

ILLINOIS TOOL WORKS INC

Form DEF 14A

March 23, 2007

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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  o

Check the appropriate box:

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

ILLINOIS TOOL WORKS INC.

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(Name of Registrant as Specified In Its Charter)

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

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

**Notice of Annual Meeting of Stockholders**

**Friday, May 4, 2007  
3:00 P.M.  
The Northern Trust Company  
50 South LaSalle Street  
Chicago, Illinois**

ITW is holding its 2007 Annual Meeting for the following purposes:

1. To elect ten directors for the upcoming year; and
2. To ratify the appointment of Deloitte & Touche LLP as ITW's independent public accountants.

The Board of Directors recommends that you vote FOR each of the director nominees and FOR the ratification of the appointment of Deloitte & Touche LLP as ITW's independent public accountants for 2007.

Stockholders of record on March 6, 2007 are entitled to vote.

It is important that your shares are represented at the Annual Meeting whether or not you plan to attend. To be certain that your shares are represented, please sign, date and return the enclosed proxy card as soon as possible or vote by telephone or the internet by following the instructions on the proxy card. You may revoke your proxy at any time before it is voted at the Annual Meeting.

Our Annual Report for 2006 is enclosed.  
By Order of the Board of Directors,

James H. Wooten, Jr.  
*Secretary*

March 23, 2007

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**Illinois Tool Works Inc.**

**Proxy Statement**

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**Annual Report on Form 10-K**

You may review and download a copy of ITW's Annual Report on Form 10-K for the year ended December 31, 2006, including schedules, that we filed with the Securities and Exchange Commission by accessing our website, [www.itw.com](http://www.itw.com), or you may request a paper copy by writing to: James H. Wooten, Jr., Secretary, Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, Illinois 60026.

This proxy statement and form of proxy are first being sent to stockholders on or about March 23, 2007.

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**Questions and Answers**

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

**What am I voting on?**

We are soliciting your vote on:

1. The election of ten directors for the upcoming year; and
2. The ratification of the appointment of Deloitte & Touche LLP as our independent public accountants for 2007.

**Who may vote?**

Stockholders at the close of business on March 6, 2007, the record date, may vote. On that date, there were 559,624,025 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 mail: Complete the proxy card and sign, date and return it in the enclosed envelope;
2. By telephone: Call the toll-free number on the proxy card, enter the holder account number and the proxy access number from the proxy card, and follow the recorded instructions;
3. By internet: Go to the website listed on the proxy card, enter the holder account number and the proxy access number from the proxy card, and follow the instructions provided; or
4. In person: Attend the Annual Meeting, where ballots will be provided.

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.

**How does discretionary voting authority apply?**

If you sign, date and return your proxy card, your vote will be cast as you direct. If you do not indicate how you want to vote, you give authority to Marvin D. Brailsford, Susan Crown and Harold B. Smith to vote on the items discussed in these proxy materials and on any other matter that is properly raised at the Annual Meeting. If you do not indicate how you want to vote, your proxy will be voted FOR the election of each director nominee, FOR the ratification of the appointment of Deloitte & Touche LLP as our independent public accountants and FOR or AGAINST any other properly raised matter at the discretion of Ms. Crown and Messrs. Brailsford and Smith.

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

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

1. Notify our Secretary in writing before the 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 the Annual Meeting.

### **What does it mean if I receive more than one proxy card?**

Your shares are likely registered differently or are in more than one account. You should sign and return all proxy cards to guarantee that all of your shares 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 the Annual Meeting constitutes a quorum. Your shares will be considered part of the quorum if you return a signed and dated proxy card or if you vote by telephone or internet. Abstentions and broker non-votes are counted as shares present at the meeting for purposes of determining if a quorum exists. A broker non-vote occurs when your bank, broker or other holder of record holding shares for you as the beneficial owner submits a proxy that does not indicate a vote as to a proposal because that holder does not have voting authority for that proposal and has not received voting instructions from you. If you are a beneficial owner, your bank, broker or other holder of record is permitted to vote your shares on the election of directors and the ratification of the appointment of our independent public accountants, even if they do not receive voting instructions from you. Therefore, no broker non-votes will occur as to these proposals.

### **What vote is required to approve each proposal?**

***Election of Directors:*** The ten nominees who receive the highest number of votes will be elected. However, any nominee who receives a greater number of votes withheld from his or her election than votes for his or her election will tender his or her resignation in accordance with our Corporate Governance Guidelines as discussed more fully on page 10. If you do not want to vote your shares for a particular nominee, you may indicate that in the space provided on the proxy card or withhold authority as prompted during telephone or internet voting.

***Ratification of the Appointment of Independent Public Accountants:*** Although we are not required to submit the appointment of our independent public accountants to a vote of stockholders, we believe that it is appropriate to ask that you ratify the appointment. Ratification of the appointment of Deloitte & Touche LLP as ITW's independent public accountants requires the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote. An abstention will have the effect of a vote against the ratification since it is one fewer vote for approval.

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**How do I submit a stockholder proposal?**

To be considered for inclusion in our proxy statement for the May 2008 Annual Meeting, a stockholder proposal must be received no later than November 24, 2007. Your proposal must be in writing and must comply with the proxy rules of the Securities and Exchange Commission ( SEC ). You also may submit a proposal that you do not want included in the proxy statement, but that you want to raise at the May 2008 Annual Meeting. If you submit that proposal after February 7, 2008, then SEC rules permit the individuals named in the proxies solicited by our Board of Directors for that meeting to exercise discretionary voting power as to that proposal. You should send your proposal to our Secretary at our address on the cover of this proxy statement.

**How do I nominate a director?**

If you wish to nominate an individual for election as a director at the May 2008 Annual Meeting, our Secretary must receive your written nomination by December 31, 2007. Our by-laws require that your nomination include: (1) your name and address; (2) the name, age and home and business addresses of the nominee; (3) the principal occupation or employment of the nominee; (4) the number of shares of ITW stock that the nominee beneficially owns; (5) a statement that the nominee is willing to be nominated and serve as a director; and (6) any other information regarding the nominee that would be required by the SEC to be included in a proxy statement had our Board of Directors nominated that individual. Any nomination that you make must be approved by our Corporate Governance and Nominating Committee, as well as by our Board of Directors.

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

We will pay all of the costs of preparing and mailing this proxy statement and soliciting these proxies. We will ask brokers, dealers, banks, voting trustees and other nominees and fiduciaries to forward the proxy materials and our Annual Report to the beneficial owners of ITW common stock. Upon request, we will reimburse them for their reasonable expenses. In addition to mailing proxy materials, our officers, directors and employees may solicit proxies in person, by telephone or otherwise.



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**Election of Directors**

Stockholders are being asked to elect ten directors at the Annual Meeting. The individuals listed below have been nominated by the Board of Directors as recommended by the Corporate Governance and Nominating Committee. Each director will serve until the May 2008 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 enclosed proxy card, by telephone or by internet. 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. The nominees have provided the following information about themselves:

***William F. Aldinger***, 59, has served as President, Chief Executive Officer and Director of Capmark Financial Group Inc., an international commercial real estate finance company, since June 2006. Mr. Aldinger retired as the Chairman and Chief Executive Officer of HSBC Finance Corporation (formerly Household International, Inc.), a consumer finance company, in April 2005, a position he held since 1994. He also retired as Chairman and Chief Executive Officer of its parent company, HSBC North America Holdings Inc., a position he held since December 2003. He serves on the boards of AT&T Inc., KKR Financial Corp. and The Charles Schwab Corporation. Mr. Aldinger has served as a director of ITW since 1998,

***Michael J. Birck***, 69, has served as the Chairman of Tellabs, Inc. since 2000 and was Chief Executive Officer from 2002 to February 2004. Mr. Birck founded Tellabs and served as President and Chief Executive Officer from 1975 to 2000. Tellabs designs, manufactures, markets and services voice and data equipment. He is a director of Molex, Inc. and Tellabs, Inc. Mr. Birck has served as a director of ITW since 1996.

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**Marvin D. Brailsford**, 68, retired as Vice President of Kaiser-Hill Company LLC, a construction and environmental services company, in June 2002, a position he had held since September 1996. Prior to his employment with Kaiser-Hill, he served with the United States Army for 33 years, retiring with the rank of Lieutenant General. He is a director of Conn's, Inc. Mr. Brailsford has served as a director of ITW since 1996.

**Susan Crown**, 48, has served as Vice President of Henry Crown and Company, a business with diversified investments, since 1984. She is a director of Northern Trust Corporation and its subsidiary, The Northern Trust Company. Ms. Crown has served as a director of ITW since 1994.

**Don H. Davis, Jr.**, 67, retired as Chairman of the Board of Rockwell Automation, Inc., a leading global provider of industrial automation power, control and information products and services, in February 2005, a position he had held since 1998. From 1997 to 2004, he also served as Rockwell's Chief Executive Officer. He is a director of Journal Communications, Inc. Mr. Davis has served as a director of ITW since 2000.

**Robert C. McCormack**, 67, is an Advisory Director of Trident Capital, Inc., a venture capital firm, and was a Partner of Trident from 1993 to the end of 2004. From 1987 to 1993, Mr. McCormack served successively as Deputy Under Secretary of Defense and Assistant Secretary of the Navy (Finance and Comptroller). He is a director of DeVry Inc., Mead Westvaco Corporation and Northern Trust Corporation and its subsidiary, The Northern Trust Company. Mr. McCormack has served as a director of ITW since 1993, and previously served as a director of ITW from 1978 through 1987.

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**Robert S. Morrison**, 64, 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 Co. from June to December 2005. Mr. Morrison is a director of 3M, The Tribune Company and Aon Corporation. Mr. Morrison has served as a director of ITW since 2003.

**James A. Skinner**, 62, has served as Vice Chairman of McDonald's Corporation, a restaurant chain, since 2003 and Chief Executive Officer since November 2004, previously serving as President and Chief Operating Officer of McDonald's Restaurant Group from February 2002 to December 2002; President and Chief Operating Officer of McDonald's Europe, Asia/Pacific, Middle East and Africa from 2001 to 2002; and President of McDonald's-Europe from 1997 to 2001. He is a director of Walgreen Co. and McDonald's Corporation and has served as a director of ITW since 2005.

**Harold B. Smith**, 73, is a retired officer of ITW and is a director of W.W. Grainger Inc., Northern Trust Corporation and its subsidiary, The Northern Trust Company. Mr. Smith has served as a director of ITW since 1968.

**David B. Speer**, 55, has served as Chairman of ITW since May 2006 and as Chief Executive Officer of ITW since August 2005 and was President from August 2004 to May 2006, previously serving as Executive Vice President from 1995 to August 2004. Mr. Speer has 28 years of service with ITW. He is a director of Rockwell Automation, Inc. and has served as a director of ITW since 2005.

**Table of Contents****Board of Directors and Its Committees**

ITW's Board of Directors met five times during 2006. In addition to meetings of the full Board, directors attended meetings of Board committees. Non-management directors, all of whom are independent, met three times in regularly scheduled executive sessions. The Chairmen of each of the Board of Directors' standing committees rotate as the Chairman of executive sessions of the independent directors. The Board of Directors has standing audit, compensation, corporate governance and nominating, and finance committees. Under the terms of their charters, each member of the audit, compensation and corporate governance and nominating committees must meet applicable New York Stock Exchange ( NYSE ) and SEC independence requirements. ITW encourages its directors to attend all Board and committee meetings and the Annual Meeting of Stockholders. In 2006, all of the directors attended at least 89% of the meetings of the Board and the committees on which they serve, and all of the directors attended the Annual Meeting of Stockholders.

**Audit Committee**

Meetings in 2006:	4
Members:	Michael J. Birck (Chairman) Marvin D. Brailsford Don H. Davis, Jr. Robert C. McCormack James A. Skinner

The Audit Committee is responsible for the engagement of our independent public accountants and assists the Board with respect to matters involving and overseeing: accounting, financial reporting and internal audit functions. The Committee also is responsible for the integrity of ITW's financial statements; compliance with legal and regulatory requirements; the independence and performance of ITW's independent public accountants; and the performance of ITW's internal audit function. Additional information on the Committee and its activities is set forth in the Audit Committee Report on page 35.

**Compensation Committee**

Meetings in 2006:	4
Members:	William F. Aldinger (Chairman) Susan Crown Robert S. Morrison James A. Skinner

The Compensation Committee establishes and oversees executive and director compensation policies; 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 on new incentive compensation and equity-based plans or amendments. Additional information on the Committee and its activities is set forth in the Compensation Discussion and Analysis on page 16.

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**Corporate Governance and Nominating Committee**

Meetings in 2006:	3
Members:	Marvin D. Brailsford (Chairman) Susan Crown Don H. Davis, Jr. Robert S. Morrison James A. Skinner

The Corporate Governance and Nominating Committee identifies, evaluates and recommends director candidates; develops, administers and recommends corporate governance guidelines; oversees the evaluation of the Board and management; and makes recommendations as to Board committees and Board size.

**Finance Committee**

Meetings in 2006:	2
Members:	Robert C. McCormack (Chairman) William F. Aldinger Don H. Davis, Jr. Robert S. Morrison Harold B. Smith

The Finance Committee reviews, evaluates and recommends to the Board, management's proposals relating to ITW's financing, investment portfolio and real estate investments.

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**Corporate Governance Policies and Practices**

**General**

We have long believed that good corporate governance is important to assure that ITW is managed for the long-term benefit of its stockholders. In that regard, we continuously review our corporate governance policies and practices not only for compliance with the provisions of the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC, and the listing standards of the NYSE but also for good corporate governance principles.

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

**Communications with Directors**

Stockholders and other interested parties may communicate with any of our directors or with the independent directors as a group by sending an e-mail to [independentdirectors@itw.com](mailto:independentdirectors@itw.com) or by writing to the Independent Directors c/o the Corporate Secretary at our address on the cover of this proxy statement.

**Board Independence**

Our Board conducts an annual review as to whether each of our directors meets the applicable independence standards of the NYSE. In accordance with the NYSE listing standards, our Board of Directors has adopted categorical standards for director independence. A copy of ITW'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 ITW (directly or as a partner, stockholder or officer of an organization that has a relationship with ITW).

The Board has determined that each of the current directors standing for re-election, except David B. Speer, has no material relationship with ITW other than as a director and is independent within the meaning of ITW'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. In particular, the Board considered that Ms. Crown and Messrs. McCormack and Smith serve as directors of Northern Trust Corporation and its subsidiary, The Northern Trust Company, with which ITW has a commercial banking relationship as described under "Ownership of ITW Stock - Other Principal Stockholders" on page 15. The Board has concluded that these relationships do not impair the independence of Ms. Crown or Messrs. McCormack and Smith.

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**Director Candidates**

Our by-laws permit stockholders to nominate directors for consideration at an annual stockholder meeting. The policy of the Corporate Governance and Nominating Committee is to consider a properly submitted stockholder nomination for election as director. For a description of the process for submitting a director candidate in accordance with ITW's by-laws, see [Questions and Answers - How do I nominate a director?](#) on page 3.

Our directors play a critical role in guiding ITW's strategic direction and oversee the management of ITW. Board candidates are considered based upon various criteria, such as their broad-based business and professional skills and experiences, a global business and social perspective, concern for the long-term interests of our stockholders, and personal integrity and judgment. In addition, directors must have time available to devote to Board activities and to enhance their knowledge of the global manufacturing environment. Accordingly, we seek to attract and retain highly qualified directors who have sufficient time to attend to their duties and responsibilities to ITW.

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

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

**Director Election**

Our Corporate Governance Guidelines include a director election provision that requires any nominee for director who receives a greater number of votes withheld from his or her election than votes 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 withheld votes for the election of the director, the length of service and qualifications of the director, the director's contributions to ITW and our Corporate Governance Guidelines. The Board will consider the Committee's recommendation, but no director who failed to receive more for votes than votes withheld will participate. We will disclose the results in a Form 8-K within 90 days of the Annual Meeting. At the 2006 Annual Meeting, each director received more for votes than withheld votes.

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**Director Compensation**

**Annual Retainer and Attendance Fees**

In 2006, the annual retainer for non-employee directors was \$40,000, the fee for each Board or committee meeting attended was \$2,000, and the annual fee for committee chairs was an additional \$3,000, except for the Audit Committee chair, whose annual fee was \$10,000. Non-employee directors are given the opportunity to elect annually to receive all or a portion of their annual retainer, chairman and meeting fees in an equivalent value of ITW common stock pursuant to the our Stock Incentive Plan. The number of ITW shares to be issued to a director is determined by dividing the dollar amount of the fee subject to the election by the fair market value of ITW common stock on the date the fee otherwise would have been paid in cash.

Effective January 1, 2007, our director compensation was revised as follows: the annual retainer fee was increased to \$135,000; Board and committee meeting fees were eliminated; the Audit Committee chair fee was increased to \$15,000 and all other committee chair fees were increased to \$5,000.

**Directors Deferred Fee Plan**

Non-employee directors can defer receipt of all or a portion of their annual retainer, chair and meeting fees until retirement or resignation. Deferred fee amounts are credited with interest at current rates. A director can also elect to defer receipt of the ITW common stock received in lieu of a cash payment, in which case the deferred shares are credited as stock units to an account in the director's name. The account receives additional credit for cash dividends and is adjusted for stock dividends, splits, combinations or other changes in ITW common stock. The stock units in a director's account are distributed as shares of ITW common stock upon retirement, resignation or a corporate change (as defined in the Stock Incentive Plan), with any fractional shares paid in cash.

**ITW Common Stock**

In 1995, the stockholders approved a plan whereby a portion of each non-employee director's compensation may include the periodic grant of restricted ITW common stock, thereby directly linking another element of director compensation with ITW's long-term performance. ITW last granted restricted shares under the plan in February 2004. At that time, each non-employee director of ITW other than Mr. Skinner, who became a director subsequent to the grant date, received an award of 900 restricted shares (prior to adjustment for our two-for-one stock split in May 2006), which vested as to 450 shares on each of January 3, 2005 and January 3, 2006. Currently, there are no restricted shares granted under the plan that have not vested. ITW intends to continue to grant stock to each non-employee director under the Stock Incentive Plan. Effective January 1, 2007, non-employee directors will receive an annual stock grant equivalent in value to \$30,000. On that basis, on February 9, 2007, each non-employee director was granted 581 shares of stock, except Mr. Skinner, who did not receive a prior grant, received 1,353 shares of stock equivalent in value to \$69,796.



**Table of Contents****Phantom ITW Stock**

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

**Director Compensation in Fiscal Year 2006**

Name(1)	Fees Earned or Paid in Cash (\$)(2),(3)	Stock Awards (\$)(4)	Option Awards (\$)	All Other Compensation (\$)(5)	Total (\$)
William F. Aldinger	\$ 69,000			\$ 149	\$ 69,149
Michael J. Birck	\$ 64,000			\$ 149	\$ 64,149
Marvin D. Brailsford	\$ 67,000			\$ 149	\$ 67,149
Susan Crown	\$ 66,000			\$ 149	\$ 66,149
Don H. Davis, Jr.	\$ 72,000			\$ 149	\$ 72,149
Robert C. McCormack	\$ 61,000			\$ 149	\$ 61,149
Robert S. Morrison	\$ 64,000			\$ 149	\$ 64,149
James A. Skinner	\$ 72,000				\$ 72,000
Harold B. Smith	\$ 59,000			\$ 149	\$ 59,149

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

(2) The following directors elected to convert fees earned in 2006 to shares of ITW common stock:

Name	Fees Deferred in 2006	Number of Shares
William F. Aldinger	\$ 69,000	1,431
Michael J. Birck	\$ 64,000	1,324
Don H. Davis, Jr.	\$ 72,000	1,494
Robert S. Morrison	\$ 64,000	1,323

(3) In addition to \$40,000 annual retainer, includes meeting fees (\$26,000 for Mr. Aldinger; \$18,000 for Mr. Birck; \$24,000 for Mr. Brailsford; \$26,000 for Ms. Crown; \$28,000 for Mr. Davis; \$18,000 for Mr. McCormack; \$24,000 for Mr. Morrison; \$32,000 for Mr. Skinner; and \$16,000 for Mr. Smith) and committee chair fees (\$3,000 for Mr. Aldinger; \$6,000 for Mr. Birck; \$3,000 for Mr. Brailsford; \$4,000 for Mr. Davis; \$3,000 for Mr. McCormack; and \$3,000 for Mr. Smith).

- (4) Although no stock awards were granted in 2006, 450 shares of the 2004 grant of restricted ITW common stock vested on January 3, 2006 for each listed director except Mr. Skinner, who joined the Board in 2005 and,

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therefore, did not receive a grant in 2004. In addition, as of December 31, 2006, the directors' phantom stock accounts had phantom stock unit balances as follows: Mr. Aldinger, 2,218; Mr. Birck, 4,527; Mr. Brailsford, 4,515; Ms. Crown, 4,564; Mr. Davis, 2,185; Mr. McCormack, 4,564; Mr. Morrison, 2,096 and Mr. Skinner, 2,038.

(5) Represents dividends paid in 2006 on unvested restricted stock.

**Ownership of ITW Stock**

**Directors and Executive Officers**

The following table shows how much ITW common stock the directors, the named executive officers, and all directors and executive officers as a group beneficially owned as of December 31, 2006. The named executive officers are our Chief Executive Officer, our Chief Financial Officer, the next three most highly compensated executive officers who were serving at the end of the last fiscal year (based on total compensation, less the increase in pension value and nonqualified deferred compensation earnings), and our former Chairman. The percent of class calculation is based on 558,749,558 shares of ITW common stock outstanding as of December 31, 2006.

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

The number of the directors' phantom stock units disclosed in the table represents an equivalent number of shares of ITW common stock as of December 31, 2006. Phantom stock units are not transferable and have no voting rights. The units are not included in the percent of class calculation.

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Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Phantom Stock Units	Percent of Class
Directors (other than Executive Officers)			
William F. Aldinger	22,370(1)	2,218	*
Michael J. Birck	31,109	4,527	*
Marvin D. Brailsford	12,987	4,515	*
Susan Crown	25,000(2)	4,564	*
Don H. Davis, Jr.	17,181	2,185	*
Robert C. McCormack	20,397,363(3)	4,564	3.7%
Robert S. Morrison	11,019	2,096	*
James A. Skinner	2,000	2,038	*
Harold B. Smith	60,279,585(4)		10.8%
Named Executive Officers			
David B. Speer	699,113(5)		*
Ronald D. Kropp	60,736(6)		*
Thomas J. Hansen	440,230(7)		*
Russell M. Flaum	591,553(8)		*
Hugh J. Zentmyer	334,610(9)		*
W. James Farrell	564,639(10)		*
Directors and Executive Officers as a Group (25 Persons)	63,762,811(11)	26,707	11.4%

\* Less than 1%

- (1) Includes (a) 6,000 shares owned by a charitable foundation of which Mr. Aldinger is an officer and a director; and (b) 200 shares owned by Mr. Aldinger's spouse, as to which he disclaims beneficial ownership.
- (2) Includes (a) 4,000 shares owned by Ms. Crown's spouse, as to which she disclaims beneficial ownership; and (b) 4,000 shares held in trusts of which Ms. Crown's children are beneficiaries, as to which she disclaims beneficial ownership.
- (3) Includes (a) 800 shares owned in a trust, as to which Mr. McCormack shares voting and investment power with The Northern Trust Company; (b) 19,761,878 shares owned in twelve trusts, as to which Messrs. McCormack and Smith and The Northern Trust Company are trustees and share voting and investment power; (c) 12,550 shares owned in a limited partnership in which Mr. McCormack owns 99% of the limited partnership units; and (d) 622,135 shares owned in a limited partnership, as to which Messrs. McCormack and Smith and The Northern Trust Company are co-trustees of the four trusts that hold 100% of the limited partnership units.
- (4) Includes (a) 36,088,600 shares owned in eleven trusts and one limited liability company as to which Mr. Smith shares voting and investment power with The Northern Trust Company and others; (b) 2,866,902 shares owned in ten trusts as to which Mr. Smith shares voting and investment power; (c) 19,761,878 shares owned in twelve trusts as to which Messrs. Smith and McCormack and The Northern Trust Company are trustees and share voting and investment power; (d) 867,710 shares owned in a revocable trust; (e) 72,360 shares owned by a charitable foundation of which Mr. Smith is a director; and (f) 622,135 shares owned in a limited partnership, as to which Messrs. Smith and McCormack and The Northern Trust Company are co-trustees of the four trusts

that hold 100% of the limited partnership units. Mr. Smith's address is c/o Corporate Secretary, Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, Illinois 60026.

- (5) Includes (a) 1,789 shares allocated to Mr. Speer's account in the ITW Savings and Investment Plan; and  
(b) 640,000 shares covered by options exercisable within 60 days.

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- (6) Includes (a) 2,397 shares allocated to Mr. Kropp's account in the ITW Savings and Investment Plan; and (b) 54,500 shares covered by options exercisable within 60 days.
- (7) Includes 418,500 shares covered by options exercisable within 60 days.
- (8) Includes (a) 3,783 shares allocated to Mr. Flaum's account in the ITW Savings and Investment Plan; and (b) 495,000 shares covered by options exercisable within 60 days.
- (9) Includes (a) 4,000 shares owned in a revocable trust; (b) 22,028 shares owned by Mr. Zentmyer's spouse in a trust, as to which he disclaims beneficial ownership; (c) 650 shares held in a trust of which Mr. Zentmyer's brother is the beneficiary and as to which he disclaims beneficial ownership; (d) 16,033 shares allocated to Mr. Zentmyer's account in the ITW Savings and Investment Plan; and (e) 280,000 shares covered by options exercisable within 60 days.
- (10) Includes (a) 246,680 shares owned in a partnership as to which Mr. Farrell shares voting and investment power; (b) 164,730 shares owned in a revocable trust; and (c) 53,704 shares owned by a charitable foundation of which Mr. Farrell is an officer.
- (11) Includes 2,975,400 shares covered by options exercisable within 60 days and 28,236 shares pledged as security.

**Other Principal Stockholders**

This table shows, as of December 31, 2006, the only stockholders other than a director that we know to be a beneficial owner of more than 5% of ITW common stock. We maintain a commercial banking relationship with The Northern Trust Company and its wholly owned subsidiaries. The Northern Trust Company is a wholly owned subsidiary of Northern Trust Corporation. Susan Crown, Robert C. McCormack and Harold B. Smith, directors of ITW, are also directors of Northern Trust Corporation and The Northern Trust Company. The commercial banking relationship between ITW and The Northern Trust Company may involve, but is not strictly limited to, the following services: creating and maintaining deposit accounts, credit services, investment banking services, payment and collection services, trade services, credit enhancement or payment guaranty, acting as agent or fiduciary, consulting services, risk management services, and broker dealer services. In addition, The Northern Trust Company serves as the trustee under ITW's principal pension plans. The banking and trustee relationships with The Northern Trust Company are conducted in the ordinary course of business on an arms-length basis. Banking and trustee fees paid to The Northern Trust Company by ITW were approximately \$891,000 in 2006.

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 60675	73,777,319(1)	13.2%
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	38,990,800(2)	7.0%
UBS AG	35,100,810(3)	6.3%

Bahnhofstrasse 45  
PO Box CH-8021  
Zurich, Switzerland

- (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 73,777,319 shares. They have sole voting power with respect to 18,458,394 shares and share voting power with respect to 52,550,798 shares. They have sole investment power

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with respect to 7,370,786 shares and share investment power with respect to 57,702,039 shares. In addition, The Northern Trust Company holds in other accounts, but does not beneficially own, 38,892,094 shares, resulting in aggregate holdings by The Northern Trust Company of 112,669,413 shares, or 20.2%.

- (2) Capital Research and Management Company, an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, is deemed to be the beneficial owner of these shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. It has sole voting power with respect to 6,174,800 shares and shares voting power with respect to none of the shares. It has sole dispositive power with respect to all of the shares. This information was provided in a Schedule 13G filed with the SEC on February 12, 2007.
- (3) UBS Global Asset Management (Americas), Inc. ( UBS Global ), an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, and certain of its subsidiaries and affiliates are deemed to be the beneficial owners of these shares. UBS Global has sole voting power with respect to 29,978,637 shares and shares voting power with respect to none of the shares. It has shared dispositive power with respect to all of the shares. UBS AG, classified as a bank pursuant to no action relief granted by the staff of the SEC, is the parent holding company of UBS Global. UBS AG has disclaimed beneficial ownership of these shares. This information was provided in a Schedule 13G filed with the SEC on February 27, 2007 by UBS AG (for the benefit and on behalf of its Global Asset Management business group).

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

Section 16(a) of the Securities Exchange Act of 1934 requires that ITW'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 2006 and written representations from executive officers and directors, we believe that all filing requirements were met during 2006, except that each of Robert Brunner, Roland Martel, David Parry and Sharon Brady were inadvertently late in filing a Form 3 due to a clerical error.

### **Compensation Discussion and Analysis**

#### **Introduction**

The Compensation Committee is composed of independent directors committed to good governance. It reviews and approves annually all compensation decisions related to elected officers, including those for the chief executive officer and the other executive officers named in the Summary Compensation Table (the named executive officers). The Committee makes recommendations to the other independent directors to set the chief executive officer's compensation, and reviews and approves the chief executive officer's recommendations regarding the compensation of our other executive officers. Under its charter, the Compensation Committee may retain an independent compensation consultant or other advisors; however, the Committee has determined that it is not currently necessary for it to do so. On occasion, ITW engages Hewitt Associates LLC on a limited basis to provide data and other information regarding executive and director compensation to management, and from time to time, the Committee reviews materials provided by Hewitt Associates LLC to management. In making its executive



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compensation decisions and recommendations, the Compensation Committee is guided by its charter and the following factors:

Our compensation philosophy.

Compensation comparisons from a peer group of diversified multinational industrial companies.

Management's contribution to our short-term and long-term growth.

## **Compensation Philosophy**

Our compensation philosophy is reflective of our overall operating philosophy and management structure. We are highly decentralized and believe in smaller autonomous business units focused on growing their businesses through exceptional customer relationships, and product and process innovation. The general managers of these businesses are empowered to make the decisions necessary to serve their customers and grow their businesses and are accountable for their business unit's results. Our executive management's role is to ensure that these decisions are carried out in accordance with our values, principles and expectations for the near and long term and, in general, in the best interests of our stockholders.

The elements of the compensation program are comprised of base salary, annual cash incentives and long-term stock incentives. The Compensation Committee reviews each element of our compensation package.

## **Peer Companies**

In establishing and recommending base salaries, we have selected a group of comparable companies to benchmark executive pay. This group was selected using the following criteria:

Size as measured by revenue – generally not less than 1/3 or more than 3 times ITW's annual revenue.

Similar-type businesses – multinational, diversified and industrial.

Top quartile performance related to revenue growth, earnings growth, earnings per share growth and return on invested capital.

Companies with whom we compete for stockholders, business and talent.

The comparable companies selected for 2006 were: 3M; Caterpillar Inc.; Cooper Industries, Inc.; Danaher Corporation; Deere & Company; Dover Corporation; Eaton Corporation; Emerson Electric Company; Honeywell International; Ingersoll-Rand Company; ITT Industries, Inc.; Johnson Controls, Inc.; Masco Corporation; Parker Hannifin Corporation; Textron, Inc.; TRW Automotive; Tyco International and United Technologies. The Committee is comfortable that the peer group selected will provide relevant comparisons.

## **Base Salary**

In determining base salary, the Committee generally considers the size and scope of the executives' responsibilities and the median base salary of similar positions at our comparator companies, as well as the executive officers' past experience, performance and future potential.



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We target this median generally to ensure a competitive base salary that encourages solid performance year after year.

### **Annual Cash Incentives**

The opportunity for above-median pay is provided through our annual cash incentives, consistent with our view that long-term value is created through consistent year-over-year improvement. Participation in our Executive Incentive Plan is limited to those who have an impact on the profitable growth of the business or who have significant responsibility for a major element of business growth.

We believe that management should be rewarded for contributions to our overall financial success measured by the income growth of their business unit, group or the corporation, as well as for individual accomplishments that contribute to the longer-term health of the business. Therefore, the ITW Executive Incentive Plan approved by stockholders is designed around two elements generally weighted equally: income growth/improvement (the P factor) and personal objectives (the O factor). The P factors are recommended by management and approved by the Committee annually. The individual O factors for the chief executive officer are determined by the Committee annually, and the individual O factors for each other participating executive officer are determined by the chief executive officer. Maximums are set in accordance with the level of responsibility and accountability and for the named executive officers range from 90 to 200 percent. Actual payment percentages for executive officers have averaged 90.7% of the maximum award over the last five years. The average award received by the named executive officers was 90.2% of the maximum award for the same period.

You can find further detail about our Executive Incentive Plan below under Executive Compensation Grants of Plan-Based Awards on page 22.

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

Because we believe that ensuring the long-term growth and health of the business is a primary management responsibility, we believe that a portion of management compensation should be determined based on how our stock performs over time, encouraging decisions that consider the long term. Stock incentive awards have generally been made in the form of stock options and are granted to a relatively small number of executives whose positions can truly affect the company's long-term performance. We believe that, at this time, in comparison to other forms of non-performance based stock incentives, stock options more effectively incent participants on a long-term basis since the greater the increase in stock price, the greater the value of the option to the participant. If the price of ITW's common stock falls below the grant price, the option has no value to the participant. In keeping with our straight-forward approach to compensation, we have not historically used performance-based awards as they add an additional level of complexity. The award granted is a reflection of the size and scope of the executive's position and is based upon individual performance and potential. Stock options are priced at the fair market value (the average of the highest and lowest trading prices) of ITW common stock on the day granted. In the future, the Compensation Committee will continue to determine the types of stock incentives that are appropriate.

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For 2006, the Compensation Committee approved at its December 2005 meeting stock option awards to executive officers to be granted on February 1, 2006. For 2007, the Committee approved at its February 9 meeting stock option awards to executive officers to be granted the same day. The Committee expects that all future stock incentive awards will be approved by the Committee and granted on the same day using the fair market value of ITW's stock on that date.

## **Perquisites & Other Benefits**

In general, we do not provide perquisites to our executives that are not available to other employees. We do, however, provide the following:

Reimbursement of officers up to \$7,500 per year for financial, tax and estate planning services. This is taxable to the extent required by the Internal Revenue Service ( IRS ).

A nonqualified Supplemental Retirement Benefit Plan to restore benefits limited by IRS salary caps.

Participation in a nonqualified Executive Contributory Retirement Income Plan in accordance with IRS rules, providing a vehicle for officers to defer income for retirement.

No officer received in excess of \$10,000 in perquisites during 2006, so no perquisites are disclosed in the Summary Compensation Table.

## **Stock Ownership**

As previously discussed, we believe stock ownership is an important element of our pay package to promote decisions that consider the long term. As a result, the Board of Directors and the Compensation Committee have adopted stock ownership guidelines for executive officers and directors that they and we believe are appropriate, reasonable and attainable given their responsibilities and compensation levels. The recommended guidelines for stock ownership as a multiple of executive officers' base pay salaries and of directors' annual retainers are as follows: chief executive officer, five times; vice chairman and executive vice presidents, three times; senior vice presidents, two times; vice presidents, one time; and non-employee directors, four times. The Committee recommends that an executive officer or non-employee director achieve the applicable ownership level within five years. The achievement of these guidelines is reviewed annually. All named executive officers and directors who have been in their position for five or more years have satisfied the guidelines.

## **Deductibility**

Internal Revenue Code Section 162(m) limits the deductibility of compensation in excess of \$1,000,000 paid to each of the named executive officers employed at year end. Certain performance-based compensation and deferred compensation are not included in compensation for purposes of the limit. The Compensation Committee recognizes its obligation to reward performance that increases stockholder value and exercises its discretion in determining whether or not to conform our executive compensation plans to the approach provided for in the Internal Revenue Code.

**Table of Contents****Potential Payments upon Termination or Change in Control**

We do not have any plans or agreements that are specific and unique to executive officers regarding termination of employment or a change of control of the company. However, we do have provisions contained in specific nonqualified plans and the 2006 ITW Stock Incentive Plan that provide for compensation to all participants in those plans in the event of a change of control or certain termination events. You can find further detail below under Executive Compensation Potential Payments Upon Termination or Corporate Change on page 30.

**Executive Compensation**

This section of the proxy statement provides information regarding the compensation of our named executive officers. Each of the following tables reflects the two-for-one split of our common stock effected on May 18, 2006.

**Summary Compensation Table**

Name and Position	Year	Salary(2)	Bonus	Stock Awards(4)	Option Awards(4)	Non-Equity Incentive Plan Compensation (2),(5)	Change in Pension Value and Nonqualified	All Other Compensation (7),(8)	
							Deferred Compensation Earnings(6)		
Peer and	2006	\$ 815,385		\$ 366,586	\$ 1,691,916	\$ 1,615,000	\$ 818,965	\$ 83,305	\$
Officer Kropp	2006	\$ 217,727		\$ 38,492	\$ 111,998	\$ 212,288	\$ 38,449	\$ 14,395	\$
Chief Financial Officer(1) Hansen	2006	\$ 402,244		\$ 366,586	\$ 422,550	\$ 782,000	\$ 343,590	\$ 41,087	\$
man Flaum	2006	\$ 360,192		\$ 366,586	\$ 225,360	\$ 648,581	\$ 404,790	\$ 41,857	\$
Vice Presidentmyer	2006	\$ 334,469		\$ 307,016	\$ 366,589	\$ 652,441	\$ 387,548	\$ 37,914	\$
Vice President Farrell	2006	\$ 428,328	\$ 6,000,000(3)	\$ 2,617,375			\$ 3,447,726	\$ 524,922	\$ 1
Chairman									

(1) Mr. Kropp was elected Senior Vice President & Chief Financial Officer on October 27, 2006.

(2) Salary and non-equity incentive plan compensation earned includes amounts deferred by the executive under the Executive Contributory Retirement Income Plan (ECRIP) or the Savings and Investment Plan. The amount of

salary and non-equity incentive plan deferrals for each named executive officer can be found in footnote 1 to the Nonqualified Deferred Compensation table on page 29.

- (3) In recognition of Mr. Farrell's contributions during his tenure, the Board approved this lump sum payment in lieu of receiving any Executive Incentive Plan or Stock Incentive Plan awards.

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- (4) Represents the cost recognized by ITW in its financial statements in 2006 as detailed in the Footnote 4 Table below. The assumptions applicable to this valuation can be found on page 71 of the Illinois Tool Works Inc. 2006 Annual Report to Stockholders.

**Footnote 4 Table**

<b>Name</b>	<b>1/2/2004 Restricted Stock Grant Shares Vesting (#)</b>	<b>1/2/2004 Restricted Stock Grant Shares Vesting (\$)</b>	<b>12/10/2004 Stock Option Grant Shares Vesting (#)</b>	<b>12/10/2004 Stock Option Grant Shares Vesting \$(a)</b>	<b>02/01/2006 Stock Option Grant Shares Vesting (#)</b>	<b>02/01/2006 Stock Option Grant Shares Vesting (\$)</b>	<b>Total 12/10/04 and 02/01/06 Stock Option Grants (\$)</b>
David B. Speer	8,800	\$ 366,586	75,000	\$ 565,115	100,000	\$ 1,126,801	\$ 1,691,916
Ronald D. Kropp	924	\$ 38,492	2,500	\$ 27,488	7,500	\$ 84,510	\$ 111,998
Thomas J. Hansen	8,800	\$ 366,586	37,500		37,500	\$ 422,550	\$ 422,550
Russell M. Flaum	8,800	\$ 366,586	20,000		20,000	\$ 225,360	\$ 225,360
Hugh J. Zentmyer	7,370	\$ 307,016	20,000		20,000	\$ 366,589	\$ 366,589
W. James Farrell(b)	61,600	\$ 2,617,375	600,000		0		0

(a) Since Messrs. Hansen, Flaum, Zentmyer and Farrell were retirement eligible as defined by the terms of this grant, all costs were recognized by us prior to 2006.

(b) All previously unvested restricted stock and option shares vested upon Mr. Farrell's retirement in May 2006.

- (5) Amounts awarded under our Executive Incentive Plan, based on the executive's base salary as of December 31 for that year and paid in the following year. Further discussion regarding this plan can be found below under Grants of Plan-Based Awards on page 22.
- (6) Included in these amounts are benefits accrued in the measurement year ended as of September 30, 2006 under the ITW Retirement Accumulation Plan and the ITW Nonqualified Pension Plan and interest in calendar year 2006 considered to be in excess of market rates with respect to deferred compensation accounts. Under the company's deferred compensation plan (the Executive Contributory Retirement Income Plan, or ECRIP), which is discussed in more detail on page 29 under Nonqualified Deferred Compensation, when a participant attains retirement eligibility at age 55 and 10 years of service, his or her account is entitled to a return of 130% of the monthly Moody's Corporate Bond Yield Average and the excess interest portion is deemed to be amounts exceeding 120% of the applicable Federal long-term rate on a quarterly basis. This additional interest credit applies to all plan participants, not just the named executive officers. The individual amounts of pension benefits and excess interest credits are shown in the table below.

## Footnote 6 Table

Name	10/1/05	9/30/06	10/1/05	9/30/06	2006 Excess Interest Credit on Deferred Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)
	Accrual in Accumulation Plan		Accrual in Nonqualified Plan			
David B. Speer	\$	46,772	\$	711,127	\$ 61,066	\$ 818,965
Ronald D. Kropp	\$	19,446	\$	14,630	\$ 4,373	\$ 38,449
Thomas J. Hansen	\$	77,695	\$	219,341	\$ 46,554	\$ 343,590
Russell M. Flaum	\$	31,355	\$	343,470	\$ 29,965	\$ 404,790
Hugh J. Zentmyer	\$	101,045	\$	255,886	\$ 30,617	\$ 387,548
W. James Farrell(a)	\$	256,914	\$	3,063,951	\$ 126,861	\$ 3,447,726

(a) Mr. Farrell's amount in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column does not include a \$4,789 decrease in present value with respect to his benefit under the 1982



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Executive Contributory Retirement Income Plan, which is described in footnote 3 to the Pension Benefits table on page 26.

- (7) ITW offers few perquisites and none are disclosed here as the combined value of perquisites for any single named executive officer does not exceed \$10,000.
- (8) For 2006, this number represents company matching contribution to the ECRIP account or the Savings and Investment Plan based on plan formulas for all participants as follows: \$77,101 for Mr. Speer; \$13,744 for Mr. Kropp; \$34,883 for Mr. Hansen; \$35,653 for Mr. Flaum; \$32,718 for Mr. Zentmyer and \$134,527 for Mr. Farrell. Dividends on unvested restricted shares are also included as follows: \$6,204 for Mr. Speer; \$651 for Mr. Kropp; \$6,204 for Mr. Hansen; \$6,204 for Mr. Flaum; \$5,196 for Mr. Zentmyer and \$20,328 for Mr. Farrell. For Mr. Farrell, the following additional payments are included: \$118,980 for vacation that was accrued but unused at the time of his retirement in May 2006; and certain payments and benefits pursuant to his consulting agreement entered into at the time of his retirement (as further discussed under *Certain Relationships and Related Transactions* on page 33), which includes consulting fees of \$166,667, rental of office space and office equipment at a cost of \$24,555 and administrative services provided by a company employee at a cost to the company of \$59,865.

**Grants of Plan-Based Awards**

The table below provides information regarding plan-based awards granted to our named executive officers during fiscal 2006 under the Executive Incentive Plan and the 1996 Stock Incentive Plan.

On December 8, 2005, the Compensation Committee approved stock option awards with a grant date of February 1, 2006 to the executive officers and certain other key employees. The exercise price of this grant was determined using the fair market value of our common stock on the grant date. These awards are reflected in the Summary Compensation, Grants of Plan-Based Awards and Outstanding Equity Awards at Fiscal Year-End tables.

The Executive Incentive Plan, as described above in the *Compensation Discussion and Analysis*, is composed of two factors generally weighted equally. The P factor (profit achievement) is based on income performance. The