GRAINGER W W INC
Form DEF 14A
March 12, 2010

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)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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

March 12, 2010

Dear Grainger Shareholder:

The W.W. Grainger, Inc. 2010 annual meeting of shareholders will be held at our headquarters located at 100 Grainger Parkway, Lake Forest, Illinois (see map overleaf), on Wednesday, April 28, 2010, at 10 A.M. (CDT).

We will report at the meeting on our operations and other matters of current interest. We will also present a slate of nominees for election as directors as well as proposals to ratify the appointment of independent auditor and to approve an incentive plan. 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/ J. T. Ryan
James T. Ryan
Chairman of the Board, President
and Chief Executive Officer

YOUR VOTE IS IMPORTANT

A majority of the outstanding shares entitled to vote on a matter must be represented either in person or by proxy to constitute a quorum for consideration of that matter at the annual meeting of shareholders. If your shares are held by a broker, unless you provide specific voting instructions, your broker will not be able to vote your shares for the election of directors or on other non-routine matters.

Please make sure your shares are voted.

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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 28, 2010

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 28, 2010, at 10 A.M. (CDT) for the following purposes:

1. To elect twelve 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, 2010;

3. To consider and act upon a proposal to approve the 2010 Incentive Plan, under which Grainger may provide equity and other awards to its employees; and

4. 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 1, 2010, 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 12, 2010

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF
PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 28, 2010**

Grainger's Proxy Statement and Annual Report on Form 10-K are available in the 2010 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.

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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 2010 annual meeting of shareholders to be held on April 28, 2010, 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 12, 2010.

What matters are scheduled to be presented?

- The election of twelve directors.
- A proposal to ratify the appointment of Ernst & Young LLP as Grainger's independent auditor for the year ending December 31, 2010.
- A proposal to approve the 2010 Incentive Plan, under which Grainger may provide equity and other awards to its employees.

Who is entitled to vote?

Holders of shares of common stock outstanding on Grainger's books at the close of business on March 1, 2010, the record date for the meeting, may vote. There were 72,677,231 shares of common stock outstanding on that date.

If my shares are held in street name can my broker vote for me?

Unless you have given specific voting instructions to your broker, your broker cannot vote your shares on the election of directors or for any non-routine matters.

What is the difference between holding shares as "shareholder of record" and as "beneficial owner"?

If your shares are registered directly in your name with Grainger's transfer agent, Computershare Trust Company, N.A., you are the shareholder of record with respect to those shares and you have the right to tell us directly how to vote your shares or to vote in person at the meeting.

If your shares are held in street name by a brokerage firm, bank, or other nominee, you are the beneficial owner of the shares. Your nominee is required to vote your shares according to your direction. **There is a new rule beginning this year: If you do not instruct your nominee how you want your shares voted, your shares cannot be voted for the election of directors.** Please contact your brokerage firm, bank, or other nominee with instructions to vote your shares for the election of directors and on other matters to be considered at the meeting.

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.

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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, FOR the proposal to ratify the appointment of the independent auditor, and FOR the proposal to approve the 2010 Incentive Plan.

If you are a beneficial owner and the shares you own are held in street name by a brokerage firm, bank, or other nominee, **starting this year, you must instruct your nominee how you want your shares voted for the election of directors, otherwise your nominee is not allowed to vote your shares.** Please contact your brokerage firm, bank, or other nominee with instructions to vote your shares for the election of directors and on other matters to be considered at the meeting.

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.

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. Provide to Grainger 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.

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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 $7,000 for its services, plus reasonable costs and expenses.

Where can I find the voting results?

We will report the voting results in either a Form 10-Q or a Form 8-K within four business days after the end of our annual meeting.

How do I submit a shareholder proposal or directly nominate a director at the 2011 annual meeting?

If you wish to have a shareholder proposal included in Grainger's proxy-soliciting materials for the 2011 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 2011 annual meeting to be timely, Grainger must receive the notice no later than November 12, 2010.

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 2011 annual meeting, the notice must be furnished no later than November 12, 2010.

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

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, recruiting firms 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.

Director Independence

The Board has adopted "categorical standards" to assist it in making independence determinations 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 have more restrictive thresholds than the NYSE's bright line revenue test for independence. 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 2009, 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 2009, Grainger bought products and/or services from, or sold products and/or services to, companies with which Messrs. Levenick, McCarter, Santi, Slavik, 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 2009 represent more than 0.158% of the projected consolidated gross revenues of that company for the year or 0.406% of the consolidated gross revenues of Grainger for the year.

In addition, as part of its overall 2009 charitable contributions program, Grainger made donations to tax-exempt organizations with which Messrs. Gantz, Hall, McCarter, Novich, Roberts, and Smith serve as officers, directors or trustees. In no instance did the total amount of the contributions to such an organization during 2009 represent more than 0.058% 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.

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The Board has determined that each of Messrs. Anderson, Gantz, Hall, Levenick, McCarter, Novich, Roberts, Rogers, Santi, Slavik, and Smith, who is not standing for election, and Ms. Hailey has no material relationship with Grainger within the meaning of the NYSE independence standards and Grainger's categorical standards. The other nominee, Mr. Ryan, is a Grainger employee and, accordingly, is not considered "independent." All of the nominees except Mr. Santi were previously elected by the shareholders at the 2009 annual meeting of shareholders.

Annual 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 2009 annual meeting, all of the directors were in attendance.

Twelve directors will be elected at this year's annual meeting. All directors are elected for a one-year term. The directors will therefore serve until the 2011 annual meeting of shareholders or until their successors have been qualified and elected.

Grainger's Board has nominated Mr. E. Scott Santi to stand for election at this year's annual meeting. Details concerning Mr. Santi, and the other nominees, are provided below.

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 nominees have provided the following information about themselves, including their ages in March 2010. 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 59, 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. He is a director of The Nemours Foundation. 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 committee of more than three public companies will not impair his ability to serve effectively on Grainger's Audit Committee.

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Wilbur H. Gantz, age 72, is President and Chief Executive Officer of PathoCapital LLC, a privately owned company investing in the healthcare field. Mr. Gantz was formerly, Chairman and Chief Executive Officer of Ovation Pharmaceuticals, Inc., a position assumed in 2002. Previously he served as Chairman and Chief Executive Officer of PathoGenesis Corporation and as President of Baxter International Inc. During the past five years, Mr. Gantz served on the board of directors of Gambro, A.B., The Gillette Company, and Harris Financial Corp. He is a trustee of The Field Museum of Natural History. Mr. Gantz, an independent director, was first elected a director of Grainger in 1985 and is the Lead Director, Chairman of the Board Affairs and Nominating Committee and a member of the Audit Committee. Mr. Gantz 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. Gantz, an exception to this general principle is appropriate.

V. Ann Hailey, age 59, Former 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 serves on its audit committee. During the past five years, Ms. Hailey served on the board of directors of Limited Brands, Inc. 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.

William K. Hall, age 66, is a founding partner of Procyon Advisors, LLP and former 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, A. M. Castle & Co., and Stericycle, Inc. During the past five years, Mr. Hall served on the board of directors of GenCorp, Inc., Great Plains Energy Incorporated, and Woodhead Industries, Inc. He is a director of Northwestern University Settlement Association and a trustee of Rush University Medical Center. 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.

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Stuart L. Levenick, age 57, 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. He is a director of the U.S. Chamber of Commerce, Executive Director of the Association of Equipment Manufacturers, a member of the board of directors of the Heart of Illinois United Way, and a member of the advisory board of Commerce Bank, Peoria, Illinois. 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 72, 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 a trustee of the Janus Funds. During the past five years, Mr. McCarter served on the board of directors of A.M. Castle & Co. and Harris Insight Funds. He is a Fellow of the American Academy of Arts and Sciences; a Board member of the Board of Governors for Argonne National Laboratory; an Emeritus Trustee and former Chairman of Chicago's Public Television Station, Channel 11; a trustee of the National Recreation Foundation; a Regent at the Smithsonian Institution; and an Emeritus Trustee of the University of Chicago. 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. Mr. McCarter 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. McCarter, an exception to this general principle is appropriate.

Neil S. Novich, age 55, is the former Chairman, President, and Chief Executive Officer and a former director of Ryerson Inc., a major metal distributor and fabricator. Mr. Novich became Ryerson's President and Chief Executive Officer in 1996 and also its Chairman in 1999, a position he held through 2007. He is also a director of Analog Devices, Inc. and Hillenbrand, Inc. He is a trustee of The Field Museum of Natural History and the Children's Home & Aid Society, and a member of the Visiting Committee to the Physical Sciences Division, University of Chicago. 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.

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Michael J. Roberts, age 59, 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. Mr. Roberts is also a director of Qwest Communications International, Inc. Mr. Roberts is a director 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. During the past five years, Mr. Rogers served on the board of directors 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 51, is Chairman of the Board, President and Chief Executive Officer of Grainger, positions assumed in 2009, 2006 and 2008, respectively. Mr. Ryan became Chief Operating Officer and was appointed to Grainger's Board of Directors in 2007. Prior to that, Mr. Ryan served as Group President, a position assumed in 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. He is a trustee of the Museum of Science and Industry and DePaul University. He is also a member of the Civic Committee of the Commercial Club of Chicago and the Economic Club of Chicago.

E. Scott Santi, age 48 is Vice Chairman of Illinois Tool Works Inc. ("ITW"), a worldwide manufacturer and marketer of engineered components and industrial systems and consumables. He assumed this position in December 2008. Until 2008, Mr. Santi served as an Executive Vice President of ITW responsible for the company's Worldwide Welding, Electronic Component Fabrication, and Aircraft Ground Support Equipment Groups. Before assuming that position in 2004, Mr. Santi served as ITW's Group Vice President for the Welding Products Group. He is a member of the board of trustees of the Ravinia Festival Association.

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James D. Slavik, age 57, is Chairman and a director of Mark IV Capital, Inc., a commercial real estate development and investment company. He is also a director of the Hoag Hospital Foundation. 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.

Determination Regarding Director Experience, Qualifications, Attributes, and Skills

The Company's directors and nominees have varied experiences, qualifications, attributes, and skills that assist them in providing guidance and oversight to the Company's management as it operates a multichannel business model through a network of branches, distribution centers, sales representatives, direct marketing, including catalogs, and a variety of electronic and Internet channels and with more than 18,000 employees in the United States, Canada, China, India, Japan, Mexico, and Panama. As the leading broad line suppler of maintenance, repair and operating supplies in North America, with 2009 sales of $6.2 billion, the Company has a diverse customer base necessitating depth and breadth of product lines and offerings.

The Board has identified experience, qualifications, attributes, and skills that in light of the Company's business and structure are relevant to service on the Board of Directors. The Board considers nominees who have demonstrated integrity and accomplishment in their business and professional careers and who possess the necessary experience, qualifications, attributes, and skills to contribute to the Board and the Company.

The Board believes the experience, qualifications, attributes, and skills of each nominee qualifies the nominee for service on our Board of Directors. Each of the current nominees has leadership experience in the strategy and the operations of large, complex organizations. The summary provided below is not a comprehensive statement of each nominee's background but is provided to describe the primary experiences, qualifications, attributes, and skills that led the Board to nominate each individual.

Mr. Brian P. Anderson served as the chief financial officer ("CFO") of two publicly-traded companies, held finance positions including corporate controller and vice president of audit and was an audit partner at an international public accounting firm. As a result, Mr. Anderson has in-depth knowledge of accounting and finance as well as familiarity in risk management and risk assessment and the application of the Committee of Sponsoring Organizations of the Treadway Commission internal controls framework. In addition, while serving as a CFO of one of the two publicly-traded companies, Mr. Anderson had primary responsibility for the supply chain and logistics of that company. Mr. Anderson presently serves on the governance committee of three public companies and the audit committee of four, including Grainger.

Mr. Wilbur H. Gantz has served as the chief executive officer ("CEO") of two multinational pharmaceutical companies and is well versed in regulatory and compliance frameworks. He has also had responsibility for international operations including living and working outside of the United States. Mr. Gantz has chaired governance committees for a number of companies and has served on the compensation committees of three public companies.

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Ms. V. Ann Hailey has served as the CFO of a multi-billion dollar public company as well as the CFO of a privately held company. She has held various other finance and planning positions at multinational publicly-traded companies. In addition, Ms. Hailey has held positions in marketing, human resources, and business development including service as executive vice president, corporate development at a multi-billion dollar consumer products company. She also serves on the audit committee of another public company.

Mr. William K. Hall has served as senior executive at five multinational enterprises and as CEO of three manufacturing companies, included in his responsibilities was the management of foreign operations. Mr. Hall also served as the chief marketing officer of a large manufacturing company for over five years. In addition, Mr. Hall has extensive experience as a strategic management consultant.

Mr. Stuart L. Levenick serves as the president of a multinational manufacturing company and has had extensive international operations experience including positions outside the United States in numerous countries for more than 20 years. Mr. Levenick also has current and past operational responsibility for supply chain and logistics and current responsibility for the global parts and product support business of his present employer. In addition, he has led his employer's global human resources function.

Mr. John W. McCarter, Jr. serves as the CEO of a large not-for-profit enterprise and was previously the senior vice president and practice lead for a management consulting firm. During his tenure as a consultant, Mr. McCarter consulted on corporate strategy and organization matters. Mr. McCarter also has extensive governance experience as the chairman of non-profit boards as well as past service as a trustee of two universities and service on public company boards. Mr. McCarter has served on audit committees of public and private companies and was the former director of finance and budget director for the State of Illinois.

Mr. Neil S. Novich has served as the CEO and chairman of the board of a publicly-traded multinational metal distributor and fabricator, where he was deeply engaged not only in operations but also the leadership development and human resources functions of that company. He was also a consultant for a management consulting firm for over 10 years developing strategies for his clients. As a result, Mr. Novich also has in-depth supply chain and logistics experience. Mr. Novich also serves on the nominating and governance committee of two other publicly-traded companies.

Mr. Michael J. Roberts served as president and chief operating officer of a multinational multi-billion dollar publicly-traded food-service company and in this capacity had extensive management and profit and loss responsibilities. Further, he was responsible for the marketing and international operations of that company.

Mr. Gary L. Rogers served as president and CEO of a multi-billion dollar global enterprise with responsibilities including international operations. Mr. Rogers also has a background in finance and accounting serving as part of the corporate audit staff and as division chief financial officer for that same enterprise.

Mr. James T. Ryan is the Company's Chairman, President and CEO. As noted in his biography, he has served Grainger in many capacities over his 29 years with the Company including direct responsibility for purchasing and varied management roles in the supply chain operations of the Company. Previously, Mr. Ryan was directly responsible for the sales and marketing of the Company's United States operations and has a Master of Business Administration in marketing. Mr. Ryan also has extensive experience in strategic planning, development and execution.

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Mr. E. Scott Santi is the vice chairman of a multi-billion dollar publicly-traded manufacturer and marketer of products. Prior to assuming this position, he served in various management roles for the same company. During his tenure he has had extensive international responsibility including direct operating responsibility for a division with annual international revenues of several billion dollars. Mr. Santi has also had significant strategic marketing responsibilities and human resource experience including compensation policy and leadership development.

Mr. James D. Slavik is the chairman of a private commercial real estate development and investment company and was previously that company's CEO. As a result, Mr. Slavik has expansive knowledge in investments, financing and real estate. Mr. Slavik also worked at multiple commercial brokerage companies as an investment properties broker and led the marketing programs for clients' commercial properties.

Board Diversity

One of the primary objectives of Grainger's corporate governance structure is to have a highly functional Board that properly oversees the Company's strategies and operations. The Board's Criteria for Membership on the Board of Directors ("Criteria") list the various characteristics that the Board Affairs and Nominating Committee should consider in reviewing candidates for the Board. In addition to relevant business experience, qualifications, attributes, skills, and the willingness to become involved with the Company, the Criteria also enumerate personal characteristics that should be considered, including reputation for ethics and integrity, common sense and judgment, independent and objective thought, and the consideration of diverse opinions.

Regarding diversity, the Criteria specify that consideration shall be given to candidates without regard to race, color, religion, gender or national origin. To insure that the Board benefits from diverse perspectives, it seeks qualified nominees from a variety of backgrounds, including candidates of gender and racial diversity, and in any retained search for Board candidates, the Company specifies that the Board is seeking candidates with gender and racial diversity. The Board actively reviews diversity recruiting efforts.

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BOARD OF DIRECTORS AND BOARD COMMITTEES

Six meetings of the Board were held in 2009. Each regular Board meeting included at least one executive session, during which only independent directors were present. In addition, the directors acted twice 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 2009. 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

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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 to review the Company's risk assessment and risk management process and policies and to oversee compliance with Grainger's Business Conduct Guidelines.

Board Affairs and Nominating Committee

The Board Affairs and Nominating Committee met four times in 2009. 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. Historically, the Chairman of the Board Affairs and Nominating Committee (currently, Wilbur H. Gantz) reviewed in advance of meetings all agenda of Board meetings and acted as Chairman and presided at regular executive sessions of the Board without management participation. However, in February 2010, the Board revised its Operating Principles to create the leadership position of Lead Director, to be elected annually by and from the Board's independent directors. Mr. Gantz was elected as Lead Director to serve until the annual election scheduled for April, 2010.

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 of the Board Affairs and Nominating Committee 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 compensation and benefits policies and programs (generally with regard to all employees and specifically with regard to officers), makes executive compensation decisions, and reviews and makes recommendations concerning other compensation-related matters to be submitted to the Board and/or shareholders for approval. The general responsibilities of the Committee are to oversee:

- 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;

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That the Company's competitive policies and practices for all employees are designed to avoid inappropriate risk taking incentives; and

That various stock and incentive plans are appropriately administered.

In 2009, the Compensation Committee met five times and 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 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 relevant to chief executive officer ("CEO") compensation, evaluates CEO 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 CEO's compensation based on this evaluation, in executive session without members of management present.

In overseeing the Company's compensation systems, the Compensation Committee develops programs based on its own deliberations. It also 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. The Committee's practice is to routinely meet with the independent consultant in executive session, without management present, following each Compensation Committee meeting. The Committee has sole authority to retain and terminate the independent consultant, including sole authority to approve the consultant's fees. At the Committee's direction, the independent compensation consultant:

attends Committee meetings;

assists the Committee in evaluating compensation proposals;

helps analyze recommendations proposed by management;

assists with the design of the structure and metrics for incentive compensation programs;

responds to specific compensation-related inquiries, such as determining comparator companies used for compensation studies;

conducts risk reviews of the Company's performance and incentive based compensation programs; and

undertakes special projects.

The Committee seeks advice from the independent consultant on compensation trends and best practices, as well as in reviewing the Company's programs and policies to ensure they are designed and operate to achieve their purposes and goals. During 2009, the independent consultant performed a number of specific projects, including assisting in a risk review of the incentive programs, providing advice on executive compensation trends, and attending all Compensation Committee meetings and executive sessions.

Members of management (including certain of its "Named Executive Officers," or "NEOs") assist the Compensation Committee in performing its responsibilities by providing recommendations for the design of Grainger's compensation program for its NEOs, other officers, and other employees.

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Management also recommends salary and award levels, except those related to Mr. Ryan, Chairman of the Board, President and Chief Executive Officer. Mr. Ryan's salary and awards are reviewed by the Compensation Committee, either alone or together with the other independent directors (as directed by 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 officers and other employees under the 2005 Incentive Plan. The Committee delegates to management a limited authority to grant stock options and RSUs to non-officer employees. Awards under this authority are granted under the terms and conditions that have been approved by the Committee. The pool of shares available to management under this delegation is refreshed annually to 50,000 stock options and 25,000 RSUs. The maximum amount that management is authorized to award any non-officer employee is 5,000 stock options and 2,500 RSUs, and awards are effective the first business day of the following month. Information concerning the grants is shared with the Committee at its next meeting. The Committee may terminate this delegation of authority at its discretion.

Leadership Structure

The Board has carefully considered its leadership structure and believes that a combined Chairman/Chief Executive Officer position represents the best leadership structure for the Company.

The Board has strong governance structures and processes in place to ensure the independence of the Board. These established structures and processes, which are reflected in the Board's Operating Principles and the various Committee charters, provide for the independent Directors to exercise authority so that the Board is effective in overseeing critical matters of strategy, operations, and reporting. Important duties performed by the independent Directors, either collectively or through committees made up solely of independent Directors, are selecting the Chairman and Chief Executive Officer and evaluating his or her performance and resulting compensation.

The Board believes that a single individual serving in the combined position of Chairman and Chief Executive Officer provides a useful and effective connection between the Board and Company management to help them act with a common understanding and purpose. This structure assists in the timely flow of relevant information that supports effective Board decision-making.

The Board does not believe that separating the role of the Chairman and Chief Executive Officer would result in strengthening our corporate governance or in creating or enhancing long-term value for our shareholders. While the Board generally believes that splitting the positions is unnecessary and not in the best interest of shareholders, it temporarily separated the two positions in 2008 as part of a planned leadership succession process. The separation of these functions helped promote an orderly transition in Company leadership. At the end of the transition period, after consideration of the Company's governance structures, the Board determined it was appropriate to combine the Chairman and Chief Executive Officer positions.

In deciding that a combined Chairman and Chief Executive Officer position is the appropriate leadership structure for the Company, the Board also recognized the need for independent leadership and oversight. Since 1995, the Company's Operating Principles have assigned a leadership role to the independent director serving as Chairman of the Board Affairs and Nominating Committee. Over time, this Director has been responsible for facilitating Board involvement on major issues and/or proposals, reviewing meeting agenda and information to be provided to the Board, consulting with

Directors, the Chief Executive Officer, and management and presiding at executive sessions of the Board.

In February 2010, the Board revised its Operating Principles to create the leadership position of Lead Director, to be elected annually by and from the Board's independent directors. Among the duties assigned to the Lead Director is the responsibility for:

- Presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- Serving as the primary liaison between the Chairman and the independent directors;
- Reviewing and approving the types of information sent to the Board;
- Reviewing and approving meeting agenda for the Board to insure that critical issues are included;
- Reviewing and approving meeting schedules to insure that there is sufficient time for discussion of all agenda items;
- Conducting the Board's annual self-evaluation, including coordinating Board Committee evaluations;
- Leading the Chairman/Chief Executive Officer evaluation and communicating to the Chairman/Chief Executive Officer the independent directors' annual evaluation of the Chairman/Chief Executive Officer's performance; and
- Calling meetings of the independent directors if appropriate.

We believe that given the Company's corporate governance structures and processes, a combined Chairman and Chief Executive Officer position in conjunction with an independent Lead Director provides effective oversight of management by the Board and results in a high level of management accountability to shareholders.

Board's Role in Risk Oversight

The Company is a broad line distributor of maintenance, repair and operating supplies serving businesses and institutions, providing customers with access to more than 900,000 products in the United States. The Company has a diverse customer base. In 2009, sales transactions in the United States were made to approximately 1.7 million customers averaging approximately 95,000 daily transactions, with an average order size of $225. No single customer's aggregate purchases represent more than 5 percent of the Company's total sales. The Company also has a diverse supplier base. In 2009, the Company purchased products from approximately 2,300 key suppliers in the United States, and no single supplier represented more than 2 percent of the total purchases.

The Board's role is to oversee risk assessment and risk management processes and policies used by the Company to identify, assess, monitor and address potential financial, compensation, operational, strategic and legal risks on an enterprise-wide basis. The Audit Committee of the Board also regularly reviews the Company's risk assessment and risk management processes and policies, including receiving regular reports from the members of the Company's management who are responsible for risk assessment and risk management on the effectiveness of the Company's enterprise risk management initiatives.

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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.

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 ("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 Chairs of Board committees and the Lead Director receive additional annual retainers. For the Chair of the Audit Committee, the retainer is $10,000; and for the Chair of the Board Affairs and Nominating Committee and the Chair of the Compensation Committee, the retainer is $5,000. The retainer for the Chair of the Compensation Committee will increase to $10,000 and the Lead Director will receive a retainer of $5,000 in April 2010.

All independent directors also receive an annual deferred stock unit grant. The number of shares covered by each grant is equal to $100,000 (based on the 200-day average stock price as of January 31, in the year of the grant, a methodology consistent with the calculation to be used for other executive equity awards), rounded up to the next ten-share increment. The deferred stock units are settled upon termination of service as a director. Directors may also defer their annual retainers, committee chair retainers, and meeting fees in a deferred stock unit account.

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 periodically 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 are currently in compliance with the guidelines.

Grainger provides travel and reimburses travel expenses relating to their 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 provided to U.S. Grainger employees.

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

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2009 Director Compensation

Name	Fees Earned or Paid in Cash (1)(4)	Stock Awards (2)	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation (3)	Total
Brian P. Anderson	$ 81,500	$ 100,233	$ 0	$ 0	$ 0	$ 1,500	$ 183,233
Wilbur H. Gantz	$ 76,500	$ 100,233	$ 0	$ 0	$ 0	$ 6,000	$ 182,733
V. Ann Hailey	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 0	$ 171,733
William K. Hall	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 7,500	$ 179,233
Richard L. Keyser (5)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Stuart L. Levenick	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 0	$ 171,733
John W. McCarter, Jr.	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 7,500	$ 179,233
Neil S. Novich	$ 76,500	$ 100,233	$ 0	$ 0	$ 0	$ 7,500	$ 184,233
Michael J. Roberts	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 0	$ 171,733
Gary L. Rogers	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 0	$ 171,733
James T. Ryan	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
James D. Slavik	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 7,500	$ 179,233
Harold B. Smith	$ 71,500	$ 100,233	$ 0	$ 0	$ 0	$ 7,500	$ 179,233

(1) Represents cash fees received in 2009.

(2) Represents the grant date fair value of an award of 1,230 deferred stock units made on April 29, 2009, with immediate vesting that will be paid upon termination from service, computed in accordance with FASB ASC Topic 718.

(3) Represents amounts paid by the Company to charitable organizations as part of a matching gift program.

(4) Each independent director was paid an incremental $1,500 which represents the attendance at one additional meeting held in 2009.

(5)

Mr. Keyser had the ability to use the Company aircraft, car and driver for personal travel, subject to the requirement that he fully reimburse the Company for such use.

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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, nominees, and executive officers as a group beneficially owned as of March 1, 2010.

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	4,165,697	5,300	11,950	4,182,947	5.7%
Brian P. Anderson	4,340	7,700	9,118	21,158	*
Court D. Carruthers	1,122	7,300	10,100	18,522	*
Wilbur H. Gantz	6,300	7,700	21,386	35,386	*
V. Ann Hailey	0	0	4,097	4,097	*
William K. Hall	3,000	0	10,325	13,325	*
John L. Howard	10,420	70,000	33,000	113,420	*
Ronald L. Jadin (8)	1,820	6,700	15,200	23,720	*
Richard L. Keyser	89,480	505,000	73,595	668,075	*
Stuart L. Levenick	0	0	8,896	8,896	*
D.G. Macpherson	0	0	24,000	24,000	*
John W. McCarter, Jr. (9)	14,179	5,300	9,971	29,450	*
Neil S. Novich	5,340	3,650	12,757	21,747	*
Michael A. Pulick	4,538	27,000	26,700	58,238	*
Michael J. Roberts	0	0	8,125	8,125	*
Gary L. Rogers	310	0	5,453	5,763	*
James T. Ryan (10)	30,736	102,000	108,000	240,736	*
E. Scott Santi	300	0	0	300	*
Harold B. Smith (11)	69,354	3,650	11,950	84,954	*
Directors, Nominees, and Executive Officers as a group (12)(13)	4,426,447	769,230	424,823	5,620,500	7.1%

(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.

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(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.

(5) Includes 2,510,088 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 17,900 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 14,179 shares as to which Mr. McCarter has shared voting and investment power with his wife.

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

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

(12) Includes 2,569,713 shares as to which members of the group have shared voting and/or investment power.

(13) Excludes 705,046 shares and 17,900 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
David W. Grainger 100 Grainger Parkway Lake forest, Illinois 60045	6,538,764**	9.0%

* Includes shares beneficially owned by affiliated entities.

** As of the record date, March 1, 2010.

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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 during 2009.

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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 17, 2010, and is available on the Company's Web site 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. 114, "Communication with Those Charged with Governance" 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, 2009, 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 2009 and 2008, respectively:

Fee Category	2009	2008
Audit Fees	$ 1,549,750	$ 1,486,000
Audit-Related Fees	242,100	141,000
Tax Fees	195,300	395,200
All Other Fees	3,000	3,070
Total Fees	$ 1,990,150	$ 2,025,270

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 2010 annual meeting of shareholders and in its Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission. The Compensation Committee acts under a charter that is reviewed annually, was last amended by the Board on February 17, 2010, and is available on the Company's Web site at www.grainger.com/investor.

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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FEES FOR INDEPENDENT COMPENSATION CONSULTANT

The Compensation Committee of the Board has engaged Deloitte as its independent compensation consultant. The following table sets forth the fees for services rendered by Deloitte and its affiliates with respect to fiscal year 2009:

Type of Fee		2009
Executive Compensation Consulting	$	179,158
All Other Consulting	$	1,364,847
Total Fees	$	1,544,005

Executive Compensation Consulting Fees: Consists of fees billed for services provided to advise the Compensation Committee of the Board with respect to executive and director compensation.

All Other Consulting Fees: Consists of fees billed for all other services provided to Grainger. None of these fees are related to compensation matters.

Since 2003, an affiliate of Deloitte has provided other services to Grainger that are unrelated to executive compensation matters. The decision to engage an affiliate of Deloitte for these other services was made by management. The Board has been aware of this ongoing work and the use of an affiliate of Deloitte but neither the Board nor the Compensation Committee specifically approved these services. The Committee believes that the scope and nature of these services do not impair the independence of its advisor.

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COMPENSATION DISCUSSION AND ANALYSIS

Overview of the Compensation Program

The Company's compensation program is based upon a philosophy that is applied to all Company employees to have the best people and provide them appropriate incentives that encourage them to achieve results that create shareholder value. The Company uses its compensation programs to attract, reward and retain its employees and to motivate them to grow the business profitably.

The Company strives to design and maintain a compensation program that provides appropriate incentives for outstanding performance. While the compensation program is significantly performance-based, it is also designed not to encourage excessive risk taking. Compensation for executives includes a blend of base salary, short-term incentives, long-term equity awards, and required stock ownership. These components, and the conditions for their payment, provide the Company's executives with appropriate incentives to create long-term value for the shareholder while taking prudent action to grow the value of the Company.

This compensation philosophy allows the Company to respond to market and economic conditions. In light of the economic downturn in 2009, Grainger decided to manage its cost structure by not providing base salary increases for its executive and salaried (exempt) employees. The Company maintained its pay-for-performance philosophy by not making incentive program payments for the 2009 performance year because the Company did not achieve its sales growth target.

This Compensation Discussion and Analysis describes in detail the Company's compensation policies and arrangements that are applicable to the Named Executive Officers appearing in the Summary Compensation Table for fiscal year 2009.

Named Executive Officers ("NEOs") for 2009

Officer	Title
James T. Ryan	Chairman of the Board, President and Chief Executive Officer ("CEO")
Ronald L. Jadin	Senior Vice President and Chief Financial Officer ("CFO")
Court D. Carruthers	Senior Vice President and President, Grainger International
Michael A. Pulick	Senior Vice President and President, Grainger U.S.
D.G. Macpherson	Senior Vice President, Global Supply Chain
John L. Howard	Senior Vice President and General Counsel

The Company's compensation philosophy is to hire and retain the best people and provide incentives that encourage them to achieve the financial results that create long-term shareholder value.

The compensation program for NEOs consists of base salary, performance-based short-term incentives, performance-based long-term equity awards, benefits, and minimal 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

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providing market median total compensation opportunities at target levels of performance and to provide incentives for greater growth. The approach that the Company uses to determine "market" compensation is more fully discussed in the "Compensation Comparator Group" section.

The link between pay and performance for each element of an NEO's compensation is described in the table below.

Pay-for-Performance

Compensation Element	Link to Performance
Base Salary	Base salary increases are linked to individual performance.
Short-Term Incentives	Short-Term Incentives are linked to annual achievement of predetermined Company objectives.
Long-Term Incentives	Stock options are granted based on individual performance and linked to stock price performance for up to ten years. Performance shares are linked to achieving specific predetermined Company objectives and stock price over the three-year performance period. RSUs are only used for the NEOs for retention purposes, and are not granted as part of the annual Long-Term Incentive Program.
Stock Ownership Requirements	Stock ownership focuses executives on increasing shareholder value.
Profit Sharing Trust ("PST")/ Retirement Plan	The PST is the primary Company-sponsored retirement vehicle for U.S.-based employees, which encourages financial performance that drives increased shareholder value. Employees who do not participate in the PST are eligible for a 401(k) or other retirement plan.

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

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In setting individual compensation levels, the Compensation Committee (with assistance from the independent compensation consultant and management) 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 25th, 50th, and 75th percentiles, the executive's overall experience, individual and Company performance, replaceability, internal equity, unique skills and management's recommendation to determine appropriate compensation for each 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 evaluate the potential value of all compensation. The tally sheet includes each NEO's current base salary, annual incentive award, and the value of all outstanding equity-based awards (both vested and unvested), deferrals, benefits, and perquisites, as well as potential payments under retirement and certain change in control situations. Since no NEO has an 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. In its 2009 review, the Committee did not make specific adjustments to the Company's compensation programs or any NEO's compensation based on its review of the tally sheets, as it concluded the earned and potential awards 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 for most U.S.-based employees. The Company provides Supplemental Profit Sharing Plans solely to maintain an equal percentage of PST compensation contribution to approximately 150 employees, including all NEOs, who would be subject to contribution limitations 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 based in the United States.

Compensation Committee of the Board

The Compensation Committee of the Board is responsible for the Company's compensation programs and for making salary and award decisions for the CEO.

The Compensation Committee oversees the Company's compensation and benefits for all officers and employees. The 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 executives, balances performance, provides appropriate incentives to increase long-term shareholder value, and ensures that compensation policies and practices for all employees are designed to avoid inappropriate risk taking incentives.

The compensation awarded to Mr. Ryan, CEO, is determined by the Compensation Committee with assistance from its independent compensation consultant, and in relation to competitive market data. The Compensation Committee reviews and approves the corporate goals and objectives relevant

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to Mr. Ryan's compensation, and evaluates his performance in light of those goals and objectives. Either as a Committee or together with the other independent directors (as directed by the Board), the Compensation Committee determines and approves his compensation level based on this evaluation, in executive session without members of management present.

Under its charter, the Compensation 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.

Risk Assessment

The Compensation Committee's oversight responsibility includes assessing the relationship between the Company's compensation programs and their impact on long-term shareholder value. To assist in the performance of this responsibility, the Committee engaged its independent compensation consultant to conduct a risk assessment of all incentive-based compensation, including short-term and long-term incentive programs (including the performance share program).

Based on the findings of the independent compensation consultant and the Committee's consideration of these matters, the Committee does not believe that the Company's compensation policies and practices are reasonably likely to have material adverse effect on the Company.

The incentive compensation programs incorporate risk-mitigating components, including:

- Multiple measures for example, sales growth combined with profitability;
- Robust performance measure selection and goal setting;
- A balance of short-term and long-term incentives in each NEO's pay mix;
- Mixed equity grants of both stock options and performance shares;
- Clawback provisions to recoup incentive compensation; and
- Stock ownership requirements.

Role of Management

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

Members of management, including the Chairman of the Board, President and Chief Executive Officer ("CEO"); the Senior Vice President and Chief Financial Officer; the Senior Vice President and General Counsel; and the Senior Vice President, Human Resources, assist the Compensation Committee by routinely recommending compensation and performance incentive programs that management believes will provide the appropriate level of incentives consistent with the Company's compensation philosophy. 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. Ryan, the recommendations also include the structure and targets of short- and long-term incentive programs for all employees, as well as changes to programs required for regulatory

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compliance. These recommendations are reviewed and approved by the CEO before they are presented to the Compensation 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 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. The most recent comparator group study was based on 2008 data ("2008 Compensation Study"), and the Company expects that a new study will be commissioned in 2010.

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 played 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 percentiles for 2007 sales and market capitalization for the compensation comparator group and Grainger are 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

Base Salaries

Base salaries are intended to provide an appropriate level of fixed compensation to attract and retain executives. Base salaries are determined 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. Nevertheless, in order to control its operating costs in light of the economic downturn, in 2009 the Company did not provide performance or market-based salary increases for its NEOs and salaried (exempt) employees.

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Annual base salary adjustments are considered and implemented to reflect individual performance, contribution, experience, and maintain market competitiveness and changes in responsibilities. The size of annual incentives and profit sharing opportunities increase as base salary increases occur, since 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 long-term award targets are tied to organizational positions rather than an individual's base salary.

Base salary increases for the NEOs, with the exception of Mr. Ryan, are reviewed and approved by the CEO before they are presented to the Compensation Committee. The Committee reviews these recommendations in conjunction with its independent compensation consultant.

The compensation awarded to Mr. Ryan is determined by the Compensation Committee with assistance from its independent compensation consultant, and in relation to competitive market data. The Compensation Committee reviews and approves the corporate goals and objectives relevant to Mr. Ryan's compensation, and evaluates his performance in light of those goals and objectives. Either alone as a Committee or together with the other independent directors (as directed by the Board), the Compensation Committee determines and approves his compensation level based on this evaluation, in executive session without members of management present.

The Company plans to provide performance-based pay adjustments in 2010.

Effective January 1, 2010, Mr. Jadin (Chief Financial Officer), received a salary increase changing his base salary to $500,000 (+14%). This increase includes both a performance adjustment and a market adjustment to align his pay to a competitive level.

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, are eligible to receive short-term cash-based incentives on the achievement of specified annual Company-wide financial performance measures set forth in the Company 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 did not achieve its 2009 Company MIP sales growth targets, and therefore the program did not generate a payment to U.S. participants.

The following table displays the 2009 MIP target, plan and payment applicable to each NEO.

Name	Target (as a % of base)	Plan	Payment (as a % of target)
James T. Ryan	110%	Company	0%
Ronald L. Jadin	70%	Company	0%
Court D. Carruthers	70%	Company (weighted 25%) International (weighted 75%)	63%
Michael A. Pulick	70%	Company	0%
D.G. Macpherson	70%	Company	0%

John L. Howard	70%	Company	0%

A portion of Mr. Carruthers' MIP is aligned with his international responsibility.

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The Compensation Committee and management perform a thorough analysis in setting financial measures and goals for the Company MIP to ensure the program appropriately balances the Company's objectives, is aligned with long-term shareholder interest, and has risk-mitigating components. While the measures and goals are clearly aligned with the strategy, they also account for current economic conditions. The combination of return on invested capital ("ROIC") and sales growth performance serve to mitigate risk to the Company's shareholders, as do the threshold, target and maximum payment levels built into the plan.

The Company believes the design of the annual incentive program encourages performance that creates shareholder value by focusing on profitable sales growth and ROIC. The basic framework of the MIP has been in place for the past nine years, although specific objectives and performance target levels have been modified on a year-by-year basis. ROIC and sales growth remained the key structural components for the 2009 MIP. ROIC reflects how effectively management uses Company assets and is generally defined by the Company as pre-tax operating earnings divided by net working assets and sales growth is determined by year-over-year results. The total MIP payment is calculated as follows:

MIP Payment = (ROIC Performance + Sales Growth Performance)

This framework was selected to align with the Company strategy and to balance 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 Compensation Committee the annual opportunity to adjust performance objectives in light of the current economic and competitive environments.

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No 2009 Company MIP Payment was earned because sales growth fell more than 5%.

The 2009 Company MIP is based on the Company's return on invested capital and year-over-year sales growth. The Company determines the payment earned for ROIC and the payment earned for sales growth, and, if the minimum performance thresholds are achieved, the two amounts are added together. Payments are based on the following tables:

2009 Management Incentive Program
Payout Matrices

ROIC	Payout as a Percent of Target
27%	50.0%
26%	33.3%
25%	16.7%
24%	0.0%
22%	**Minimum performance threshold for any payment**

Sales Growth	Payout as a Percent of Target
7%	150.0%
6%	128.6%
5%	107.1%
4%	85.7%
3%	64.3%
2%	42.9%
1%	21.4%
0%	0.0%
-5%	**Minimum performance threshold for any payment**

For the year 2009, ROIC was 24.9% and sales growth was -9.2%. Based on these results, again no Company MIP was paid for 2009.

Each NEO's target incentive award under the annual incentive program is based on a review of competitive market practice. For 2009, the target annual incentive awards as a percent of base salary were 110% for Mr. Ryan, and 70% each for Messrs. Jadin, Carruthers, Pulick, Macpherson, and Howard. 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 had set the ROIC and sales growth targets so that they provide the appropriate level of motivation. 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 2009.

Due to the nature of Mr. Carruthers' role, his MIP award is based on the performance of the Company and the international business units. Each of the business unit incentive programs has weighting between the local business unit results (75%) and the Company MIP results (25%). Mr. Carruthers' MIP award is allocated as follows: Acklands Grainger Inc. ("AGI") at 50%, China at 25% and Mexico at 25%. The business unit programs are measured based on profitable sales growth for each corresponding business.

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AGI, China, and Mexico achieved their 2009 MIP objectives as shown in the table below. Although Mr. Carruthers did not receive a MIP payment based on Company performance, he did receive a MIP payment based on the performance of the international business units.

Summary of Performance Measures and Results for Proxy Statement

Business Unit Program	**Business Unit MIP Objectives (50%/50% Split)**		**Business Unit Results**		**Incentive Multiple**	**Business Unit Weight Factor**	**Weighted Multiple**	**Percent of Target Award Paid**
AGI Results*	Sales Growth 2.33%	ROIC 10.50%	Sales Growth -4.43%	ROIC 11.30%	38%	50%	19%	
Mexico Results*	Sales Growth	Op Earnings (mil.)	Sales Growth	Op Earnings (mil.)	59%	25%	15%	
Interior	2.33%	-M 39.90	1.95%	-M 5.50				
Puerto Rico	1.67%	$1.67	-18.76%	$2.30				
Border	1.67%		-30.67%					
China Results*	Sales (mil.) RMB 98.70	Op Earnings (mil.) -RMB 82.20	Sales (mil.) RMB 100.66	Op Earnings (mil.) -RMB 70.61	115%	25%	29%	
2009 Multiple								***63%***

* Each business unit program includes a Company component that represents 25% of the target incentive. The Company payout in 2009 was 0%.

If any incentive amounts would have been paid to Messrs. Ryan, Jadin, Pulick and Howard, it would have been based on the performance targets established for the 2009 MIP and would have been made under a separate annual incentive program described in the 2005 Incentive Plan. The previously named NEOs 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 a portion of an incentive pool to each participant, 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 incentive 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 2009, the program created a pool of $21.5 million, none of which was distributed to participants.

The 2010 MIP will also include ROIC and sales growth as performance measures.

Long-Term Incentives

The Company annually provides long-term incentives to NEOs and other key managers in order to align with the Company's strategy:

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

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The Company's long-term incentives for NEOs consist of stock options and performance shares, and are provided under the shareholder-approved 2005 Incentive Plan. In 2009, the Company structured awards such that stock options represent approximately 70% of the total value of long-term incentive compensation and performance shares represent approximately 30% of the total value. This mix was chosen to better achieve the pay-for-performance objectives noted above. This mix also reflects market practices for senior executives, which is to use a combination of awards to provide the desired level of long-term performance incentives and retention.

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, but may also reflect individual performance. The Compensation Committee annually establishes the target value of the award based on the executive's position. The value is converted to shares using the 200-day average stock price as of January 31 in the year of grant. Performance Share awards are generally made at the February Board meeting, while stock options are awarded at the April Board meeting.

70% 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 executive 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 and will not be permitted under the 2010 Incentive Plan.

30% Performance Shares. Performance shares are intended to align compensation directly with the Company's business strategy and the long-term creation of shareholder value. The Company's performance shares provide the executive with a potential share payout after 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 sales growth and continued ROIC achievement.

Performance Shares

The three-year performance cycle for the performance shares begins on January 1 of each year. The Compensation Committee and management perform a thorough analysis in setting financial measures and goals for the Performance Share program. The combination of ROIC and sales growth performance serve to mitigate risk to the Company's shareholders, as do the threshold, target, and maximum payouts built into the program.

For the performance share cycle beginning on January 1, 2009, the plan incorporates year two sales revenue and three-year ROIC performance. The Company's net sales in 2010 determine the

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number of shares earned, while vesting is dependent on meeting a three-year ROIC hurdle. Specifically, the 2009 performance share program was structured as follows.

Example of 2009 Performance Share Payout Opportunity

		3-Year 18% ROIC Objective Met? (2)	
2010 Sales (1)	**Performance Share Payout as a Percent of the Target Opportunity (1)**	**No**	**Yes**
< 6.5 Billion	0%	N/A	N/A
$6.5 Billion	50%	Forfeit All	Performance Share Payout Vests
$7.0 Billion	100%	Forfeit All	Performance Share Payout Vests
$8.0 Billion	200%	Forfeit All	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.

If, during 2010, the Company achieves less than $6.5 billion net sales, 0% of the target award will be available, $6.5 billion will yield 50% of the target award, $7.0 billion will yield 100%, and $8.0 billion or greater will yield 200%. For the three-year cycle, if the average Company ROIC is 18% or higher, the shares will vest. Award amounts will be interpolated.

The table and summary above contain performance payout targets that are not historical in nature but concern future results and objectives, and, as such, they may be deemed to be "forward-looking statements" under the federal securities laws. Grainger cannot guarantee that any results and objectives will be realized and undertakes no obligation to publicly update the forward-looking statements.

The Compensation Committee selected these measures because they balance sales growth with long-term profitability, expense management, and asset management and are consistent with the short-term objectives established in the annual incentive program. The Committee may use different sales growth and ROIC objectives and targets from year to year to maximize alignment with then-current business objectives. Beginning in 2009, and for subsequent years, dividend equivalents will not be paid on performance shares.

The definition of retirement eligibility and the treatment of performance shares and stock options in relation to retirement is discussed in detail in the "Retirement" section.

The use of stock options and performance shares satisfies the requirements for qualified performance-based compensation under Section 162(m) of the Internal Revenue Code. The Company historically makes stock option 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

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competitive advantages. Under these "clawback" 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. In 2010 the Company added additional clawback policies related to performance and fraud (see the "Compensation Recoupment Policy" section for additional details).

Stock Ownership Guidelines

As of the close of 2009, all officers subject to stock ownership guidelines, including the NEOs, are in compliance with the guidelines.

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. In 1996, the Company established stock ownership guidelines for its NEOs and other officers. The current 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?
James T. Ryan	5x	Yes
Ronald L. Jadin	3x	Yes
Court D. Carruthers	3x	Yes
Michael A. Pulick	3x	Yes
D.G. Macpherson	3x	Yes
John L. Howard	3x	Yes

These ownership guidelines must be met within three years of being elected an officer or assuming a new position, and are reviewed annually by the Board. Officers who fail to achieve these ownership levels will not be eligible to receive any equity-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 (whether vested or unvested) 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

The Profit Sharing Trust ("PST") is the primary Company-sponsored retirement vehicle for 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 of 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

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of service. The Company's U.S. NEOs participate in the PST on the same basis as all other employees. The Company does not maintain a defined benefit pension plan for U.S.-based employees.

Effective February 1, 2010, the Company implemented a 401(k) plan for certain newly acquired businesses in the U.S. whose employees do not participate in the PST. Approximately 75 employees of the Company's 18,000 employees (less than 1%) are currently eligible for the 401(k). None of the Company's NEOs are eligible for the 401(k) plan.

Mr. Carruthers is an employee of the Company's Canadian subsidiary, Acklands Grainger Inc. ("AGI"), and therefore participates in the AGI Notional Account Plan. The AGI Notional Account Plan (for designated executives) provides a 15% contribution (of earnings above $229,000 Canadian dollars), which earns an investment return equal to the Canadian prime interest rate plus 1%.

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 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. The Company has purchased and owns life insurance contracts to reduce its exposure relating to the Executive Death Benefit Plan. The Company has determined that it will no longer offer an executive death benefit program for employees who become executives after December 31, 2009. For these individuals, the Company will provide insurance coverage on the same basis as is available for other employees. Unless offered to other Company employees, the Company will not make payments, grants or awards following the death of an executive in the form of unearned salary or unearned bonuses, accelerated vesting or the continuation in force of unvested equity grants, awards or ungranted equity, perquisites, and other payments or awards made in lieu of compensation.

Another benefit provided to the NEOs and other officers in 2009 was reimbursement for financial services. The financial service reimbursements are fully taxable and not grossed up to cover taxes. Officers are allowed the business use of corporate aircraft and car and driver, while Mr. Ryan is 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. Mr. Ryan did not utilize the corporate aircraft for personal use in 2009. All other benefits, including the PST contribution percentages and various welfare benefits provided to U.S. NEOs and other executive officers, are comparable to those provided to the majority of salaried and hourly Company employees.

Mr. Carruthers receives a competitive Canadian benefits package, which includes benefits over and above those offered to regular Canadian AGI employees. These benefits include Group Life Insurance, Accidental Death & Dismemberment Insurance, Dependent Life Insurance, Dental Insurance, extended Health Insurance, and Annual Executive Medical Insurance.

In 2009, the Company eliminated the car allowance provided to all NEOs and other U.S.-based officers.

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Summary Compensation Table

The following table shows the compensation provided to the CEO, CFO and the next four most highly compensated executive officers.

Name and Principal Position (a)	Year (b)	Salary (1) (c)	Bonus (2) (d)	Stock Awards (3) (e)	Option Awards (4) (f)	Non-Equity Incentive Plan Comp. (5) (g)	Change in Pension Value and NQDC Earnings (6) (h)	All Other Comp. (7)(8) (i)	Total (j)
James T. Ryan Chairman of the Board,	2009	$ 850,000	$ 0	$ 1,243,890	$ 2,574,000	$ 0	$ 0	$ 337,607	$ 5,005,497
	2008	$ 787,508	$ 0	$ 3,969,820	$ 1,199,850	$ 631,125	$ 0	$ 623,579	$ 7,211,882
President and CEO	2007	$ 683,350	$ 0	$ 1,932,420	$ 691,200	$ 778,422	$ 0	$ 352,261	$ 4,437,653
Ronald L. Jadin Sr. Vice President and CFO	2009	$ 440,000	$ 0	$ 292,680	$ 594,000	$ 0	$ 0	$ 132,975	$ 1,459,655
	2008	$ 390,000	$ 0	$ 1,228,586	$ 284,175	$ 207,900	$ 0	$ 228,747	$ 2,339,408
Court D. Carruthers (9)(10) Sr. Vice President and President, Grainger Intl	2009	$ 428,164	$ 0	$ 618,640	$ 594,000	$ 187,322	$ 1,213	$ 67,729	$ 1,897,067
Michael A. Pulick (9) Sr. Vice President and President, Grainger U.S.	2009	$ 420,000	$ 0	$ 292,680	$ 594,000	$ 0	$ 0	$ 115,392	$ 1,422,072
D.G. Macpherson (9) Sr. Vice President, Global Supply Chain	2009	$ 400,000	$ 75,000	$ 292,680	$ 594,000	$ 0	$ 0	$ 49,892	$ 1,411,572
John L. Howard Sr. Vice President and	2009	$ 500,004	$ 0	$ 219,510	$ 415,800	$ 0	$ 0	$ 148,862	$ 1,284,176
	2008	$ 487,500	$ 0	$ 432,500	$ 231,550	$ 232,902	$ 0	$ 307,319	$ 1,691,771
General Counsel	2007	$ 443,760	$ 0	$ 344,980	$ 230,380	$ 312,750	$ 0	$ 170,771	$ 1,502,641

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

(2) Mr. Macpherson received a $150,000 signing bonus; 50% payable upon the completion of one year of service and 50% payable upon the completion of the second year of service.

(3) Represents the grant date fair value of stock awards computed in accordance with FASB ASC Topic 718. Performance share grants are calculated at target achievement and may pay out up to 200% of the target award. The maximum total of the stock awards shown are $2,487,780, $585,360, $911,320, $585,360 $585,360, and $439,020 for Messrs. Ryan, Jadin, Carruthers, Pulick, Macpherson, and Howard respectively.

(4) Represents the grant date fair value of option awards computed in accordance with FASB ASC Topic 718.

(5) 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. Ryan, Jadin, Pulick, and Howard. For Messrs. Carruthers and Macpherson, this represents amounts recorded in the Company's financial statements for the relevant year for amounts paid under the Management Incentive Plan.

(6) The Company maintains a Non-Qualified Defined Contribution plan for Acklands Grainger Inc.'s ("AGI") Designated Executives. The plan accrues earnings of 1% above prime for nonqualified deferred accounts. For 2009, the 1% additional interest totals $1,213 for Mr. Carruthers. The Company does not maintain an employee pension plan nor does it issue above-market earnings on nonqualified deferred accounts for non-AGI officers.

(7) For 2009, 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 ($275,592, $120,554, $111,909, $48,214 and $136,371, for Messrs. Ryan, Jadin, Pulick, Macpherson, and Howard respectively). Also includes contributions accrued under the AGI Defined Contribution Plan and the AGI Notional Account Plan ($61,988 for Mr. Carruthers). Also includes reimbursement for financial services ($1,701, $10,000, $1,802, $3,483 $1,678, and $10,000 for Messrs. Ryan, Jadin, Carruthers, Pulick, Macpherson, and Howard respectively), not grossed up to cover taxes.

Also includes the incremental cost of the Executive Death Benefit Program ($60,314, $2,421, $0, $0, and $2,491 for Messrs. Ryan, Jadin, Pulick, Macpherson, and Howard), which provides a pre- and post-retirement death benefit (note that the program 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.

(8) Mr. Carruthers receives a Canadian benefits package, which includes benefits over and above those offered to regular Canadian AGI employees. The incremental value of these benefits are $1,778 for Group Life Insurance, $222 for Accidental Death & Dismemberment Insurance, $6 for Dependent Life Insurance, $398 for Dental Insurance, $642 for Extended Heath Insurance, and $1,152 for Annual Executive Medical Insurance.

(9) Not an NEO in any prior year.

(10) Reflects the amount paid to Mr. Carruthers in Canadian dollars, which were converted into U.S. dollars at a rate of C$ 1.0510 to U.S. $1. This is the conversion rate at the close of business on December 31, 2009, as quoted by the Bank of Canada.

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Grants of Plan-Based Awards

		Estimated Possible 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	All Other Option Awards: No. of Securities Underlying	Exercise or Base Price of Option	Actual Closing Price on Option Approval	Grant Date Fair Value of Stock and Option
Name	Grant Date	Threshold	Target	Maximum	Threshold	Target	Maximum	Units (3)	Options (4)	Awards (5)	Date (6)	Awards (7)
James T. Ryan	1/1/09	$ 0	$ 935,000	$ 1,870,000								
	1/1/09				8,500	17,000	34,000					$ 1,243,890
	4/29/09								130,000	$ 81.49	$ 83.06	$ 2,574,000
Ronald L. Jadin	1/1/09	$ 0	$ 308,000	$ 616,000								
	1/1/09				2,000	4,000	8,000					$ 292,680
	4/29/09								30,000	$ 81.49	$ 83.06	$ 594,000
Court D. Carruthers	1/1/09	$ 0	$ 299,715	$ 599,429								
	1/1/09				2,000	4,000	8,000					$ 292,680
	4/29/09							4,000				$ 325,960
	4/29/09								30,000	$ 81.49	$ 83.06	$ 594,000
Michael A. Pulick	1/1/09	$ 0	$ 294,000	$ 588,000								
	1/1/09				2,000	4,000	8,000					$ 292,680
	4/29/09								30,000	$ 81.49	$ 83.06	$ 594,000
D.G. Macpherson	1/1/09	$ 0	$ 280,000	$ 560,000								
	1/1/09				2,000	4,000	8,000					$ 292,680
	4/29/09								30,000	$ 81.49	$ 83.06	$ 594,000
John L. Howard	1/1/09	$ 0	$ 350,000	$ 700,000								
	1/1/09				1,500	3,000	6,000					$ 219,510
	4/29/09								21,000	$ 81.49	$ 83.06	$ 415,800

(1) For Messrs. Ryan, Jadin, Pulick, and Howard this represents potential amounts under the annual cash incentive award in the 2005 Incentive Plan, a 162(m)-qualified, shareholder-approved plan. The 2005 Incentive Plan establishes a pool equal to five percent (5%) of the company's Net Earnings for this Plan Year. For 2009, the Committee used its discretion to reduce amounts to yield payments equal to those that would have been made using the same financial measures as the Company Management Incentive Plan for the other NEOs. For Messrs. Carruthers and Macpherson, this represents amounts payable under the Management Incentive Plan. The estimated plan awards are expressed in U.S. dollars. The estimated plan award for Mr. Carruthers was converted into U.S. dollars at a rate of C$ 1.0510 to U.S. $1. This is the conversion rate at the close of business on December 31, 2009, as quoted by the Bank of Canada.

(2)

The number of shares that may be earned for the 2009 grant of performance shares ranged from 0% to 200% of the target award and will be determined based on the Company's sales revenue performance in 2010. These shares will vest at the end of fiscal year 2011 if three-year average ROIC is greater than 18%. The Company selected these measures as they balance revenue growth with profitability, expense management, and asset management and are consistent with the short-term objectives established in the annual incentive program. The Company believes that it has set the ROIC targets sufficiently high to provide the appropriate level of motivation for participants based on market and industry expectations and believes there is a strong probability that the ROIC level can be attained, thus allowing the shares to vest in 2011.

(3) Represents a retention RSU award for Mr. Carruthers related to his promotion to SVP & President, Grainger International. These RSUs have 3-year cliff-vesting.

(4) Represents stock option awards with a ten-year term and three-year cliff vesting.

(5) Awards were issued at fair market value, which the Company has consistently determined as the closing price the day before the award.

(6) Represents the actual closing stock price on the option approval date.

(7) Represents the full grant date fair value of awards as calculated under FASB ASC Topic 718 without spreading over the vesting period.

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Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards					Stock Awards			
	No. of Securities Underlying Unexercised Options Exercisable (1)	No. of Securities Underlying Unexercised Options Unexercisable (2)	Equity Incentive Plan Awards: No. of Securities Underlying Unexercised Unearned Options	Option Exercise Price (3)	Option Expiration Date (4)	No. of Shares or Units of Stock That Have Not Vested (5)	Market Value of Shares or Units of Stock That Have Not Vested (6)	Equity Incentive Plan Awards: No. of Unearned Shares, Units or Other Rights That Have Not Vested (7)	Equity Incentive Plan Awards: Market or Payout Value of Shares, Units or Other Rights That Have Not Vested (8)
James T. Ryan	20,000			$ 54.14	4/27/14	60,000	$ 5,809,800	26,230	$ 2,539,851
	27,000			$ 52.29	4/26/15				
	25,000			$ 76.61	4/25/16				
		30,000		$ 83.08	4/24/17				
		57,000		$ 85.82	4/29/18				
		130,000		$ 81.49	4/28/19				
Ronald L. Jadin									
	9,000			$ 45.50	4/29/13	15,200	$ 1,471,816	4,568	$ 442,319
	3,900			$ 54.14	4/27/14				
	5,000			$ 52.29	4/26/15				
	3,500			$ 76.61	4/25/16				
		3,200		$ 83.08	4/24/17				
		13,500		$ 85.82	4/29/18				
		30,000		$ 81.49	4/28/19				
Court D. Carruthers	3,000			$ 76.61	4/25/16	10,100	$ 977,983	5,420	$ 524,819
		4,300		$ 83.08	4/24/17				
		8,000		$ 85.82	4/29/18				
		30,000		$ 81.49	4/28/19				
Michael A. Pulick	4,500			$ 54.14	4/27/14	16,700	$ 1,617,061	5,420	$ 524,819
	5,700			$ 52.29	4/26/15				
	4,800			$ 76.61	4/25/16				
		12,000		$ 83.08	4/24/17				
		10,500		$ 85.82	4/29/18				
		30,000		$ 81.49	4/28/19				

D.G. Macpherson		8,000	$ 85.82	4/29/18	24,000	$ 2,323,920	4,000	$ 387,320
		30,000	$ 81.49	4/28/19				
John L. Howard								
	25,000		$ 45.50	4/29/13	23,000	$ 2,227,090	4,420	$ 427,989
	12,000		$ 54.14	4/27/14				
	13,000		$ 52.29	4/26/15				
	10,000		$ 76.61	4/25/16				
		10,000	$ 83.08	4/24/17				
		11,000	$ 85.82	4/29/18				
		21,000	$ 81.49	4/28/19				

(1) Represents stock option awards with a ten-year term and three-year cliff vesting.

(2) Upon retirement from the Company, unvested options automatically vest and have the lesser of six years or the remaining term to be exercised. Mr. Ryan is currently retirement-eligible.

(3) Awards were issued at fair market value, which the Company has consistently determined as the closing price the day before the award.

(4) Represents ten years after the award date.

(5) Represents restricted stock units with three to ten-year cliff vesting.

(6) Represents the cumulative restricted stock units outstanding times the year-end closing price ($96.83).

(7) Represents the cumulative performance shares with a three-year cycle as described further in the Compensation Discussion & Analysis.

(8) Represents the cumulative performance shares outstanding multiplied by the year-end closing price ($96.83).

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Option Exercises and Stock Vested

	Option Awards				Stock Awards			
Name	No. of Shares Acquired on Exercise (1)		Value Realized on Exercise (2)		No. of Shares Acquired on Vesting (3)		Value Realized on Vesting (4)	
James T. Ryan	0	$	0		9,590	$	928,600	
Ronald L. Jadin	19,080	$	835,101		12,746	$	909,274	
Court D. Carruthers	3,150	$	143,609		2,096	$	188,216	
Michael A. Pulick	4,000	$	178,000		14,490	$	1,076,672	
D.G. Macpherson	0	$	0		0	$	0	
John L. Howard	21,440	$	1,004,392		7,090	$	622,406	

(1) Represents the number of stock options exercised.

(2) Represents the difference between the exercise price and the market price of the common stock on the date of exercise.

(3) For Messrs. Jadin, Pulick, Carruthers, and Howard this represents 1,650, 1,750, 1,000 and 4,350 restricted stock units respectively, issued on April 27, 2005. For Messrs. Ryan, Jadin, Pulick, Carruthers, and Howard this represents 9,590, 1,096, 2,740, 1,096 and 2,740 performance shares, respectively, issued on December 31, 2009. For Messrs. Jadin and Pulick this represents 10,000 restricted stock units issued on February 27, 2002.

(4) Represents the value of the restricted stock units and performance shares on the vesting date.

Pension Benefits

Name	Plan Name	No. of Years Credited Service	Present Value of Accumulated Benefit	Payouts During Last Fiscal Year
James T. Ryan	None	n/a	n/a	n/a
Ronald L. Jadin	None	n/a	n/a	n/a
Court D. Carruthers	None	n/a	n/a	n/a
Michael A. Pulick	None	n/a	n/a	n/a
D.G. Macpherson	None	n/a	n/a	n/a
John L. Howard	None	n/a		