ILLINOIS TOOL WORKS INC
Form DEF 14A
March 23, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x 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))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

ILLINOIS TOOL WORKS INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

2) Aggregate number of securities to which transaction applies:

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

4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

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

1) Amount Previously Paid:

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ILLINOIS TOOL WORKS INC.

Notice of 2016 Annual Meeting and Proxy Statement

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Illinois Tool Works Inc.

Notice of Annual Meeting of Stockholders

Friday, May 6, 2016

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 8, 2016, and obtain a registration confirmation (Ticket) in advance. Tickets can be printed by accessing Shareholder Meeting Registration at *www.proxyvote.com* and following the instructions provided. You will need the 12-digit number that is printed in the box marked by the arrow à 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 or the Company) is holding its 2016 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 2016;

3. To hold an advisory vote on executive compensation;

4. To approve an amendment to the Illinois Tool Works Inc. Amended and Restated Certificate of Incorporation to permit stockholders to call special meetings;

5. To re-approve the material terms of the performance goals under the Illinois Tool Works Inc. 2011 Cash Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code;

6. To consider a non-binding stockholder proposal if presented at the Annual Meeting; and

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

Only stockholders of record at the close of business on March 8, 2016 are entitled to vote.

Our annual report to stockholders for fiscal year 2015 is enclosed with this proxy statement.

By Order of the Board of Directors,
Janet O. Love
Assistant Secretary

March 23, 2016

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 6, 2016: The Illinois Tool Works Inc. 2015 Annual Report to Stockholders, including the Annual Report on Form 10-K, and its 2016 Proxy Statement are available on the Company s website at www.itw.com under the Investor Relations link. Paper copies are available without charge upon written request to the Company s address above, Attention: Secretary.

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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, 5 or 6 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 1 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 2016 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
1. The election of the eleven directors named in this proxy statement for the upcoming year	FOR
2. The ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2016	FOR
3. An advisory vote on executive compensation	FOR
4. Approval of an amendment to the Illinois Tool Works Inc. Amended and Restated Certificate of Incorporation to permit stockholders to call special meetings	FOR
5. Re-Approval of the material terms of the performance goals under the Illinois Tool Works Inc. 2011 Cash Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code	FOR
6. Approval of Non-Binding Stockholder Proposal to Exclude Share Repurchases from Determinations of Senior Executive Incentive Compensation Awards	AGAINST

Who may vote?

Stockholders at the close of business on March 8, 2016, the record date, may vote. On that date, there were 360,856,183 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;
2. By Internet:	See the instructions at www.proxyvote.com;
3. By mail:	If you received a printed copy of these proxy materials by mail, by signing, dating and mailing the enclosed proxy card; or

4. In person: 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 5, 2016.

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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 3, 2016 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 as follows:

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 the approval of ITW s executive compensation;

FOR the approval of the amendment to our Amended and Restated Certificate of Incorporation to permit stockholders to call special meetings;

FOR the re-approval of the material terms of the performance goals under the Illinois Tool Works Inc. 2011 Cash Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code;

AGAINST the non-binding stockholder proposal to exclude share repurchases from determinations of senior executive incentive compensation awards; 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 2016 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 any other matter to be voted on at the Annual Meeting. 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

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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 à, which appears on your proxy card or E-Proxy notice. This 12-digit number is sometimes called the control number. In order to receive the communications electronically, you must have an e-mail account and access to the Internet. If you own your shares through a broker or other nominee, you may contact them directly to request electronic access. Your consent to electronic access will be effective until you revoke it. You may revoke your consent by going to www.proxyvote.com and using the 12-digit number that is printed in the box marked by the arrow à 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 an Amendment to the Illinois Tool Works Inc. Amended and Restated Certificate of Incorporation: The affirmative vote of a majority of the shares outstanding and entitled to vote will constitute approval by the stockholders.

Re-Approval of the Material Terms of the Performance Goals under the Illinois Tool Works Inc. 2011 Cash Incentive Plan for Purposes of Section 162(m) of the Internal Revenue Code. 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.

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Approval of Non-Binding Stockholder Proposal to Exclude Share Repurchases from Determinations of Senior Executive Incentive Compensation Awards. 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, re-approval of performance goals or approval of the non-binding stockholder proposal. Broker non-votes will, however, have the same effect as a vote against the amendment to our Amended and Restated Certificate of Incorporation, so we encourage our stockholders to vote FOR that 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 2017 Annual Meeting?

To be considered for inclusion in our proxy statement for our May 2017 Annual Meeting, a stockholder proposal must be received no later than November 21, 2016. 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 Notice of Annual Meeting of Stockholders immediately following 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 2017 Annual Meeting. We must receive your proposal in writing on or after January 6, 2017, but no later than February 5, 2017. 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.

Does ITW allow stockholders to have proxy access for the nomination of directors?

Yes. In 2015, we reached out to holders of approximately 50% of our shares to engage on matters of corporate governance, including the right of proxy access. The majority of those with whom we spoke were in favor of granting this right, and several stockholders expressed a preference for reasonable limitations on proxy access. The board of directors discussed proxy access over the course of several

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meetings, and on December 11, 2015, the board adopted proxy access bylaw provisions to permit stockholders to include nominees in the Company s proxy statement and form of proxy. See Corporate Governance Policies and Practices Shareholder Engagement for a description of our shareholder engagement activities.

How do I use proxy access to nominate a director candidate to be included in ITW s 2017 Proxy Statement?

Any stockholder or group of up to 20 stockholders meeting our continuous ownership requirement of 3% or more of our common stock for at least 3 years who wishes to nominate a candidate or candidates for election in connection with our 2017 Annual Meeting and require us to include such nominees in our proxy statement and form of proxy, must submit such nomination and request so that it is received by our Secretary on or after January 6, 2017, but no later than February 5, 2017. The number of candidates that may be so nominated is limited to the greater of two or the largest whole number that does not exceed 25% of the Board. Recallable loaned shares count as owned for purposes of meeting the continuous ownership requirement, but each stockholder in the requesting group must have full voting and investment rights as well as economic interest in their shares at the time of nomination, record date and meeting date. Two or more investment funds that are part of the same family of funds or sponsored by the same employer will count as one stockholder for purposes of determining the size of the group. All proxy access nominations must be accompanied by information about the nominating stockholders as well as the nominees and meet the requirements as specified in Article II, Section 12 of our bylaws, which include but are not limited to, the information specified under How do I nominate a director candidate who would not be included in ITW s Proxy Statement? below.

How do I nominate a director candidate who would not be included in ITW s Proxy Statement?

If you wish to nominate an individual for election as a director at our May 2017 Annual Meeting, our Secretary must receive your written nomination on or after January 6, 2017, but no later than February 5, 2017. 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

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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.

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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 2017 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, 59, 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 Vice Chairman of eBay Enterprise/Innotrac Corporation, a privately held global fulfillment, customer care and technology company, and has served as a director of ITW since 2012. 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. He has not served as a director of any other publicly-traded company in the last five years.

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.

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Susan Crown, 57, is the Chairman and CEO of Owl Creek Partners, LLC, a private equity firm, and Founder of Susan Crown Exchange Inc., a social investment organization. She served two terms as a Fellow of the Yale Corporation, is currently a Vice Chair of Rush University Medical Center, a director of CARE USA and Chicago s Navy Pier. From 1984 to 2015, Ms. Crown served as Vice President of Henry Crown and Company, a business with diversified investments. Ms. Crown is currently a director of Northern Trust Corporation and its subsidiary, The Northern Trust Company. 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 brings valuable perspectives to our Board.

James W. Griffith, 62, 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 and Goodrich Corporation, 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, 64, 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 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.

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Robert S. Morrison, 73, 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 our Lead Director.

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, 54, has served as Chairman of ITW since May 2015 and as Chief Executive Officer since November 2012. He served as President and Chief Executive Officer of ITW from November 2012 to May 2015 and as President and Chief Operating Officer from October to November 2012. Prior thereto, 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, as well as his expertise in the application of ITW s business model, bring indispensable perspectives to our Board.

James A. Skinner, 71, 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 McDonalds 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 previously served as a director of Hewlett-Packard Company and McDonald s Corporation. 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.

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David B. Smith, Jr., 49, 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, brings valuable perspectives to our Board. Mr. Smith is a nephew of Mr. Harold B. Smith, an emeritus director of ITW.

Pamela B. Strobel, 63, 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 thereto, she served as Executive Vice President of Unicom and its chief subsidiary, ComEd, having joined ComEd as General Counsel in 1993. Ms. Strobel is currently a director of Domtar Corporation and State Farm Mutual Automobile Insurance Company and has not served as a director of any other publicly-traded company in the last five years. 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, 53, has been the President, Commercial Business Group for Xerox Corporation, a global business services, technology and document management company, since January 2016 and previously served as the President, Industrial, Retail and Hospitality Business Group since January 2015. Since 1984, Mr. Warren has held a number of positions at Xerox with increasing levels of responsibility, including 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, brings valuable perspectives to our Board.

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André D. Williams**,** 50, has been President, Global Merchant Service & Loyalty Group, of American Express Company, a global services company, since October 2015. From 2011 to 2015, Mr. Williams was President, Global Merchant Services. 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.

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Board of Directors and Its Committees

The Company s Board of Directors met five times during 2015. 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 Lead Director of the Board.

Role of Chairman and CEO

Pursuant to the Company s Corporate Governance Guidelines, the Board examines whether the role of chairman and chief executive officer should be combined each time the Board elects a new CEO, and may determine to separate or combine the offices of chairman and CEO at such other times as it deems appropriate. E. Scott Santi was elected President and CEO in November 2012, and the Board decided to separate the roles of CEO and Chairman at that time. Given Mr. Santi s successful transition into the CEO role and his deep knowledge and understanding of the Company s business model, operations and culture, the Board determined that he is best positioned to lead the Board in its ongoing oversight of the Company s operations and strategy. In May 2015, the Board elected Mr. Santi Chairman of the Board and CEO, and elected Robert S. Morrison, who was then non-executive Chairman, as lead director. The Board believes that this structure, which includes a strong, independent and highly experienced lead director with well-defined responsibilities, along with the Company s experienced and engaged independent directors, provides effective oversight of the Company s management. The Board simultaneously amended the Company s Corporate Governance Guidelines to enhance the duties of the lead director. As amended, the Corporate Governance Guidelines state that the lead director will:

- preside at all meetings of the Board at which the chairman is not present, including executive sessions of the independent directors;
- act as a key liaison between the chairman and the independent directors;
- have the authority to call meetings of the independent directors, when necessary;
- approve meeting agendas, schedules and information sent to the Board;
- communicate Board member feedback to the chairman after each Board meeting;
- if requested by major stockholders, ensure that he or she is available for consultation and direct communication; and
- perform such other duties as requested by the Board.

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 2015, all of the directors attended at least 75% of the meetings of the Board and the committees on which they serve.

Audit Committee

The Audit 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. In addition, the 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. 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 the Company s executive compensation philosophy, programs and policies, including ensuring that executive compensation is aligned to Company and individual performance. 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., Inc., an independent consultant, 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 How We Make Compensation Decisions Role of the Compensation Consultant.

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 financings and investments, and reviews and evaluates an annual summary of the funding and investment status of significant benefit plans sponsored by the Company globally. The Finance Committee also periodically reviews and evaluates 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.

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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 memberships and the number of meetings held by each committee during 2015.

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 2015 meetings	4	4	3	3	0

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/reputation, controllership/tax, 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 Chairman and Chief Executive Officer of the Company is subject to the risk oversight of independent directors.

Corporate Governance Policies and Practices

General

We have long believed that good corporate governance is important to assure that the Company is managed for the long-term benefit of its stockholders. 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 the origin of any tin, tantalum, tungsten and gold used in our products to assure that they are from conflict free sources if they originate within the Democratic Republic of Congo or its adjoining countries.

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

Shareholder Engagement

We believe regular, proactive communications with our stockholders to be in the long-term best interests of our company, and in 2015, we commenced a formal process for shareholder engagement on matters of corporate governance. We reached out to holders of approximately 50% of our shares to obtain feedback on corporate governance matters, including proxy access, executive compensation and any other matters of interest to our stockholders. We believe our outreach efforts were well received, and the feedback given about our corporate governance practices was positive. We plan to continue our shareholder outreach efforts as part of our regular investor communications.

In addition, we reached out to stockholders who submitted proposals for inclusion in our proxy statement to discuss their proposals. We shared feedback from these engagements with our board.

Communications with Directors

Stockholders and other interested parties may communicate with any of our directors, including Robert S. Morrison, our lead director, or with the independent directors as a group by sending an e-mail to

independentdirectors@itw.com or by writing to 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 Party 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 (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 overseeing 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.

Board Evaluations

The Board of Directors and the Audit, Compensation, and Corporate Governance and Nominating Committees conduct annual self-evaluations that assess the effectiveness, processes, skills, functions and other matters relevant to the Board as a whole or to the particular committee. Results of the evaluations are summarized and discussed at board and committee meetings. In addition, the Board

conducts a peer review evaluation whereby each board member evaluates the contributions of the other board members, and each director receives a summary of the results of the peer review regarding him or herself.

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 bylaws permit any stockholder or group of up to 20 stockholders meeting our continuous ownership requirement of 3% or more of our common stock for at least 3 years to nominate a candidate or candidates for election and require us to include such nominees in our proxy statement and form of proxy. All such proxy access nominations must be accompanied by information about the nominating stockholders as well as the nominees and meet the requirements as specified in Article II, Section 12 of the Company s by-laws. For a description of the process for submitting a director candidate through the use of proxy access, see Questions and Answers about the 2016 Annual Meeting and Voting How do I use proxy access to nominate a director candidate to be included in ITW s 2017 Proxy Statement?

Our by-laws also permit stockholders to nominate directors for consideration at an annual meeting of stockholders without requiring that their nominees be included in our proxy statement and form of proxy. The policy of the Corporate Governance and Nominating Committee is to consider such nominations as are properly submitted pursuant to Article II, Section 10 of the Company s bylaws. 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. For a description of the process for submitting a director candidate without proxy access, see Questions and Answers about the 2016 Annual Meeting and Voting How do I nominate a director candidate who would not be included in ITW s Proxy Statement?

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 2015, 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 and identified skills to supplement existing board experience. Specifically, the Committee identified corporate finance experience and experience as a current or former CEO of a global publicly-traded company as key attributes for future board candidates.

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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.

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 2015 Annual Meeting, each director received a majority of the votes cast for his or her election.

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Director Compensation

Our directors receive retainer-only compensation with no fees for attending meetings, which is an expected part of board service. Our committee chairs and lead director receive additional retainers for their service in these capacities, and all board members receive an annual equity grant based on a fixed-value amount with immediate vesting that avoids entrenchment. Our directors compensation is compared to that of the same peer group of companies used for executive compensation comparisons. The Corporate Governance and Nominating Committee oversees and makes recommendations to the Board regarding non-employee director compensation based on comparisons of financial performance and median compensation levels of our peer group. Peer group directors compensation data is prepared by Frederic W. Cook & Co., Inc., the independent compensation consulting firm that advises the Compensation Committee.

Annual Fees

The following table shows the non-employee director compensation for 2015. Non-employee directors were given the opportunity to elect to receive all or a portion of their annual cash retainer, including chair fees, in an equivalent value of ITW common stock pursuant to our 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.

Description	Amount
Annual Retainer	$135,000
Additional Committee Chair/Lead Director Retainers:	
Audit & Compensation Committee	$ 20,000
Corporate Governance & Nominating; Finance	$ 15,000
Executive Committee	$ 5,000
Lead Director	$ 30,000
Annual Stock Grant	$125,000

Directors Deferred Fee Plan

Non-employee directors can defer receipt of all or a portion of their annual cash retainer, including chair fees, and/or stock grant until retirement or resignation. Deferred cash amounts are credited with interest quarterly at current rates. Cash fees may be deferred as cash or ITW common stock. 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 2015 received an annual stock grant equivalent in value to approximately $125,000.

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Director Compensation in Fiscal Year 2015

The following table summarizes the compensation for our non-employee directors who served during 2015.

Name	Cash Fees Paid or Deferred ($)(1)(2)	Stock Awards Issued or Deferred ($)(3)(4)	Total ($)
Daniel J. Brutto	$ 135,000	$124,984(5)	$ 259,984
Susan Crown	$ 140,000	$124,984(5)	$ 264,984
James W. Griffith	$ 135,000	$124,984(5)	$ 259,984
Richard H. Lenny	$ 135,000	$124,984(5)	$ 259,984
Robert S. Morrison	$ 204,808	$124,984(5)	$ 329,792
James A. Skinner	$ 155,000	$124,984(5)	$ 279,984
David B. Smith, Jr.	$ 148,166	$124,984	$ 273,150
Pamela B. Strobel	$ 155,000	$124,984(5)	$ 279,984
Kevin M. Warren	$ 135,000	$124,984(5)	$ 259,984
Anré D. Williams	$ 135,000	$124,984	$ 259,984

(1) The following directors elected to convert some or all cash fees earned in 2015 into shares of ITW common stock and to defer receipt of those shares:

Name	Fees Deferred in 2015	Number of Shares Deferred in 2015
Richard H. Lenny	$ 135,000	1,441
Robert S. Morrison	$ 204,808	2,178
James A. Skinner	$ 155,000	1,655
Kevin M. Warren	$ 13,500	143

(2) Cash fees include the $135,000 annual retainer, lead director fee and committee chair fees.

(3) Each director serving in 2015 received an annual stock grant of 1,303 shares equivalent in value to approximately $125,000.

(4) As of December 31, 2015, the directors phantom stock accounts had phantom stock unit balances as follows: Mr. Brutto, 1,090; Ms. Crown, 5,702; Mr. Griffith, 1,090; Mr. Morrison, 2,618; Mr. Skinner, 2,546; Mr. Smith, 1,158; Ms. Strobel, 1,221; Mr. Warren, 1,135; and Mr. Williams, 1,135. Phantom stock grants were discontinued in May 2012. Mr. Lenny, who joined the Board after that date, did not receive a phantom stock award.

(5) These directors elected to defer receipt of their entire stock grant.

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, 2015, except as otherwise noted. 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 363,710,073 shares of ITW common stock outstanding as of December 31, 2015.

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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, 2015. The granting of phantom stock units was discontinued in May 2012, so Mr. Lenny, who joined the Board after that date, was not awarded phantom stock units upon joining the Board. Phantom stock units are not transferable and have no voting rights. The units are payable in cash and are not included in the percent of class calculation.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Phantom Stock Units	Percent of Class
Directors (other than Executive Officers)			
Daniel J. Brutto	9,744(1)	1,090	*
Susan Crown	52,509(2)	5,702	*
James W. Griffith	8,929(3)	1,090	*
Richard H. Lenny	3,780(4)	n/a	*
Robert S. Morrison	94,984(5)	2,618	*
James A. Skinner	40,175(6)	2,546	*
David B. Smith, Jr.	131,586(7)	1,158	*
Pamela B. Strobel	27,592(8)	1,221	*
Kevin M. Warren	14,451(9)	1,135	*
Anré D. Williams	18,412	1,135	*
Named Executive Officers			
E. Scott Santi	765,656(10)		*
Michael M. Larsen	87,399(11)		*
David C. Parry	328,404(12)		*
Christopher A. O Herlihy	170,335(13)		*
Roland M. Martel	316,877(14)		*
Directors and Executive Officers as a Group (23 Persons)	2,895,351(15)	17,695	*

* Less than 1%

(1) Includes 2,139 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) 7,923 deferred shares in lieu of director s fees.

(3) Includes 1,318 deferred shares in lieu of director s fees.

(4)

Includes (a) 2,772 deferred shares in lieu of director s fees; (b) 8 shares owned jointly with Mr. Lenny s spouse; and (c) 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 36,710 deferred shares in lieu of director s fees.

(6) Includes 27,817 deferred shares in lieu of director s fees.

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(7) Includes (a) 102,901 shares owned jointly with Mr. Smith s spouse, all of which are pledged to secure lines of credit; and (b) 15,517 shares held in trusts of which Mr. Smith s children are beneficiaries, as to which he disclaims beneficial ownership.
(8) Includes 18,587 deferred shares in lieu of director s fees.
(9) Includes (a) 1,463 deferred shares in lieu of director s fees; and (b) 1,000 shares beneficially owned by Mr. Warren s spouse.
(10) Includes (a) 3,571 shares allocated to Mr. Santi s account in the ITW Savings and Investment Plan; (b) 671,522 shares covered by options exercisable within 60 days; and (c) 35,573 performance restricted stock units which vest within 60 days.
(11) Includes 73,399 shares covered by options exercisable within 60 days.
(12) As of February 12, 2016, includes (a) 1,182 shares allocated to Mr. Parry s account in the ITW Savings and Investment Plan; (b) 311,368 shares covered by options exercisable within 60 days; and (c) 15,810 performance restricted stock units which vest within 60 days.
(13) Includes (a) 1,574 shares allocated to Mr. O Herlihy s account in the ITW Savings and Investment Plan; (b) 151,456 shares covered by options exercisable within 60 days; and (c) 5,797 performance restricted stock units which vest within 60 days.
(14) Includes (a) 287,812 shares covered by options exercisable within 60 days; and (b) 6,588 performance restricted stock units which vest within 60 days.
(15) Includes (a) 2,217,426 shares covered by options exercisable within 60 days; (b) 92,016 restricted stock units and performance restricted stock units which vest within 60 days; and (c) 106,901 shares pledged as security prior to April 1, 2013.

Other Principal Stockholders

The following table shows, as of December 31, 2015, 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 363,710,073 shares of ITW common stock outstanding as of December 31, 2015. See Certain Relationships and Related Party Transactions for a description of the commercial banking services provided by The Northern Trust Company and its subsidiaries to the Company and the amount paid by the Company for these services.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Class
The Northern Trust Company 50 South LaSalle Street Chicago, IL 60603	41,909,994(1)	11.5%
State Farm Mutual Automobile Insurance Company Investment Dept. E-9 One State Farm Plaza Bloomington, IL 61710	23,310,617(2)	6.4%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	19,967,893(3)	5.5%

(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 41,909,994 shares. They have sole voting power with respect to 14,121,001 shares and shared voting power with respect to 26,635,062 shares. They have sole investment power with respect to 3,275,149 shares and shared investment power with respect to 32,509,000 shares. The information above regarding number of shares was provided in a Schedule 13G/A filed with the SEC on February 12, 2016. In addition, The Northern Trust Company holds in other accounts, but does not beneficially own, 24,069,835 shares, resulting in aggregate holdings by The Northern Trust Company of 65,979,829 shares, or 18.1%.

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(2) 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 155,917 shares. The information above regarding number of shares beneficially owned was provided in a Schedule 13G filed with the SEC on February 2, 2016.

(3) The Vanguard Group has sole voting power with respect to 603,742 shares, sole investment power with respect to 19,321,630 shares and shared investment power with respect to 646,263 shares. The information above regarding number of shares beneficially owned was provided in a Schedule 13G filed with the SEC on February 11, 2016.

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 2015 and written representations from executive officers and directors, we believe that all filing requirements were timely met during 2015, except that the account manager of Mr. Santi s discretionary account inadvertently purchased 11 shares of the Company s common stock on February 11, 2015. This purchase was reported on a Form 4 filed on November 12, 2015. In addition, four gifts of ITW shares that occurred in 2012, 2013 and 2014 were not reported by Harold B. Smith, Emeritus Director, after he retired from our board of directors. These gifts were reported on February 12, 2016.

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, 2015 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**.

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Compensation Discussion and Analysis

The Compensation Discussion and Analysis provides detailed information about ITW s 2015 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 2015, our NEOs are:

E. Scott Santi, Chairman & Chief Executive Officer
David C. Parry, Vice Chairman
Christopher A. O Herlihy, Vice Chairman
Michael M. Larsen, Senior Vice President, Chief Financial Officer
Roland M. Martel, Executive Vice President

2015 Company Performance

In 2015, ITW delivered strong financial performance in a challenging macro-economic environment. We successfully leveraged the ITW Business Model to increase earnings per share 10 percent, 19 percent excluding the $0.41 impact of foreign currency translation. We improved operating margin by 150 basis points to an all-time high of 21.4 percent, and increased after-tax return on invested capital to a record 20.4 percent.

ITW s differentiated Business Model and our diversified portfolio of seven industry-leading businesses generate excellent free cash flow and our balance sheet is strong. In 2015, we invested approximately $560 million in our businesses for growth and productivity, and returned more than $2.7 billion to stockholders in the form of dividends and share repurchases. In 2015, we increased the ITW dividend by 13.4 percent.

In 2015, we began our pivot to focus on our organic growth agenda, and we made meaningful progress, with 60% of the Company s revenues achieving ready to grow status and 45% growing at an average of 6% in 2015.

We continue to execute the various elements of our Enterprise Strategy in a well-planned and logical sequence as we position ITW to deliver solid growth with best-in-class margins and returns.

We began the process of transitioning the Company onto our current strategic path in 2013, and since then Total Shareholder Returns have averaged 19 percent per year, exceeding our long-term goal. In addition, since the launch of our Enterprise Strategy, our operating margin and after-tax return on invested capital metrics have improved by more than 500 basis points to best-in-class performance.

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We believe that each element of our compensation structure plays an integral role in motivating our employees to maximize the performance potential of ITW.

2015 operating margin of 21.4 percent reached an all-time high for the Company, an improvement of 550 basis points* since the launch of the Company s Enterprise Strategy

2015 after-tax ROIC* also reached an all-time high of 20.4 percent*, improving 590 basis points* since 2012

Earnings per share increased 10 percent and, excluding the $0.41 impact of currency translation, would have grown 19 percent in 2015

Total operating revenue decreased 7.4 percent, primarily due to the impact of unfavorable currency translation (6.8 percent)

Strong free cash flow generation of $2.0 billion, or 106 percent* of net income, in 2015

* See **Appendix B** for information regarding non-GAAP measures.

Executive Compensation Highlights

Compensation Philosophy

Philosophy	Key Components
Our executive compensation philosophy is designed to deliver competitive total compensation, upon the	Target total compensation is based on the median of our peer group and relevant external market data. Actual compensation is determined by achievement of results based on our goals aligned to ITW s Enterprise Strategy.

achievement of individual and business performance objectives, which will attract, motivate and retain leaders who will drive the creation of stockholder value.	Individual executive compensation is then established based on an executive s scope of responsibility, impact on profitable growth, individual performance and breadth of experience. Pay-for-performance through short- and long-term incentives links compensation to Company and business segment performance. This pay-at-risk aligns executive and stockholder interests to help ensure the short- and long-term growth and health of ITW.

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Compensation Objectives

We emphasize 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. Our 2015 executive compensation program consists primarily of three compensation elements: fixed (base salary), variable (annual cash incentives and long-term incentive compensation including stock options, performance-based restricted stock units (PRSUs) and performance cash awards), and retirement and change-in-control benefits, as illustrated below:

2015 Compensation Elements

	Compensation Element	Form	Objective	Alignment of Stockholder Value Creation
FIXED	Base Salary	Cash	Market competitive to attract and retain highly qualified leaders Reflective of individual performance, experience and scope of responsibility	
VARIABLE	Annual Executive Incentive Plan (EIP)	Cash	Motivate executives to achieve annual Company and business segment performance	For 2015, focused on diluted income per share from continuing operations (EPS), business segment operating income growth and individual objectives designed to deliver strategic business imperatives
	Stock Options	Equity	Long-term decisions that focus on long-term stockholder value	Award value based on sustained long-term growth in ITW stock
	Performance-based RSUs (PRSUs)	Equity	Reward executives for delivering on the Company s long-term performance goals	Use EPS metric and payout based on sustained long-term growth in ITW stock price
	Long-Term Incentive Cash (LTI Cash)	Cash		Financial metrics align with ITW s Enterprise Strategy and progress towards the Company s stated long-term performance goals
RETIREMENT AND CHANGE-IN -	Savings & Investment Plan-401(k)	Cash	Retirement savings in both qualified and nonqualified plans aligned with market practices	
	Nonqualified Deferred	Cash		

CONTROL BENEFITS	Compensation Plan		Nonqualified plan allows contributions for those exceeding the IRS limits	
	Change-in-Control Severance Policy	Cash/ Equity	Provides compensation in the event of a termination after a change-in-control	Allows senior executives to make decisions in the best interests of the Company and its stockholders

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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 2015 compensation program reflects the following:

	What We Do		What We Don t Do
ü	We maintain a Compensation Recovery Policy (clawback policy) requiring the reimbursement of incentives if a material financial restatement is required	û	We do not provide executives with employment agreements
ü	We have stock ownership guidelines linking the interests of long-term stockholders to our executives and mitigating compensation-related risk	û	We do not provide perquisites or gross ups as part of our change-in-control agreements
ü	The Compensation Committee engages an independent compensation consultant who advises the Committee on regulatory and other current trends and key developments in executive compensation	û	We do not allow share repricing within our stock option plan
ü	We conduct an annual review of the performance of the CEO as well as the other NEOs	û	We prohibit officers, directors, and employees from hedging, making new pledges, short selling or publicly trading options involving ITW common stock
ü	We hold an annual advisory vote for our stockholders to review and approve our executive compensation programs	û	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)

Say On Pay Voting Results

The Committee considered the 96.9% approval by our stockholders of the compensation of our NEOs in 2015, and determined that no particular adjustments to our executive compensation practices were necessary as a result of the Say on Pay vote.

Overview of Key Compensation Decisions

The following describes 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, business segment and individual performance.

Annual Executive Incentive Plan (EIP)

¡ The EIP awards for 2015 were based 80% on the Financial Performance Component and 20% on Individual Objectives, which is consistent with the prior year s annual incentive plan design. The 2015 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. The payout range of the EIP is 0% to 200% of target. In 2015, EIP was earned at an average of 116% of target for the NEOs.

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- For 2016, we are changing the performance measures for EIP by eliminating the Individual Objectives component. Instead, EIP awards in 2016 will be based solely on the achievement of financial results, including operating income (60% of the target) and organic revenue growth (40% of the target), which are two critical financial performance metrics aligned with ITW s next phase Enterprise Strategy performance goals.

Long-Term Incentives

- Weightings of the long-term incentive award components in 2015 remained the same as 2014. 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.

- The financial measures for the 2015-2017 LTI Cash award remained the same as 2014. The weighting of the financial measures for this performance period is one-third for each of the following financial metrics: operating margin; ROIC; and organic revenue growth.

- PRSUs for the 2013-2015 performance period were earned at 100% of target, and LTI Cash for the 2013-2015 performance period was earned at 91% of target.

- With organic revenue growth becoming a key component of EIP for 2016, EPS will now be a performance measure in the 3-year LTI Cash plan. The long-term incentive metrics for the 2016 LTI Cash plan will be EPS, operating margin, and ROIC, with each of the three metrics equally weighted.

2015 Target Compensation

Our target total compensation (base salary, EIP, and long-term incentives) is intended to create a strong correlation between the executive s compensation and enterprise and/or business segment performance. The compensation elements based on corporate or business segment performance include EIP, LTI Cash and equity incentives. Ninety-one percent of 2015 total compensation for the CEO is tied to performance, with 54% in the form of equity and 37% performance cash awards. Eighty-one percent of 2015 total compensation for the other NEOs (on average) is tied to performance, with 42% delivered through equity awards and 39% in the form of performance cash awards. Our equity and long-term cash awards have 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 target total compensation opportunity for 2015 between fixed (base salary) and variable (EIP and long-term incentives) components.

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.

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How We Make Compensation Decisions

Role of the Compensation Committee

The Committee conducts an annual review of ITW s practices and the compensation of our executive 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;
- Compensation decisions are meaningfully differentiated to appropriately reflect the contributions of our highest performers; and
- Our incentive programs drive performance aligned with our Enterprise Strategy and the Company s culture and values.

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.

In addition, 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 peer companies, and assess our compensation governance process.

See Board of Directors and Its Committees Compensation Committee under Proposal 1 Election of Directors for more information about the function of the Compensation Committee.

Role of the Compensation Consultant

As previously stated, the Committee has engaged Cook as its independent compensation consultant. In 2015, Cook conducted a marketplace review of the compensation we pay to our executive officers. Cook provided the Committee with relevant market data, including a review of our pay and performance and that of our peers, reviewed the peer companies we use for comparison purposes, and benchmarked our compensation against our peer companies. Cook also assisted the Committee with its assessment of compensation-related risk.

Based on its consideration of factors under NYSE listing standards, the Committee concluded that the work performed by Cook and its senior advisor involved in the engagement did not raise any conflict of interest.

Risk Assessment

The Committee, together with management and our independent compensation consultant, annually considers potential risks when reviewing our compensation programs for all employees, including our executive officers. Based on this assessment, the Committee concluded that our 2015 compensation programs do not create risks that are reasonably likely to have a material adverse effect on ITW. In making this determination, the Committee reviewed the key design elements of our compensation programs, as well as the means by which any potential risks may be mitigated.

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Peer Companies

The Committee has identified a group of comparable companies, which we refer to as the peer group, to benchmark executive compensation 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. In addition, the Committee refers to market data based on manufacturing companies within the Aon Hewitt TCM Online Executive survey using regression analysis and tabular long-term incentive data and Mercer Executive Compensation survey with a revenue range of $5 billion to $20 billion for corporate executives and $1.2 billion to $1.375 billion for the operating executives.

Peer Group Selection 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 with one-fourth to four times our revenue and market cap with broadly similar businesses and pay models;

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

Companies with whom we may compete for executive talent.

In connection with its annual review in 2015, the Committee removed TRW Automotive from the Company s peer group as it was acquired by ZF Friedrichshafen AG and is no longer a free-standing public company. In addition, the Committee added Stanley Black & Decker in consideration of the company meeting the recommended size criteria, listing ITW as a peer, and its inclusion in ITW s Institutional Stockholder Services peer group. For 2015, the Committee identified the following 19 companies to be used as the Company s peer group:

3M Company	Dover Corporation	Johnson Controls, Inc.
BorgWarner Inc.	E. I. du Pont De Nemours and Company	Masco Corporation
Caterpillar Inc.	Eaton Corporation plc	Parker-Hannifin Corporation
Cummins Inc.	Emerson Electric Co.	PPG Industries, Inc.
Danaher Corporation	Honeywell International Inc.	Pentair plc
Deere & Company	Ingersoll-Rand plc	Stanley Black & Decker, Inc.
		Textron Inc.

At the time of the Committee s review, the revenue median of the peer group was $19.6 billion based on the latest four quarters, and the median market cap was $31.2 billion, versus $14.3 billion and $34.5 billion, respectively, for ITW.

The nature of our decentralized and diverse lines of business presents challenges in identifying similar organizations for comparison purposes; however, we believe that the peer group selected provides relevant comparisons.

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 market data. 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 and breadth of experience, as well as external market data from the peer group.

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Components of the 2015 Executive Compensation Program

Base Salary

In determining base salary, the CEO and the Committee consider the size and scope of the executive officers responsibilities, experience, performance, 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.

In February 2015, the Compensation Committee reviewed Mr. Santi s performance and approved a base salary increase to $1,166,000 from $1,100,000 (6%). For the other NEOs, the Committee approved recommended base pay increases that ranged between 3.8% and 6%. These base salary increases were effective March 2, 2015. Effective August 7, 2015, Mr. O Herlihy was promoted to Vice Chairman and received a base salary increase of 20.8% to $610,000 and an EIP target bonus change from 80% to 90%.

Annual Executive Incentive Plan

We believe that executives generally should be rewarded for contributions to overall financial success measured by income growth of the Company as a whole and, if applicable, the business segment he or she leads. Achieving our annual financial objectives is important to executing our current Enterprise Strategy objectives and delivering long-term value to stockholders.

The Committee determines and recommends for approval by the independent directors the annual incentive award amount for the CEO. The Committee considers recommendations from the CEO and approves EIP awards for our other NEOs.

For 2015, the EIP was composed of two elements for our NEOs: Financial Performance Component (80%) and Individual Objectives (20%). The Financial Performance Component weighting for the CEO, Vice Chairmen, and CFO was based 100% on year-over-year growth in EPS to be aligned with our stockholders interests. For operating executives, the weighting of the Financial Performance Component was based 50% on EPS performance and 50% on the business segment s operating income growth. These weightings are intended to emphasize financial performance while also reinforcing the operating executive s support for Company-wide strategy and objectives.

The Financial Performance Component was recommended by management and approved by the Committee at the start of the 2015 performance year. The Individual Objectives for the CEO were established by the Committee, and the Individual Objectives for each of the other NEOs were recommended by the CEO and also approved by the Committee at the start of the 2015 performance year. 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.

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2015 EIP Financial Performance Component

For 2015, executive officers were eligible to earn a payment under the Financial Performance Component according to the performance scales below.

2015 EIP Performance Targets

	Performance Goal (Company EPS)	Performance Goal (Segment Operating Income)	Payout (as a % of Target)
Maximum	120%	116%	200%
Target	110%	106%	100%
Threshold	90%	85%	50%

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

2015 EIP Performance Achievement

Named Executive Officer	2014 Company EPS or Segment Income Levels	2015 Company EPS or Segment Income Levels	% of Achievement (By Group)	Financial Perf. Component (% of Target) (By Group)	Final Financial Perf. Component %
E. Scott Santi	$4.67	$5.13	109.9%	99.8%	99.8%
Michael M. Larsen	$4.67	$5.13	109.9%	99.8%	99.8%
David C. Parry	$4.67	$5.13	109.9%	99.8%	99.8%
Christopher A. O Herlihy(1)	$480M	$539M	112.4%	163.6%	117.9%
Roland M. Martel(2)	$584M	$650M	111.3%	152.6%	126.2%

(1) Mr. O Herlihy was promoted to Vice Chairman effective August 7, 2015. The financial portion of his EIP was based 50% on operating income of the Food Equipment Group and 50% on Company EPS from January 1, 2015 through August 6, 2015, and from August 7, 2015 through December 31, 2015, was based 100% on Company EPS.

(2) The Final Financial Performance Component award percentages shown in the last column above for Mr. Martel combine the achievement level for his business segment with that of Company EPS.

2015 EIP Individual Objectives

In early 2015, each NEO prepared 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 reviewed these recommendations with Mr. Santi prior to final approval. Mr. Santi discussed his proposed Individual Objectives for 2015 directly 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 for 2015.

The Individual Objectives for Mr. Santi and the other NEOs that were approved by the Committee include: (1) begin to transition the Company to focus on organic revenue growth; (2) continue to enhance the quality of ITW Business Model practice across the Company; (3) continue the strong execution of Enterprise Strategy initiatives; and (4) successfully implement talent management initiatives.

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Following the end of the year, each NEO submitted a written self-appraisal with his assessment of his achievement of these objectives. Mr. Santi reviewed the self-appraisals of the NEOs (other than himself) 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 2015 and used 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 2015 Individual Objectives, and upon Mr. Santi s recommendations for the other NEOs, the following Individual Objective achievement percentages were assigned: 150% for Mr. Santi, 150% for Mr. Larsen, 150% for Mr. Parry, 150% for Mr. O Herlihy, and 130% for Mr. Martel.

2015 Annual Cash Incentive Total Payouts

The total 2015 payouts to the NEOs ranged from 110% to 127% of target award level, and were determined as follows:

Named Executive Officer	Award Target	Year-End 2015 Salary	Final Finl. Perf. Comp Award (% of Target)	Finl. Perf. Amount	Final Ind. Obj. Award (% of Target)	Ind. Obj. Amount	Total Award[(1)]	Total Award as a % of Target
E. Scott Santi	150%	$1,166,000	99.8%	$1,396,402	150%	$524,700	$1,921,102	110%
Michael M. Larsen	90%	$679,250	99.8%	$488,082	150%	$183,398	$671,479	110%
David C. Parry	90%	$744,458	99.8%	$534,938	150%	$201,004	$735,941	110%
Christopher A. O Herlihy (2)	84%	$610,000	117.9%	$483,613	150%	$153,769	$637,382	124%
Roland M. Martel	80%	$537,601	126.2%	$434,209	130%	$111,821	$546,031	127%

(1) These amounts are included in the Summary Compensation Table under Non-Equity Incentive Plan Compensation. The award payout is calculated as a percent of base salary.

(2) Mr. O Herlihy was promoted to Vice Chairman effective August 7, 2015. The financial portion of his EIP was calculated based 50% on operating income of the Food Equipment Group and 50% on Company EPS from January 1, 2015 through August 6, 2015, and from August 7, 2015 through December 31, 2015, was based 100% on Company EPS. Individual Objectives were 20% of the EIP for the entire performance period.

Long-Term Incentives

The value of the overall long-term incentive award to the

CEO is determined by the Committee, subject to approval by the independent directors. Awards to the other NEOs are recommended by the CEO to the Committee for approval.

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, breadth of experience and prior awards. 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.

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 margin, organic revenue growth and ITW s stock performance over time.

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For 2015, our NEOs received stock options, PRSUs, and LTI Cash awards. We believe that stock options are an effective incentive because they directly align the interests of the executives with those of our stockholders, as an unexercised stock option has no realizable value if our stock price falls below the exercise price, while the value increases along with increases in our stock price above the exercise price. The stock option awards are combined with PRSUs and LTI Cash to more closely align long-term incentives with our Enterprise Strategy objectives and increase emphasis on key financial performance metrics. The weightings of the total target values of the 2015 long-term incentive equity and cash awards were as follows:

2015 Long-Term Incentive Award Weightings

Position	Stock Options (%)	PRSUs (%)	LTI Cash (%)
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 in the applicable awards, 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.

2015 Stock Option Awards

The 2015 stock options vest in equal installments over a four-year period ending in 2019. Stock options are awarded 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 award date. We currently award 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.

2015 Performance-Based RSU Awards

PRSUs vest three years from the date of award, subject to the achievement of the performance goal set at the beginning of the performance period. PRSUs are awarded based on the fair market value of one share of ITW common stock on the date of award. The payout range is 10% to 100% of the target award.

For PRSUs awarded in 2015, the performance goal is based on cumulative EPS from continuing operations over a three-year performance period (2015 through 2017) based on a sliding scale. The target/maximum is $10.90 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 $8.90 cumulative EPS is achieved, none of these PRSUs will vest. If EPS growth is at or above the $8.90 threshold but below the $10.90 target/maximum, the awards will vest in proportion to the level of EPS achieved.

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2015 Long-Term Incentive Cash Awards

In February 2015, our NEOs received an annual LTI Cash award with a three-year performance period.

The goals for the 2015 LTI Cash awards 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:

2015 LTI Cash Payout Scale

	Operating Margin	After-tax ROIC	Organic Revenue Growth	Payout (as a % of Target)
Maximum	22%	20%	5%	150%
Target	20%	18%	3%	100%
Threshold	18%	16%	1%	50%

Note: Calculated using a simple average for each metric based on each year s results.

2013 Long-Term Incentive Cash Award Payouts

The LTI cash award granted in 2013 under the Company-wide Growth Plan in effect at that time (with a three-year performance period ended December 31, 2015) was based 40% on operating margin, 30% on ROIC and 30% on revenue growth (calculated using a simple average as reported in our financial statements as of the time financial results for each year were publicly released).

Percentage Payout of 2013 LTI Cash Awards

Metric	2013	2014	2015	Achieve-ment	Payout (% of Target)
Operating Margin	17.8%	19.9%	21.4%	19.7%	142.5%
ROIC	16.3%	18.9%	20.4%	18.5%	113.3%
Revenue Growth	1.9%*	2.5%	-7.4%	-1.0%	0.0%
Total					**91.0%**

* After excluding revenues of $921 million in 2012 related to our former Decorative Surfaces Segment, which was divested in 2012.

The following table shows the individual payout level by NEO:

Payout Amounts of 2013 LTI Cash Awards

Named Executive Officer	Award Target	Final Performance Achievement	Final Payout
E. Scott Santi	$2,250,000	91%	$2,047,500
Michael M. Larsen	*	*	*
David C. Parry	$1,000,000	91%	$910,000
Christopher A. O Herlihy	$366,667	91%	$333,667
Roland M. Martel	$416,667	91%	$379,167

* Mr. Larsen joined the company in late 2013 and did not receive an LTI Cash award in 2013.

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

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awards for the executive officers. Long-term awards are made in compliance with the Long-Term Incentive Plan, including the requirement that stock options may not be awarded at less than 100% of the fair market value of ITW s common stock on the date of award. The exercise price of the awards is based on the closing price of ITW s stock on the date of award. We do not time awards for the purpose of enhancing the value of executive compensation.

Executive Compensation Policies and Guidelines

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. Beginning in 2015, the required ownership level for the Chief Financial Officer was increased from two times salary to three times salary. The 2015 guidelines for stock ownership as a multiple of executive officers base salaries and of directors annual retainers are as follows:

Title	Guideline
Chief Executive Officer	6 times salary
Vice Chairmen, Executive Vice Presidents, and Chief Financial Officer	3 times salary
Senior Vice Presidents	2 times salary
Non-employee Directors	5 times annual retainer

The Committee expects that an executive officer or non-employee director will achieve the applicable ownership level within five years. The achievement of these guidelines is reviewed annually. 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 deemed it necessary to impose a holding period requirement for shares owned by our executive officers and directors.

All NEOs and directors who have been in their positions for five or more years have met or exceeded the applicable stock ownership guideline.

All recipients of Company equity-based awards, 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, since April 2013, our employees (including NEOs) and non-employee directors are prohibited from pledging Company stock.

Compensation Recovery Policy

We maintain 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 executive 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.

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Deductibility

Internal Revenue Code Section 162(m) limits the deductibility of compensation in excess of $1,000,000 paid to the NEOs. Performance-based compensation, as defined in the regulations under Section 162(m), is exempt from this limit. In 2011, our stockholders approved the 2011 Cash Incentive Plan to provide a means to pay performance-based short and long-term incentive cash compensation that qualifies for the exemption under Section 162(m). Executives whose compensation may be subject to the limits of 162(m) initially receive annual and long-term cash incentive awards pursuant to the 2011 Cash Incentive Plan subject to performance goals designed to comply with the requirements of Section 162(m). The Committee then exercises its negative discretion to adjust the awards to the level of bonus calculated pursuant to the performance goals set in connection with the underlying bonus programs, described above under Annual Executive Incentive Plan and Long-Term Incentives 2015 Long-Term Incentive Cash Awards. This procedure better enables the Company to assure the deductibility of the annual and long-term cash performance incentive payments.

One of the requirements under 162(m) is that the material terms of the performance goals under the 2011 Cash Incentive Plan be re-approved by stockholders every five years. The Company is therefore asking that its stockholders re-approve the material terms of the performance goals under the 2011 Cash Incentive Plan at the 2016 Annual Meeting. See Proposal 5 Re-Approval of the Material Terms of the Performance Goals under the Illinois Tool Works Inc. 2011 Cash Incentive Plan for Purposes of Section 162(m) of the Internal Revenue Code.

The Committee recognizes its obligation to reward performance that increases stockholder value and retains the flexibility in its discretion to award compensation that does not qualify for the 162(m) exemption if it believes that to be in the best interests of stockholders.

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NEO Compensation

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

Summary Compensation Table

Name and Principal Position	Year	Salary(1)	Bonus	Stock Awards(2)	Option Awards(2)	Non-Equity Incentive Plan Compensation (1)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(4)	All Other Compensation (5)	Total
E. Scott Santi	2015	$1,155,379	-	$2,849,933	$3,799,994	$3,968,602	$2,316,452	$146,740	$14,237,101
Chairman and Chief	2014	$1,083,525	-	$2,549,931	$3,399,993	$3,466,420	$1,399,394	$100,015	$11,999,278
Executive Officer	2013	$1,000,000	-	$2,087,779	$2,999,998	$2,256,800	$796,370	$65,506	$9,206,453
Michael M. Larsen	2015	$674,543	-	$899,963	$899,984	$671,479	-	$182,006	$3,327,976
Senior Vice President & CFO	2014	$650,000	-	$833,290	$833,326	$1,067,508	-	$112,159	$3,496,283
	2013	$175,000	$195,000	$932,919	$1,000,000	-	-	$162,979	$2,465,898
David C. Parry	2015	$739,850	-	$999,992	$999,982	$1,645,942	$1,201,312	$68,012	$5,655,091
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
Christopher A. O Herlihy	2015	$569,185	-	$466,637	$466,652	$971,049	($136,433)	$192,261	$2,529,349
Vice Chairman	2014	$473,034	-	$449,928	$449,985	$854,532	$67,626	$136,123	$2,431,228
Roland M. Martel	2015	$534,434	-	$449,933	$449,982	$925,197	$738,679	$9,275	$3,107,499
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

(1)

Salary and Non-Equity Incentive Plan compensation for 2015 includes amounts deferred by the executive under the Executive Contributory Retirement Income Plan (ECRIP) or the Savings and Investment Plan. The amount of deferrals in 2015 for each NEO can be found in footnote 1 to the table under ITW Retirement Plans - Nonqualified Deferred Compensation below. The amount of deferrals under the ECRIP in 2014 and 2013 can be found in footnote 4 to the same table. ECRIP deferrals in 2015 of non-equity incentive plan amounts earned in 2015 were as follows: Mr. Santi, $299,442; Mr. Larsen, $213,499; Mr. Parry, $176,340; Mr. O Herlihy, $427,276; and Mr. Martel, $45,312.

(2) The Stock Awards column represents PRSUs awarded in the relevant year, and the amounts shown represent the maximum amount that may be earned. The Option Awards column represents stock options awarded 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, 2015, 2014 and 2013.

(3) These amounts include 2015 EIP awards made under ITW s Executive Incentive Plan and 2013 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 Components of the 2015 Executive Compensation Program Annual Executive Incentive Plan and 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.

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Footnote 4 Table

Name	Year	Accrual in ITW Retirement Accumulation Plan	Accrual in ITW Nonqualified Pension Plan	Excess Interest on Deferred Comp	Change in Pension Value and NQDC Earnings
E. Scott Santi	2015	$55,889	$2,245,325	$15,238	$2,316,452
	2014	$51,303	$1,332,510	$15,581	$1,399,394
	2013	$54,998	$727,436	$13,936	$796,370
Michael M. Larsen*	2015	-	-	-	-
	2014	-	-	-	-
	2013	-	-	-	-
David C. Parry	2015	$75,969	$1,081,841	$43,502	$1,201,312
	2014	$71,657	$790,394	$44,482	$906,533
	2013	$72,354	$493,594	$39,785	$605,733
Christopher A. O Herlihy**	2015	($136,433)	-	-	($136,433)
	2014	$67,626	-	-	$67,626
Roland M. Martel	2015	$75,690	$631,560	$31,429	$738,679
	2014	$78,176	$487,952	$32,137	$598,265
	2013	$59,971	$331,700	$28,743	$420,414

**Mr. Larsen joined the Company in September 2013. Consequently, his ECRIP deferrals are not eligible for the 130% rate, and he is not eligible to participate in the Company s pension plans, which were closed to new entrants effective January 1, 2007.*

***Mr. O Herlihy participated in the ITW Retirement Accumulation Plan from 1989 through 1999. From 1999 through August 2011, he was employed in Ireland, participated in the ITW Irish Pension Plan and ceased active participation in the U.S. plan. Upon his return to the U.S. in 2011, he was ineligible to actively participate in the U.S. plan due to the plan participation closure effective January 1, 2007. The reduction in the Present Value of Accumulated Benefits reflects the economic adjustment in the value of his benefits.*

(5) For 2015, this number includes Company contributions to the ECRIP or the Savings and Investment Plan, based on plan rules for all participants as follows: $146,740 for Mr. Santi; $182,006 for Mr. Larsen; $68,012 for Mr. Parry; $192,261 for Mr. O Herlihy; and $9,275 for Mr. Martel. For Mr. O Herlihy, the ITW Irish Pension Plan accrual is included in the Accrual in ITW Retirement Accumulation Plan column of the Footnote 4 Table above, because this amount also represents a qualified pension plan present value.

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Grants of Plan-Based Awards

The table below provides information regarding plan-based awards granted to our NEOs during fiscal 2015 under the ITW Executive Incentive Plan (EIP) and the Long-Term Incentive Plan.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)(2)			Estimated Future Payouts Under Equity Incentive Plan Awards (3)		All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock And Option Awards
Name	Grant Date	Plan Type	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target/ Maximum (#)	Options (#)	($/ Sh) (4)	($)(5)
E. Scott Santi		EIP	$874,500	$1,749,000	$3,498,000					
	2/13/2015	LTI Cash	$1,425,000	$2,850,000	$4,275,000					
	2/13/2015	Equity				2,900	29,004	184,645	$98.26	$6,649,927
Michael M. Larsen		EIP	$305,663	$611,325	$1,222,650					
	2/13/2015	LTI Cash	$450,000	$900,000	$1,350,000					
	2/13/2015	Equity				916	9,159	43,731	$98.26	$1,799,947
David C. Parry		EIP	$335,006	$670,012	$1,340,024					
	2/13/2015	LTI Cash	$500,000	$1,000,000	$1,500,000					
	2/13/2015	Equity				1,018	10,177	48,590	$98.26	$1,999,974
Christopher A. O Herlihy		EIP	$256,284	$512,567	$1,025,134					
	2/13/2015	LTI Cash	$233,333	$466,667	$700,000					
	2/13/2015	Equity				475	4,749	22,675	$98.26	$933,288
Roland M. Martel		EIP	$215,040	$430,081	$860,162					
	2/13/2015	LTI Cash	$225,000	$450,000	$675,000					
	2/13/2015	Equity				458	4,579	21,865	$98.26	$899,914

(1) The range of potential payouts under the Executive Incentive Plan (EIP) awards for the NEOs as determined by the Compensation Committee in February 2015 for 2015 performance is set forth in these columns. The financial performance component and corresponding payouts as a percent of target are shown on page 33.

(2) The range of potential payouts under the long-term cash incentive awards (LTI Cash) for the NEOs as set by the Compensation Committee in February 2015 for the three-year period 2015 through 2017 is set forth in these columns. Mr. O Herlihy s target is pro-rated due to his promotion on August 7, 2015 to Vice Chairman (EIP target

changed from 80% to 90% of base salary for a pro-rata target of a