GRAINGER W W INC
Form DEF 14A
March 13, 2009

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 ý

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))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

W.W. Grainger, Inc.

(Name of Registrant as Specified In Its Charter)

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

W.W. GRAINGER, INC.
100 Grainger Parkway, Lake Forest, Illinois 60045-5201
(847) 535-1000

March 13, 2009

Dear Grainger Shareholder:

The W.W. Grainger, Inc. 2009 annual meeting of shareholders will be held at our headquarters located at 100 Grainger Parkway, Lake Forest, Illinois (see map overleaf), on Wednesday, April 29, 2009, at 10 A.M. (CDT).

We will report at the meeting on our operations and other matters of current interest. The Board of Directors and management cordially invite you to attend.

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

Sincerely,

/s/ R. L. KEYSER
Richard L. Keyser
Chairman of the Board

YOUR VOTE IS IMPORTANT

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W.W. GRAINGER, INC.
100 Grainger Parkway, Lake Forest, Illinois 60045-5201
(847) 535-1000

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD APRIL 29, 2009

The annual meeting of shareholders of W.W. Grainger, Inc., will be held at its headquarters at 100 Grainger Parkway, Lake Forest, Illinois (see map on previous page), on April 29, 2009, at 10 A.M. (CDT) for the following purposes:

1. To elect thirteen directors for the ensuing year;

2. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent auditor for the year ending December 31, 2009; and

3. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board has fixed the close of business on March 2, 2009, as the record date for the meeting. Shareholders may vote either in person or by proxy.

By order of the Board of Directors.

C. L. Kogl
Corporate Secretary

Lake Forest, Illinois
March 13, 2009

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 29, 2009

Grainger's Proxy Statement and Annual Report on Form 10-K are available in the 2009 Annual Shareholder Meeting/Proxy Information section of Grainger's web site at http://www.grainger.com/investor and also may be obtained free of charge on written request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045.

W.W. GRAINGER, INC.

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

PROXY STATEMENT

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INTRODUCTION

What is the purpose of this proxy statement?

This proxy statement relates to Grainger's 2009 annual meeting of shareholders to be held on April 29, 2009, and any adjournment of that meeting. It contains information intended to help you make your voting decisions. We are sending the proxy statement to you because Grainger's Board of Directors is soliciting your proxy to vote your shares at the meeting. The mailing of the proxy statement and other proxy-soliciting materials to you and other shareholders began on or about March 13, 2009.

What matters are scheduled to be presented?

- The election of thirteen directors.
- A proposal to ratify the appointment of Ernst & Young LLP as Grainger's independent auditor for the year ending December 31, 2009.

Who is entitled to vote?

Holders of shares of common stock outstanding on Grainger's books at the close of business on March 2, 2009, the record date for the meeting, may vote. There were 74,479,996 shares of common stock outstanding at that time.

How many votes do I have?

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

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

Does Grainger have majority voting for election of directors?

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

What if I don't indicate my voting choices?

If Grainger receives your proxy in time to permit its use at the meeting, your shares will be voted in accordance with the instructions you indicate. If we have received your proxy and you have not indicated otherwise, your shares will be voted as recommended by Grainger's Board. Specifically, your shares will be voted, either individually or cumulatively, FOR the election of the director nominees and FOR the proposal to ratify the appointment of the independent auditor.

How does discretionary voting apply?

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

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May I revoke my proxy?

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

1. Deliver to Grainger's Corporate Secretary timely written notice that you are revoking your proxy; or

2. Give another proxy with a later date (which can be done by telephone, by Internet, or by signing, dating, and returning a proxy form); or

3. Vote in person at the meeting.

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

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

What constitutes a quorum at the meeting?

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

Who pays the costs of soliciting proxies?

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

In addition to mailing proxy-soliciting materials, Grainger's directors, officers, and regular employees may solicit proxies personally, by telephone, or by other means. They will not receive additional compensation for these services, other than normal overtime pay, if applicable. Representatives of Grainger's transfer agent may also solicit proxies. Grainger additionally has employed D.F. King & Co., Inc. to help solicit proxies and will pay that firm approximately $6,500 for its services, plus reasonable costs and expenses.

How do I submit a shareholder proposal or directly nominate a director at the 2009 annual meeting?

If you wish to have a shareholder proposal included in Grainger's proxy-soliciting materials for the 2010 annual meeting of shareholders, please send a notice of intent to submit your proposal at that meeting to the Corporate Secretary at Grainger's headquarters. The notice, including the text of the proposal, must be in writing, signed, and in compliance with the timing and other requirements of the proxy rules of the Securities and Exchange Commission. For a shareholder proposal relating to the 2010 annual meeting to be timely, Grainger must receive the notice no later than November 13, 2009.

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Grainger's by-laws require written notice concerning a shareholder submission of a proposal or a shareholder nomination of a person for election as a director at a meeting of shareholders. For a shareholder proposal, certain information about the shareholder and the proposal is required. For the submission of a proposal, the notice must be furnished generally not less than 90 days and not more than 120 days before the anniversary date of the prior year's annual meeting. Likewise, for a shareholder nomination, certain information about the shareholder and the nominee is required. For a nomination to be considered at Grainger's 2010 annual meeting, the notice must be furnished no later than November 13, 2009.

A copy of the by-laws are available in the Corporate Governance section of Grainger's Web site at www.grainger.com/investor or may be obtained free of charge on written request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045.

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ELECTION OF DIRECTORS

Grainger's directors are elected each year at the annual meeting. As set forth in the Operating Principles for the Board of Directors, Grainger expects all directors and nominees to attend annual meetings. At the 2008 annual meeting, 12 of the 13 directors were in attendance.

Thirteen directors are nominated for election at this year's annual meeting. All directors are elected for a one-year term. The directors will therefore serve until the 2010 annual meeting of shareholders or until their successors have been qualified and elected.

Majority (rather than plurality) voting applies to Grainger's director elections. Accordingly, directors are elected by the votes of a majority of the shares of Grainger common stock represented in person or by proxy at the meeting and entitled to vote. A shareholder directing to withhold authority for re-election of directors will have the same effect as votes against the election of directors. Broker non-votes will not affect the outcome of the vote.

If any of the nominees for director mentioned below should be unavailable for election, a circumstance that is not expected, the person or persons voting your proxy may exercise discretion to vote for a substitute nominee selected by the Board.

The Board has adopted "categorical standards" to assist it in evaluating the independence of nominees. The categorical standards are intended to help the Board in determining whether certain relationships between nominees and Grainger are "material relationships" for purposes of the New York Stock Exchange (NYSE) independence standards. The categorical standards adopted by the Board are consistent with, and in some respects more strict in their requirements than, the NYSE's "bright line" independence criteria. The categorical standards adopted by the Board are set forth in Appendix A to this proxy statement and are also available in the Corporate Governance section of Grainger's Web site at www.grainger.com/investor.

In the ordinary course of its operations during 2008, Grainger engaged in various types of transactions with organizations with which Grainger directors are associated in their principal business occupations or otherwise. Specifically, in the ordinary course of its business during 2008, Grainger bought products and/or services from, or sold products and/or services to, companies with which Messrs. Hall, Levenick, McCarter, and Smith are associated as executive officers or otherwise. In no instance did the total amount of the purchases from or sales to such a company during 2008 represent more than 0.18% of the projected consolidated gross revenues of that company for the year or 0.542% of the consolidated gross revenues of Grainger for the year. In addition, as part of its overall 2008 charitable contributions program, Grainger made donations to tax-exempt organizations with which Messrs. Anderson, Gantz, McCarter, Novich, and Smith serve as officers, directors or trustees. In no instance did the total amount of the contributions to such an organization during 2008 represent more than 0.078% of that organization's projected total contributions for the year. The Board considered these transactions and donations in assessing the independence of the directors involved against the NYSE's independence standards and Grainger's categorical standards, and determined that none of the directors had any direct or material indirect interest in the transactions and donations. Similar transactions and donations are likely to occur in the future, and are not expected to impair the independence of the directors involved.

The Board has determined that each of Messrs. Anderson, Gantz, Hall, Levenick, McCarter, Novich, Roberts, Rogers, Slavik, and Smith and Ms. Hailey has no material relationship with Grainger within the meaning of the NYSE independence standards and Grainger's categorical standards. The

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other nominees, Messrs. Keyser and Ryan, are Grainger employees and, accordingly, are not considered "independent." All of the nominees were previously elected by the shareholders.

The nominees have provided the following information about themselves, including their ages in March 2009. Unless otherwise indicated, each has served for at least the past five years in the principal business position currently or most recently held.

Brian P. Anderson, age 58, is the former Executive Vice President of Finance and Chief Financial Officer of OfficeMax Incorporated, a distributor of business-to-business and retail office products. Prior to assuming this position in 2004, Mr. Anderson was Senior Vice President and Chief Financial Officer of Baxter International Inc., a position he assumed in 1998. He is also a director of A. M. Castle & Co., James Hardie Industries NV, and Pulte Homes, Inc., and serves on the audit committees of each of those companies. Mr. Anderson, an independent director, was first elected a director of Grainger in 1999 and is Chairman of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee. The Board has determined that Mr. Anderson's simultaneous service on the audit committees of more than three public companies will not impair his ability to serve effectively on Grainger's Audit Committee.

Wilbur H. Gantz, age 71, is Executive Chairman of Ovation Pharmaceuticals, Inc., a privately owned specialty pharmaceutical company that focuses on under-promoted and late-stage development products. He assumed this position in 2002. Mr. Gantz previously served as Chairman and Chief Executive Officer of PathoGenesis Corporation and as President of Baxter International Inc. He is also Chairman of the Board of Harris Financial Corp. Mr. Gantz, an independent director, was first elected a director of Grainger in 1985 and is Chairman of the Board Affairs and Nominating Committee and a member of the Audit Committee.

V. Ann Hailey, age 58, is the Chief Financial Officer of Gilt Groupe, an Internet retailer of discount luxury goods. Previously she was with Limited Brands, Inc., where she served as Executive Vice President and Chief Financial Officer from 1997 to 2006 and as Executive Vice President, Corporate Development from 2006 to 2007. Prior to joining Limited Brands in 1997, Ms. Hailey was Senior Vice President and Chief Financial Officer of the Pillsbury Company. She is also a director of Avon Products, Inc. and Realogy Corporation, and serves on the audit committees of each of those companies. Ms. Hailey, an independent director, was first elected a director of Grainger in 2006 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

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William K. Hall, age 65, is a private investor and Chairman of Procyon Technologies, Inc., a privately owned, Chicago-based holding company. Prior to assuming that position in 2000, Mr. Hall was Chairman and Chief Executive Officer of Falcon Building Products, Inc., a manufacturer and distributor of products for residential and commercial construction and home improvement markets. He currently serves on the boards of Actuant Corporation, Great Plains Energy Incorporated, A. M. Castle & Co., and Stericycle, Inc. Mr. Hall, an independent director, was first elected a director of Grainger in 2005 and is a member of the Audit Committee and the Board Affairs and Nominating Committee.

Richard L. Keyser, age 66, is Grainger's Chairman of the Board, a position assumed in 1997. Previously he served as Grainger's Chief Executive Officer, a position assumed in 1995 and prior to that he served as President and Chief Operating Officer. Mr. Keyser is also a director of Principal Financial Group, Inc., Rohm and Haas Company, and Zebra Technologies Corporation. He joined Grainger in 1986 and became a director in 1992.

Stuart L. Levenick, age 56, is Group President of Caterpillar Inc., a manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines. Prior to assuming that position in 2004, Mr. Levenick served as Vice President, Caterpillar Inc. and Chairman of Shin Caterpillar Mitsubishi Ltd. from 2000 to 2004 and as Vice President, Asia Pacific Division from 2001 to 2004. He is also a director of Entergy Corporation, New Orleans, LA, and the US-Chamber of Commerce. Mr. Levenick, an independent director, was first appointed a director of Grainger in 2005 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

John W. McCarter, Jr., age 71, is President and Chief Executive Officer of The Field Museum of Natural History, a position assumed in 1996. Mr. McCarter served as Senior Vice President of Booz, Allen & Hamilton Inc., a management consulting firm, until 1997. He is also a director of Divergence, Inc. and Janus Funds. Mr. McCarter, an independent director, was first elected a director of Grainger in 1990 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

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Neil S. Novich, age 54, is the former Chairman, President, and Chief Executive Officer of Ryerson Inc., a major metal distributor and processor. He became Ryerson's President and Chief Executive Officer in 1996 and its Chairman in 1999. Mr. Novich is also a director of Analog Devices, Inc. Mr. Novich, an independent director, was first elected a director of Grainger in 1999 and is Chairman of the Compensation Committee and a member of the Board Affairs and Nominating Committee.

Michael J. Roberts, age 58, is Chief Executive Officer and the Founder of Westside Holdings, LLC, a marketing and brand development company. He is the former President and Chief Operating Officer of McDonald's Corporation, and before assuming this position in November 2004, his previous positions at McDonald's Corporation included Chief Executive Officer McDonald's USA during 2004; President McDonald's USA from 2001 to 2004; and President, West Division McDonald's USA from 1997 to 2001. He is the Vice Chair of the 2016 Chicago Olympic Bid Committee and serves on the Board of Directors of the Chicago Council on Global Affairs. Mr. Roberts, an independent director, was first appointed a director of Grainger in 2006 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

Gary L. Rogers, age 64, was Vice Chairman of General Electric Company from 2001 until his retirement in December 2003. Previously, Mr. Rogers was Senior Vice President of General Electric Company and President and Chief Executive Officer of GE Plastics from 1992 to 2001. He is also a director of Rohm and Haas Company and Wyeth. Mr. Rogers, an independent director, was first appointed a director of Grainger in 2004 and is a member of the Audit Committee and the Board Affairs and Nominating Committee.

James T. Ryan, age 50, is Grainger's President and Chief Executive Officer of Grainger, a position assumed in 2008, and was appointed to Grainger's Board of Directors in 2007. Previously he had been Grainger's President and Chief Operating Officer. Before assuming that position in 2007, Mr. Ryan served as President, a position assumed in 2006, and served as Group President since 2004. He has served Grainger in increasingly responsible roles since 1980, including Executive Vice President, Marketing, Sales and Service; Vice President, Information Services; President, grainger.com; and President, Grainger Parts. Mr. Ryan is a Trustee of the Museum of Science and Industry and DePaul University, and a member of the Civic Committee of the Commercial Club of Chicago and the Economic Club of Chicago.

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James D. Slavik, age 56, is Chairman and a director of Mark IV Capital, Inc., an investment company dealing in real estate development and corporate investments. Mr. Slavik, an independent director, was first elected a director of Grainger in 1987 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

Harold B. Smith, age 75, is Chairman of the Executive Committee and a director of Illinois Tool Works Inc., a worldwide manufacturer and marketer of engineered components and industrial systems and consumables. He is also a director of Northern Trust Corporation. Mr. Smith, an independent director, was first elected a director of Grainger in 1981 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee. Mr. Smith has reached the age at which, under Grainger's Criteria for Membership on the Board of Directors, an outside director would generally not be nominated. However, the Board has determined that in the case of Mr. Smith, an exception to this general principle is appropriate.

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BOARD OF DIRECTORS AND BOARD COMMITTEES

Five meetings of the Board were held in 2008. Each Board meeting included at least one executive session, during which only independent directors were present. In addition, the directors acted five times by unanimous consent during the year.

The Board has three standing committees: Audit, Board Affairs and Nominating, and Compensation. All members of these committees are required to be "independent" directors. All non-employee directors have been determined to be independent. Committee memberships are shown in the following table:

Independent Directors' Committee Assignments

Name	Audit	Board Affairs and Nominating	Compensation
Brian P. Anderson	Chair	Member	
Wilbur H. Gantz	Member	Chair	
V. Ann Hailey	Member	Member	
William K. Hall	Member	Member	
Stuart L. Levenick		Member	Member
John W. McCarter, Jr.		Member	Member
Neil S. Novich		Member	Chair
Michael J. Roberts		Member	Member
Gary L. Rogers	Member	Member	
James D. Slavik		Member	Member
Harold B. Smith		Member	Member

Audit Committee

The Audit Committee met four times in 2008. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the Securities and Exchange Commission (SEC) and standards of the New York Stock Exchange (NYSE). The Board has also determined that each of Mr. Brian P. Anderson, Chairman of the Audit Committee, and Ms. V. Ann Hailey, a member of the Audit Committee, is an "audit committee financial expert," as that term is defined in the applicable rules of the SEC.

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

Board Affairs and Nominating Committee

The Board Affairs and Nominating Committee met three times in 2008. The Board has determined that each of the members of the Board Affairs and Nominating Committee is "independent," as that term is defined in the independence requirements for members of nominating committees contained in the applicable standards of the NYSE. The Chairman of the Board Affairs and Nominating Committee (currently, Wilbur H. Gantz) reviews in advance of meetings all agendas of Board meetings and acts as Chairman and presides at regular executive sessions of the Board without management participation.

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

Compensation Committee

The Compensation Committee oversees Grainger's activities in the area of compensation and benefits (generally with regard to all employees and specifically with regard to officers) and reviews and makes recommendations concerning compensation-related matters to be submitted to the Board and/or shareholders for approval. The general responsibilities of the Committee are to ensure:

- That a market competitive compensation structure is in place that will attract, motivate, and retain key talent necessary to help deliver performance that will increase shareholder value;
- That compensation and benefit policies and practices reflect the highest level of integrity;
- That compensation, especially senior management compensation, is linked to performance, both personal and Company; and
- The appropriate administration of various stock and incentive plans.

In 2008, the Compensation Committee met five times. Each meeting included an executive session without management present. The Board has determined that each of the members of the Compensation Committee is "independent," as that term is defined in the independence

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requirements for members of compensation committees contained in the applicable standards of the NYSE.

The Compensation Committee annually reviews and approves corporate goals and objectives, including financial performance measures relevant to chief executive officer compensation, evaluates the chief executive officer's performance in light of those goals and objectives, and, either as a committee or together with the other independent directors as directed by the Board, determines and approves the chief executive officer's compensation level based on this evaluation.

In establishing Grainger's compensation systems, the Compensation Committee develops programs based on its own deliberations, as well as considers alternatives and recommendations from its own independent consultant, a variety of other compensation and benefits consultants, and management. Since 2004, the Committee has retained Deloitte Consulting LLP (Deloitte) as its independent compensation consultant. The independent compensation consultant is solely hired by and reports directly to the Committee, and it is the Committee's practice to routinely meet privately with the independent consultant in executive session. The Committee has sole authority to retain and terminate the independent consultant, including sole authority to approve the consultant's fees. The independent compensation consultant:

- attends Committee meetings;
- assists the Committee in evaluating compensation proposals;
- helps analyze recommendations proposed by management;
- responds to specific compensation-related inquiries; and
- undertakes special projects as instructed by the Committee.

The Committee seeks advice from the independent consultant on compensation trends and best practices, as well as in reviewing Grainger's plans to ensure they are designed and operate to achieve their purposes and goals. During 2008, the independent consultant performed a number of specific projects including recommendations on companies to include in the compensation comparator group, compensation guidance on the planned transition of the Chief Executive Officer and Chief Financial Officer positions, as well as provided advice on executive compensation disclosure requirements and trends. In 2008, the independent consultant attended Compensation Committee meetings as well as the executive sessions without management present.

Deloitte provides other services to Grainger that are unrelated to executive compensation matters. The Committee believes that the scope and nature of these services do not impair the independence of its advisor.

Members of management (including certain of its "Named Executive Officers," or NEOs, as that term is further described below) assist the Compensation Committee in performing its responsibilities by providing recommendations for the Committee's consideration concerning the design of Grainger's compensation program for its NEOs, other officers, and other employees. Management also recommends award levels, except those related to Messrs. Keyser and Ryan, which are reviewed by the Compensation Committee and then determined by the independent members of the Board in executive session without members of management present.

The Compensation Committee grants equity awards (stock options, restricted stock units (RSUs), and performance shares) to elected officers and other employees under the 2005 Incentive Plan. The Committee delegates to management a limited authority to grant stock options and RSUs to

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employees. Awards under this authority are granted using features and agreements that have been approved by the Committee. The pool of shares available to management is refreshed annually to 50,000 options and 25,000 RSUs. The maximum amount that management can award to any employee is 5,000 stock options and 2,500 RSUs. The awards are effective the first business day of the month following the month in which the grant was approved by management. Information concerning the grants is shared with the Committee at its next meeting following the grant. The delegation of authority may be terminated by the Committee at its discretion.

Available Information

Grainger has adopted Business Conduct Guidelines for directors, officers, and employees, incorporating the Code of Ethics required by rules of the SEC to be applicable to a company's chief executive officer, chief financial officer, and chief accounting officer or controller, and intends to satisfy any disclosure requirements with respect to the Business Conduct Guidelines by posting the information on its Web site. Grainger also has adopted Operating Principles for the Board of Directors, which represent its corporate governance guidelines.

Grainger's Business Conduct Guidelines and Operating Principles for the Board of Directors are available in the Corporate Governance section of Grainger's Web site at www.grainger.com/investor.

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

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

Recommending Candidates for Board Membership

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

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

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Other Communications With Directors

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

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

If the matter is confidential in nature, please mark the correspondence accordingly. Additional information concerning this process is available in the Corporate Governance section of Grainger's Web site at www.grainger.com/investor.

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DIRECTOR COMPENSATION

The Company's 11 independent directors receive an annual cash retainer of $70,000 and an annual deferred stock grant of $100,000. Directors serving as Committee Chairs receive an additional annual retainer.

The Company's 11 independent directors are compensated at a level that approximates median market practice. Grainger pays these directors an annual cash retainer of $70,000 for the year beginning with the annual meeting of shareholders, which is intended to cover all regularly scheduled meetings of the Board and its committees. If additional meetings are held, a per-meeting fee of $1,500 is paid to each attending director. The Chairmen of Board committees receive additional annual retainers. For the Chairman of the Audit Committee, the annual retainer is $10,000; for the Chairman of the Board Affairs and Nominating Committee and for the Chairman of the Compensation Committee, the retainer is $5,000.

In addition, all independent directors receive an annual deferred stock unit grant. The number of shares covered by each grant is equal to $100,000 divided by the fair market value of a share of Grainger common stock at the time of grant, rounded up to the next ten-share increment. For the 2009 grant, which will be awarded immediately after the April 29, 2009 annual meeting of shareholders, the number of shares covered by each grant is equal to $100,000 divided by either 1) the fair market value of a share of Grainger common stock at the time of grant or 2) $80.00, whichever price results in the lower number of shares, rounded up to the next ten-share increment. The deferred stock units are settled on termination of service as a director. Directors may also elect to defer, in a deferred stock unit account, annual retainers, committee chair retainers, and meeting fees.

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

Stock ownership guidelines applicable to non-employee directors were established in 1998. These guidelines provide that within five years after election, a director must own Grainger common stock and common stock equivalents having a value of at least five times the annual cash retainer fee for serving on the Board. All directors subject to the guidelines are currently in compliance.

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

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

2008 Director Compensation

Name	Fees Earned or Paid in Cash (2)	Stock Awards (3)	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All Other Compensation (4)	Total
Brian P. Anderson	$ 80,000	$ 100,409	$ 0	$ 0	$ 0	$ 7,500	$ 187,909
Wilbur H. Gantz	75,000	100,409	0	0	0	7,500	182,909
V. Ann Hailey	70,000	100,409	0	0	0	0	170,409
William K. Hall	70,000	100,409	0	0	0	0	170,409
Richard L. Keyser (1)	0	0	0	0	0	0	0
Stuart L. Levenick	70,000	100,409	0	0	0	0	170,409
John W. McCarter, Jr.	70,000	100,409	0	0	0	7,500	177,909
Neil S. Novich	75,000	100,409	0	0	0	0	175,409
Michael J. Roberts	70,000	100,409	0	0	0	0	170,409
Gary L. Rogers	70,000	100,409	0	0	0	0	170,409
James T. Ryan (1)	0	0	0	0	0	0	0
James D. Slavik	70,000	100,409	0	0	0	7,500	177,909
Harold B. Smith	70,000	100,409	0	0	0	7,500	177,909

(1) Messrs. Keyser and Ryan do not receive any compensation for Board service.

(2) Represents cash fees received in 2008.

(3) Represents the FAS 123R value of an award of 1,170 deferred stock units made on April 30, 2008, with immediate vesting that will be paid upon termination from service.

(4) Represents amounts paid by the Company to charitable organizations as part of a matching gift program. The Company matches charitable contributions for directors on the same basis as Grainger employees at a rate of three to one up to a maximum of $7,500 annually.

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OWNERSHIP OF GRAINGER STOCK

The table below shows how many shares of Grainger common stock the directors, the nominees, certain executive officers, and all directors and executive officers as a group beneficially owned as of March 2, 2009.

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

Beneficial Owner	Shares	Option Shares Exercisable Within 60 Days (1)	Stock Units (2)	Total	Percentage of Common Stock (3)
James D. Slavik (4) (5) (6) (7) 100 Bayview Circle Suite 4500 Newport Beach, CA 92660	4,171,697	7,700	10,480	4,189,877	5.6%
Brian P. Anderson	4,340	9,770	7,705	21,815	*
Y. C. Chen	5,978	64,200	38,550	108,728	*
Wilbur H. Gantz	12,800	9,770	18,868	41,438	*
V. Ann Hailey	0	0	2,785	2,785	*
William K. Hall	3,000	0	8,013	11,013	*
John L. Howard	5,456	81,440	37,350	124,246	*
Ronald L. Jadin (8)	7,410	3,500	16,850	27,760	*
Richard L. Keyser (9)	126,989	600,000	103,595	830,584	1.0%
Stuart L. Levenick	0	0	6,613	6,613	*
Larry J. Loizzo	3,558	98,480	34,500	136,538	*
P. Ogden Loux (10)	14,511	54,000	31,750	100,261	*
John W. McCarter, Jr. (11)	13,704	11,630	8,541	33,875	*
Neil S. Novich	5,340	7,700	10,334	23,374	*
Michael J. Roberts	0	0	5,858	5,858	*
Gary L. Rogers	310	0	4,113	4,423	*
James T. Ryan (12)	18,350	72,000	117,000	207,350	*
Harold B. Smith (13)	65,842	9,770	10,480	86,092	*
Directors and Executive Officers as a group (14) (15) (16)	4,478,583	1,087,830	557,085	6,123,498	7.4%

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

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

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

(4) Mr. Slavik is known to be the beneficial owner of more than 5% of Grainger's common stock.

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(5) Includes 2,514,738 shares as to which Mr. Slavik has shared voting and/or investment power.

(6) Excludes 705,046 shares held by certain of Mr. Slavik's family members, as to which shares Mr. Slavik disclaims voting or investment power.

(7) Includes 252,804 shares that are pledged as collateral.

(8) Excludes 36,980 option shares exercisable within 60 days held by Mr. Jadin's wife, as to which option shares Mr. Jadin disclaims voting or investment power.

(9) Includes 60,262 shares as to which Mr. Keyser has shared voting and investment power.

(10) Excludes 400 shares held by Mr. Loux's wife, as to which shares Mr. Loux disclaims voting or investment power.

(11) Includes 13,704 shares as to which Mr. McCarter has shared voting and investment power with his wife.

(12) Includes 1,446 shares as to which Mr. Ryan has shared voting and investment power with his wife.

(13) Includes 44,000 shares as to which Mr. Smith has shared voting and investment power.

(14) Includes 10,000 shares of restricted stock owned by certain executive officers other than those named above. These shares are not transferable and are subject to forfeiture during the restricted period.

(15) Includes 2,634,150 shares as to which members of the group have shared voting and/or investment power.

(16) Excludes 705,446 shares and 36,980 option shares exercisable within 60 days held by certain family members, as to which shares members of the group disclaim voting or investment power.

The table below sets forth information concerning all other persons known to Grainger to beneficially own more than 5% of Grainger's common stock.

Beneficial Owner	**Shares Beneficially Owned***	**Percentage of Common Stock**
Massachusetts Financial Services Company 500 Boylston Street Boston, Massachusetts 02116	3,936,641**	5.2%
David W. Grainger 100 Grainger Parkway Lake forest, Illinois 60045	6,748,764***	9.1%

* Includes shares beneficially owned by affiliated entities.

**

As reported in a Schedule 13G filed with the Securities and Exchange Commission containing information as of December 31, 2008. Schedule 13G filers generally are institutional investors who acquire beneficial ownership of more than 5% of a public company's voting securities in the ordinary course of business without the purpose of changing or influencing control of the company. Includes 3,540,081 shares as to which sole voting power is claimed. Sole dispositive power is claimed for all shares.

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As of the record date, March 2, 2009.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires that Grainger's directors, executive officers, and 10% shareholders file with the SEC reports concerning their ownership, and changes in their ownership, of Grainger equity securities. Based on a review of copies of the reports provided to Grainger and representations of those persons, Grainger believes that these filing requirements were met except as follows: due to an administrative error, one Form 4 was filed late reporting Grainger's award of restricted stock units to Court D. Carruthers and one Form 4 was filed late reporting the division of trust assets, including Grainger equity securities, to which James D. Slavik was formerly a co-trustee.

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REPORT OF THE AUDIT COMMITTEE OF THE BOARD

The Audit Committee of the Board of Directors assists the Board in fulfilling its oversight responsibilities. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the Securities and Exchange Commission and standards of the New York Stock Exchange. The Audit Committee acts under a charter that is reviewed annually, was last amended by the Board on February 20, 2008, and is available on the Company's website at www.grainger.com/investor.

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

In performing these responsibilities, the Audit Committee reviewed and discussed the Company's audited consolidated financial statements and the effectiveness of internal control over financial reporting with management and Ernst & Young LLP. The Audit Committee discussed with Ernst & Young LLP matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," and Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5, "An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements". Ernst & Young LLP also provided to the Audit Committee the letter and written disclosures required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and the Audit Committee discussed with Ernst & Young LLP the matter of the firm's independence.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission.

Brian P. Anderson, Chairman
Wilbur H. Gantz
V. Ann Hailey
William K. Hall
Gary L. Rogers
Members of the Audit Committee
of the Board of Directors

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AUDIT FEES AND AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

The following table sets forth the fees for professional services rendered by Ernst & Young LLP with respect to fiscal years 2008 and 2007, respectively:

Fee Category	2008	2007
Audit Fees	$1,486,000	$1,350,000
Audit-Related Fees	141,000	134,400
Tax Fees	395,200	112,000
All Other Fees	3,070	11,550
Total Fees	$2,025,270	$1,607,950

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

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

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

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

Pre-Approval Policy for Audit and Non-Audit Services

The Audit Committee has adopted a policy for the pre-approval of all audit and permitted non-audit services to be provided by Grainger's independent auditor. Also, specific pre-approval by the Audit Committee is required for any proposed services exceeding pre-approved cost levels. The Audit Committee may delegate pre-approval authority for audit and non-audit services to one or more of its members, and such authority has been delegated to the Chairman of the Audit Committee. The decisions of any member to whom such authority is delegated must be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee periodically reviews reports summarizing all services provided by the independent auditor.

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REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's proxy statement for its 2009 annual meeting of shareholders and in its Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission.

Neil S. Novich, Chairman
Stuart L. Levenick
John W. McCarter, Jr.
Michael J. Roberts
James D. Slavik
Harold B. Smith

Members of the Compensation Committee
of the Board of Directors

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COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes in detail the Company's compensation policies and arrangements that are applicable to the Named Executive Officers (NEOs) appearing in the Summary Compensation Table (which follows below) for fiscal year 2008.

Overview of the Compensation Program

The Company's compensation program is based upon a philosophy that is applied to all Company employees have the best people and provide incentives that encourage them to achieve results that create shareholder value. The Company uses its compensation systems to attract, reward, and retain its employees and to motivate them to grow the business profitably. The compensation program for its NEOs consists of base salary, performance-based annual cash incentives and performance-based long-term incentives, benefits and limited perquisites. By aligning performance-based compensation with revenue growth and return on capital, the Company has linked its incentives to measures driving increases in shareholder return.

The Company compensation philosophy is to hire and retain the best people and provide incentives that encourage them to achieve financial results that create shareholder value. Demonstrating the Company's long-standing commitment to this compensation philosophy is the Profit Sharing Trust (PST), the sole Company-sponsored retirement vehicle for all U.S.-based employees. The PST aligns the interests of the Company's employees, management, and shareholders as the Company's annual contribution to the PST is based on a formula that incorporates two key drivers of shareholder value earnings performance and capital employed. The Company contributes a minimum eight percent of payroll to the program and provides employees the opportunity to share in the success of the Company beyond this amount only if a threshold return on capital is achieved. The contribution percentage that each participating employee receives is a function of his or her years of service with the maximum contribution occurring at five or more years of service. The Company's NEOs participate in the PST on the same basis as all other employees. The Company does not maintain a defined benefit pension plan.

The compensation program for NEOs consists of base salary, performance-based annual cash incentives and performance-based long-term equity incentives, benefits, and limited perquisites. It is designed, as a whole, to attract, reward, motivate, and retain high-quality talent and to provide appropriate cash- and equity-based incentives for achieving the Company's financial goals and strategic objectives. A substantial portion of the executives' pay is directly tied to Company performance. The Company endeavors to accomplish the compensation program's objectives by providing market median total compensation opportunities at target levels of performance. The approach that the Company uses to determine "market" compensation is more fully discussed in the "Compensation Comparator Group" section.

The Company's compensation philosophy is to hire and retain the best people and provide incentives for them to perform. This is achieved by linking pay with both Company performance and individual performance. The table below describes how each compensation element is linked to performance.

Compensation Element	Pay for Performance Link to Performance
Base Salary	Base salary increases are linked to individual performance
Annual Cash Incentives	Annual cash incentives are linked to achieving pre-determined Company objectives
Long-Term Incentives	Stock options are granted based on individual performance and linked to stock price performance for up to ten years Restricted stock units are granted based on individual performance and the value realized is linked to stock price performance for the four-year vesting schedule Performances shares are linked to achieving specific pre-determined Company objectives and stock price over the three-year performance period
Benefits	The PST encourages financial performance that drives increased shareholder value

An NEO's compensation includes variable pay components that link a substantial portion of compensation to the Company's performance, the individual's functional and managerial responsibilities and performance, and the creation of long-term shareholder value. These components vary with the Company's performance and include annual cash incentives and long-term equity-based incentives. Variable compensation, as a percentage of total compensation, increases with greater levels of responsibility within the Company. Compensation for the NEOs is generally structured so that the largest component is long-term equity, followed by base salary, and short-term incentive plan compensation. In exercising its judgment in setting the components of total compensation, the Compensation Committee of the Board (the "Compensation Committee" or "Committee") considers competitive pay data but has not established a rigid formula or allocation.

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

In addition, the Compensation Committee annually reviews a tally sheet for each NEO to help it understand the potential value of all compensation (both vested and unvested) that may be due an NEO. The tally sheet includes each NEO's current base salary, annual incentive award, and the value of all outstanding equity-based awards, deferrals, benefits, and perquisites, as well as potential payments under retirement and certain change in control situations. Since no NEO has an

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employment contract with the Company that guarantees continued employment, the tally sheets also facilitate the Committee's evaluation of the reasonableness of awards and their likely retention value. The Committee did not make specific adjustments to the compensation programs or any NEO's compensation based on its review of the tally sheets, as it concluded the awards earned or to be provided on termination were consistent with the Company's pay philosophy, Company and individual performance, and market practices.

The other components of the Company's compensation program for NEOs are substantially similar to those available for most of the Company's managers. This includes the same health and welfare benefits and the same PST contribution methodology. The Company provides a Supplemental Profit Share Plan ("SPSP") solely to maintain an equal percentage of PST contribution to approximately 150 employees, including all NEOs, who would be subject to contribution limits imposed on qualified plans by the Internal Revenue Code. The Company does not provide any other supplemental retirement benefits to its NEOs or other employees.

Compensation Committee of the Board

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

The Compensation Committee of the Board oversees the Company's compensation and benefits for all officers and employees. The Compensation Committee is responsible for ensuring that the Company's compensation practices reflect the highest level of integrity and that these practices protect the interests of shareholders. One of its responsibilities is to make certain that a competitive compensation structure is in place that will attract, reward, and retain employees and to motivate them to grow the business profitably. The Committee is also charged with ensuring that compensation, especially for the senior management, is linked to performance.

Under its charter, the Committee both makes executive compensation decisions and recommends actions to the Board of Directors and to the shareholders, as appropriate. In discharging its responsibilities, the Committee regularly consults with independent advisors, compensation consultants, and the Company's management. The Compensation Committee's charter can be found in the Corporate Governance section of Grainger's Web site at www.grainger.com/investor.

Role of Management

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

The Company has established a committee of management to assist the Compensation Committee. This committee of management includes the Chairman, the President and Chief Executive Officer, the Vice Chairman, the Chief Financial Officer, the General Counsel, and the Senior Vice President, Human Resources, and routinely recommends compensation and performance-incentive programs that it believes will provide the appropriate level of incentives consistent with the Company's compensation philosophy: attract the best people and encourage them to achieve results that create shareholder value. Consistent with this process and the factors discussed above, management works with advisors from Hewitt Associates LLC (Hewitt) to develop market information and recommends adjustments in base salaries, annual incentive targets, and long-term incentive awards to be reviewed by the Compensation Committee for officers including the NEOs other than Mr. Richard L. Keyser, Chairman of the Board, and Mr. James T. Ryan, President and Chief

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Executive Officer. The recommendations also include the structure of short- and long-term incentive programs for all employees and changes to programs required for regulatory compliance. These recommendations are reviewed and approved by the President and CEO before they are presented to the Compensation Committee of the Board.

The compensation awarded to Messrs. Keyser and Ryan is considered by the Committee and its independent compensation consultant in relation to competitive market data and, following the Committee's recommendation, is then determined by the independent members of the Board in executive session without members of management present. Management also develops the annual and long-term incentive targets for the year for review and approval by the Committee. The Committee reviews these recommendations in conjunction with its independent compensation consultant.

Compensation Comparator Group

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

The compensation comparator group is derived from a database maintained by Hewitt that contains detailed company-specific compensation data. The Board's Compensation Committee routinely commissions a comparator group study from Hewitt every other year. The Committee determines the companies within the comparator group with the assistance of its independent compensation consultant and with Hewitt. A comparator group study was performed in 2008 ("2008 Compensation Study").

The companies in the 2008 Compensation Study were chosen based on 2007 sales and market capitalization data. The current comparator group consists of 23 businesses that are relatively similar in complexity and size to the Company, and are representative of the types of major companies with which the Company historically competes for executive talent. This "competitive market" for executive talent includes companies both within and outside the same industry or sector as the Company. Most of the Company's publicly traded direct competitors tend to be too small in sales or scope of operations for direct compensation comparisons with the Company. Including a broader range of companies provides a more representative depiction of the Company's competitive market for talent and a better framework for compensation discussions. Therefore, companies used for compensation comparison purposes differ from those in the industry indices used in the Company Performance graph in Part II, Item 5 of the Company's most recent Annual Report on Form 10-K.

Management has a minimal role in selecting the compensation comparator group, as the Committee relies on its independent consultant and Hewitt for assistance. The role of management in selecting the comparator group was limited to providing general comments on the relevance of each industry represented by the comparator companies.

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Below is the 2008 Compensation Study comparator group.

Company Name	2007 Sales (thousands)	2007 Market Capitalization (thousands)
Allegheny Technologies, Inc.	$ 5,452,500	$ 4,781,208
Ball Corporation	7,475,300	4,358,943
The Black & Decker Corporation	6,563,200	3,669,083
The Clorox Company	4,847,000	7,512,280
Cooper Industries, Inc.	5,903,100	7,338,170
Eastman Chemical Company	6,830,000	4,580,524
Eastman Kodak Company	10,301,000	4,219,146
Goodrich Corporation	6,392,200	6,147,660
Harley-Davidson Motor Company	6,152,944	8,903,752
The Hershey Company	4,946,716	6,129,596
Ingersoll-Rand Company	8,763,100	11,466,972
Manitowoc Company, Inc.	4,005,000	3,427,143
Mattel, Inc.	6,018,990	7,228,526
MeadWestvaco Corporation	6,906,000	4,657,541
OfficeMax Incorporated	9,081,962	968,688
Pactiv Corporation	3,253,000	3,153,226
Rockwell Collins	4,421,000	7,921,282
Ross Stores, Inc.	5,975,212	5,041,657
Sealed Air Corporation	4,651,200	3,475,081
The Sherwin-Williams Company	8,005,292	6,254,798
The Stanley Works	4,483,800	3,495,194
Temple-Inland Inc.	3,926,000	1,726,124
Terex Corporation	9,137,700	4,775,597

The range of 2007 sales and market capitalization for the compensation comparator group is as follows:

	2007 Sales (thousands)	2007 Market Capitalization (thousands)
25th Percentile	$ 4,749,100	$ 3,582,138
50th Percentile	6,018,990	4,775,597
75th Percentile	7,190,650	6,741,662
W.W. Grainger, Inc.	6,418,014	6,823,795

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Base Salaries

Base salaries are intended to provide an appropriate level of fixed compensation to attract and retain executives. Base salaries are determined based on the individual's performance, experience, and evaluated in relation to the market as reflected in the compensation comparator group studies. Base salaries are adjusted after a detailed evaluation of individual performance, competitive market levels, and executive experience.

The 2008 Compensation Study showed that, on average, the Company's base salaries for NEOs were slightly below the market median. During 2008, the Committee and the Board approved several changes as part of planned leadership succession. The Company believes it has structured compensation that will help ensure leadership continuity through this management transition. Specific actions in 2008 included:

- In June 2008, Mr. Ryan was promoted to Chief Executive Officer. To reflect Mr. Ryan's additional responsibilities, his salary was increased to $850,000 (+21%).

- Mr. Keyser retained the position of Chairman of the Board and his salary was reduced to $900,000 (-23%) and it was further decreased to $450,000 (-62% from the original level) effective January 2009.

- In March 2008, Mr. Jadin was promoted to Senior Vice President and Chief Financial Officer. To reflect Mr. Jadin's additional responsibilities, his salary was increased to $440,000 (+47%).

- Mr. Loux was named Vice Chairman and his salary was increased to $557,000 (+5%) and was subsequently decreased to $360,000 (-35%) effective January 2009.

In addition, in April 2008, as part of the routine salary review process, the Committee approved base salary increases of 8% for Mr. Chen, 11% for Mr. Howard (this included a promotional increase to reflect additional responsibilities), and 3% for Mr. Loizzo.

Routine base salary adjustments are made to reflect individual performance, contribution, experience, changes in responsibilities, and to adjust salaries for certain executives to be closer to the market median reflecting their responsibilities. Base salary increases also have the effect of increasing the size of annual incentive and profit sharing opportunities, as both are tied to formulas that are functions of base salary. Base salary increases generally do not impact the long-term equity incentive award opportunities as the individual's long-term award targets are generally tied to organizational positions rather than an individual's base salary.

Annual Incentives

Annual incentives are intended to provide an appropriate level of variable compensation to encourage executives to achieve annual results that create shareholder value.

NEOs, along with approximately 1,500 other managers, receive annual cash incentives based on the achievement of specified annual Company-wide financial performance measures set forth in the Management Incentive Program (MIP). The Company structures the MIP to motivate performance that balances short-term and long-term results and aligns the interests of management with shareholders. The Company believes the design of the annual incentive program encourages performance that creates shareholder value by focusing on profitable sales growth and return on invested capital (ROIC). For 2008, MIP was based on ROIC and sales growth. ROIC reflects how effectively management uses Company assets and is generally defined by the Company as pre-tax

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operating earnings divided by net working assets and sales growth is determined by year-over-year results. The total MIP payout is calculated as follows:

MIP Payout = (ROIC Performance Attainment versus Target × Sales Growth Multiplier)

This framework was selected as it balances sales growth with profitability, efficiency, expense management, and asset management. These measures are consistent with the Company's objective of growing profitably over time, which it believes is closely linked with shareholder value creation. The MIP framework allows the Committee the opportunity annually adjust performance objectives in light of the current economic and competitive environments.

The MIP framework has been consistently applied for the past eight years, although specific objectives and performance target levels have been modified on a year-by-year basis. Target payout occurs when the Company accomplishes a level of performance, that, while challenging, is realistically achievable. Over the last eight years, the payout has been within 5% of target two times, below this amount three times, and above this amount three times.

The potential payouts for the 2008 MIP range from 0% to 200% of the target award. Actual payout depends upon the Company's performance and is determined by a two-step process:

First, the Company must meet its ROIC threshold. If the Company does not achieve the minimum ROIC threshold (set at 16% for 2008), no payment is made. If the Company meets or exceeds the ROIC goal (set at 20% for 2008), the employee will have earned the maximum ROIC payout of 50% of his or her MIP target. Amounts are interpolated as necessary.

Second, sales growth acts as a multiplier of the ROIC payout. The value of the sales growth multiplier increases as revenue growth increases. If year-over-year sales growth meets the Company's target, the sales multiplier would yield an amount that equals an MIP award of 100% of target. Amounts are interpolated as necessary.

The 2008 ROIC goal was 20%, which was considered an appropriate long-term level. Exceeding this objective does not create an additional payout, but achieving less than 16% ROIC eliminates the payout entirely. Over the last ten years, ROIC has ranged from a low of 17.1% in 2000 to a high of 29.8% in 2008. In 2008, ROIC was 29.8%, resulting in a payout of 50% of the target MIP opportunity.

The 2008 sales growth target was 9.0%. Over the last ten years, sales growth has ranged from a low of -4.5% in 2001 to a high of 9.4% in 2005. In 2008, sales growth was 6.7%, resulting in a sales growth multiplier of 1.62.

The ROIC bonus of 50% multiplied by the sales growth multiplier of 1.62, results in a bonus equal to 81% of target.

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The executive's target incentive award under the annual incentive program is based on a review of competitive market practice. For 2008, the target annual incentive awards as a percent of base salary were 90%, 100%, 70%, 70%, 70%, 60%, and 50% for Messrs. Keyser, Ryan, Loux, Jadin, Chen, Howard, and Loizzo, respectively. These targets were determined to approximate the market median of the compensation comparator group companies. Actual payments are a product of the executive's incentive target and the Company's actual results achieved against established performance goals. The Company believes that it has set the ROIC and sales growth targets so that they provide the appropriate level of motivation for participants to grow the Company profitably, which in turn should create shareholder value.

Under the terms of the annual program, the Committee has the discretion to adjust MIP payment amounts to correct for any unusual circumstances, both positive and negative, that might affect ROIC or sales growth. No discretionary adjustments were made in 2008.

Incentive amounts were paid to Messrs. Keyser, Ryan, Loux, Jadin, Chen and Howard based on the performance targets established for the 2008 MIP and were made under a separate annual incentive program described in the 2005 Incentive Plan. They were designated as "Covered Employees" under the 2005 Incentive Plan, a separate shareholder-approved plan providing for, among other things, annual incentive programs funded through amounts determined by reference to the Company's reported net earnings. This program is designed to ensure that annual incentives are performance-based and fully tax deductible by the Company under Section 162(m) of the Internal Revenue Code. Under the program, the Committee allocates to each participant a portion of an incentive pool, which is funded with 5% of the Company's net earnings and the independent members of the Board have the authority to make specific awards. The sum of the individual participants' percentages may not be greater than 100% of the pool. The 5% funding level and predetermined incentive pool allocations were selected to provide the independent members of the Board with sufficient flexibility to calculate an appropriate level of incentives for each executive, while complying with Section 162(m). The independent members of the Board may use their discretion to reduce these amounts but may not increase them. For 2008, the program created a pool of $24 million, of which only $2.9 million or 12% of the total pool was distributed to participants. As it has done in the past, the independent members of the Board used their discretion to reduce amounts to yield payments equal, on a percentage basis, to those made under the 2008 MIP for the Company's managers based on Company performance. Annual incentive amounts for 2008 ranged from 29% to 80% of base salary for the NEOs.

While ROIC and sales growth will remain the key structural components for the 2009 MIP, the Compensation Committee believes that greater incentive is created by focusing on ROIC and sales growth as stand-alone objectives and making the MIP payout the sum of these results, as opposed to calculating MIP as a function of the two components. These changes will allow a simplified plan design and the creation of more precise targets, further strengthening linkages of pay to performance and the creation of shareholder value.

Long-Term Incentives

The Company annually provides long-term incentives to NEOs and other key managers in order to:

- ***Achieve specific business goals and objectives (including achieving financial performance that balances growth, profitability, and asset management);***
- ***Reward management for results that create shareholder value;***
- ***Attract qualified managers to join the Company; and***
- ***Retain management through business cycles.***

The Company's long-term incentives consist of stock options, performance shares, and restricted stock units (RSUs) and are provided under the shareholder approved 2005 Incentive Plan. In 2008, the Company structured awards such that stock options represent approximately 40% of the total value of long-term incentive compensation, RSUs represent approximately 30% of the total value, and performance shares represent approximately 30% of the total value. This mix was chosen to achieve the program objectives noted above. This mix also reflected market practices for senior executives, which is to use a combination of awards to provide the desired level of long-term performance and retention.

- *40% Stock Options.* The Company's stock options provide the right to purchase Company stock at a specified price over a ten-year term and vest 100% on the third anniversary of grant. They are intended to directly link management and shareholders' interests by tying a substantial portion of management's long-term incentives to stock price appreciation. The ten-year term is designed to focus management on long-term value creation. Three-year cliff vesting encourages meaningful retention before an employee can realize any value created by stock price appreciation. In all cases, stock options are awarded at an exercise price equal to the closing price of the Company's common stock reported for the business day before the grant. Stock option repricing is not permitted under the 2005 Incentive Plan.
- *30% RSUs.* RSUs are intended to increase the retentive qualities of the compensation program through the four-year cliff vesting provision of the awards, to help build stock

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ownership, and to help meet stock ownership guidelines. The Company's RSUs are settled in Company stock if the executive is still employed with the Company on the fourth anniversary of the grant. The value of the RSUs increases or decreases with changes in the stock price, thus aligning the executives' interests with the shareholders'. Dividend equivalents are paid during the vesting period in order to simulate share ownership.

30% Performance Shares. Performance shares are intended to align compensation with the Company's business strategy and the long-term creation of shareholder value. The Company's performance shares provide the executive with a range of potential share payouts in three years only if specified performance criteria are met. The actual number of earned shares can range from 0% to 200% of the target number of shares, depending on one-year sales growth and continued ROIC achievement over three years.

The target number of shares covered by long-term incentive awards is designed to provide an economic value that is generally at the median of the compensation comparator group for comparable jobs; the target can be adjusted up or down to reflect individual performance. The Committee annually establishes the target number of shares based on the executive's position. Individual awards are generally made at the December Board meeting for performance shares, while options and RSUs are awarded at the April Board meeting.

The three-year performance cycle for the performance shares begins on January 1 of each year. The number of shares that could have been earned for the 2008 grant of performance shares ranged from 0% to 200% of the target award, depending on the Company's year-over-year growth in sales. The 2008 performance share program was structured as follows.

If, during 2008, the Company had achieved less than 6 percent sales growth, 0% of the target award would be available, 6 percent growth would have yielded 50% of the target award, 9 percent growth would have yielded 100%, and 12% growth would have yielded 200%.

Example of 2008 Performance Share Payout Opportunity

		3-Year 18% ROIC Objective Met? (2)	
2008 Sales Growth (1)	**Performance Share Payout as a Percent of the Target Opportunity (1)**	**No**	**Yes**
< 6%	0%	Forfeit 100%	N/A
6%	50%	Forfeit 100%	Performance Share Payout Vests
2008 Actual = 6.7%	**71%**	**Determined after 3-year cycle is complete (1/1/08 - 12/31/10)**	
9%	100%	Forfeit 100%	Performance Share Payout Vests
12%	200%	Forfeit 100%	Performance Share Payout Vests

(1) Amounts are interpolated, as necessary.

(2) Vesting is contingent upon the achievement of a 3-year average 18% ROIC threshold.

Given actual sales growth performance of 6.7%, the number of shares determined for the NEOs for 2008 was 71% of target. These shares will vest at the end of fiscal year 2010 only if the average ROIC performance over the three-year period from 2008 through 2010 is greater than or equal to 18%. The Committee selected these measures as they balance sales growth with long-term profitability, expense management, and asset management and are consistent with the short-term

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objectives established in the annual incentive program. The Committee may use different sales growth and ROIC objectives and target share numbers from year to year to maximize alignment with then-current business objectives. While outstanding performance share awards made prior to 2009 pay dividend equivalents after the end of the first year, those made in 2009 and for subsequent years will not pay dividend equivalents.

The annual option and RSU awards fully vest upon death, disability, or retirement from the Company. Beginning in 2009, RSUs will no longer be granted to NEOs as part of the annual long term compensation program and only a fractional number of stock options will vest upon retirement, as described further in the paragraphs that follow. Performance share awards are subject to prorata vesting upon death, disability, or retirement from the Company. The definition of retirement eligibility is the same for all U.S. employees for the long-term incentive program, as well as the profit sharing program. Under this definition, an employee is retirement-eligible upon attaining any of the following:

- Age 60;
- Age 55 and 20 years of service; or
- 25 years of service.

Messrs. Chen, Keyser, Loux, and Ryan are currently retirement-eligible.

The use of options and performance shares satisfies the requirements for qualified performance-based compensation under Section 162(m) of the Internal Revenue Code. The use of RSUs and performance shares also helps reduce share dilution, as compared with stock options. The Company historically makes stock option and RSU awards to current officers and employees each year on the date of the annual meeting of shareholders, and performance share awards no later than March 30 in order to qualify those awards as performance-based compensation under Section 162(m) of the Internal Revenue Code. The Company has not timed the grant of long-term incentive awards in respect of the release of material, non-public information nor for the purpose of affecting the value of executive compensation.

In connection with their long-term incentive awards, the NEOs and all other recipients are required to sign an agreement containing confidentiality and non-competition obligations, designed to protect the Company's confidential and proprietary information and to preserve the Company's competitive advantages. Under these agreements, should an executive violate his or her confidentiality or non-compete obligations, any award is automatically forfeited. The agreements also require, in certain circumstances, that an executive who has breached the confidentiality and non-compete agreements must return vested shares and/or gains from disposition of shares to the Company.

For 2009, the Company adjusted its long-term incentive program to include only stock options and non-dividend paying performance shares for NEOs and certain other officers. The Company believes its focus on pay for performance will be strengthened by eliminating RSUs as a component of long-term incentive compensation. In addition, in the Company changed the vesting structure for officers so that only a fractional amount will automatically vest upon retirement:

- Stock Options In the year of retirement, a fraction of the award received in the year of retirement vests based on the number of months the retiree worked that year.

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Performance Shares A fraction of the award vests after the end of the 36-month performance period based on the number of months the retiree worked in the performance period.

Stock Ownership Guidelines

As of the close of 2008, all officers subject to stock ownership guidelines, including the NEOs, are in compliance with the guidelines.

In 1996, the Company established stock ownership guidelines for its NEOs and other officers. The Company continues to believe that requiring executive ownership of Company stock creates alignment between executives and shareholders and encourages executives to act to increase shareholder value. The stock ownership guidelines for the NEOs are established based upon their respective positions within the Company and are as follows:

NEO	Minimum Ownership Requirement as a Percentage of Base Salary	Currently in Compliance?
Richard L. Keyser	5x	Yes
James T. Ryan	5x	Yes
P. Ogden Loux	3x	Yes
Ronald L. Jadin	3x	Yes
Y. C. Chen	3x	Yes
John L. Howard	3x	Yes
Larry J. Loizzo	3x	Yes

These ownership guidelines must be met within three years of being elected an officer and are reviewed annually by the Board. Officers who fail to achieve these ownership levels will not be eligible to receive any stock-based awards until they achieve their required ownership levels. Shares owned directly by the officer (including those held as a joint tenant or as tenant in common), restricted stock or RSUs, shares underlying performance share awards once the number of shares is fixed, shares owned in a self-directed IRA, and certain shares owned or held for the benefit of a spouse or minor children are counted toward meeting the guidelines. Options and shares underlying performance share awards before the number of shares is fixed are not counted toward meeting the ownership guidelines. The Company's Business Conduct Guidelines (which are available in the Corporate Governance section of Grainger's Web site at www.grainger.com/investor) forbid employees from hedging stock ownership.

Other Benefits

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

The NEOs and certain other Company officers also participate in the Company's Executive Death Benefit Plan. The Company has purchased and owns life insurance contracts to reduce its exposure relating to the Executive Death Benefit Plan. The plan is designed to offer a competitive death benefit for executives. The beneficiary of a participant who dies while employed by the Company is generally entitled to 120 monthly payments of 50% of the participant's monthly compensation, calculated on the basis of salary and target annual incentive under the applicable cash incentive program.

Other benefits provided to the NEOs and other officers in 2008 included a car allowance and reimbursement for financial services. The car allowance and financial service reimbursements are fully taxable and not grossed up to cover taxes. Officers are allowed the business use of corporate aircraft and car service, while Messrs. Keyser and Ryan are also allowed personal use of both. These benefits represent a cost-effective method of allowing the Company's top executives to more effectively use their time. All other benefits, including the profit sharing contribution percentages and various welfare benefits, provided to NEOs and other executive officers are comparable to those provided to the majority of salaried and hourly Company employees.

In 2009, the Company has eliminated the car allowance provided to NEOs and other officers.

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Summary Compensation Table

Name and Principal Position	Year	Salary (1)	Bonus	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (5)	All Other Compensation (6)	Total
Richard L. Keyser	2008	$1,012,500	$ 0	$ 811,384	$ 3,157,500	$ 716,850	$ 0	$ 857,101	$ 6,555,335
Chairman of the Board	2007	$1,152,500	$ 0	$ 2,471,711	$ 1,843,200	$ 1,788,930	$ 0	$ 672,066	$ 7,928,407
and Former Chief Executive Officer	2006	$1,075,000	$ 0	$ 2,152,641	$ 1,528,800	$ 1,149,500	$ 0	$ 689,130	$ 6,595,071
James T. Ryan	2008	$ 787,508	$ 0	$ 2,232,466	$ 1,199,850	$ 631,125	$ 0	$ 623,579	$ 5,474,528
President and	2007	$ 683,350	$ 0	$ 1,331,425	$ 691,200	$ 778,422	$ 0	$ 352,261	$ 3,836,658
Chief Executive Officer	2006	$ 566,680	$ 0	$ 911,653	$ 477,750	$ 436,980	$ 0	$ 222,866	$ 2,615,929
P. Ogden Loux	2008	$ 550,260	$ 0	$ 773,354	$ 336,800	$ 315,842	$ 0	$ 341,131	$ 2,317,387
Vice Chairman and	2007	$ 522,540	$ 0	$ 647,836	$ 368,640	$ 515,729	$ 0	$ 217,721	$ 2,272,466
Former Chief Financial Officer	2006	$ 491,040	$ 0	$ 421,881	$ 286,650	$ 332,527	$ 0	$ 218,284	$ 1,750,382
Ronald L. Jadin Sr. Vice President and Chief Financial Officer	2008	$ 390,000	$ 0	$ 315,334	$ 117,199	$ 207,900	$ 0	$ 228,747	$ 1,259,180
Y. C. Chen	2008	$ 476,250	$ 0	$ 690,773	$ 336,800	$ 274,997	$ 0	$ 295,367	$ 2,074,187
International Advisor	2007	$ 441,670	$ 0	$ 765,491	$ 534,574	$ 427,410	$ 0	$ 244,244	$ 2,413,389
and Former President, Grainger Industrial Supply	2006	$ 385,930	$ 0	$ 382,709	$ 218,701	$ 228,011	$ 0	$ 161,349	$ 1,376,700
John L. Howard	2008	$ 487,500	$ 0	$ 491,894	$ 210,618	$ 232,902	$ 0	$ 307,319	$ 1,730,233
Sr. Vice President and	2007	$ 443,760	$ 0	$ 464,957	$ 189,913	$ 312,750	$ 0	$ 170,771	$ 1,582,151
General Counsel	2006	$ 412,530	$ 0	$ 317,385	$ 183,888	$ 201,894	$ 0	$ 171,467	$ 1,287,164
Larry J. Loizzo Vice President, Specialty Brands and President, Lab Safety Supply, Inc.	2008	$ 393,705	$ 0	$ 534,587	$ 268,725	$ 114,518	$ 0	$ 149,594	$ 1,461,129

(1) Represents annual salary received in the relevant year.

(2) Represents the amounts recorded in the Company's financial statements for the relevant year in accordance with FAS 123R for performance shares and RSUs, without discounting for forfeitures. See also Note 12 to the Consolidated Financial Statements of the Company's 2008 Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.

(3) Represents the amounts recorded in the Company's financial statements for the relevant year in accordance with FAS 123R for stock option awards, without discounting for forfeitures. See also Note 12 to the Consolidated Financial Statements of the Company's 2008

Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.

(4) Represents amounts recorded in the Company's financial statements for the relevant year for amounts paid under a 162(m)-qualified, shareholder-approved annual cash incentive plan for Messrs. Keyser, Ryan, Loux, Chen and Howard. For Mr. Loizzo, this represents the Management Incentive Program, which has financial objectives established before the beginning of the performance year.

(5) The Company does not maintain an employee pension plan nor does it pay above-market earnings on nonqualified deferred accounts.

(6) For 2008, includes contributions accrued under the Company's profit sharing plan (in which most of the Company's employees participate), the related supplemental profit sharing plan, and for deferred compensation plan participants, Company contributions that would otherwise have been made to the supplemental profit sharing plan ($631,265, $352,861, $240,213, $125,468, $203,628, $180,326, $87,658 for Messrs. Keyser, Ryan, Loux, Jadin, Chen, Howard and Loizzo respectively). Also includes a $20,000 car allowance for each NEO and reimbursement for financial services ($0, $10,000, $4,300, $0, $5,809, $4,013, $0 for Messrs. Keyser, Ryan, Loux, Jadin, Chen, Howard and Loizzo respectively), not grossed up to cover taxes. Note that this includes $83,205 and $0,

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respectively, for Messrs. Keyser and Ryan to reflect the personal use of Company aircraft, reflecting the Company's total incremental cost of such use. The Company has used a methodology that includes incremental costs such as aircraft fuel, landing and parking services, crew travel expenses, in-flight food and beverages and other expenses. In addition, this includes $0 for Mr. Keyser and $120 for Mr. Ryan representing the incremental cost of the personal use of the Company car and driver.

Also includes the incremental cost of the Executive Death Benefit Program ($122,631, $240,598, $76,618, $83,279, $65,930, $102,977, $41,936 for Messrs. Keyser, Ryan, Loux, Jadin, Chen, Howard and Loizzo, respectively), which provides a pre- and post-retirement death benefit (note that the post-retirement benefit has been eliminated for all new participants). If a participant dies after retirement, an after-tax, lump-sum benefit approximating the participant's last annual salary and annual target bonus under the applicable cash incentive program is payable to the participant's designated beneficiary. Prior to retirement, a participant may elect to receive a reduced post-retirement payment, instead of an executive death benefit. In the event of a change in control of the Company, the plan assumes retirement on that date if the participant is then eligible for retirement (with the participant being credited with an additional three years of age and service for this purpose). The plan then provides for a lump-sum payment of the present value of the post-retirement benefit on the basis of the participant's death at age 80, subject to any applicable requirements of Internal Revenue Code Section 409A.

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Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: No. of Shares of Stock or Units (3)	All Other Option Awards: No. of Securities Underlying Options (4)	Exercise or Base Price of Option Awards(5)	Actual Closing Price on Option Approval Date (6)	Grant Date Fair Value of Stock and Option Awards (7)
		Threshold	Target	Maximum	Threshold	Target	Maximum					
Richard L. Keyser	1/1/2008	$442,500	$885,000	$1,770,000								
	4/30/2008								150,000	$ 85.82	$ 86.71	$3,157,500
James T. Ryan	1/1/2008	$389,584	$779,167	$1,558,334								
	1/1/2008				6,500	13,000	26,000					$1,137,760
	4/30/2008							33,000				$2,832,060
	4/30/2008								57,000	$ 85.82	$ 86.71	$1,199,850
P. Ogden Loux	1/1/2008	$194,964	$389,928	$ 779,856								
	1/1/2008				2,000	4,000	8,000					$ 350,080
	4/30/2008							4,000				$ 343,280
	4/30/2008								16,000	$ 85.82	$ 86.71	$ 336,800
Ronald L. Jadin	1/1/2008	$128,334	$256,667	$ 513,334								
	1/1/2008				400	800	1,600					$ 70,016
	4/30/2008							13,500				$1,158,570
	4/30/2008								13,500	$ 85.82	$ 86.71	$ 284,175