

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

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

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

(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**ILLINOIS TOOL WORKS INC.**

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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1) Title of each class of securities to which transaction applies:

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ILLINOIS TOOL WORKS INC.

# ILLINOIS TOOL WORKS INC.

Notice of 2015 Annual Meeting and Proxy Statement

## **Illinois Tool Works Inc.**

### **Notice of Annual Meeting of Stockholders**

**Friday, May 8, 2015**

**9:00 A.M. Central Daylight Time**

**Illinois Tool Works Inc.**

**155 Harlem Avenue\***

**Glenview, Illinois 60025**

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

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

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

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

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

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

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

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

March 20, 2015

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

## **Your Vote is Important**

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

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

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



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## Questions and Answers about the 2015 Annual Meeting and Voting

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

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

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

### Who may vote?

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

### How many votes do I have?

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

### How do I vote?

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

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

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

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

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

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

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

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



### **How does discretionary voting authority apply?**

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

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

### **May I revoke my proxy?**

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

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

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

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



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

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

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

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

**What constitutes a quorum?**

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

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

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

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

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

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

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

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

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

**What if I abstain from voting?**

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

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

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

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

**How do I nominate a director?**

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



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

**Who pays to prepare, mail and solicit the proxies?**

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

## **Proposal 1 Election of Directors**

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Board of Directors and Its Committees**

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

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

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

### **Audit Committee**

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

### **Compensation Committee**

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



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

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

### **Corporate Governance and Nominating Committee**

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

### **Finance Committee**

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

### **Executive Committee**

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

## Committee Memberships

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

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

## Board's Role in Risk Oversight

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

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

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

## Corporate Governance Policies and Practices

### General

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

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

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

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

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

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

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

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

### Communications with Directors

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

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

## **Board Independence**

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

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

## **Director Qualifications**

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

### **Director Candidate Selection Process**

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

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

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

### **Director and Officer Succession Planning**

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

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

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

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

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

### **Director Election**

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

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

## Director Compensation

### Annual Retainer and Chair Fees

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

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

### Directors' Deferred Fee Plan

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

### ITW Common Stock

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



### Director Compensation in Fiscal Year 2014

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

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

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

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

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

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

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

## Ownership of ITW Stock

### Directors and Executive Officers

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

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

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

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

\* Less than 1%

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

- (15) Includes (a) 311,256 shares covered by options exercisable within 60 days; and (b) 6,462 performance restricted stock units which vest within 60 days.
  
- (16) Includes (a) 2,055,463 shares covered by options exercisable within 60 days; (b) 65,833 restricted stock units and performance restricted stock units which vest within 60 days; and (c) 2,529,248 shares pledged as security prior to April 1, 2013.

## Other Principal Stockholders

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

### Name and Address of

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

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



## **Section 16(a) Beneficial Ownership**

### **Reporting Compliance**

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

### **Availability of Form 10-K and Annual Report**

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

## Compensation Discussion and Analysis

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

E. Scott Santi, President & Chief Executive Officer

David C. Parry, Vice Chairman

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

Roland M. Martel, Executive Vice President

Christopher A. O'Herlihy, Executive Vice President

### Executive Summary

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



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

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

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

#### Other Programs

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

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



### *2014 Target Compensation*

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

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

### *2014 Financial Performance*

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

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

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

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

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

ROIC, a non-GAAP financial measurement, improved 260 basis points to 18.9%.

The Company repurchased 50.4 million of its outstanding shares and increased its dividend by 15%. The Company's annual dividend payment has increased for more than 50 consecutive years, except during a period of government controls in 1971.

The effective execution of ITW's Enterprise Strategy enabled this strong financial performance. The core concept of ITW's Enterprise Strategy is to refocus the entire Company to deliver on the compelling performance potential of ITW's unique and highly differentiated business model. We believe that each element of our compensation structure plays an integral role in motivating our employees to maximize the performance potential of ITW.

#### *Overview of Key 2014 Compensation Decisions*

The following describes certain significant actions and changes to our executive compensation practices for the NEOs. We believe these practices reflect good corporate governance in our compensation policies while continuing to recognize and reward superior company, segment and individual performance.

#### **Annual Executive Incentive Plan**

- i EIP awards for 2014 were based 80% on the Financial Performance Component and 20% on Individual Objectives. The 2014 Financial Performance Component for corporate executives was based 100% on Company EPS performance and for operating executives was based 50% on Company EPS and 50% on the operating income of their respective business segments. In addition, in order to promote proper pay-for-performance and maintain alignment with peers, the Committee changed the payout range of the EIP to 0% to 200% of target. In 2014, EIP was earned at an average of 182% of target for corporate executives and varied from 173% to 177% of target for operating executives who are NEOs.

#### **Annual Executive Incentive Plan Weighting Adjustment**

- i In 2014, the Committee changed the defined award level of the EIP from a maximum opportunity to a target as a percentage of base salary. As such, the payout range was changed from 0% to 100% of maximum opportunity to 0% to 200% of target. These adjustments are intended to promote pay-for-performance and maintain alignment with peers.
- Simultaneously, in order to be better positioned to attract and retain the caliber of talent required to deliver on our business strategies, the Committee also changed the weighting between base salary and EIP to better align with our peer companies while continuing to emphasize pay-for-performance. Beginning in 2014, the base salary component was increased while the target EIP component was decreased by a corresponding amount, without increasing the total annual target cash compensation.



| Officer    | Base Salary as a Percentage<br>of Annual Cash Compensation<br>at<br>Target |      | EIP as a Percentage<br>of Annual Cash Compensation at<br>Target |      |
|------------|--|------|---|------|
|            | 2013   | 2014 | 2013  | 2014 |
| CEO        | 38%  | 40%  | 62%   | 60%  |
| Vice Chair | 38%  | 53%  | 62%   | 47%  |
| CFO        |  | 53%  |   | 47%  |
| Other NEOs | 38%  | 56%  | 62%   | 44%  |

### Long-Term Incentives

- i Weightings of the long-term incentive award components remained the same as 2013. The weighting for the CEO was 40% stock options, 30% PRSUs and 30% LTI Cash, and the weighting for the other NEOs was one-third each for stock options, PRSUs and LTI Cash. PRSUs for the 2012-2014 performance period were earned at 100% of target, and LTI Cash for the 2012-2014 performance period was earned at 94.4% of target.
- i For 2014, the revenue metric for the 2014-2016 LTI Cash award was changed from revenue growth to organic revenue growth to better align the metrics with our Enterprise Strategy. The weighting of the performance metrics for this performance period is one-third for each metric operating margin, ROIC and organic revenue growth.

### Compensation Governance

- i The Committee engaged an independent advisor, Frederic W. Cook & Co., Inc. ( Cook ), to work directly on its behalf and in cooperation with management to review ITW's executive compensation program, confirm appropriateness of our comparison (peer) companies, and assess our compensation governance process.
- i With Cook, the Committee reviewed our programs and believes that our compensation programs and policies are appropriately designed to encourage our employees to act in the long-term best interests of our stockholders and to not take unnecessary or excessive risks that could be potentially harmful to the Company.
- i The Committee considered the 97.6% approval by our stockholders of the compensation of our NEOs in 2014, and determined that no particular adjustments to its executive compensation practices were necessary as a result of the Say on Pay vote.
- i We hold an advisory vote to approve our executive compensation annually.

*Ongoing Best Practices*

We regularly review and refine our executive compensation program to ensure that it continues to reflect practices and policies that are aligned with our pay-for-performance philosophy and the interests of our stockholders. In this regard, our compensation program reflects the following:

**What We Do**

- ü We use a clear and consistent compensation strategy using EPS and operating income as the common Company annual performance metric
- ü We maintain a Compensation Recovery Policy ( clawback policy) requiring the reimbursement of incentives if a material financial restatement is required
- ü We have stock ownership guidelines linking the interests of long-term stockholders to our executives and mitigating compensation-related risk
- ü We engage an independent compensation consultant who provides regular updates to the Committee on current trends and key developments in executive compensation programs and practices
- ü We conduct an annual review of the CEO s performance as well as the other NEOs

**What We Don t Do**

- We do not provide executives with employment agreements
- We do not provide perquisites or gross ups as part of our change of control agreements
- We do not allow share repricing within our stock option plan
- We prohibit officers, directors, and employees from hedging, making new pledges, short selling or publicly trading options involving ITW common stock
- We do not allow immediate vesting of equity awards that are continued or replaced upon a change-in-control; all such awards allow only double-trigger vesting (change-in-control and termination)

**Compensation Philosophy**

Our executive compensation philosophy is designed to deliver competitive total compensation, upon the achievement of individual and business performance objectives, which will attract, motivate and retain leaders who will drive the creation of stockholder value. It is reflective of our overall operating philosophy and is based on the following key elements:

Total pay targeted at market median over the long-term:

- i Above-median pay for above-median performance; and
- i Below-median pay for below-median performance.

Amount of short- and long-term pay at risk increases with responsibility and influence.

Pay-for-performance through short-term incentive, linking pay to individual and business segment performance.

Long-term incentive portion of pay-at-risk aligns executive and stockholder interests by influencing decisions that help ensure the long-term growth and health of ITW.





### **Role of Compensation Committee**

The Committee conducts an annual review of its practices and the executive compensation of our senior officers to ensure:

The elements of the total compensation package are aligned with the market to attract and retain the caliber of talent required to deliver on our business strategies;

Pay decisions are meaningfully differentiated to appropriately reflect the contributions of our highest performers; and

Our incentive programs drive performance aligned with our Enterprise Strategy, culture and values system.

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

Our compensation philosophy;

Compensation comparisons from a peer group of diversified multinational industrial companies with similar size, value, and complexity; and

Management's contribution to our short- and long-term goals based on profitable growth and strong returns on capital.

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

### **Role of Compensation Consultant**

As previously stated, the Committee has engaged Cook as its independent compensation consultant. In 2014, to support the Committee's annual review of our executive compensation, Cook conducted a marketplace review of the compensation we pay to our executive officers. Cook provided the Committee with relevant market data, benchmarked our compensation against our peer companies, performed a look-back review of pay and performance compared to our peers, and reviewed the peer group of companies used for comparison purposes. Cook also reviewed the Compensation Discussion and Analysis and Executive Compensation sections prior to inclusion in this proxy statement and assisted the Committee with its assessment of compensation-related risk.

In February and October 2014, the Committee received information presented by Cook addressing the independence of Cook and the senior advisor serving the Committee, including the following factors: (i) other services provided to us by Cook; (ii) fees paid by us as a percentage of Cook's total revenue; (iii) policies or procedures of Cook that are designed to prevent conflicts of interest; (iv) any business or personal relationships between the senior advisor and the members of the Committee; (v) any ITW stock owned by the senior advisor or any immediate family member; and (vi) any business or personal relationships between our executive officers and the senior advisor. Based on this

information and our own inquiries, the Committee concluded that the work performed by Cook and its senior advisor involved in the engagement did not raise any conflict of interest.

## Peer Companies

The Committee has identified a group of comparable companies, which we refer to as the peer group, to benchmark executive pay and provide competitive market data to be used in establishing and recommending each element of compensation. The peer group is reviewed annually by the Committee with assistance from Cook and is selected using the following criteria:

U.S. publicly traded companies from ITW's same and related industries, identified based on Standard & Poor's Global Industry Classification Standard (GICS) codes;

Companies from one-fourth to four times ITW's revenue and market cap with broadly similar businesses and pay models;

Companies that compete for the same customers with similar products/services; and

Companies with whom we may compete for executive talent.

In connection with its annual review in 2014, the Committee removed United Technologies from the Company's peer group and added BorgWarner and Pentair. The Committee removed United Technologies as it is too large in relation to ITW and is no longer considered a direct competitor. The Committee added BorgWarner Inc. and Pentair plc since both companies meet the size criteria as recommended by Cook, list ITW as a peer, and are in ITW's Institutional Shareholder Services 2014 peer group. As a result, the Committee identified the following 19 companies to be used as the Company's peer group in 2014:

|                  |                                 |                               |
|------------------|---------------------------------|-------------------------------|
| 3M Company       | Dover Corp                      | Johnson Controls, Inc.        |
| BorgWarner Inc.  | E. I. DuPont De Nemours and Co. | Masco Corp                    |
| Caterpillar Inc. | Eaton Corp.                     | Parker-Hannifin Corp.         |
| Cummins Inc.     | Emerson Electric Company        | PPG Industries Inc.           |
| Danaher Corp.    | Honeywell International Inc.    | Pentair plc                   |
| Deere & Company  | Ingersoll-Rand Company Ltd.     | Textron Inc.                  |
|                  |                                 | TRW Automotive Holdings Corp. |

The revenue median (as of the latest fiscal year end) of the peer group is \$17.4 billion and the median market cap is \$26.9 billion, versus \$14.5 billion and \$36.3 billion, respectively, for ITW.

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

## **Management's Contributions to Our Growth**

Our decentralized operating structure enables our business managers to make decisions in light of local end market conditions and customer needs. It is also an important element in developing and retaining our senior managers and in creating high job satisfaction. Our business managers are empowered to make the decisions necessary to serve their customers and grow their businesses and are accountable for their results. Our compensation philosophy supports this business model by emphasizing appropriate performance incentive programs. For example, business managers who grow operating income and achieve personal objectives are rewarded through the annual incentive program. Our executive management's role is to ensure that these decisions are carried out in accordance with our Enterprise Strategy, operating plans and values and expectations for the near and long-term and are in the best interests of the Company and our stockholders.

## **Compensation Decisions and Individual Compensation Levels**

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

## **Use of Discretion in Setting Compensation**

The Company's compensation programs recognize the importance of ensuring that discretion is provided to the CEO and Committee in determining compensation levels and awards. In setting base salaries and cash incentive awards, and in determining grants of equity awards, the CEO and Committee use judgment to align compensation with both external data, individual responsibilities, potential, and achievement.

## **Base Salary**

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

We have a common annual review process beginning in December and concluding in February for base salary and incentive compensation for all of our executive officers. This process allows the Committee and the CEO to review base compensation and discuss recommended changes considering individual contributions to overall financial and operating results for the year and to set objectives for the upcoming year.

In February 2014, the Compensation Committee reviewed Mr. Santi's performance and approved a base salary increase to \$1,100,000 from \$1,000,000. It should be noted that Mr. Santi did not receive an increase to his base salary in 2013, and his salary was below the median of CEOs in our peer group. For the other NEOs except Mr. Larsen, the Committee approved recommended base pay increases that ranged between 4.0% and 4.5%, except for Mr. O'Herlihy who received a 10% increase. These base salary increases were effective March 3, 2014. There was no change in Mr. Larsen's base salary for 2014 following him joining the Company in 2013.

### **Annual Executive Incentive Plan**

We believe that managers generally should be rewarded for contributions to overall financial success measured by income growth of their business segment and the Company as a whole, as well as for individual accomplishments that contribute to the longer-term success of the business. Achieving our annual business and financial objectives is important to executing our business strategy and delivering long-term value to stockholders.

In order to assure deductibility of the EIP awards for the NEOs for 2014, such awards were made pursuant to the 2011 Cash Incentive Plan, and then adjusted in accordance with EIP performance measures and goals. The Committee determines and recommends for approval by the independent directors the award amount for the CEO. The Committee considers recommendations from the CEO and approves EIP awards for our other NEOs.

The EIP in 2014 was designed around two elements: the Financial Performance Component and Individual Objectives. For 2014, the Financial Performance Component constituted 80% of each NEO's potential award opportunity. The remaining 20% was based on the Individual Objectives. The Financial Performance Component weighting for the CEO, Vice Chairman, and CFO was based 100% on year-over-year growth in EPS to be aligned with our stockholders' interests and with our disciplined and return-focused capital allocation strategy. For operating executives, the weighting of the Financial Performance Component was based 50% on EPS performance and 50% on the operating income growth of their respective business segment. These weightings are intended to emphasize financial performance and reinforce the importance of collaborating across businesses.

The Financial Performance components are recommended by management and are approved by the Committee at the start of the performance year. The Individual Objectives for the CEO are established by the Committee annually, and the Individual Objectives for each of the other NEOs are recommended by the CEO and approved by the Committee. The Committee has the discretion to make adjustments in the calculation of financial performance to eliminate factors beyond the control of management and to eliminate possible disincentives to act in the long-term best interests of the Company and our stockholders.

*2014 Financial Performance Component of the Executive Incentive Plan*

For 2014, executive officers were eligible to earn a payment on the Financial Performance Component according to the performance scales below.

|           | Performance Goal<br>(EPS) | Performance Goal<br>(Operating Income) | Payout (as a %<br>of Target) |
|-----------|---------------------------|--|------------------------------|
| Maximum   | 120%                      | 120%                                   | 200%                         |
| Target    | 110%                      | 106%                                   | 100%                         |
| Threshold | 90%                       | 85%                                    | 50%                          |

The following table shows the actual goal achievement of the Financial Objectives for the NEOs:

| Named Executive Officer     | 2013                                       | 2014  | % of<br>Achievement<br>(By<br>Group) | Financial Perf.<br>Component<br>(% of<br>Target)<br>(By<br>Group) | Final Financial Perf.<br>Component<br>%(1) |
|-----------------------------|--|---|--------------------------------------|---|--|
|                             | Company<br>EPS or Segment<br>Income Levels | Company<br>EPS or Segment<br>Income Levels(1) |                                      |   |  |
| E. Scott Santi              | \$ 3.63                                    | \$ 4.34                                       | 119.6%                               | 195.6%  | 195.6%                                     |
| Michael M. Larsen           | \$ 3.63                                    | \$ 4.34                                       | 119.6%                               | 195.6%  | 195.6%                                     |
| David C. Parry              | \$ 3.63                                    | \$ 4.34                                       | 119.6%                               | 195.6%  | 195.6%                                     |
| Roland M. Martel(2)         | \$ 565M                                    | \$ 668M                                       | 118.2%                               | 187.3%  | 191.5%                                     |
| Christopher A. O Herlihy(2) | \$ 433M                                    | \$ 499M                                       | 115.3%                               | 166.2%  | 180.9%                                     |

- (1) 2014 EPS of \$4.67 was reduced by \$0.33 per share to exclude the impact resulting from the repurchase of approximately 50 million shares, net of related interest expense, as part of ITW's share repurchase program related to the divestiture of the Industrial Packaging segment.
- (2) The Final Financial Performance Component award percentages shown in the last column above for Messrs. Martel and O Herlihy combine the achievement level for their respective business segment with that of the Company EPS.

*2014 Individual Objectives of the Executive Incentive Plan*

The Individual Objectives represent the personal objectives element of the EIP awards and are more subjective than the Financial Performance Component. In early 2014, each NEO submitted in writing his proposed Individual Objectives. Each NEO, other than Mr. Santi, discussed his proposed objectives and weightings with Mr. Santi, who used his judgment of each executive's role and responsibilities, as well as the strategic goals of the Company, to review and approve the objectives before recommending them to the Committee. The Committee discussed these recommendations with Mr. Santi prior to final approval. Mr. Santi discussed his proposed Individual Objectives for 2014 with the Committee. The Committee used its judgment and understanding of the strategic goals of the Company to review and approve the Individual Objectives for Mr. Santi.

The following is a description of the 2014 objectives as approved by the Committee. The objectives for Mr. Santi focused on executing the second year of the Enterprise Strategy, financial goals, organic growth, and talent management initiatives. Mr. Parry's objectives focused on executing the second year of the Enterprise Strategy, financial goals, organic revenue growth and talent management initiatives. Mr. Larsen's objectives focused on executing the second year of the

Enterprise Strategy, financial goals and finance organization goals. The objectives for Mr. Martel and Mr. O Herlihy focused on Enterprise Strategy goals, organic revenue growth within their business segments, and talent management initiatives.

Following the end of the year, each NEO submitted a written self-appraisal with his own assessment of the level of achievement reached in 2014 for each of his personal objectives. Mr. Santi reviewed the self-appraisals of the other NEOs and had collaborative discussions with each of these executives. Mr. Santi used his judgment of each NEO's performance against the objectives, considering completion of objectives and the quality of the work performed, to reach his assessment of the overall achievement level prior to submitting his recommendations for approval by the Committee. The Committee reviewed Mr. Santi's self-appraisal for 2014 and held collaborative discussions with Mr. Santi before using its judgment of his performance against his objectives to reach its assessment of his overall Individual Objective achievement level. The independent directors approved the Committee's recommendation.

Based on the Committee's determination of achievement of Mr. Santi's 2014 Individual Objectives, and upon Mr. Santi's recommendations for the other NEOs, the following Individual Objective achievement percentages were assigned: 125% for Mr. Santi; 130% for Mr. Parry; 130% for Mr. Larsen, 120% for Mr. Martel; and 140% for Mr. O Herlihy.

#### *2014 Annual Cash Incentive Total Payouts*

The total 2014 payouts to the NEOs ranged from 172% to 182% of target award level, and were determined as follows:

| Named Executive Officer  | Award Target | Year-End 2014 Salary | Final Finl. Perf. Comp Award (% of Target) | Finl. Perf. Amount | Final Ind. Obj. Award (% of Target) | Ind. Obj. Amount | Total Award(1) |
|--------------------------|--------------|----------------------|--|--------------------|-------------------------------------|------------------|----------------|
| E. Scott Santi           | 150%         | \$ 1,100,000         | 195.6%                                     | \$ 2,581,920       | 125.0%                              | \$ 412,500       | \$ 2,994,420   |
| Michael M. Larsen        | 90%          | \$ 650,000           | 195.6%                                     | \$ 915,408         | 130.0%                              | \$ 152,100       | \$ 1,067,508   |
| David C. Parry           | 90%          | \$ 715,825           | 195.6%                                     | \$ 1,008,111       | 130.0%                              | \$ 167,503       | \$ 1,175,614   |
| Roland M. Martel         | 80%          | \$ 517,920           | 191.5%                                     | \$ 634,597         | 120.0%                              | \$ 99,441        | \$ 734,038     |
| Christopher A. O Herlihy | 80%          | \$ 481,800           | 180.9%                                     | \$ 557,809         | 140.0%                              | \$ 107,923       | \$ 665,732     |

(1) These amounts are included in the Summary Compensation Table under Non-Equity Incentive Plan Compensation.

#### **Long-Term Incentives**

We believe that ensuring the long-term growth and profitability of the business is a primary management responsibility. Therefore, a significant portion of an executive officer's compensation should be directly linked to key metrics that consider the long-term perspective, such as EPS, ROIC, operating margins, organic revenue growth and ITW's stock performance over time. Long-term incentive awards are granted to executives and other key employees whose positions can directly affect the Company's long-term performance.

The value of the overall long-term incentive grant to the CEO is determined by the Committee using its discretion, subject to approval by the independent directors. Awards to the

other NEOs are recommended by the CEO to the Committee for approval and are subject to the discretion of the CEO in making the recommendations, as well as of the Committee in approving the awards. The key factors in determining the awards have been the executive's position, performance, potential to contribute to the long-term success of the Company, tenure with the Company, and prior grants. In addition, although we generally do not establish any specific target or prescribed value in relation to peer groups, comparisons are made to long-term incentive levels in the peer group compensation data. Because the Committee and the CEO in their discretion may consider factors they deem relevant in determining an executive's overall award, the award in any given year may differ from historical amounts.

For 2014, our NEOs received stock options, PRSUs, and LTI Cash awards. We believe that stock options are an effective incentive for senior executives on a long-term basis because they directly align the interests of the executives with those of our stockholders, as an unexercised stock option has no realizable value if the price of ITW's common stock falls below the exercise price. The stock option grants are combined with PRSUs and LTI Cash to more closely align long-term incentives with our business initiatives and increase emphasis on key financial performance metrics. The weightings of the total target values of the 2014 long-term incentive equity and cash grants were as follows:

|                                | <b>Stock<br/>Options<br/>(%)</b> | <b>PRSUs<br/>(%)</b> | <b>LTI<br/>Cash<br/>(%)</b> |
|--------------------------------|----------------------------------|----------------------|-----------------------------|
| CEO                            | 40.0%                            | 30.0%                | 30.0%                       |
| Other Named Executive Officers | 33.3%                            | 33.3%                | 33.3%                       |

The Committee has established specific vesting and expiration provisions associated with termination of employment due to death, disability and retirement, as defined by the Committee, and forfeiture provisions upon other termination of employment. The Committee, in its sole discretion, may deem a long-term incentive award, whether vested or unvested, to be immediately forfeited if the recipient competes with the Company, engages in gross misconduct or conduct that is against the business interests of the Company, or divulges confidential information about the Company to others.

#### *2014 Stock Option Awards*

The 2014 stock options vest in equal installments over a four-year period ending in 2018. Stock options are granted with an exercise price equal to the fair market value of the common stock on the date of grant and normally expire ten years after the grant date. We currently grant only non-qualified stock options because we believe that the tax benefits to the Company of non-qualified stock options outweigh the potential tax benefits to the NEOs of incentive stock options.

#### *2014 Performance-Based RSU Awards*

PRSUs vest in full three years from the date of grant, subject to the achievement of the performance goal set at the beginning of the performance period. PRSUs are granted based on the fair market value of one share of ITW common stock on the date of grant.



For PRSUs granted in 2014, the performance goal is based on cumulative EPS from continuing operations over a three-year performance period (2014 through 2016) based on a sliding scale. The target/maximum is \$9.70 cumulative EPS over the three-year performance period, and the achievement of the target/maximum will result in a payout of the maximum number of shares subject to the PRSU. If less than \$7.70 cumulative EPS is achieved, none of these PRSUs will vest. If EPS growth is at or above the \$7.70 threshold but below the \$9.70 target/maximum, a portion of the awards will vest in proportion to the level of EPS achieved.

#### 2014 Long-Term Incentive Cash Awards

In February 2014, our NEOs received an annual LTI Cash award with a three-year performance period. The total compensation of our executives and the mix of compensation components of our executives relative to the peer group were considerations in setting the target award amounts.

The goals for the 2014 LTI Cash awards over the performance period (2014 through 2016) are equally weighted and based on operating margin, ROIC, and organic revenue growth. The payout at the end of the performance period will be based on the following sliding payout scale:

|           | Operating<br>Margin | Average<br>ROIC | Organic<br>Revenue<br>Growth | Payout<br>(as a % of Target) |
|-----------|---------------------|-----------------|------------------------------|------------------------------|
| Maximum   | 20%                 | 19%             | 5%                           | 150%                         |
| Target    | 18%                 | 17%             | 3%                           | 100%                         |
| Threshold | 15%                 | 15%             | 1%                           | 50%                          |

#### 2012 Long-Term Incentive Cash Award Payouts

The LTI cash award granted in 2012 under the Company-wide Growth Plan ( CGP ) in effect at that time (with a three-year performance period ended December 31, 2014) was based 60% on ROIC (as reported in our financial statements as of the time that financial results for each year were publicly released) and 40% on revenue growth. After excluding revenues of \$921 million in 2012 and \$1.1 billion in 2011 related to our former Decorative Surfaces segment which was divested in 2012, the 2012 LTI Cash award achieved a payout level of 94.4% of the target award and was determined as follows:

|                | 2012  | 2013  | 2014  | Total | Payout<br>(% of Target) |
|----------------|-------|-------|-------|-------|-------------------------|
| ROIC           | 15.0% | 16.3% | 18.9% | 16.7% | 118.3%                  |
| Revenue Growth | 3.3%  | 1.9%  | 2.5%  | 2.7%  | 58.5%                   |
| Total Payout   |       |       |       |       | 94.4%                   |

The following table shows the individual payout level by NEO (except for Mr. Larsen, who did not join the Company until 2013):

| Named Executive Officer | Award<br>Target | Final<br>Performance<br>Achievement | Final<br>Payout |
|-------------------------|-----------------|-------------------------------------|-----------------|
| E. Scott Santi          | \$ 500,000      | 94.4%                               | \$ 472,000      |
| David C. Parry          | \$ 500,000      | 94.4%                               | \$ 472,000      |

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|                          |            |       |            |
|--------------------------|------------|-------|------------|
| Roland M. Martel         | \$ 240,000 | 94.4% | \$ 226,560 |
| Christopher A. O Herlihy | \$ 200,000 | 94.4% | \$ 188,800 |

*Timing of Long-Term Incentive Awards*

The Committee meets in February of each year following the Company's public release of its earnings results for the recently completed fiscal year to consider and act with respect to long-term incentive awards for the executive officers. In 2014, the long-term grants were in compliance with the Long-Term Incentive Plan, including the requirement that stock options may not be granted at less than 100% of the fair market value of ITW's common stock on the date of grant. The exercise price of the awards granted is based on the closing price of ITW's stock on the date of grant. We do not time grants for the purpose of enhancing the value of executive compensation.

**Stock Ownership Guidelines and Hedging Policy**

We believe that stock ownership is important because it aligns the interests of our management and directors with those of our stockholders. Because of the importance of stock ownership, the Board of Directors and the Committee have adopted stock ownership guidelines for executive officers and directors. The 2014 and prior guidelines for stock ownership as a multiple of executive officers' base salaries and of directors' annual retainers are as follows:

| <b>Title</b>                                | <b>Guideline</b>        |
|---|-------------------------|
| Chief Executive Officer                     | 6 times salary          |
| Vice Chairman and Executive Vice Presidents | 3 times salary          |
| Senior Vice Presidents                      | 2 times salary          |
| Vice Presidents                             | 1 times salary          |
| Non-employee Directors                      | 5 times annual retainer |

Beginning in 2015, the multiple of salary for the Chief Financial Officer changed from 2 times salary to 3 times salary. The Committee recommends that an executive officer or non-employee director achieve the applicable ownership level within five years. The achievement of these guidelines is reviewed annually. All NEOs and directors who have been in their positions for five or more years have met or exceeded the applicable stock ownership guideline. The Board believes that its stock ownership guidelines are appropriate, reasonable and attainable given the responsibilities and compensation levels of our executive officers and directors and has not imposed a requirement that our executive officers and directors hold their shares for a particular length of time.

All recipients of Company equity-based grants, which include key employees and all officers and directors, are subject to our policy against options trading and short sales of ITW stock, as well as trading in derivatives linked to Company stock. In addition, our employees (including NEOs) and non-employee directors are prohibited from new pledges of Company stock as of April 1, 2013.

**Compensation Recovery Policy**

The Company maintains a Compensation Recovery Policy (a clawback policy) applicable to all executive officers of the Company subject to Section 16 of the Securities Exchange Act of 1934. Under the policy, the Committee will seek reimbursement of incentives paid to elected officers where the payment was predicated upon the achievement of certain financial results with

respect to the applicable performance period that were subsequently the subject of a material restatement due to material non-compliance of the Company with any financial reporting requirement under the U.S. securities laws. The reimbursement amount is equal to the excess of the gross incentive payment made over the gross payment that would have been made if the original payment had been determined based on the restated financial results. Further, following a material restatement of our financial statements, we will seek reimbursement of compensation and profits from trading in Company stock received by our CEO and CFO to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002.

### **Deductibility**

Internal Revenue Code Section 162(m) limits the deductibility of compensation in excess of \$1,000,000 paid to the CEO and certain other executive officers employed at year-end. Certain performance-based compensation may be exempt from this limit. The Committee recognizes its obligation to reward performance that increases stockholder value and exercises its discretion in determining whether or not to conform our executive compensation plans to the approach provided for in the Internal Revenue Code. Currently, the annual incentive and long-term incentive compensation for our elected officers, including the NEOs, is intended to be performance based and, therefore, should not be subject to the 162(m) deductibility limit.

## NEO Compensation

The following tables provide information regarding the compensation of our NEOs.

### Summary Compensation Table

| Name and<br>Principal Position  | Year | Salary(1)    | Bonus      | Stock<br>Awards(2) | Option<br>Awards(2) | Non-Equity<br>Incentive<br>Plan<br>Compensation<br>(1)(3) | Change<br>in Pension<br>Value and<br>Nonqualified<br>Deferred | All Other<br>Compensation<br>(5) | Total         |
|---|------|--------------|------------|--------------------|---------------------|---|---|----------------------------------|---------------|
|   |      |              |            |                    |                     |   | Compensation Earnings(4)                                      |                                  |               |
| E. Scott Santi<br>President and Chief<br>Executive Officer              | 2014 | \$ 1,083,525 |            | \$ 2,549,931       | \$ 3,399,993        | \$ 3,466,420  | \$ 1,399,394  | \$ 100,015                       | \$ 11,999,278 |
|   | 2013 | \$ 1,000,000 |            | \$ 2,087,779       | \$ 2,999,998        | \$ 2,256,800  | \$ 796,370  | \$ 65,506                        | \$ 9,206,453  |
|   | 2012 | \$ 522,794   |            | \$ 691,864         | \$ 1,250,000        | \$ 1,208,022  | \$ 459,310  | \$ 45,987                        | \$ 4,177,977  |
| Michael M. Larsen<br>Senior Vice President &<br>Chief Financial Officer | 2014 | \$ 650,000   |            | \$ 833,290         | \$ 833,326          | \$ 1,067,508  |   | \$ 112,159                       | \$ 3,496,282  |
|   | 2013 | \$ 175,000   | \$ 195,000 | \$ 932,919         | \$ 1,000,000        |   |   | \$ 162,979                       | \$ 2,465,898  |
| David C. Parry<br>Vice Chairman   | 2014 | \$ 708,620   |            | \$ 999,979         | \$ 999,991          | \$ 1,647,614  | \$ 906,533  | \$ 56,391                        | \$ 5,319,128  |
|   | 2013 | \$ 498,331   |            | \$ 927,889         | \$ 999,996          | \$ 1,292,401  | \$ 605,733  | \$ 41,845                        | \$ 4,366,195  |
|   | 2012 | \$ 427,656   |            | \$ 691,864         | \$ 1,250,000        | \$ 963,994  | \$ 651,528  | \$ 42,644                        | \$ 4,027,686  |
| Roland M. Martel<br>Executive Vice President                            | 2014 | \$ 512,871   |            | \$ 449,928         | \$ 449,985          | \$ 960,598  | \$ 598,265  | \$ 22,246                        | \$ 2,993,893  |
|   | 2013 | \$ 343,935   |            | \$ 386,650         | \$ 416,664          | \$ 866,006  | \$ 420,414  | \$ 33,044                        | \$ 2,466,713  |
|   | 2012 | \$ 331,001   |            | \$ 332,082         | \$ 600,002          | \$ 866,915  | \$ 446,409  | \$ 32,076                        | \$ 2,608,485  |
| Christopher A. O Herlihy<br>Executive Vice President                    | 2014 | \$ 473,034   |            | \$ 449,928         | \$ 449,985          | \$ 854,532  | \$ 67,626   | \$ 136,123                       | \$ 2,431,228  |

- (1) Salary and Non-Equity Incentive Plan compensation for 2014 includes amounts deferred by the executive under the Executive Contributory Retirement Income Plan, or ECRIP, or the Savings and Investment Plan. The amount of deferrals in 2014 under the ECRIP for each NEO can be found in footnote 1 to the table under Nonqualified Deferred Compensation below. The amount of deferrals under the ECRIP in 2013 and 2012 can be found in footnote 4 to the same table. ECRIP deferrals in 2015 of non-equity incentive plan amounts earned in 2014 were as follows: Mr. Santi, \$299,442; Mr. Larsen, \$213,499; Mr. Parry, \$176,340; Mr. Martel, \$146,841; and Mr. O Herlihy, \$332,876.
- (2) The Stock Awards column represents PRSUs granted in the relevant year, and the amounts shown represent the maximum amount that may be earned. The Option Awards column represents stock options granted in the relevant year, and the assumptions applicable to these valuations can be found in the Notes to Financial Statements Stock-Based Compensation contained in the Illinois Tool Works Inc. Annual Reports on Form 10-K for the years ended December 31, 2014, 2013 and 2012.
- (3) These amounts include 2014 EIP awards made under ITW's Executive Incentive Plan and 2012 LTI Cash award payouts made under our Long-Term Incentive Plan. Further information regarding these plans and awards thereunder can be found above under Compensation Discussion and Analysis Executive Incentive Plan and Compensation Discussion and Analysis Long-Term Incentives.
- (4) These amounts include an amount of interest in the applicable calendar year considered to be in excess of market rates credited to the deferred compensation accounts of the NEOs under the ECRIP, discussed in more detail under Nonqualified Deferred Compensation below. When a participant attains retirement eligibility at age 55 and 10 years of service, any amounts in his or her ECRIP account deferred prior to January 1, 2010 are entitled to a return of 130% of the monthly Moody's Corporate Bond Yield Average rate, and the excess interest portion is deemed to be amounts exceeding 100% of such rate. This additional interest credit applies to all eligible plan participants, not just the NEOs. All amounts deferred after December 31, 2009 accrue interest at 100% of the Moody's Rate. The individual amounts of pension benefits and excess interest credits are shown in the table below.



Footnote 4 Table

| Name                     | Year | Accrual in Accumulation Plan | Accrual in Nonqualified Plan | Excess Interest Credit on Deferred Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings |
|--------------------------|------|------------------------------|------------------------------|---|---|
| E. Scott Santi           | 2014 | \$ 51,303                    | \$ 1,332,510                 | \$ 15,581                                       | \$ 1,399,394  |
|                          | 2013 | \$ 54,998                    | \$ 727,436                   | \$ 13,936                                       | \$ 796,370  |
|                          | 2012 | \$ 53,210                    | \$ 392,949                   | \$ 13,151                                       | \$ 459,310  |
| Michael M. Larsen        | 2014 | \$ 0                         | \$ 0                         | \$ 0  | \$ 0  |
|                          | 2013 | \$ 0                         | \$ 0                         | \$ 0  | \$ 0  |
| David C. Parry           | 2014 | \$ 71,657                    | \$ 790,394                   | \$ 44,482                                       | \$ 906,533  |
|                          | 2013 | \$ 72,354                    | \$ 493,594                   | \$ 39,785                                       | \$ 605,733  |
|                          | 2012 | \$ 66,883                    | \$ 547,102                   | \$ 37,543                                       | \$ 651,528  |
| Roland M. Martel         | 2014 | \$ 78,176                    | \$ 487,952                   | \$ 32,137                                       | \$ 598,265  |
|                          | 2013 | \$ 59,971                    | \$ 331,700                   | \$ 28,743                                       | \$ 420,414  |
|                          | 2012 | \$ 75,647                    | \$ 343,638                   | \$ 27,124                                       | \$ 446,409  |
| Christopher A. O Herlihy | 2014 | \$ 67,626                    | \$ 0                         | \$ 0  | \$ 67,626   |

- (5) For 2014, this number includes Company contributions to the ECRIP account or the Savings and Investment Plan, based on plan formulas for all participants, as follows: \$100,015 for Mr. Santi; \$47,025 for Mr. Larsen; \$56,391 for Mr. Parry; \$22,246 for Mr. Martel; and \$136,123 for Mr. O Herlihy. The 2014 amount for Mr. Larsen also includes \$35,944 of relocation costs and a tax gross-up for relocation benefits of \$29,190 in accordance with his offer letter. For Mr. O Herlihy, the ITW Irish Pension Plan accrual has been reflected in the Accrual in Accumulation Plan, because this amount also represents a qualified plan present value.

### Grants of Plan-Based Awards

The table below provides information regarding plan-based awards granted to our NEOs during fiscal 2014 under the ITW Executive Incentive Plan ( EIP ) and the Long-Term Incentive Plan.

| Name                     | Grant Date | Plan Type | Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)(2) |              |              | Estimated Future Payouts Under Equity Incentive Plan (Award) (3) |                    | All Other Option Awards Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards (\$/Sh)(4) | Grant Date Fair Value Stock And Option Awards (\$)(5) |
|--------------------------|------------|-----------|--|--------------|--------------|--|--------------------|---|--|---|
|                          |            |           | Threshold (\$)   | Target (\$)  | Maximum (\$) | Threshold (#)  | Target/Maximum (#) |   |  |   |
| E. Scott Santi           | 2/14/2014  | EIP       | \$ 825,000   | \$ 1,650,000 | \$ 3,300,000 | 3,245  | 32,446             | 224,422   | \$ 78.59   | \$ 5,949,924  |
|                          | 2/14/2014  | LTI Cash  | \$ 1,275,000   | \$ 2,550,000 | \$ 3,825,000 |  |                    |   |  |   |
| Michael M. Larsen        | 2/14/2014  | EIP       | \$ 292,500   | \$ 585,000   | \$ 1,170,000 | 1,060  | 10,603             | 55,005  | \$ 78.59   | \$ 1,666,616  |
|                          | 2/14/2014  | LTI Cash  | \$ 416,667   | \$ 833,333   | \$ 1,250,000 |  |                    |   |  |   |
| David C. Parry           | 2/14/2014  | EIP       | \$ 322,121   | \$ 644,243   | \$ 1,288,485 | 1,272  | 12,724             | 66,006  | \$ 78.59   | \$ 1,999,970  |
|                          | 2/14/2014  | LTI Cash  | \$ 500,000   | \$ 1,000,000 | \$ 1,500,000 |  |                    |   |  |   |
| Roland M. Martel         | 2/14/2014  | EIP       | \$ 207,168   | \$ 414,336   | \$ 828,672   | 573  | 5,725              | 29,702  | \$ 78.59   | \$ 899,913  |
|                          | 2/14/2014  | LTI Cash  | \$ 225,000   | \$ 450,000   | \$ 675,000   |  |                    |   |  |   |
| Christopher A. O Herlihy | 2/14/2014  | EIP       | \$ 192,720   | \$ 385,440   | \$ 770,880   | 573  | 5,725              | 29,702  | \$ 78.59   | \$ 899,913  |
|                          | 2/14/2014  | LTI Cash  | \$ 225,000   | \$ 450,000   | \$ 675,000   |  |                    |   |  |   |

- (1) The range of potential payouts under the Executive Incentive Plan (EIP) awards for the NEOs as determined by the Compensation Committee in February 2014 for 2014 performance is set forth in these columns. The financial performance component and corresponding payouts as a percent of target are shown on pages 36-37.
- (2) The range of potential payouts under the long-term cash incentive grants (LTI Cash) for the NEOs as set by the Compensation Committee in February 2014 for the three-year period 2014 through 2016 is set forth in these columns.
- (3) The range of potential share distributions under the 2014 PRSU grant for the NEOs as set by the Committee in February 2014 for performance through 2016 is set forth in these columns. The Threshold estimated future payout is based on achievement of \$7.70 cumulative earnings per share (EPS) from continuing operations over the three-year performance period. The Target/Maximum performance goal is \$9.70 cumulative EPS from continuing operations over the three-year performance period, and achievement of the target/maximum will result in a payout of the maximum number of shares subject to the PRSU. If cumulative EPS is above the \$7.70 threshold but below the \$9.70 target/maximum, the awards will vest in proportion to the level of EPS achieved.
- (4) Exercise price was equal to the closing price on the grant date of February 14, 2014.