

ILLINOIS TOOL WORKS INC

Form DEF 14A

March 21, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

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

ILLINOIS TOOL WORKS INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

2) Aggregate number of securities to which transaction applies:

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

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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3) Filing Party:

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

Notice of Annual Meeting of Stockholders

**Friday, May 6, 2005
3:00 P.M.**

**The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois**

ITW is holding its 2005 Annual Meeting for the following purposes:

1. To elect nine directors for the upcoming year;
2. To ratify the appointment of Deloitte & Touche LLP;
3. To vote on a stockholder proposal requiring implementation of certain business principles for workers in China; and
4. To vote on a stockholder proposal requiring a majority vote for election of directors.

The Board of Directors recommends that you vote FOR each of the director nominees; FOR the ratification of the appointment of Deloitte & Touche LLP as ITW's independent public accountants for 2005; AGAINST the stockholder proposal requiring implementation of certain business principles for workers in China; and AGAINST the stockholder proposal requiring a majority vote for election of directors.

Stockholders of record on March 8, 2005 are entitled to vote.

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

Our Annual Report for 2004 is enclosed.

By Order of the Board of Directors,
Stewart S. Hudnut
Secretary

March 21, 2005

Illinois Tool Works Inc.

Proxy Statement

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Annual Report on Form 10-K

You may review and download a copy of ITW's Annual Report on Form 10-K for the year ended December 31, 2004, including schedules, that we filed with the Securities and Exchange Commission by accessing our website, www.itw.com, or by writing to: Stewart S. Hudnut, Secretary, Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, Illinois 60026.

This proxy statement and form of proxy are first being sent to stockholders on or about March 21, 2005.

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Questions and Answers

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

What am I voting on?

We are soliciting your vote on:

1. The election of nine directors for the upcoming year;
2. The ratification of the appointment of Deloitte & Touche LLP as ITW's independent public accountants for 2005;
3. A stockholder proposal requiring implementation of certain business principles for workers in China; and
4. A stockholder proposal requiring a majority vote for election of directors.

Who may vote?

Stockholders at the close of business on March 8, 2005, the record date, may vote. On that date, there were 291,978,145 shares of ITW common stock outstanding.

How many votes do I have?

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

How do I vote?

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

1. By mail: Complete the proxy card and sign, date and return it in the enclosed envelope;
2. By telephone: Call the toll-free number on the proxy card, enter the holder account number and the proxy access number from the proxy card, and follow the recorded instructions;
3. By internet: Go to the website listed on the proxy card, enter the holder account number and the proxy access number from the proxy card, and follow the instructions provided; or
4. In person: Attend the Annual Meeting, where ballots will be provided.

If you hold your shares through a bank or broker that does not offer telephone or internet voting, please complete and return your proxy card by mail.

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How does discretionary voting authority apply?

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

May I revoke my proxy?

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

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

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

Your shares are likely registered differently or are in more than one account. You should sign and return all proxy cards to guarantee that all of your shares are voted.

What constitutes a quorum?

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

What vote is required to approve each proposal?

Election of Directors: The nine nominees who receive the highest number of votes will be elected. If you do not want to vote your shares for a particular nominee, you may indicate that in the space provided on the proxy card or withhold authority as prompted during telephone or internet voting. Broker non-votes and votes to withhold authority for one or more nominees are not considered shares voted and will not affect the outcome of the vote.

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Ratification of the Appointment of Independent Public Accountants: Although we are not required to submit the appointment of our independent public accountants to a vote of stockholders, we believe that it is appropriate to ask that you ratify the appointment. Ratification of the appointment of Deloitte & Touche LLP as ITW's independent public accountants requires the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote. An abstention will have the effect of a vote against the ratification since it is one fewer vote for approval, but a broker non-vote will have no effect.

Stockholder Proposal Requiring Implementation of Certain Business Principles for Workers in China: Approval of this proposal would require the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote. An abstention will have the effect of a vote against the proposal.

Stockholder Proposal Requiring a Majority Vote for Election of Directors: Approval of this proposal would require the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote. An abstention will have the effect of a vote against the proposal.

How do I submit a stockholder proposal?

To be considered for inclusion in our proxy statement for the May 2006 Annual Meeting, a stockholder proposal must be received no later than November 21, 2005. Your proposal must be in writing and must comply with the proxy rules of the Securities and Exchange Commission (SEC). You may also submit a proposal that you do not want included in the proxy statement, but that you want to raise at the May 2006 Annual Meeting. If you submit that proposal after February 4, 2006, then SEC rules permit the individuals named in the proxies solicited by ITW's Board of Directors for that meeting to exercise discretionary voting power as to that proposal. You should send your proposal to our Secretary at our address on the cover of this proxy statement.

How do I nominate a director?

If you wish to nominate an individual for election as director at the May 2006 Annual Meeting, our Secretary must receive your written nomination by December 30, 2005. Our by-laws require that your nomination include: (1) your name and address; (2) the name, age and home and business addresses of the nominee; (3) the principal occupation or employment of the nominee; (4) the number of shares of ITW stock that the nominee beneficially owns; (5) a statement that the nominee is willing to be nominated and serve as a director; and (6) any other information regarding the nominee that would be required by the SEC to be included in a proxy statement had ITW's Board of Directors nominated that individual. Any nomination that you make must be approved by the Corporate Governance and Nominating Committee as well as by the Board of Directors.

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Who pays to prepare, mail and solicit the proxies?

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

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Election of Directors

Stockholders will elect nine directors at the Annual Meeting. The individuals listed below have been nominated by the Board of Directors as recommended by the Corporate Governance and Nominating Committee. Each director will serve until the May 2006 Annual Meeting, until a qualified successor director has been elected, or until he or she resigns or is removed by the Board of Directors.

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

William F. Aldinger, 57, has served as the Chairman and Chief Executive Officer of HSBC Finance Corporation (formerly Household International, Inc.), a consumer finance company, since 1996 and Chairman and Chief Executive Officer of its parent company, HSBC North America Holdings Inc., since 2004. He serves on the boards of HSBC Holdings PLC, AT&T Corp. and MasterCard. Mr. Aldinger has served as a director of ITW since 1998.

Michael J. Birck, 67, has served as the Chairman of Tellabs, Inc. since 2000 and Chief Executive Officer from 2002 to February 2004. Mr. Birck founded Tellabs and served as President and Chief Executive Officer from 1975 to 2000. Tellabs designs, manufactures, markets and services voice and data equipment. He is a director of Molex, Inc. and Tellabs, Inc. Mr. Birck has served as a director of ITW since 1996.

Marvin D. Brailsford, 66, is a retired Vice President of Kaiser-Hill Company LLC, a construction and environmental services company. Prior to his employment with Kaiser-Hill, he served with the United States Army for 33 years, retiring with the rank of Lieutenant General. He is a Director of Conn's, Inc. Mr. Brailsford has served as a director of ITW since 1996.

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Susan Crown, 46, has been Vice President of Henry Crown and Company, a business with diversified investments, since 1984. She is a director of Northern Trust Corporation and its subsidiary, The Northern Trust Company. Ms. Crown has served as a director of ITW since 1994.

Don H. Davis, Jr., 65, retired as Chairman of the Board of Rockwell Automation, Inc., a global provider of industrial automation power, control and information solutions, in February 2005, a position he had held since 1998. From 1997 to 2004 he served as Rockwell's Chief Executive Officer. He is a director of Rockwell Automation, Inc., Ciena Corporation and Journal Communications, Inc. Mr. Davis has served as a director of ITW since 2000.

W. James Farrell, 62, has been Chairman of ITW since 1996, Chief Executive Officer since 1995 and has 39 years of service with ITW. He is a director of Allstate Insurance Company, Sears Roebuck & Co., Kraft Foods, Inc. and UAL Corp. Mr. Farrell has served as a director of ITW since 1995.

Robert C. McCormack, 65, is an Advisory Director of Trident Capital, Inc., a venture capital firm, and was a Partner of Trident from 1993 to the end of 2004. From 1987 to 1993, Mr. McCormack served successively as Deputy Under Secretary of Defense and Assistant Secretary of the Navy (Finance and Comptroller). He is a director of DeVry, Inc., Mead Westvaco Corp. and the Northern Trust Corporation and its subsidiary, The Northern Trust Company. Mr. McCormack has served as a director of ITW since 1993, and previously served as a director of ITW from 1978 through 1987.

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Robert S. Morrison, 62, is a retired Vice Chairman of PepsiCo, Inc., a beverage and food products company, serving from 2001 to 2003. From 1997 to 2001, prior to its merger with PepsiCo, he was Chairman, President and Chief Executive Officer of The Quaker Oats Company. Mr. Morrison is a director of 3M, The Tribune Company and Aon Corporation. Mr. Morrison has been a director of ITW since 2003.

Harold B. Smith, 71, is a retired officer of ITW and is a director of W.W. Grainger Inc., Northern Trust Corporation and its subsidiary, The Northern Trust Company. Mr. Smith has served as a director of ITW since 1968.

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Board of Directors and Its Committees

ITW's Board of Directors met seven times during 2004. In addition to meetings of the full Board, directors attended meetings of Board committees and independent directors met three times in regularly scheduled executive sessions. The Chairmen of each of the Board of Directors' standing committees rotate as the Chairman of executive sessions of the independent directors. The Board of Directors has standing audit, compensation, corporate governance and nominating, and finance committees. Under the terms of their charters, each member of the audit, compensation and corporate governance and nominating committees must meet applicable New York Stock Exchange and Securities and Exchange Commission independence requirements. ITW encourages its directors to attend all Board and committee meetings and the Annual Meeting of Stockholders. In 2004, all of the directors attended at least 85% of the meetings of the Board and its committees, and all of the directors attended the Annual Meeting of Stockholders.

Audit Committee

Meetings in 2004:	5
Members:	Don H. Davis, Jr. (Chairman) William F. Aldinger Michael J. Birck Marvin D. Brailsford
Function:	Responsible for the engagement of independent public accountants; assisting the Board with respect to matters involving and overseeing accounting, financial reporting and internal audit functions; integrity of ITW's financial statements; compliance with legal and regulatory requirements; independence and performance of ITW's independent public accountants; and performance of ITW's internal audit function. Additional information on the Committee and its activities is set forth in the Report of the Audit Committee on page 25.

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Compensation Committee

Meetings in 2004:	2
Members:	William F. Aldinger (Chairman) Michael J. Birck Susan Crown Robert C. McCormack Robert S. Morrison
Function:	Establishes and oversees executive compensation policies; recommends to the other independent directors compensation for the Chief Executive Officer; approves compensation for executive officers; and makes recommendations on new incentive-compensation and equity-based plans or amendments. Additional information on the Committee and its activities is set forth in the Report of the Compensation Committee on Executive Compensation on page 21.

Corporate Governance and Nominating Committee

Meetings in 2004:	2
Members:	Marvin D. Brailsford (Chairman) Susan Crown Don H. Davis, Jr. Robert S. Morrison
Function:	Identifies, evaluates and recommends director candidates; develops, administers and recommends corporate governance guidelines; oversees the evaluation of the Board and management; and makes recommendations as to Board committees and Board size.

Finance Committee

Meetings in 2004:	1
Members:	Robert C. McCormack (Chairman) William F. Aldinger Don H. Davis, Jr. Robert S. Morrison Harold B. Smith
Function:	Reviews, evaluates and recommends to the Board management's proposals relating to ITW's financing, investment portfolio and real estate investments.

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Corporate Governance Policies and Practices

General

We have long believed that good corporate governance is important to assure that ITW is managed for the long-term benefit of its stockholders. In that regard, we continuously review our corporate governance policies and practices for compliance with the provisions of the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC, and the listing standards of the New York Stock Exchange (the NYSE).

Our Board of Directors has adopted and annually reviews charters for our Audit, Compensation, and Corporate Governance and Nominating Committees. We maintain a corporate governance section on our website that includes the charters of these committees, ITW's Statement of Principles of Conduct and ITW's Code of Ethics for the Chief Executive Officer and key financial and accounting personnel. In addition, we will promptly post any amendments to or waivers of the Code of Ethics on our website. You can find this and other corporate governance information at www.itw.com.

Stockholder Communications with Directors

You may communicate with any of our directors or with the independent directors as a group by sending an e-mail to independentdirectors@itw.com or by writing to the Independent Directors c/ o the Corporate Secretary at our address on the cover of this proxy statement.

Board Independence

Our Board conducts an annual review as to whether each of our directors meets the applicable independence standards of the NYSE. In light of recent amendments to the NYSE listing standards, our Board of Directors has amended its categorical standards to comply with the NYSE listing standards. A copy of these standards is attached as Appendix A. A director will not be considered independent unless the Board of Directors determines that the director has no material relationship with ITW (directly or as a partner, stockholder or officer of an organization that has a relationship with ITW).

The Board has determined that each of the current directors standing for re-election, except W. James Farrell and Harold B. Smith, has no material relationship with ITW other than as a director and is independent within the meaning of ITW's Categorical Standards for Director Independence and the listing standards of the NYSE. Until December 12, 2002, Harold B. Smith was an elected officer of ITW. Our Board of Directors has determined that from November 4, 2004 through December 12, 2005, Mr. Smith is not considered to be an independent director of ITW. In making its independence determinations, the Board of Directors has broadly considered all relevant facts and circumstances.

Director Candidates

Our by-laws permit stockholders to nominate directors for consideration at an annual stockholder meeting. The policy of the Corporate Governance and Nominating Committee is

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to consider a properly submitted stockholder nomination for election as director. For a description of the process for submitting a director candidate in accordance with ITW's by-laws, see Questions and Answers How do I nominate a director? on page 3.

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

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

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

Director Compensation

Annual Retainer and Attendance Fees

The annual retainer for non-management directors is \$40,000, the fee for each Board or committee meeting attended is \$2,000, and the annual fee for committee chairs is an additional \$3,000, except for the Audit Committee chairman, whose annual fee is \$10,000. Non-management directors can defer receipt of all or a portion of their annual retainer, chair and meeting fees until retirement or resignation. Deferred fee amounts are credited with interest at current rates.

Non-Officer Directors Fee Conversion Plan

In order to link director compensation with stockholder interests, non-officer directors are given the opportunity to elect annually to receive all or a portion of their annual retainer, chairman and meeting fees in an equivalent value of ITW common stock pursuant to the Non-Officer Directors Fee Conversion Plan. The number of ITW shares to be issued to a director is determined by dividing the dollar amount of the fee subject to the election by the closing price of ITW common stock on the date the fee otherwise would have been paid in

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cash. A director can also elect to defer receipt of the shares, in which case the deferred shares are credited as stock units to an account in the director's name. The account receives additional credit for cash dividends and is adjusted for stock dividends, splits, combinations or other changes in ITW common stock. The stock units in a director's account are distributed as shares of ITW common stock upon retirement, resignation or a corporate change (as defined in the 1996 Stock Incentive Plan), with any fractional shares paid in cash.

Restricted ITW Common Stock

In 1995, the stockholders approved a plan whereby a portion of each non-management director's compensation includes the periodic grant of restricted ITW common stock, thereby directly linking another element of director compensation with stockholder interests. In February 2004, each non-management director of ITW received an award of 900 restricted shares. Restricted shares vest as follows: 450 shares vested on January 3, 2005 and 450 shares shall vest on January 2, 2006. Any unvested shares also vest upon death or retirement. A director cannot sell the shares until the earliest of retirement from the Board, death or January 2, 2006. A director who terminates service on the Board other than for death or retirement prior to January 2006 will forfeit any unvested restricted shares.

Phantom ITW Stock

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

Ownership of ITW Stock

Directors and Executive Officers

The following table shows how much ITW common stock the directors, the named executive officers, and all directors and executive officers as a group beneficially owned as of December 31, 2004. The named executive officers are the Chief Executive Officer and the four next most highly compensated executive officers based on salary and bonus earned during 2004.

Beneficial ownership is a technical term broadly defined by the SEC to mean more than ownership in the usual sense. In general, beneficial ownership includes any shares a director or executive officer can vote or transfer and stock options that are exercisable

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currently or that become exercisable within 60 days. Except as otherwise noted, the stockholders named in this table have sole voting and investment power for all shares shown as beneficially owned by them.

The number of shares beneficially owned by each non-management director includes 900 shares of ITW common stock that were granted under the Directors Restricted Stock Plan, which fully vest in January 2006. The number of the directors phantom stock units disclosed in the table represents an equivalent number of shares of ITW common stock as of December 31, 2004. Phantom stock units are not transferable and have no voting rights. The units are not included in the percent of class calculation.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Phantom Stock Units	Percent of Class
Directors (other than Executive Officers)			
William F. Aldinger	6,352(1)	1,077	*
Michael J. Birck	14,209(2)	2,198	*
Marvin D. Brailsford	6,099(3)	2,193	*
Susan Crown	12,500(4)	2,216	*
Don H. Davis, Jr.	6,960(5)	1,061	*
Robert C. McCormack	13,347,203(6)	2,216	4.6%
Robert S. Morrison	4,119(7)	1,018	*
Harold B. Smith	34,610,045(8)		11.8%
Executive Officers			
W. James Farrell	1,451,147(9)		*
David B. Speer	244,138(10)		*
James M. Ringler	578,474(11)		*
Frank S. Ptak	744,285(12)		*
Russell M. Flaum	263,908(13)		*
Directors and Executive Officers as a Group (24 Persons)	39,197,465(14)	11,979	13.4%

* Less than 1%

(1) Includes (a) 100 shares owned by Mr. Aldinger's spouse, as to which he disclaims beneficial ownership; and (b) 900 unvested restricted shares to which Mr. Aldinger has no investment power.

(2) Includes 900 unvested restricted shares as to which Mr. Birck has no investment power.

(3) Includes 900 unvested restricted shares as to which Mr. Brailsford has no investment power.

(4) Includes (a) 2,000 shares owned by Ms. Crown's spouse as to which she disclaims beneficial ownership; (b) 2,000 shares held in trusts of which Ms. Crown's children are beneficiaries and as to which she disclaims beneficial ownership; and (c) 900 unvested restricted shares as to which Ms. Crown has no investment power.

(5) Includes 900 unvested restricted shares as to which Mr. Davis has no investment power.

(6) Includes (a) 400 shares owned in a trust as to which Mr. McCormack shares voting and investment power with The Northern Trust Company; (b) 13,335,539 shares owned in twelve trusts as to which Messrs. McCormack

and H. B. Smith and The Northern Trust Company are trustees and share voting and investment power;

(c) 8,164 shares owned in a revocable trust in which Mr. McCormack has sole voting and investment power; and

(d) 900 unvested restricted shares as to which Mr. McCormack has no investment power.

(7) Includes 900 unvested restricted shares as to which Mr. Morrison has no investment power.

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- (8) Includes (a) 19,117,300 shares owned in twelve trusts as to which Mr. Smith shares voting and investment power with The Northern Trust Company and others; (b) 1,980,476 shares owned in ten trusts as to which he shares voting and investment power; (c) 13,335,539 shares owned in twelve trusts as to which Messrs. McCormack and H. B. Smith and The Northern Trust Company are trustees and share voting and investment power; (d) 135,063 shares owned in a revocable trust as to which Mr. Smith has sole voting and investment power; (e) 40,767 shares owned by a charitable foundation of which Mr. Smith is a director; and (f) 900 unvested restricted shares to which Mr. Smith has no investment power. Mr. Smith's address is c/o Secretary, Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, Illinois 60026.
- (9) Includes (a) 133,977 shares owned in a partnership as to which Mr. Farrell shares voting and investment power; (b) 7,383 shares owned in a revocable trust as to which Mr. Farrell has sole voting and investment power; (c) 8,045 shares owned by a charitable foundation of which Mr. Farrell is an officer; (d) 107,800 unvested restricted shares as to which Mr. Farrell has no investment power; (e) 7,043 shares allocated to Mr. Farrell's account in the ITW Savings and Investment Plan; and (f) 1,112,000 shares covered by options exercisable within 60 days.
- (10) Includes (a) 15,400 unvested restricted shares as to which Mr. Speer has no investment power; (b) 870 shares allocated to Mr. Speer's account in the ITW Savings and Investment Plan; and (c) 210,000 shares covered by options exercisable within 60 days.
- (11) Includes (a) 14,434 shares allocated to Mr. Ringler's account in the ITW Savings and Investment Plan; and (b) 440,006 shares covered by options exercisable within 60 days.
- (12) Includes (a) 53,900 unvested restricted shares as to which Mr. Ptak has no investment power; and (b) 650,000 shares covered by options exercisable by Mr. Ptak within 60 days.
- (13) Includes (a) 15,400 unvested restricted shares as to which Mr. Flaum has no investment power; (b) 1,814 shares allocated to Mr. Flaum's account in the ITW Savings and Investment Plan; and (c) 210,000 shares covered by options exercisable within 60 days.
- (14) Includes 3,628,667 shares covered by options exercisable within 60 days.

Share Repurchase Transaction with Certain Directors

On July 27, 2004, as part of our previously announced stock buyback program, ITW purchased approximately 2.15 million shares of our common stock from trusts of which Robert C. McCormack and Harold B. Smith are among the trustees and beneficiaries for a total price of approximately \$189 million, or \$87.82 per share, which was the closing price for our common stock as listed on the NYSE on July 26, 2004. Messrs. McCormack and Smith are directors of ITW. The transaction was approved by the Board of Directors, with neither Messrs. McCormack nor Smith participating in the deliberations relating to the transaction. Immediately after the sale of shares in the transaction, Mr. McCormack, in his role as trustee or otherwise, was the beneficial owner of 13,344,103 shares of ITW common stock (approximately 4% of the shares outstanding) and Mr. Smith, in his role as trustee or otherwise, was the beneficial owner of 35,010,466 shares of ITW common stock (approximately 11% of the shares outstanding).

Other Principal Stockholders

This table shows, as of December 31, 2004, the only stockholder other than a director that we know to be a beneficial owner of more than 5% of ITW common stock. We maintain a commercial banking relationship with The Northern Trust Company and its wholly owned subsidiaries. The Northern Trust Company is a wholly owned subsidiary of Northern Trust Corporation. Susan Crown, Robert C. McCormack and Harold B. Smith, directors of ITW,

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are also directors of Northern Trust Corporation and The Northern Trust Company. The commercial banking relationship between ITW and The Northern Trust Company may involve, but is not strictly limited to, the following services: creating and maintaining deposit accounts, credit services, investment banking services, payment and collection services, trade services, credit enhancement or payment guaranty, acting as agent or fiduciary, consulting services, risk management services, and broker dealer services. In addition, The Northern Trust Company serves as the trustee under ITW's principal pension plans. The banking and trustee relationships with The Northern Trust Company are conducted in the ordinary course of business on an arms-length basis. Banking and trustee fees paid to The Northern Trust Company by ITW were approximately \$1.36 million in 2004.

Name and Address of Beneficial Owner	Amount of Beneficial Ownership	Percent of Class
The Northern Trust Company 50 South LaSalle Street Chicago, Illinois 60675	43,977,540(1)	15.0%

- (1) The Northern Trust Company and its affiliates act as sole fiduciary or co-fiduciary of trusts and other fiduciary accounts that own an aggregate of 43,977,540 shares. They have sole voting power with respect to 8,567,350 shares and share voting power with respect to 34,683,450 shares. They have sole investment power with respect to 4,171,860 shares and share investment power with respect to 34,168,878 shares. In addition, The Northern Trust Company holds in other accounts, but does not beneficially own, 14,676,461 shares, resulting in aggregate holdings by The Northern Trust Company of 58,654,001 shares, or 20.07%.

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

Section 16(a) of the Securities Exchange Act of 1934 requires that ITW's executive officers, directors and greater than 10% stockholders file reports of ownership and changes of ownership of ITW common stock with the SEC and the NYSE. Based on a review of copies of these reports provided to us during fiscal 2004 and written representations from executive officers and directors, we believe that all filing requirements were met during 2004, except that in June 2004, Mr. Farrell was inadvertently late in filing one Form 4 reporting one open market sale.

Table of Contents**Executive Compensation**

This table summarizes the compensation of the Chief Executive Officer and the four next most highly compensated executive officers of ITW.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Restricted Stock Awards(3)	Long-Term Compensation Awards	All Other Compensation (4)
		Salary(1)	Bonus(1)(2)		Securities Underlying Options	
W. James Farrell Chairman and Chief Executive Officer	2004	\$ 1,186,308	\$ 2,288,000	\$ 7,776,038	423,069(5)	\$ 115,441
	2003	1,098,085	2,112,000	9,287,600		103,848
	2002	1,047,010	1,869,000			100,199
David B. Speer President	2004	\$ 418,692	\$ 970,000	\$ 1,110,838	150,000	\$ 37,216
	2003	333,496	644,620	1,326,800		31,895
	2002	320,073	577,800			32,449
James M. Ringler Vice Chairman	2004	\$ 778,869	\$ 1,500,000	\$ 1,388,527		\$ 150,990
	2003	750,022	1,402,500	1,658,500		71,663
	2002	750,022	1,297,500			107,382
Frank S. Ptak Vice Chairman	2004	\$ 549,615	\$ 1,060,000	\$ 3,887,977	200,000	\$ 53,508
	2003	509,221	979,200	4,643,800		48,350
	2002	488,612	872,200			50,288
Russell M. Flaum Executive Vice President	2004	\$ 345,462	\$ 670,000	\$ 1,110,838	40,000	\$ 29,920
	2003	320,015	509,392	1,326,800		28,235
	2002	305,573				