long-term incentive program, it was not a material consideration.

**15. Compensation Recoupment Policy (Clawbacks)**

The Company has an expanded executive compensation recoupment policy (or clawback) for equity and annual incentive payments made to officers. The Company can recover incentive compensation (cash or equity) that was awarded based on achievement of financial results that were the subject of a restatement if the officer engaged in criminal conduct or financial fraud. The policy also permits the recovery of all or a portion of any incentive compensation in the case of materially inaccurate financial statements whether or not they result in a restatement and whether or not the executive officer has engaged in wrongful conduct. In addition, should an executive violate his or her confidentiality or non-compete obligations, any award is automatically forfeited, and in certain circumstances, the executive must return vested shares and/or gains from disposition of shares to the Company. Recoveries under these provisions can extend back for three years.

This policy applies to any incentive compensation awarded or paid to an employee at a time when he or she is an officer. Subsequent changes in status, including retirement or termination of employment, do not impact the Company's rights to recover compensation under this policy.

**Termination**

The Company does not have employment contracts and does not maintain severance programs for its executives. The executive's CIC Agreements provide the potential for a lump sum payment following a change in control. Except for a limited period of time following a change in control, the NEOs are not entitled to severance upon termination.

**Retirement**

The definition of retirement eligibility is the same for all U.S. employees. Under this definition, an employee is retirement-eligible upon attaining any of the following:

§ Age 60;

§ Age 55 and 20 years of service; or

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§

25 years of service.

Mr. Ryan is the only NEO who is currently retirement-eligible.

The Company provides the following upon retirement for all employees, including NEO's:

§

Outstanding stock options become vested and executives have the right to exercise such stock options within six years from date of termination or for the remaining term of the stock option, whichever is less;

§

In the year of retirement, a fraction of the stock option award received in the year of retirement vests based on the number of months the executive worked that year;

§

Settlement of performance shares occurs after the end of the performance period in common stock equal to the number of the executive's outstanding performance shares earned for the performance period multiplied by the prorated portion of the performance period completed;

§

Cash payments equal to account balances under the Profit Sharing Trust, any supplemental profit sharing program, and the 2004 Voluntary Salary and Incentive Deferral Plan will be made in installment payments for up to 15 years or in a lump-sum payment based on the election made by the executive in accordance with the terms and conditions of those plans; and

§

Reduced life insurance benefits.

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The following tables illustrate the potential incremental payments and benefits that could be received by the NEOs upon a termination or change in control of the Company. The amounts shown below assume that such termination or change in control was effective as of December 31, 2014 and thus only includes amounts earned through such date. However, the actual amounts that would be paid out under each circumstance can only be determined at the time of separation.

## Other Potential Post-Employment Payments

## Ryan, James T.

Type of Payment	Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)	Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)	Retirement <sup>9</sup> (\$)	Death (\$)	Disability (\$)	Change In Control Only (\$)	Change In Control and Termination without Cause or with Good Reason (\$)
Cash Compensation							
Cash Severance <sup>1</sup>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,172,977
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Restricted Stock Units							
Unvested and Accelerated Awards <sup>2</sup>	\$ 0	\$ 0	\$ 0	\$ 5,097,800	\$ 5,097,800	\$ 5,097,800	\$ 5,097,800
Performance Shares							
Unvested and Accelerated Awards <sup>3</sup>	\$ 0	\$ 0	\$ 1,541,745	\$ 1,541,745	\$ 1,541,745	\$ 4,625,234	\$ 4,625,234

Retirement Benefits														
Profit Sharing														
Unvested and Accelerated Awards <sup>4</sup>	\$	0	\$	0	\$	0	\$	0	\$	0				
Deferred Compensation	\$	0	\$	0	\$	0	\$	0	\$	0				
Benefits														
Continuation of Health & Welfare Benefits <sup>5</sup>	\$	0	\$	0	\$	500,297	\$	0	\$	0	\$	36,426		
Life Insurance and Death Benefit Payout <sup>6</sup>	\$	0	\$	0	\$	1,299,289	\$	10,407,571	\$	0	\$	0	\$	1,637,060
Disability Payments	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Perquisites and Tax Payments														
Excise Tax & Gross-Up <sup>7</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Outplacement <sup>8</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0	\$	169,350
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>3,341,331</b>	<b>\$</b>	<b>17,047,116</b>	<b>\$</b>	<b>6,639,545</b>	<b>\$</b>	<b>9,723,034</b>	<b>\$</b>	<b>17,738,846</b>

1. The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except in the event of a change in control followed by termination without cause or with good reason.
2. Mr. Ryan has one grant of unvested restricted stock units as of December 31, 2014.
3. In the event of retirement, death or disability, Mr. Ryan is entitled to receive in settlement of performance shares, a number of shares of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Mr. Ryan was employed by the Company during the performance period.
4. Mr. Ryan does not have any unvested profit sharing amounts as of December 31, 2014.



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5. The health and welfare benefits value upon a change in control followed by termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor. In addition, Mr. Ryan has accumulated Company subsidy value towards his purchase of retiree medical.
6. Upon death, Mr. Ryan's survivors shall receive, for 120 months, 50% of his monthly base salary and target bonus amount, under the frozen Executive Death Benefit Plan (EDBP). Figure above reflects the present value lump-sum payment amount based upon the FAS discount rate of 4.25%. Upon retirement, he has elected to receive a present value cash settlement at retirement in lieu of the post-retirement death benefit under the frozen EDBP. The amount in the table is based on a 6.0% discount rate and assumed mortality of age 80. Upon a change in control, he would receive the present value, but based on the Applicable Federal Rate of 3.32%.
7. Effective in July 2010, the Company no longer provides a tax gross-up of any Excise Taxes that may be required.
8. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Mr. Ryan with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
9. Mr. Ryan has met the eligibility requirements for retirement under the Company's retirement plan as of December 31, 2014.

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<b>Type of Payment</b>	<b>Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)</b>	<b>Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)</b>	<b>Retirement<sup>10</sup> (\$)</b>	<b>Death (\$)</b>	<b>Disability (\$)</b>	<b>Change In Control Only (\$)</b>	<b>Change In Control and Termination without Cause or with Good Reason (\$)</b>
Cash Compensation							
Cash Severance <sup>1</sup>	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 3,095,237
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards <sup>2</sup>	\$ 0	\$ 0		\$ 1,232,418	\$ 1,232,418	\$ 1,232,418	\$ 1,232,418
Restricted Stock Units							
Unvested and Accelerated Awards <sup>3</sup>	\$ 0	\$ 0		\$ 2,548,900	\$ 2,548,900	\$ 2,548,900	\$ 2,548,900
Performance Shares							
Unvested and Accelerated Awards <sup>4</sup>	\$ 0	\$ 0		\$ 428,895	\$ 428,895	\$ 1,286,685	\$ 1,286,685
Retirement Benefits							
Profit Sharing							



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Unvested and Accelerated Awards <sup>5</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Deferred Compensation	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Benefits												
Continuation of Health & Welfare Benefits <sup>6</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	36,426
Life Insurance and Death Benefit Payout <sup>7</sup>	\$	0	\$	0	\$	5,218,535	\$	0	\$	0	\$	764,770
Disability Payments	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Perquisites and Tax Payments												
Excise Tax & Gross-Up <sup>8</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Outplacement <sup>9</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	103,275
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>9,428,748</b>	<b>\$</b>	<b>4,210,213</b>	<b>\$</b>	<b>5,068,002</b>	<b>\$</b>	<b>9,067,710</b>

1. The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except in the event of a change in control followed by termination without cause or with good reason.
2. Unvested options become immediately exercisable in the event of death, disability, retirement, or a change in control.
3. Mr. Jadin has one grant of unvested restricted stock units as of December 31, 2014.
4. In the event of retirement, death or disability, Mr. Jadin is entitled to receive in settlement of performance shares, a number of shares of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Mr. Jadin was employed by the Company during the performance period. Mr. Jadin, however, is not retirement eligible as of December 31, 2014.
5. Mr. Jadin does not have any unvested profit sharing amounts as of December 31, 2014.

6. The health and welfare benefits value upon change in control followed by termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor.
7. Upon death, Mr. Jadin's survivors shall receive, for 120 months, 50% of his monthly base salary and target bonus amount, under the frozen Executive Death Benefit Plan. Figure above reflects the present value lump-sum payment amount based upon the FAS discount rate of 4.25%.
8. Effective in July 2010, the Company no longer provides a tax gross-up of any Excise Taxes that may be required.
9. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Mr. Jadin with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
10. Mr. Jadin is not eligible for retirement under the Company's retirement plan as of December 31, 2014.

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<b>Type of Payment</b>	<b>Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)</b>	<b>Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)</b>	<b>Retirement<sup>10</sup> (\$)</b>	<b>Death (\$)</b>	<b>Disability (\$)</b>	<b>Change In Control Only (\$)</b>	<b>Change In Control and Termination without Cause or with Good Reason (\$)</b>
Cash Compensation							
Cash Severance <sup>1</sup>	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 2,980,598
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards <sup>2</sup>	\$ 0	\$ 0		\$ 1,084,998	\$ 1,084,998	\$ 1,084,998	\$ 1,084,998
Restricted Stock Units							
Unvested and Accelerated Awards <sup>3</sup>	\$ 0	\$ 0		\$ 5,097,800	\$ 5,097,800	\$ 5,097,800	\$ 5,097,800
Performance Shares							
Unvested and Accelerated Awards <sup>4</sup>	\$ 0	\$ 0		\$ 670,870	\$ 670,870	\$ 2,012,611	\$ 2,012,611
Retirement Benefits							
Profit Sharing							

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Unvested and Accelerated Awards <sup>5</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Deferred Compensation	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Benefits												
Continuation of Health & Welfare Benefits <sup>6</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	36,426
Life Insurance and Death Benefit Payout <sup>7</sup>	\$	0	\$	0	\$	5,025,256	\$	0	\$	0	\$	1,743,200
Disability Payments	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Perquisites and Tax Payments												
Excise Tax & Gross-Up <sup>8</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Outplacement <sup>9</sup>	\$	0	\$	0	\$	0	\$	0	\$	0	\$	99,450
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>11,878,924</b>	<b>\$</b>	<b>6,853,668</b>	<b>\$</b>	<b>8,195,409</b>	<b>\$</b>	<b>13,055,083</b>

1. The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except in the event of a change in control followed by termination without cause or with good reason.
2. Unvested options become immediately exercisable in the event of death, disability, retirement, or a change in control.
3. Mr. Macpherson has one grant of unvested restricted stock units as of December 31, 2014.
4. In the event of retirement, death or disability, Mr. Macpherson is entitled to receive in settlement of performance shares, a number of shares of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Mr. Macpherson was employed by the Company during the performance period. Mr. Macpherson, however, is not retirement eligible as of December 31, 2014.
5. Mr. Macpherson does not have any unvested profit sharing amounts as of December 31, 2014.

6. The health and welfare benefits value upon change in control followed by termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor.
7. Upon death, Mr. Macpherson's survivors shall receive, for 120 months, 50% of his monthly base salary and target bonus amount, under the frozen Executive Death Benefit Plan. Figure above reflects the present value lump-sum payment amount based upon the FAS discount rate of 4.25%.
8. Effective in July 2010, the Company no longer provides a tax gross-up of any Excise Taxes that may be required.
9. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Mr. Macpherson with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
10. Mr. Macpherson is not eligible for retirement under the Company's retirement plan as of December 31, 2014.

Table of Contents**Carruthers, Court D.**

<b>Type of Payment</b>	<b>Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)</b>	<b>Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)</b>	<b>Retirement<sup>10</sup> (\$)</b>	<b>Death (\$)</b>	<b>Disability (\$)</b>	<b>Change In Control Only (\$)</b>	<b>Change In Control and Termination without Cause or with Good Reason (\$)</b>
Cash Compensation							
Cash Severance <sup>1</sup>	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 3,475,354
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards <sup>2</sup>	\$ 0	\$ 0		\$ 1,084,998	\$ 1,084,998	\$ 1,084,998	\$ 1,084,998
Restricted Stock Units							
Unvested and Accelerated Awards <sup>3</sup>	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
Performance Shares							
Unvested and Accelerated Awards <sup>4</sup>	\$ 0	\$ 0		\$ 670,870	\$ 670,870	\$ 2,012,611	\$ 2,012,611
Retirement Benefits							
Profit Sharing							

