SHERWIN WILLIAMS CO
Form 10-Q
October 28, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the Period Ended September 30, 2010

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the transition period from__________ to __________

Commission file number 1-04851
THE SHERWIN-WILLIAMS COMPANY

(Exact name of registrant as specified in its charter)

OHIO	34-0526850
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 West Prospect Avenue, Cleveland, Ohio	44115-1075
(Address of principal executive offices)	(Zip Code)

(216) 566-2000

(Registrant s telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one:)

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

Common Stock, $1.00 Par Value 107,934,798 shares as of September 30, 2010.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME (UNAUDITED)
Thousands of dollars, except per share data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Net sales	**$ 2,172,259**	$ 1,996,909	**$ 5,880,805**	$ 5,495,413
Cost of goods sold	**1,200,674**	1,067,926	**3,245,359**	2,990,482
Gross profit	**971,585**	928,983	**2,635,446**	2,504,931
Percent to net sales	***44.7%***	*46.5%*	***44.8%***	*45.6%*
Selling, general and administrative expenses	**703,672**	654,246	**2,007,762**	1,916,095
Percent to net sales	***32.4%***	*32.8%*	***34.1%***	*34.9%*
Other general (income) expense net	**(817)**	6,869	**6,214**	20,325
Interest expense	**11,310**	8,471	**49,219**	31,029
Interest and net investment income	**(1,008)**	(518)	**(2,127)**	(1,813)
Other expense (income) net	**3,049**	1,267	**292**	(2,369)
Income before income taxes	**255,379**	258,648	**574,086**	541,664
Income taxes	**80,121**	83,440	**184,519**	171,154
Net income	**$ 175,258**	$ 175,208	**$ 389,567**	$ 370,510
Net income per common share*:				
Basic	**$ 1.63**	$ 1.53	**$ 3.59**	$ 3.19
Diluted	**$ 1.60**	$ 1.51	**$ 3.53**	$ 3.17
Average shares outstanding basic	**106,454,042**	113,447,570	**107,366,658**	114,863,697
Average shares and equivalents outstanding diluted	**108,397,737**	114,699,133	**109,095,936**	115,738,052

* Presented using the two-class method. See Note 12.

See notes to condensed consolidated financial statements.

Table of Contents

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
Thousands of dollars

	September 30, 2010	December 31, 2009	September 30, 2009
Assets			
Current assets:			
Cash and cash equivalents	**$ 64,948**	$ 69,329	$ 32,770
Accounts receivable, less allowance	**1,069,890**	696,055	901,199
Inventories:			
Finished goods	**713,343**	630,683	641,527
Work in process and raw materials	**145,645**	107,805	84,966
	858,988	738,488	726,493
Deferred income taxes	**121,438**	121,276	99,389
Other current assets	**209,838**	144,871	162,863
Total current assets	**2,325,102**	1,770,019	1,922,714
Goodwill	**1,085,703**	1,014,825	1,011,015
Intangible assets	**339,188**	279,413	298,430
Deferred pension assets	**250,679**	245,301	215,525
Other assets	**267,131**	195,612	169,153
Property, plant and equipment:			
Land	**94,872**	85,166	84,802
Buildings	**662,150**	600,687	596,634
Machinery and equipment	**1,641,788**	1,512,218	1,526,214
Construction in progress	**26,840**	23,086	22,123
	2,425,650	2,221,157	2,229,773
Less allowances for depreciation	**1,512,770**	1,402,472	1,397,160
	912,880	818,685	832,613
Total Assets	**$ 5,180,683**	$ 4,323,855	$ 4,449,450
Liabilities and Shareholders Equity			
Current liabilities:			
Short-term borrowings	**$ 354,556**	$ 22,674	$ 410,994
Accounts payable	**927,616**	674,766	728,420
Compensation and taxes withheld	**233,771**	176,538	180,833
Accrued taxes	**139,956**	76,499	140,053
Current portion of long-term debt	**6,314**	12,267	10,564
Other accruals	**462,888**	430,924	415,252

Total current liabilities	**2,125,101**	1,393,668	1,886,116
Long-term debt	**705,472**	782,670	289,421
Postretirement benefits other than pensions	**285,104**	283,784	250,795
Other long-term liabilities	**421,870**	372,783	320,266
Shareholders equity:			
Common stock $1.00 par value: 107,934,798, 109,436,869 and 113,340,736 shares outstanding at September 30, 2010, December 31, 2009 and September 30, 2009, respectively	**230,731**	228,647	228,421
Preferred stock convertible, no par value: 216,753 shares outstanding at September 30, 2010, December 31, 2009 and September 30, 2009	**216,753**	216,753	216,753
Unearned ESOP compensation	**(216,753)**	(216,753)	(216,753)
Other capital	**1,182,805**	1,068,963	1,069,582
Retained earnings	**4,790,309**	4,518,428	4,492,042
Treasury stock, at cost	**(4,268,545)**	(4,007,633)	(3,753,043)
Cumulative other comprehensive loss	**(292,164)**	(317,455)	(334,150)
Total shareholders equity	**1,643,136**	1,490,950	1,702,852
Total Liabilities and Shareholders Equity	**$ 5,180,683**	$ 4,323,855	$ 4,449,450

See notes to condensed consolidated financial statements.

Table of Contents

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)
Thousands of dollars

	Nine Months Ended	
	September 30, 2010	September 30, 2009
OPERATING ACTIVITIES		
Net income	**$ 389,567**	$ 370,510
Adjustments to reconcile net income to net operating cash:		
Depreciation	**100,673**	109,611
Amortization of intangible assets	**21,774**	18,819
Stock-based compensation expense	**28,498**	20,151
Provisions for qualified exit costs	**(57)**	15,339
Provisions for environmental-related matters	**6,696**	18,534
Defined benefit pension plans net cost	**13,408**	24,776
Net increase in postretirement liability	**1,638**	1,900
Other	**10,626**	7,484
Change in working capital accounts net	**(66,376)**	72,930
Costs incurred for environmental-related matters	**(24,981)**	(26,706)
Costs incurred for qualified exit costs	**(9,887)**	(6,414)
Other	**6,031**	(11,293)
Net operating cash	**477,610**	615,641
INVESTING ACTIVITIES		
Capital expenditures	**(76,116)**	(63,556)
Acquisitions of businesses, net of cash acquired	**(264,340)**	(14,093)
Proceeds from sale of assets	**4,834**	1,751
Increase in other investments	**(71,426)**	(30,297)
Net investing cash	**(407,048)**	(106,195)
FINANCING ACTIVITIES		
Net increase (decrease) in short-term borrowings	**324,661**	(106,777)
Proceeds from long-term debt	**2,386**	6,278
Payments of long-term debt	**(93,166)**	(28,526)
Costs associated with repurchase of long-term debt	**(22,192)**	
Payments of cash dividends	**(117,686)**	(124,634)
Proceeds from stock options exercised	**72,382**	27,329
Income tax effect of stock-based compensation exercises and vesting	**15,046**	6,868
Treasury stock purchased	**(253,558)**	(276,222)
Other	**(4,815)**	(4,240)
Net financing cash	**(76,942)**	(499,924)

Effect of exchange rate changes on cash		**1,999**		(2,964)
Net (decrease) increase in cash and cash equivalents		**(4,381)**		6,558
Cash and cash equivalents at beginning of year		**69,329**		26,212
Cash and cash equivalents at end of period	**$**	**64,948**	$	32,770
Income taxes paid	**$**	**96,063**	$	69,264
Interest paid		**54,743**		37,921

See notes to condensed consolidated financial statements.

4

Table of Contents

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Periods ended September 30, 2010 and 2009

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior year amounts have been restated to conform with the current year presentation.

There have been no significant changes in critical accounting policies since December 31, 2009. Accounting estimates were revised as necessary during the first nine months of 2010 based on new information and changes in facts and circumstances.

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 became effective, resulting in the elimination of a tax deduction previously allowed for the Medicare Part D subsidy beginning in years after December 31, 2012. The Company recognized the deferred tax effects of the reduced deductibility of the subsidy during the first quarter. The resulting one-time increase in income taxes of $11.4 million reduced basic and diluted earnings per share for the nine months of 2010 by $0.11 and $0.10, respectively. See Note 11.

The Company uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management s estimates of expected year-end inventory levels and costs are subject to the final year-end LIFO inventory valuation. In addition, interim inventory levels include management s estimates of annual inventory losses due to shrinkage and other factors. The final year-end valuation of inventory is based on an annual physical inventory count performed during the fourth quarter. For further information on inventory valuations and other matters, refer to the consolidated financial statements and footnotes thereto included in the Company s Form 10-K for the year ended December 31, 2009.

The consolidated results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

NOTE 2 IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-9, which amends the Subsequent Events Topic of the

Table of Contents

Accounting Standards Codification (ASC) to eliminate the requirement for public companies to disclose the date through which subsequent events have been evaluated. The Company will continue to evaluate subsequent events through the date of the issuance of the financial statements, however, consistent with the guidance, this date will no longer be disclosed. ASU 2010-11 does not have any impact on the Company s results of operations, financial condition or liquidity.

Effective January 1, 2010, the Company adopted FAS No. 166, Accounting for Transfers of Financial Assets (now codified in the Transfers and Servicing Topic of the ASC) and FAS No. 167, Amendments to FASB Interpretation (FIN) No. 46(R) (now codified in the Consolidation Topic of the ASC). FAS No. 166 removes the concept of a qualifying special-purpose entity (SPE) from FAS No. 140 and eliminates the exception for qualifying SPEs from the consolidation guidance of FIN No. 46(R). FAS No. 167 changes the analysis that must be performed to determine the primary beneficiary of a variable interest entity (VIE), amends certain guidance in FIN No. 46(R) for determining whether an entity is a VIE and requires enhanced disclosures about involvement with VIEs. The statements do not have a significant impact on the Company s results of operations, financial condition, liquidity or disclosures.

NOTE 3 DIVIDENDS

Dividends paid on common stock during each of the first three quarters of 2010 and 2009 were $0.360 per common share and $0.355 per common share, respectively.

NOTE 4 COMPREHENSIVE INCOME

Comprehensive income is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	**2010**	2009	**2010**	2009
Net income	**$ 175,258**	$ 175,208	**$ 389,567**	$ 370,510
Foreign currency translation adjustments	**28,554**	29,003	**13,868**	62,327
Amortization of net prior service costs and net actuarial losses, net of taxes[(1)]	**2,385**	4,684	**9,877**	13,999
Adjustments of marketable equity securities and derivative instruments used in cash flow hedges, net of taxes [(2)]	**880**	230	**1,545**	142
Comprehensive income	**$ 207,077**	$ 209,125	**$ 414,857**	$ 446,978

(1) The tax effect of amortization of net prior service costs and net actuarial losses was $(3,288) and $(6,912) for the three and nine months ended September 30, 2010 and $(2,905) and $(8,695) for the three and nine months ended

September 30, 2009.

(2) The tax effect of adjustments of marketable equity securities and derivative instruments used in cash flow hedges was $(563) and $(988) for the three and nine months ended September 30, 2010 and $(125) and $(91) for the three and nine months ended September 30, 2009.

Table of Contents

NOTE 5 PRODUCT WARRANTIES

Changes in the Company s accrual for product warranty claims during the first nine months of 2010 and 2009, including customer satisfaction settlements, were as follows:

(Thousands of dollars)	**2010**	2009
Balance at January 1	**$ 22,214**	$ 18,029
Charges to expense	**14,315**	16,339
Settlements	**(13,674)**	(17,805)
Balance at September 30	**$ 22,855**	$ 16,563

For further details on the Company s accrual for product warranty claims, see Note 1 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

NOTE 6 EXIT OR DISPOSAL ACTIVITIES

Liabilities associated with exit or disposal activities are recognized as incurred in accordance with the Exit or Disposal Cost Obligations Topic of the ASC. Qualified exit costs primarily include post-closure rent expenses, incremental post-closure costs and costs of employee terminations. Adjustments may be made to liabilities accrued for qualified exit costs if information becomes available upon which more accurate amounts can be reasonably estimated. Concurrently, property, plant and equipment is tested for impairment in accordance with the Property, Plant and Equipment Topic of the ASC, and if impairment exists, the carrying value of the related assets is reduced to estimated fair value. Additional impairment may be recorded for subsequent revisions in estimated fair value.

In the nine months ended September 30, 2010, 11 stores in the Paint Stores Group and 6 branches in the Global Finishes Group were closed due to lower demand or redundancy. During the nine months ended September 30, 2010, amounts charged to SG&A and Costs of goods sold included qualified exit costs and severance costs of $0.2 million related to these closed facilities and $0.5 million for severance costs related to a Consumer Group manufacturing facility closed during 2009. Adjustments to prior provisions of $0.8 million related primarily to Global Finishes Group facilities closed during 2009 were recorded in Other general expense net in the nine months ended September 30, 2010.

Table of Contents

The following table summarizes the activity and remaining liabilities associated with qualified exit costs at September 30, 2010 and for the nine-month period then ended:

(Thousands of dollars) Exit Plan	Balance at December 31, 2009	Provisions in Cost of goods sold or SG&A	Actual expenditures charged to accrual	Adjustments to prior provisions in Other general expense - net	Balance at September 30, 2010
Global Finishes Group branches shutdown in 2010:					
Severance and related costs		**$ 31**	**$ (31)**		
Other qualified exit costs		**142**	**(142)**		
Paint Stores Group stores shutdown in 2010:					
Other qualified exit costs		**74**	**(59)**		**$ 15**
Paint Stores Group stores shutdown in 2009:					
Other qualified exit costs	**$ 3,213**		**(964)**	**$ (4)**	**2,245**
Consumer Group manufacturing facilities shutdown in 2009:					
Severance and related costs	**4,532**	**457**	**(3,505)**		**1,484**
Other qualified exit costs	**2,258**		**(551)**		**1,707**
Global Finishes Group manufacturing facility and branches shutdown in 2009:					
Severance and related costs	**204**		**(78)**	**(16)**	**110**
Other qualified exit costs	**3,703**		**(1,098)**	**(596)**	**2,009**
Paint Stores Group manufacturing and distribution facilities, administrative offices and stores shutdown in 2008:					
Severance and related costs	**70**		**(66)**		**4**
Other qualified exit costs	**5,426**		**(1,432)**	**(145)**	**3,849**
Consumer Group manufacturing and distribution facilities shutdown in 2008:					
Severance and related costs	**311**				**311**
Other qualified exit costs	**83**		**(50)**		**33**

Global Finishes Group administrative offices and branches shutdown in 2008:					
Other qualified exit costs	**88**		**(88)**		
Paint Stores Group manufacturing facility shutdown in 2007:					
Other qualified exit costs	**1,578**		**(234)**		**1,344**
Consumer Group manufacturing facility shutdown in 2007:					
Other qualified exit costs	**2,166**				**2,166**
Other qualified exit costs for facilities shutdown prior to 2007	**7,501**		**(1,589)**		**5,912**
Totals	**$ 31,133**	**$ 704**	**$ (9,887)**	**$ (761)**	**$ 21,189**

For further details on the Company s exit or disposal activities, see Note 6 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

8

Table of Contents

NOTE 7 HEALTH CARE, PENSION AND OTHER BENEFITS

Shown below are the components of the Company s net periodic benefit cost for domestic defined benefit pension plans, foreign defined benefit pension plans and postretirement benefits other than pensions:

(Thousands of dollars)	Domestic Defined Benefit Pension Plans 2010	2009	Foreign Defined Benefit Pension Plans 2010	2009	Postretirement Benefits Other than Pensions 2010	2009
Three Months Ended September 30:						
Net periodic benefit cost:						
Service cost	**$ 4,226**	$ 4,538	**$ 501**	$ 341	**$ 883**	$ 848
Interest cost	**4,507**	4,625	**1,040**	828	**4,017**	3,924
Expected return on assets	**(10,578)**	(9,211)	**(720)**	(510)		
Amortization of:						
Prior service cost (credit)	**416**	374	**8**	12	**(164)**	(164)
Actuarial loss	**4,735**	7,208	**347**	89	**326**	72
Net periodic benefit cost	**$ 3,306**	$ 7,534	**$ 1,176**	$ 760	**$ 5,062**	$ 4,680
Nine Months Ended September 30:						
Net periodic benefit cost:						
Service cost	**$ 12,679**	$ 13,614	**$ 1,490**	$ 980	**$ 2,649**	$ 2,543
Interest cost	**13,521**	13,874	**3,079**	2,366	**12,050**	11,772
Expected return on assets	**(31,733)**	(27,634)	**(2,130)**	(1,457)		
Amortization of:						
Prior service cost (credit)	**1,246**	1,120	**22**	36	**(492)**	(492)
Actuarial loss	**14,207**	21,624	**1,027**	253	**978**	215
Net periodic benefit cost	**$ 9,920**	$ 22,598	**$ 3,488**	$ 2,178	**$ 15,185**	$ 14,038

For further details on the Company s health care, pension and other benefits, see Note 7 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

NOTE 8 OTHER LONG-TERM LIABILITIES

The Company initially provides for estimated costs of environmental-related activities relating to its past operations and third-party sites for which commitments or clean-up plans have been developed and when such costs can be reasonably estimated based on industry standards and professional judgment. These estimated costs are determined based on currently available facts regarding each site. If the best estimate of costs can only be identified as a range and no specific amount within that range can be determined more likely than any other amount within the range, the minimum of the range is provided. At September 30, 2010, the unaccrued maximum of the estimated range of possible outcomes is $100.7 million higher than the minimum.

The Company continuously assesses its potential liability for investigation and remediation-related activities and adjusts its environmental-related accruals as information becomes available

Table of Contents

upon which more accurate costs can be reasonably estimated and as additional accounting guidelines are issued. Actual costs incurred may vary from these estimates due to the inherent uncertainties involved including, among others, the number and financial condition of parties involved with respect to any given site, the volumetric contribution which may be attributed to the Company relative to that attributed to other parties, the nature and magnitude of the wastes involved, the various technologies that can be used for remediation and the determination of acceptable remediation with respect to a particular site.

Included in Other long-term liabilities at September 30, 2010 and 2009 were accruals for extended environmental-related activities of $89.9 million and $121.9 million, respectively. Estimated costs of current investigation and remediation activities of $64.6 million and $52.5 million are included in Other accruals at September 30, 2010 and 2009, respectively.

Four of the Company s currently and formerly owned manufacturing sites account for the majority of the accrual for environmental-related activities and the unaccrued maximum of the estimated range of possible outcomes at September 30, 2010. At September 30, 2010, $111.5 million, or 72.1 percent of the total accrual, related directly to these four sites. In the aggregate unaccrued maximum of $100.7 million at September 30, 2010, $62.7 million, or 62.2 percent, related to the four manufacturing sites. While environmental investigations and remedial actions are in different stages at these sites, additional investigations, remedial actions and monitoring will likely be required at each site.

Management cannot presently estimate the ultimate potential loss contingencies related to these sites or other less significant sites until such time as a substantial portion of the investigation at the sites is completed and remedial action plans are developed. In the event any future loss contingency significantly exceeds the current amount accrued, the recording of the ultimate liability may result in a material impact on net income for the annual or interim period during which the additional costs are accrued. Management does not believe that any potential liability ultimately attributed to the Company for its environmental-related matters will have a material adverse effect on the Company s financial condition, liquidity, or cash flow due to the extended period of time during which environmental investigation and remediation takes place. An estimate of the potential impact on the Company s operations cannot be made due to the aforementioned uncertainties.

Management expects these contingent environmental-related liabilities to be resolved over an extended period of time. Management is unable to provide a more specific time frame due to the indefinite amount of time to conduct investigation activities at any site, the indefinite amount of time to obtain environmental agency approval, as necessary, with respect to investigation and remediation activities, and the indefinite amount of time necessary to conduct remediation activities.

For further details on the Company s Other long-term liabilities, see Note 9 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Table of Contents

NOTE 9 LITIGATION

In the course of its business, the Company is subject to a variety of claims and lawsuits, including litigation relating to product liability and warranty, personal injury, environmental, intellectual property, commercial, contractual and antitrust claims that are inherently subject to many uncertainties regarding the possibility of a loss to the Company. These uncertainties will ultimately be resolved when one or more future events occur or fail to occur confirming the incurrence of a liability or the reduction of a liability. In accordance with the Contingencies Topic of the ASC, the Company accrues for these contingencies by a charge to income when it is both probable that one or more future events will occur confirming the fact of a loss and the amount of the loss can be reasonably estimated. In the event that the Company s loss contingency is ultimately determined to be significantly higher than currently accrued, the recording of the additional liability may result in a material impact on the Company s results of operations, liquidity or financial condition for the annual or interim period during which such additional liability is accrued. In those cases where no accrual is recorded because it is not probable that a liability has been incurred and cannot be reasonably estimated, any potential liability ultimately determined to be attributable to the Company may result in a material impact on the Company s results of operations, liquidity or financial condition for the annual or interim period during which such liability is accrued. In those cases where no accrual is recorded or exposure to loss exists in excess of the amount accrued, the Contingencies Topic of the ASC requires disclosure of the contingency when there is a reasonable possibility that a loss or additional loss may have been incurred if even the possibility may be remote.

Lead pigment and lead-based paint litigation. The Company s past operations included the manufacture and sale of lead pigments and lead-based paints. The Company, along with other companies, is and has been a defendant in a number of legal proceedings, including individual personal injury actions, purported class actions, and actions brought by various counties, cities, school districts and other government-related entities, arising from the manufacture and sale of lead pigments and lead-based paints. The plaintiffs claims have been based upon various legal theories, including negligence, strict liability, breach of warranty, negligent misrepresentations and omissions, fraudulent misrepresentations and omissions, concert of action, civil conspiracy, violations of unfair trade practice and consumer protection laws, enterprise liability, market share liability, public nuisance, unjust enrichment and other theories. The plaintiffs seek various damages and relief, including personal injury and property damage, costs relating to the detection and abatement of lead-based paint from buildings, costs associated with a public education campaign, medical monitoring costs and others. The Company is also a defendant in legal proceedings arising from the manufacture and sale of non-lead-based paints that seek recovery based upon various legal theories, including the failure to adequately warn of potential exposure to lead during surface preparation when using non-lead-based paint on surfaces previously painted with lead-based paint. The Company believes that the litigation brought to date is without merit or subject to meritorious defenses and is vigorously defending such litigation. The Company has not settled any lead pigment or lead-based paint litigation. The Company expects that additional lead pigment and lead-based paint litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

Notwithstanding the Company s views on the merits, litigation is inherently subject to many uncertainties, and the Company ultimately may not prevail. Adverse court rulings or determinations of liability, among other factors, could affect the lead pigment and lead-based paint litigation against the Company and encourage an increase in the number and nature of future claims and proceedings. In addition, from time to time, various legislation and administrative regulations have been enacted, promulgated or proposed to impose obligations on present and former manufacturers of lead pigments and lead-based paints respecting asserted health concerns associated with such products or to overturn the effect of court decisions in which the Company and other manufacturers have been successful.

Due to the uncertainties involved, management is unable to predict the outcome of the lead pigment and lead-based paint litigation, the number or nature of possible future claims and proceedings, or the effect that any legislation and/or administrative regulations may have on the litigation or against the Company. In addition, management cannot reasonably determine the scope or amount of the potential costs and liabilities related to such litigation, or resulting from any such legislation and regulations. The Company has not accrued any amounts for such litigation. Any potential liability that may result from such litigation or such legislation and regulations cannot reasonably be estimated. In the event any significant liability is determined to be attributable to the Company relating to such litigation, the recording of the liability may result in a material impact on net income for the annual or interim period during which such liability is accrued. Additionally, due to the uncertainties associated with the amount of any such liability and/or the nature of any other remedy which may be imposed in such litigation, any potential liability determined to be attributable to the Company arising out of such litigation may have a material adverse effect on the Company s results of operations, liquidity or financial condition. An estimate of the potential impact on the Company s results of operations, liquidity or financial condition cannot be made due to the aforementioned uncertainties.

Public nuisance claim litigation. The Company and other companies are or were defendants in legal proceedings seeking recovery based on public nuisance liability theories, among other theories, brought by the State of Rhode Island, the City of St. Louis, Missouri, various cities and counties in the State of New Jersey, various cities in the State of Ohio and the State of Ohio, the City of Milwaukee, Wisconsin and the County of Santa Clara, California and other public entities in the State of California. Except for the Santa Clara County, California proceeding, all of these legal proceedings have been concluded in favor of the Company and other defendants at various stages in the proceedings. The proceedings initiated by the State of Rhode Island included two jury trials. The claim was originally tried to a jury in 2002 and the court declared a mistrial as the jury, which was split four to two in favor of the defendants, was unable to reach a unanimous decision. The State of Rhode Island retried the case and on February 22, 2006, the jury returned a verdict, finding that (i) the cumulative presence of lead pigment in paints and coatings on buildings in the State of Rhode Island constitutes a public nuisance, (ii) the Company, along with two other defendants, caused or substantially contributed to the creation of the public nuisance, and (iii) the Company and two other defendants should be ordered to abate the public nuisance. The Company and two other defendants appealed, and on July 1, 2008, the Rhode Island Supreme Court, among other determinations, reversed the judgment of abatement with respect to the Company and two other defendants. The Rhode Island Supreme Court s decision reversed the public nuisance liability judgment against the Company on the basis that the complaint failed to state a public nuisance claim as a matter of law.

The Santa Clara County, California proceeding was initiated in March 2000 and purports to be a class action on behalf of all public entities in the State of California other than the State and its agencies. The plaintiffs asserted various claims including fraud and concealment, strict product liability/failure to warn, strict product liability/design defect, negligence, negligent breach of a special duty, public nuisance, private nuisance, and violations of California s Business and Professions Code. A number of the asserted claims were resolved in favor of the defendants through pre-trial proceedings. On March 3, 2006, the Court of Appeal, Sixth Appellate District, among other determinations, reversed the dismissal of the public nuisance claim for abatement brought by the cities of Santa Clara and Oakland and the City and County of San Francisco, and affirmed the dismissal of the public nuisance claim for damages to the plaintiffs properties. The plaintiffs have filed a motion for leave to file a fourth amended complaint. On April 4, 2007, the trial court entered an order granting the defendants motion to bar payment of contingent fees to private attorneys. The plaintiffs appealed, and on April 8, 2008, the California Court of Appeal reversed the trial court s order. The defendants filed a petition for review with the California Supreme Court, and on July 26, 2010, the Supreme Court issued an opinion mostly affirming the Court of Appeal s decision and remanding the case to the trial court. The California Supreme Court upheld the plantiffs right to retain private counsel on a contingency fee basis subject to certain requirements set forth in the Supreme Court s opinion. The proceedings in the trial court were stayed through July 26, 2010 pending the appeal.

Litigation seeking damages from alleged personal injury. The Company and other companies are defendants in a number of legal proceedings seeking monetary damages and other relief from alleged personal injuries. These proceedings include claims by children allegedly injured from ingestion of lead pigment or lead-containing paint, claims for damages allegedly incurred by the children s parents or guardians, and claims for damages allegedly incurred by professional painting contractors. These proceedings generally seek compensatory and punitive damages, and seek other relief including medical monitoring costs. These proceedings include purported claims by individuals, groups of individuals and class actions.

The plaintiff in Thomas v. Lead Industries Association, et al., initiated an action against the Company, other alleged former lead pigment manufacturers and the Lead Industries Association in September 1999. The claims against the Company and the other defendants include strict liability, negligence, negligent misrepresentation and omissions, fraudulent misrepresentation and omissions, concert of action, civil conspiracy and enterprise liability. Implicit within these claims is the theory of risk contribution liability (Wisconsin s theory which is similar to market share liability) due to the plaintiff s inability to identify the manufacturer of any product that allegedly injured the plaintiff. Following various pre-trial proceedings during which certain of the plaintiff s claims were dismissed by the court, on March 10, 2003, the trial court granted the defendants motion for summary judgment, dismissing the case with prejudice and awarding costs to each defendant. The plaintiff appealed, and on June 14, 2004, the Wisconsin Court of Appeals affirmed the trial court s decision. On July 15, 2005, the Wisconsin Supreme Court reversed in part the trial court s decision and decided, assuming all of plaintiff s facts in the summary judgment record to be true, that the risk contribution theory could then apply to excuse the plaintiff s lack of evidence identifying any of the Company s or the other defendant s products as the cause of the alleged injury. The case was remanded to the trial court for further proceedings and a trial commenced on October 1, 2007. On November 5, 2007, the jury returned a defense verdict, finding that the plaintiff had ingested white lead carbonate, but was not brain damaged or injured as a result. The plaintiff filed post-trial motions for a new trial that was denied by the trial court. On March 4, 2008, final judgment was entered in favor of the Company and other defendants. The plaintiff has filed an appeal of the final judgment.

Wisconsin is the only jurisdiction to date to apply a theory of liability with respect to alleged personal injury (i.e., risk contribution/market share liability) that does not require the plaintiff to identify the manufacturer of the product that allegedly injured the plaintiff in the lead pigment and lead-based paint litigation.

Insurance coverage litigation. The Company and its liability insurers, including certain Underwriters at Lloyd s of London, initiated legal proceedings against each other to determine, among other things, whether the costs and liabilities associated with the abatement of lead pigment are covered under certain insurance policies issued to the Company. An ultimate loss in the insurance coverage litigation would mean that insurance proceeds could be unavailable under the policies at issue to mitigate any ultimate abatement related costs and liabilities. The Company has not recorded any assets related to these insurance policies or otherwise assumed that proceeds from these insurance policies would be received in estimating any contingent liability accrual. Therefore, an ultimate loss in the insurance coverage litigation without a determination of liability against the Company in the lead pigment or lead-based paint litigation will have no impact on the Company s results of operation, liquidity or financial condition. As previously stated, however, the Company has not accrued any amounts for the lead pigment or lead-based paint litigation and any significant liability ultimately determined to be attributable to the Company relating to such litigation may result in a material impact on the Company s results of operations, liquidity or financial condition for the annual or interim period during which such liability is accrued. The Company s action, an Ohio state court action, has been stayed and the liability insurers action, a New York state court action, has been dismissed.

NOTE 10 OTHER EXPENSE (INCOME)

Other general (income) expense net

Included in Other general (income) expense net were the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	**2010**	2009	**2010**	2009
Provisions for environmental matters net	**$ 1,974**	$ 9,383	**$ 6,696**	$ 18,534
(Gain) loss on disposition of assets	**(2,643)**	(2,514)	**279**	(1,413)
Adjustments to prior provisions for qualified exit costs	**(148)**		**(761)**	3,204
Other general (income) expense net	**$ (817)**	$ 6,869	**$ 6,214**	$ 20,325

Table of Contents

Provisions for environmental matters net represent site-specific increases or decreases to environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated and as additional accounting guidelines are issued. Environmental-related accruals are not recorded net of insurance proceeds in accordance with the Offsetting Subtopic of the Balance Sheet Topic of the ASC. See Note 8 for further details on the Company s environmental-related activities.

The gain on disposition of assets represents net realized gains associated with the disposal of fixed assets previously used in the conduct of the primary business of the Company.

The adjustments to prior provisions for qualified exit costs represent site specific increases or decreases to accrued qualified exit costs as adjustments for costs of employee terminations are required or as information becomes available upon which more accurate amounts can be reasonably estimated. See Note 6 for further details on the Company s exit or disposal activities.

Other expense (income) net

Included in Other expense (income) net were the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	**2010**	2009	**2010**	2009
Dividend and royalty income	**$ (1,913)**	$ (947)	**$ (4,406)**	$ (2,518)
Net expense from financing and investing activities	**1,908**	1,142	**6,479**	2,825
Foreign currency related losses	**3,499**	2,445	**1,125**	1,476
Other income	**(2,424)**	(2,627)	**(7,348)**	(8,143)
Other expense	**1,979**	1,254	**4,442**	3,991
Other expense (income) net	**$ 3,049**	$ 1,267	**$ 292**	$ (2,369)

The net expense from financing and investing activities includes the net loss relating to the change in the Company s financing fees and write-off of origination costs related to the repurchase of a portion of its 7.45% debentures.

Foreign currency related losses included foreign currency transaction gains and losses and realized and unrealized net gains from foreign currency option and forward contracts. The Company had foreign currency option and forward contracts outstanding at September 30, 2010 and 2009. All of the outstanding contracts had maturity dates of less than twelve months and were undesignated hedges with changes in fair value being recognized in earnings in accordance with the Derivatives and Hedging Topic of the ASC. These derivative instrument values were included in either Other current assets or Other accruals and were insignificant at September 30, 2010 and 2009.

Other income and Other expense included items of revenue, gains, expenses and losses that were unrelated to the primary business purpose of the Company. Each individual item within the other income or other expense caption was immaterial; no single category of items exceeded $1.0 million.

Table of Contents

NOTE 11 INCOME TAXES

The effective tax rate was 31.4 percent and 32.1 percent for the third quarter and first nine months of 2010, respectively, and 32.3 percent and 31.6 percent for the third quarter and the first nine months of 2009, respectively. The slight increase in the effective tax rate for the first nine months of 2010 compared to 2009 was due to the impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act signed into law in March 2010. The Company recognized the deferred tax effects of the reduced deductibility of the postretirement prescription drug coverage during the first quarter of 2010, which resulted in a Federal and State income tax charge of $11.4 million.

At December 31, 2009, the Company had $37.0 million in unrecognized tax benefits, the recognition of which would have an effect of $32.5 million on the current provision for income taxes. Included in the balance of unrecognized tax benefits at December 31, 2009, was $9.6 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits comprised of items related to assessed state income tax audits, state settlement negotiations currently in progress and expiring statutes in foreign jurisdictions.

The Company classifies all income tax related interest and penalties as income tax expense. At December 31, 2009, the Company had accrued $11.8 million for the potential payment of income tax interest and penalties.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Other than as noted below, the Internal Revenue Service (IRS) substantially completed the audit of the 2004 and 2005 tax years. The IRS commenced an examination of the Company s U.S. income tax returns for the 2006 and 2007 tax years in the fourth quarter of 2008. Fieldwork is anticipated to be completed prior to December 31, 2010. At this time, the Company has determined that an insignificant payment is due. The IRS is currently examining transactions related to The Sherwin-Williams Company Employee Stock Purchase and Savings Plan. The IRS is evaluating possible Notices of Proposed Adjustment for income taxes for the 2004 through 2007 tax years related to these transactions. The Company expects to have further information regarding these Notices by the end of the 2010 tax year. The IRS has also indicated they are reviewing the applicability of excise taxes with respect to these transactions for the 2003 through 2007 tax years. During the IRS s examination of the transactions, it requested the Department of Labor to review the transactions. Following the Department of Labor s initial examination, it is coordinating its response with the IRS. As of September 30, 2010, the Company is subject to non-U.S. income tax examinations for the tax years of 2002 through 2009. In addition, the Company is subject to state and local income tax examinations for the tax years 1992 through 2009.

At December 31, 2009, $9.6 million of unrecognized tax positions could significantly change during the next twelve months. Through September 30, 2010, $4.9 million of the amount was reversed due to the resolution of the related tax position. There were no other significant changes

Table of Contents

to any of the other balances of unrecognized tax benefits at December 31, 2009 during the first nine months of 2010.

NOTE 12 NET INCOME PER COMMON SHARE

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars except per share data)	**2010**	2009	**2010**	2009
Basic				
Average common shares outstanding	**106,454,042**	113,447,570	**107,366,658**	114,863,697
Net income	**$ 175,258**	$ 175,208	**$ 389,567**	$ 370,510
Less net income allocated to unvested restricted shares	**(1,930)**	(1,877)	**(4,116)**	(3,927)
Net income allocated to common shares	**$ 173,328**	$ 173,331	**$ 385,451**	$ 366,583
Basic net income per common share	**$ 1.63**	$ 1.53	**$ 3.59**	$ 3.19
Diluted				
Average common shares outstanding	**106,454,042**	113,447,570	**107,366,658**	114,863,697
Stock options and other contingently issuable shares (1)	**1,943,695**	1,251,563	**1,729,278**	874,355
Average common shares outstanding assuming dissolution	**108,397,737**	114,699,133	**109,095,936**	115,738,052
Net income	**$ 175,258**	$ 175,208	**$ 389,567**	$ 370,510
Less net income allocated to unvested restricted shares assuming dissolution	**(1,901)**	(1,512)	**(4,055)**	(3,245)
Net income allocated to common shares assuming dissolution	**$ 173,357**	$ 173,696	**$ 385,512**	$ 367,265
Diluted net income per common share	**$ 1.60**	$ 1.51	**$ 3.53**	$ 3.17

(1) Stock options and other contingently issuable shares excludes 3.0 million shares for the three months ended September 30,

2009, and 0.1 million and 3.1 million shares, respectively, for the nine months ended September 30, 2010 and September 30, 2009, respectively, due to their anti-dilutive effect. There were no options excluded due to their anti-dilutive effect for the three months ended September 30, 2010.

The Company has two classes of participating securities: common shares and restricted shares, representing 99% and 1% of outstanding shares, respectively. The restricted shares are shares of unvested restricted stock granted under the Company s restricted stock award program. Unvested restricted shares granted prior to April 20, 2010 received non-forfeitable dividends, and the shares are therefore considered a participating security. Effective April 20, 2010, the restricted stock award program was revised and dividends on performance-based restricted shares granted after this date are deferred and payment is contingent upon the awards vesting. Only the time-based restricted shares, which continue to receive non-forfeitable dividends, are

Table of Contents

considered a participating security. Basic and diluted earnings per share are calculated using the two-class method in accordance with the Earnings Per Share Topic of the ASC.

NOTE 13 REPORTABLE SEGMENT INFORMATION

The Company reports segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources in accordance with the Segment Disclosures Topic of the ASC.

	Three Months Ended September 30, 2010				
(Thousands of dollars)	Paint Stores Group	Consumer Group	Global Finishes Group	Administrative	Consolidated Totals
Net external sales	**$ 1,286,063**	**$ 340,365**	**$ 544,548**	**$ 1,283**	**$ 2,172,259**
Intersegment transfers		**434,216**	**24,433**	**(458,649)**	
Total net sales and intersegment transfers	**$ 1,286,063**	**$ 774,581**	**$ 568,981**	**$ (457,366)**	**$ 2,172,259**
Segment profit	**$ 225,079**	**$ 59,699***	**$ 31,925**		**$ 316,703**
Interest expense				**$ (11,310)**	**(11,310)**
Administrative expenses and other				**(50,014)**	**(50,014)**
Income before income taxes	**$ 225,079**	**$ 59,699**	**$ 31,925**	**$ (61,324)**	**$ 255,379**

	Three Months Ended September 30, 2009				
	Paint Stores Group	Consumer Group	Global Finishes Group	Administrative	Consolidated Totals
Net external sales	$ 1,220,717	$ 330,450	$ 444,138	$ 1,604	$ 1,996,909
Intersegment transfers		361,601	47,490	(409,091)	
Total net sales and intersegment transfers	$ 1,220,717	$ 692,051	$ 491,628	$ (407,487)	$ 1,996,909
Segment profit	$ 230,193	$ 56,473*	$ 29,658		$ 316,324
Interest expense				$ (8,471)	(8,471)
Administrative expenses and other				(49,205)	(49,205)
Income before income taxes	$ 230,193	$ 56,473	$ 29,658	$ (57,676)	$ 258,648

* Segment profit includes $6,787 and $5,157 of mark-up on intersegment transfers realized as a result of

external sales by
the Paint Stores
Group during
the third quarter
of 2010 and
2009,
respectively.

Table of Contents

	Nine Months Ended September 30, 2010				
	Paint Stores Group	Consumer Group	Global Finishes Group	Administrative	Consolidated Totals
Net external sales	**$ 3,381,955**	**$ 1,042,731**	**$ 1,452,194**	**$ 3,925**	**$ 5,880,805**
Intersegment transfers		**1,138,936**	**77,438**	**(1,216,374)**	
Total net sales and intersegment transfers	**$ 3,381,955**	**$ 2,181,667**	**$ 1,529,632**	**$ (1,212,449)**	**$ 5,880,805**
Segment profit	**$ 484,795**	**$ 177,859****	**$ 94,882**		**$ 757,536**
Interest expense				**$ (49,219)**	**(49,219)**
Administrative expenses and other				**(134,231)**	**(134,231)**
Income before income taxes	**$ 484,795**	**$ 177,859**	**$ 94,882**	**$ (183,450)**	**$ 574,086**

	Nine Months Ended September 30, 2009				
	Paint Stores Group	Consumer Group	Global Finishes Group	Administrative	Consolidated Totals
Net external sales	$ 3,289,164	$ 985,090	$ 1,216,340	$ 4,819	$ 5,495,413
Intersegment transfers		988,946	130,273	(1,119,219)	
Total net sales and intersegment transfers	$ 3,289,164	$ 1,974,036	$ 1,346,613	$ (1,114,400)	$ 5,495,413
Segment profit	$ 480,261	$ 152,762**	$ 66,120		$ 699,143
Interest expense				$ (31,029)	(31,029)
Administrative expenses and other				(126,450)	(126,450)
Income before income taxes	$ 480,261	$ 152,762	$ 66,120	$ (157,479)	$ 541,664

** Segment profit includes $17,208 and $13,732 of mark-up on intersegment transfers realized as a result of external sales by the Paint Stores Group during the first nine months of 2010 and 2009, respectively.

In the reportable segment financial information, Segment profit was total net sales and intersegment transfers less operating costs and expenses. Domestic intersegment transfers were accounted for at the approximate fully absorbed manufactured cost, based on normal capacity volumes, plus customary distribution costs. International intersegment transfers were accounted for at values comparable to normal unaffiliated customer sales. The Administrative segment includes the administrative expenses of the Company s corporate headquarters site. Also included in the Administrative segment was interest expense, interest and investment income, certain expenses related to closed facilities and environmental-related matters, and other expenses which were not directly associated with the Reportable Operating Segments. The Administrative segment did not include any significant foreign operations. Also included in the Administrative segment was a real estate management unit that is responsible for the ownership, management and leasing of non-retail properties held primarily for use by the Company, including the Company s headquarters site, and disposal of idle facilities. Sales of this segment represented external leasing revenue of excess headquarters space or leasing of facilities no longer used by the Company in its primary businesses. Gains and losses from the sale of property were not a significant operating factor in determining the performance of the Administrative segment.

Net external sales and segment profit of all consolidated foreign subsidiaries were $376.1 million and $29.5 million, respectively, for the third quarter of 2010, and $271.5 million and $23.4 million, respectively, for the third quarter of 2009. Net external sales and segment profit of these subsidiaries were $995.2 million and $77.7 million, respectively, for the first nine months of 2010, and $739.5 million and $27.8 million, respectively, for the first nine months of 2009. Long-lived assets of these subsidiaries totaled $632.4 million and $248.2 million at September 30, 2010 and September 30, 2009, respectively. Domestic operations accounted for the remaining net external sales, segment profits and long-lived assets. No single geographic area outside the United States was significant relative to consolidated net external sales, income before taxes, or consolidated long-lived assets.

Export sales and sales to any individual customer were each less than 10 percent of consolidated sales to unaffiliated customers during all periods presented.

NOTE 14 ACQUISITIONS

Effective September 1, 2010, the Company acquired Becker Industrial Products AB (Becker Acroma) for $230.4 million, excluding any post-closing adjustments. Headquartered in Stockholm, Sweden, Becker Acroma is one of the largest manufacturers of industrial wood coatings globally and a technology leader in water, UV and other wood coatings. The acquisition strengthens the Global Finishes Group s growing global platform for product finishes. The acquisition resulted in the recognition of goodwill and intangible assets. A valuation will be completed in the fourth quarter. Becker Acroma was included in the Company s consolidated financial statements since the date of acquisition.

Effective April 1, 2010, the Company acquired Sayerlack Industrial Coatings (Sayerlack) for $53.8 million, excluding any post-closing adjustments. Headquartered in Pianoro, Italy, Sayerlack is a leading coatings innovator in the joinery, furniture and cabinets markets. The acquisition strengthens the Global Finishes Group s growing global platform for product finishes. A valuation was completed in the second quarter, and Sayerlack was included in the Company s consolidated financial statements since the date of acquisition. The acquisition resulted in the recognition of goodwill and intangible assets.

During the first quarter of 2009, the Company acquired Altax Sp. zo.o. (Altax). Headquartered in Poznan, Poland, Altax is a leading innovator of protective woodcare coatings and serves multiple channels, including industrial, professional and DIY. Included in the Consumer Group, the acquisition provides a platform for further growth in Central Europe. The aggregate consideration paid for Altax was $11.5 million, net of cash acquired, including the assumption of certain financial obligations. The acquisition resulted in the recognition of goodwill and intangible assets.

The following unaudited pro-forma summary presents consolidated financial information as if Becker Acroma, Sayerlack and Altax had been acquired as of the beginning of each period presented. The pro-forma consolidated financial information does not necessarily reflect the actual results that would have occurred had the acquisitions taken place on January 1, 2009 or of future results of operations of the combined companies under ownership and operation of the Company.

Table of Contents

(Thousands of dollars except per share data)	Three Months Ended September 30, **2010**	2009	Nine Months Ended September 30, **2010**	2009
Net sales	**$2,219,835**	$2,104,790	**$6,117,218**	$5,803,706
Net income	**175,236**	175,546	**395,033**	372,368
Net income per common share:				
Basic	**$ 1.63**	$ 1.53	**$ 3.64**	$ 3.21
Diluted	**$ 1.60**	$ 1.52	**$ 3.58**	$ 3.19

NOTE 15 FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the ASC applies to the Company s financial and non-financial assets and liabilities. The guidance applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurements. The Company did not have any fair value measurements for its non-financial assets and liabilities during the third quarter. The following table presents the Company s financial assets and liabilities that are measured at fair value on a recurring basis, categorized using the fair value hierarchy:

(Thousands of dollars)	Fair Value at September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deferred compensation plan asset[1]	$ 21,277	$ 18,012	$ 3,265	
Call warrant investment[2]	16,588		16,588	
Total assets at fair value	$ 37,865	$ 18,012	$ 19,853	
Liabilities:				
Deferred compensation plan liability[3]	$ 20,983	$ 20,983		
Currency derivative liability[4]	326		$ 326	
Total liabilities at fair value	$ 21,309	$ 20,983	$ 326	

(1) The deferred compensation plan asset consists of the investment funds maintained for the future payments under the Company s

executive deferred compensation plan, which is structured as a rabbi trust. The investments are marketable securities accounted for under the Debt and Equity Securities Topic of the ASC. The level 1 investments are valued using quoted market prices multiplied by the number of shares. The level 2 investments are valued based on vendor or broker models. The cost basis of the investment funds is $21,072.

(2) The fair value of the call warrant investment is determined by a valuation model correlated with changes in the fair value of the underlying publicly-traded debentures. These call warrants are designated as fair value hedges. See Note 16.

(3) The deferred compensation plan liability is the Company s liability under its executive deferred compensation plan. The liability represents the fair value of the participant shadow accounts, and the value is based on quoted market prices.

(4) The currency derivative liability represents the fair value of foreign currency forwards. The forwards are valued using the banks proprietary models.

Table of Contents

NOTE 16 FINANCIAL INSTRUMENTS

The table below summarizes the carrying amount and fair value of the Company s publicly traded debt and non-publicly traded debt in accordance with the Fair Value Measurements and Disclosures Topic of the ASC. The fair values of the Company s publicly traded debt are based on quoted market prices. The fair values of the Company s non-traded debt are estimated using discounted cash flow analyses, based on the Company s current incremental borrowing rates for similar types of borrowing arrangements.

	September 30, 2010		September 30, 2009	
(Thousands of dollars)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Publicly traded debt	**$691,493**	**$760,623**	$268,520	$357,388
Non-traded debt	**20,293**	**19,623**	31,465	29,490

During the second quarter of 2010, the Company repurchased $84.9 million of its publicly traded 7.45% debentures due 2097. At September 30, 2010, call warrants with a cost of $8.9 million that carry rights to call another $51.6 million of the 7.45% debentures were recorded in Other current assets. These call warrants were designated as a fair value hedge under ASC 815 against changes in value related to the notional amount of $51.6 million of the 7.45% debentures. Gains or losses are recognized in earnings in the period of the change together with the offsetting gains or losses on the hedged item attributed to the risk being hedged. The objective of the hedge is to protect the related debentures against changes in redemption value due to changes in long-term interest rates and credit ratings. As of September 30, 2010, the fair value of the call warrants increased by $7.7 million, and the related debenture fair value liability increased by a similar amount. The balance sheet carrying values of the call warrants and the related debentures were adjusted to reflect these changes in value.

On July 19, 2010, Sherwin-Williams Luxembourg S.à r.l., a wholly-owned subsidiary of the Company, entered into a 200 million (Euro) credit facility. On July 19, 2010, Sherwin-Williams Canada Inc., a wholly-owned subsidiary of the Company, entered into a CAD 75 million credit facility. The credit facilities will be used for general corporate purposes, including refinancing indebtedness and for acquisitions.

NOTE 17 NON-TRADED INVESTMENTS

The Company has invested in the U.S. affordable housing and historic renovation real estate markets. These non-traded investments have been identified as variable interest entities. However, because the Company does not have the power to direct the day-to-day operations of the investments and the risk of loss is limited to the amount of contributed capital, the Company is not considered the primary beneficiary. In accordance with the Consolidation Topic of the ASC, the investments are not consolidated. The Company uses the effective yield method to determine the carrying value of the investments. Under the effective yield method, the initial cost of the investments is amortized over the period that the tax credits are recognized. The

Table of Contents

carrying amount of the investments, included in Other assets, was $128.1 million at September 30, 2010. The liability for estimated future capital contributions to the investments was $74.7 million at September 30, 2010.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUMMARY

The Sherwin-Williams Company, founded in 1866, and its consolidated wholly owned subsidiaries (collectively, the Company) are engaged in the development, manufacture, distribution and sale of paint, coatings and related products to professional, industrial, commercial and retail customers primarily in North and South America with additional operations in the Caribbean region, Europe and Asia. The Company is structured into three reportable operating segments Paint Stores Group, Consumer Group and Global Finishes Group (collectively, the Reportable Operating Segments) and an Administrative Segment in the same way it is internally organized for assessing performance and making decisions regarding allocation of resources. See pages 5 through 7, page 10 and Note 19, on pages 75 through 77, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for more information concerning the Reportable Operating Segments.

The Company continues to manage through an overall sluggish domestic economy while working hard to maintain customer service in this uncertain environment. Economic conditions continued to improve in the third quarter for domestic architectural and global markets the Company serves. However, rising raw material costs continued to have a negative effect on operating results primarily in the second and third quarters of 2010. Selected selling price increases have been implemented to offset the current raw material cost increases. Raw material supply shortages in the second and third quarters adversely impacted results for the first nine months of 2010. Management of the Company continues to use the latest information available while performing additional valuation procedures to ensure the Company s assets and liabilities are properly stated throughout this period of uncertain economic conditions and changing business environment.

The Company s financial condition, liquidity and cash flow remained strong through the first nine months of 2010 in spite of the uncertain economic and raw material environments. Net working capital increased $163.4 million at September 30, 2010 compared to the end of the third quarter of 2009 due primarily to an increase in Accounts receivable and Inventories partially offset by an increase in Accounts payable. Accounts receivable increased $168.7 million and Inventories increased $132.5 million, while all other current assets increased $101.2 million. Short-term borrowings decreased $56.4 million from September 30, 2009 and Accounts payable increased $199.2 million, while all other current liabilities increased $96.2 million. Excluding short-term borrowings, net working capital increases were impacted by increased sales volume, foreign currency exchange rate changes, and acquisitions. The Company has been able to arrange sufficient short-term borrowing capacity at reasonable rates even as credit markets remain tight, and the Company has sufficient total available borrowing capacity to fund its current operating needs. In the third quarter of 2010, short-term borrowings increased $331.9 million from December 31, 2009 due to capital funding needed to acquire businesses and the seasonal increase in need for working capital, while all other current liabilities increased $399.6 million. Accounts receivable and Inventories increased $494.3 million from December 31, 2009 to September 30,

Table of Contents

2010 when normal seasonal trends typically require significant growth in these categories. An increase in Total current assets more than offset an increase in Total current liabilities which improved the Company s current ratio to 1.09 at September 30, 2010 from 1.02 at September 30, 2009 and compared to 1.27 at December 31, 2009. Total debt at September 30, 2010 increased $355.3 million to $1.066 billion from $711.0 million at September 30, 2009 and increased as a percentage of total capitalization to 39.4 percent from 29.5 percent at the end of the third quarter last year. Total debt increased $248.7 million and increased from 35.4 percent of total capitalization at December 31, 2009. At September 30, 2010, the Company had remaining borrowing ability of $1.268 billion. Net operating cash decreased $138.0 million in nine months of 2010 to a cash source of $477.6 million from a cash source of $615.6 million in 2009 primarily due to an increase in cash used to fund greater net working capital requirements from increased sales levels and raw material costs, partially offset by an increase in net income of $19.1 million. In the twelve month period from October 1, 2009 through September 30, 2010, the Company generated net operating cash of $721.2 million and borrowed $339.6 million in net debt used to invest $103.9 million in capital additions and improvements, acquire businesses for $265.7 million, purchase $507.7 million in treasury stock and pay $155.6 million in cash dividends to its shareholders of common stock.

Results of operations for the Company in the third quarter and first nine months of 2010 showed continued stability in domestic end market demand and continued improvement in global end market demand for architectural, OEM, and automotive finishes products. Consolidated net sales increased 8.8 percent in the third quarter to $2.172 billion from $1.997 billion in the third quarter of 2009, and increased 7.0 percent in the first nine months of 2010 to $5.881 billion from $5.495 billion in the first nine months of 2009 due primarily to acquisitions, favorable foreign currency translation rate changes, continued growth in global paint sales and selling price increases in the quarter. Net sales in the Paint Stores Group increased 5.4 percent in the quarter to $1.286 billion and increased 2.8 percent to $3.382 billion in the first nine months due primarily to improving domestic architectural paint sales primarily to residential repaint contractors and retail do-it-yourself customers and selling price increases. Net sales in the Paint Stores Group from stores open more than twelve calendar months increased 5.1 percent in the quarter and 2.5 percent in the first nine months of 2010. Net sales in the Consumer Group increased 3.0 percent to $340.4 million in the quarter and 5.9 percent to $1.043 billion in the first nine months due primarily to improving demand at some of the Segment s retail, industrial and institutional customers. Net sales in the Global Finishes Group stated in U.S. dollars increased 22.6 percent in the quarter to $544.5 million and 19.4 percent to $1.452 billion in the first nine months due primarily to acquisitions, favorable currency translation rate changes and increased paint volume sales. Consolidated gross profit as a percent of consolidated net sales decreased in the third quarter to 44.7 percent from 46.5 percent in 2009 and decreased to 44.8 percent from 45.6 percent in the first nine months due primarily to rising raw material prices partially offset by price increases and cost savings realized from previous year site rationalizations. Selling, general and administrative expenses (SG&A) decreased as a percent of consolidated net sales to 32.4 percent from 32.8 percent in the third quarter of 2009 and decreased to 34.1 percent from 34.9 percent in the first nine months due primarily to higher sales and good expense control across all Reportable Operating Segments. Other general expense net decreased $7.7 million in the third quarter of 2010 due primarily to a decrease in provisions for environmental-related matters. Other general expense net decreased $14.1 million in the first nine months due to reduced provisions for environmental-related matters and decreased adjustment to prior provisions for qualified exit costs. Interest expense increased $2.8 million in the third quarter, due primarily to increased total average debt levels, and increased $18.2 million in the first nine months of 2010 due primarily to costs related to the repurchase of a portion of the Company s 7.45% debentures. The effective income tax rate for third quarter 2010 was 31.4 percent compared to 32.3 percent in 2009, and the rate for the first nine months of 2010 was 32.1 percent, including a one-time increase in income tax expense of $11.4 million relating to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the Acts) passed by Congress in March 2010, compared to 31.6 percent in 2009. Diluted net income per common share increased to $1.60 per share for the third quarter of 2010 from $1.51 per share a year ago and increased to $3.53 per share from $3.17 per share in the first nine months, including charges aggregating $.18 per share related to the repurchasing of debentures and the Acts.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation and fair presentation of the consolidated unaudited interim financial statements and accompanying notes included in this report are the responsibility of management. The financial statements and footnotes have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and contain certain amounts that were based upon management s best estimates, judgments and assumptions that were believed to be reasonable under the circumstances. Management considered the impact of the uncertain economic environment and utilized certain outside sources of economic information when developing the basis for their estimates and assumptions. The impact of the global economic conditions on the estimates and assumptions used by management was believed to be reasonable under the circumstances. Management used assumptions based on historical results, considering the current economic trends, and other assumptions to form the basis for determining appropriate carrying values of assets and liabilities that were not readily available from other sources. Actual results could differ from those estimates. Also, materially different amounts may result under materially different conditions, materially different economic trends or from using materially different assumptions. However, management believes that any materially different amounts resulting from materially different conditions or material changes in facts or circumstances are unlikely to significantly impact the current valuation of assets and liabilities that were not readily available from other sources.

A comprehensive discussion of the Company s critical accounting policies and management estimates and significant accounting policies followed in the preparation of the financial statements is included in Management s Discussion and Analysis of Financial Condition and Results of Operations and in Note 1, on pages 44 through 50, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. There have been no significant changes in critical accounting policies, management estimates or accounting policies followed since the year ended December 31, 2009.

FINANCIAL CONDITION, LIQUIDITY AND CASH FLOW

Overview

The Company s financial condition, liquidity and cash flow remained strong through the first nine months of 2010 in spite of the uncertain economic and raw material environments. Net

Table of Contents

working capital increased $163.4 million at September 30, 2010 compared to the end of the third quarter of 2009 due primarily to an increase in Accounts receivable and Inventories partially offset by an increase in Accounts payable. Accounts receivable increased $168.7 million and Inventories increased $132.5 million, while all other current assets increased $101.2 million. Short-term borrowings decreased $56.4 million from September 30, 2009 and Accounts payable increased $199.2 million, while all other current liabilities increased $96.2 million. Excluding short-term borrowings, net working capital increases were impacted by increased sales volume, foreign currency exchange rate changes, and acquisitions. The Company has been able to arrange sufficient short-term borrowing capacity at reasonable rates even as credit markets remain tight, and the Company has sufficient total available borrowing capacity to fund its current operating needs. In the third quarter of 2010, short-term borrowings increased $331.9 million from December 31, 2009 due to capital funding needed to acquire businesses and the seasonal increase in need for working capital, while all other current liabilities increased $399.6 million. Accounts receivable and Inventories increased $494.3 million from December 31, 2009 to September 30, 2010 when normal seasonal trends typically require significant growth in these categories. An increase in Total current assets more than offset an increase in Total current liabilities which improved the Company s current ratio to 1.09 at September 30, 2010 from 1.02 at September 30, 2009 and compared to 1.27 at December 31, 2009. Total debt at September 30, 2010 increased $355.3 million to $1.066 billion from $711.0 million at September 30, 2009 and increased as a percentage of total capitalization to 39.4 percent from 29.5 percent at the end of the third quarter last year. Total debt increased $248.7 million and increased from 35.4 percent of total capitalization at December 31, 2009. At September 30, 2010, the Company had remaining borrowing ability of $1.268 billion. Net operating cash decreased $138.0 million in nine months of 2010 to a cash source of $477.6 million from a cash source of $615.6 million in 2009 primarily due to an increase in cash used to fund greater net working capital requirements from increased sales levels and raw material costs, partially offset by an increase in net income of $19.1 million. In the twelve month period from October 1, 2009 through September 30, 2010, the Company generated net operating cash of $721.2 million and borrowed $339.6 million in net debt used to invest $103.9 million in capital additions and improvements, acquire businesses for $265.7 million, purchase $507.7 million in treasury stock and pay $155.6 million in cash dividends to its shareholders of common stock.

Net Working Capital, Debt and Other Long-Term Assets and Liabilities

Cash and cash equivalents decreased $4.4 million during the first nine months of 2010. Cash requirements for increased sales levels and raw material costs and normal seasonal increases in working capital, capital expenditures of $76.1 million, acquisitions of $264.3 million, payments made on long-term debt of $93.2 million, payments of cash dividends of $117.7 million and treasury stock purchases of $253.6 million were funded primarily by net cash from operations and net increase in short term borrowings of $331.9 million. At September 30, 2010, the Company s current ratio was 1.09, a decrease from the current ratio of 1.27 at December 31, 2009 and an increase from 1.02 a year ago. An increase in short term borrowings from December 31, 2009 led to the decline in the current ratio while an increase in Total current assets more than offset an increase in Total current liabilities which led to the improvement in the current ratio from a year ago.

Table of Contents

Goodwill and intangible assets increased $130.7 million from December 31, 2009 and increased $115.4 million from September 30, 2009. The net increase for the nine months was from the acquisition of businesses made in 2010 of $127.8 million and increases in capitalized software of $14.6 million, partially offset by amortization of $21.8 million and foreign currency translation of $10.1 million. The net increase over the twelve-month period from September 30, 2009 resulted from acquisitions of $127.3 million and capitalization of software of $17.3 million, partially offset by amortization of $28.7 million and impairments of $14.1 million. See Note 5, on pages 51 to 53, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for more information concerning goodwill and intangible assets.

Deferred pension assets increased $5.4 million during the first nine months of 2010 and increased $35.2 million from September 30, 2009. These increases were due primarily to an increase in the fair market value of equity securities held by the Company s defined benefit pension plans. See Note 7, on pages 57 to 62, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for more information concerning the Company s benefit plan assets.

Other assets at September 30, 2010 increased $71.5 million in the first nine months of 2010 and $98.0 million from a year ago, due primarily to increased investments in affordable housing and historic renovation real estate properties of $39.8 million and $57.5 million, respectively. The remaining increases were due to increases in various other investments during both time periods.

Net property, plant and equipment increased $94.2 million in the first nine months of 2010 and increased $80.3 million in the twelve months since September 30, 2009. The increase in nine months was primarily due to capital expenditures of $76.1 million, acquisitions of $121.6 million, and changes in currency translation rates partially offset by depreciation expense of $100.7 million. Since September 30, 2009, capital expenditures of $103.9 million and acquisitions of $121.6 million were partially offset by depreciation expense of $136.2 million, dispositions of assets with remaining net book value of $8.7 million, and changes in currency translation rates. Capital expenditures during the first nine months of 2010 primarily represented expenditures associated with improvements and normal equipment replacement in manufacturing and distribution facilities in the Consumer Group and normal equipment replacement in the Paint Stores and Global Finishes Groups.

Short-term borrowings related to the Company s domestic commercial paper program outstanding were $57.9 million at an average rate of 0.26 percent at September 30, 2010. There were no borrowings under certain other short-term revolving and letter of credit agreements at September 30, 2010. Short-term borrowings outstanding under various foreign programs at September 30, 2010 were $296.7 million with a weighted average interest rate of 2.2 percent. The Company had unused maximum borrowing availability of $442.1 million at September 30, 2010 under the commercial paper program that is backed by the Company s revolving credit agreement and certain other revolving and letter of credit agreements. On March 30, 2010, the Company entered into a 364-day, 31.9 million (Euro) credit facility. The agreement was used to finance the acquisition of the Sayerlack industrial wood coatings business. At September 30, 2010, the entire amount was outstanding. During the second quarter of 2010, the Company repurchased $84.9 million of its publicly traded 7.45% debentures due 2097. There were no other significant changes in long-term debt during the third quarter or first nine months of 2010. On July 19, 2010, Sherwin-Williams Luxembourg S.à r.l., a wholly-owned subsidiary of the Company, entered into a 200 million (Euro) credit facility. On July 19, 2010, Sherwin-Williams Canada Inc., a wholly-owned subsidiary of the Company, entered into a CAD 75 million credit facility. The credit facilities will be used for general corporate purposes, including refinancing indebtedness and for acquisitions. See Note 8, on pages 62 and 63, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for more information concerning the Company s debt.

Long-term liabilities for postretirement benefits other than pensions did not change significantly from December 31, 2009 and increased $34.3 million from September 30, 2009. The increase in the liability was due to the increase in the actuarially determined postretirement benefit obligation resulting from changes in actuarial assumptions and unfavorable claims experience. See Note 7, on pages 57 to 62, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for more information concerning the Company s benefit plan obligations.

Other long-term liabilities at September 30, 2010 increased $49.1 million in the first nine months of 2010, due primarily to an increase of $43.6 million in non-current and deferred tax liabilities, and increased $101.6 million from a year ago. The increase of $101.6 million from a year ago was due primarily to an increase in long-term commitments related to the affordable housing and historic renovation real estate properties of $61.1 million and an increase in non-current and deferred tax liabilities of $58.1 million partially offset by a reduction in long-term accruals for extended environmental-related liabilities of $32.0 million. See Note 1, on pages 44 to 50, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for more information concerning the Company s Non-traded investments.

Environmental-Related Liabilities

The operations of the Company, like those of other companies in the same industry, are subject to various federal, state and local environmental laws and regulations. These laws and regulations not only govern current operations and products, but also impose potential liability on the Company for past operations. Management expects environmental laws and regulations to impose increasingly stringent requirements upon the Company and the industry in the future. Management believes that the Company conducts its operations in compliance with applicable environmental laws and regulations and has implemented various programs designed to protect the environment and promote continued compliance.

Depreciation of capital expenditures and other expenses related to ongoing environmental compliance measures were included in the normal operating expenses of conducting business. The Company s capital expenditures, depreciation and other expenses related to ongoing environmental compliance measures were not material to the Company s financial condition, liquidity, cash flow or results of operations during the first nine months of 2010. Management does not expect that such capital expenditures, depreciation and other expenses will be material to the Company s financial condition, liquidity, cash flow or results of operations in 2010.

Table of Contents

The Company is involved with environmental investigation and remediation activities at some of its currently and formerly owned sites (including sites which were previously owned and/or operated by businesses acquired by the Company). In addition, the Company, together with other parties, has been designated a potentially responsible party under federal and state environmental protection laws for the investigation and remediation of environmental contamination and hazardous waste at a number of third-party sites, primarily Superfund sites. The Company may be similarly designated with respect to additional third-party sites in the future.

The Company accrues for estimated costs of investigation and remediation activities at its currently and formerly owned sites and third party sites for which commitments or clean-up plans have been developed and when such costs can be reasonably estimated based on industry standards and professional judgment. These estimated costs are based on currently available facts regarding each site. The Company accrues a specific estimated amount when such an amount and a time frame in which the costs will be incurred can be reasonably determined. If the best estimate of costs can only be identified as a range and no specific amount within that range can be determined more likely than any other amount within the range, the minimum of the range is accrued by the Company in accordance with applicable accounting rules and interpretations. The Company continuously assesses its potential liability for investigation and remediation activities and adjusts its environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated. At September 30, 2010 and 2009, the Company had accruals for environmental-related activities of $154.5 million and $174.4 million, respectively.

Due to the uncertainties of the scope and magnitude of contamination and the degree of investigation and remediation activities that may be necessary at certain currently or formerly owned sites and third party sites, it is reasonably likely that further extensive investigations may be required and that extensive remedial actions may be necessary not only on such sites but on adjacent properties. Depending on the extent of the additional investigations and remedial actions necessary, the Company s ultimate liability may result in costs that are significantly higher than currently accrued. If the Company s future loss contingency is ultimately determined to be at the maximum of the range of possible outcomes for every site for which costs can be reasonably estimated, the Company s aggregate accruals for environmental-related activities would be $100.7 million higher than the accruals at September 30, 2010.

Four of the Company s currently and formerly owned sites accounted for the majority of the accruals for environmental-related activities and the unaccrued maximum of the estimated range of possible outcomes at September 30, 2010. At September 30, 2010, $111.5 million, or 72.1 percent, related directly to these four sites. Of the aggregate unaccrued exposure at September 30, 2010, $62.7 million, or 62.2 percent, related to the four sites. While environmental investigations and remedial actions are in different stages at these sites, additional investigations, remedial actions and/or monitoring will likely be required at each site. A comprehensive description of the four currently and formerly owned sites that account for the majority of the accruals for environmental-related activities is included in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. There have been no significant changes in the investigative or remedial status of the four sites since December 31, 2009.

Management cannot presently estimate the ultimate potential loss contingencies related to these four sites or other less significant sites until such time as a substantial portion of the investigative activities at each site is completed and remedial action plans are developed.

In accordance with the Asset Retirement Obligations Topic of the ASC, the Company has identified certain conditional asset retirement obligations at various current manufacturing, distribution and store facilities. These obligations relate primarily to asbestos abatement and closures of hazardous waste containment devices. Using investigative, remediation and disposal methods that are currently available to the Company, the estimated cost of these obligations is not significant.

In the event any future loss contingency significantly exceeds the current amount accrued, the recording of the ultimate liability may result in a material impact on net income for the annual or interim period during which the additional costs are accrued. Management does not believe that any potential liability ultimately attributed to the Company for its environmental-related matters or conditional asset retirement obligations will have a material adverse effect on the Company s financial condition, liquidity, or cash flow due to the extended period of time during which environmental investigation and remediation takes place. An estimate of the potential impact on the Company s operations cannot be made due to the aforementioned uncertainties.

Management expects these contingent environmental-related liabilities and conditional asset retirement obligations to be resolved over an extended period of time. Management is unable to provide a more specific time frame due to the indefinite amount of time to conduct investigation activities at any site, the indefinite amount of time to obtain governmental agency approval, as necessary, with respect to investigation and remediation activities, and the indefinite amount of time necessary to conduct remediation activities.

Contractual Obligations, Commercial Commitments and Warranties

Short-term borrowings increased $331.9 million to $354.6 million at September 30, 2010 from $22.7 million at December 31, 2009. Total long-term debt decreased $83.1 million to $711.8 million at September 30, 2010 from $794.9 million at December 31, 2009 and $300.0 million at September 30, 2009. See the Financial Condition, Liquidity and Cash Flow section of this report for more information. There have been no other significant changes to the Company s contractual obligations and commercial commitments in the third quarter or first nine months of 2010 as summarized in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Changes to the Company s accrual for product warranty claims in the first nine months of 2010 are disclosed in Note 5.

Contingent Liabilities

Life Shield Engineered Systems, LLC (Life Shield) is a wholly-owned subsidiary of the Company. Life Shield develops and manufactures blast and fragment mitigating systems and ballistic resistant systems. The blast and fragment mitigating systems and ballistic resistant systems create a potentially higher level of product liability for the Company (as an owner of and raw material supplier to Life Shield and as the exclusive distributor of Life Shield s systems) than is normally associated with coatings and related products currently manufactured, distributed and sold by the Company.

Certain of Life Shield s technology has been designated as Qualified Anti-Terrorism Technology and granted a Designation under the Support Anti-terrorism by Fostering Effective Technologies Act of 2002 (SAFETY Act) and the regulations adopted pursuant to the SAFETY Act. Under the SAFETY Act, the potentially higher level of possible product liability for Life Shield relating to the technology granted the Designation is limited to $6.0 million per occurrence in the event any such liability arises from an Act of Terrorism (as defined in the SAFETY Act). The limitation of liability provided for under the SAFETY Act does not apply to any technology not granted a designation or certification as a Qualified Anti-Terrorism Technology, nor in the event that any such liability arises from an act or event other than an Act of Terrorism. Life Shield maintains insurance for liabilities up to the $6.0 million per occurrence limitation caused by failure of its products in the event of an Act of Terrorism. This commercial insurance is also expected to cover product liability claims asserted against the Company as the distributor of Life Shield s systems. The Company expects to seek Designation and Certification under the SAFETY Act for certain products supplied by the Company to Life Shield.

Management of the Company has reviewed the potential increased liabilities associated with Life Shield s systems and determined that potential liabilities arising from an Act of Terrorism that could ultimately affect the Company will be appropriately insured or limited by current regulations. However, due to the uncertainties involved in the future development, usage and application of Life Shield s systems, the number or nature of possible future claims and legal proceedings, or the effect that any change in legislation and/or administrative regulations may have on the limitations of potential liabilities, management cannot reasonably determine the scope or amount of any potential costs and liabilities for the Company related to Life Shield or to Life Shield s systems. Any potential liability for the Company that may result from Life Shield or Life Shield s systems cannot reasonably be estimated. However, based upon, among other things, the limitation of liability under the SAFETY Act in the event of an Act of Terrorism, management does not currently believe that the costs or potential liability ultimately determined to be attributable to the Company through its ownership of Life Shield, as a supplier to Life Shield or as a distributor of Life Shield s systems arising from the use of Life Shield s systems will have a material adverse effect on the Company s results of operations, liquidity or financial conditions.

Litigation

In the course of its business, the Company is subject to a variety of claims and lawsuits, including litigation relating to product liability and warranty, personal injury, environmental, intellectual property, commercial, contractual and antitrust claims that are inherently subject to many uncertainties regarding the possibility of a loss to the Company. These uncertainties will ultimately be resolved when one or more future events occur or fail to occur confirming the incurrence of a liability or the reduction of a liability. In accordance with the Contingencies Topic of the ASC, the Company accrues for these contingencies by a charge to income when it is both probable that one or more future events will occur confirming the fact of a loss and the amount of the loss can be reasonably estimated. In the event that the Company s loss contingency is ultimately determined to be significantly higher than currently accrued, the recording of the additional liability may result in a material impact on the Company s results of operations, liquidity or financial condition for the annual or interim period during which such additional liability is accrued. In those cases where no accrual is recorded because it is not probable that a liability has been incurred and cannot be reasonably estimated, any potential liability ultimately determined to be attributable to the Company may result in a material impact on the Company s results of operations, liquidity or financial condition for the annual or interim period during which such liability is accrued. In those cases where no accrual is recorded or exposure to loss exists in excess of the amount accrued, the Contingencies Topic of the ASC requires disclosure of the contingency when there is a reasonable possibility that a loss or additional loss may have been incurred if even the possibility may be remote.

Lead pigment and lead-based paint litigation. The Company s past operations included the manufacture and sale of lead pigments and lead-based paints. The Company, along with other companies, is and has been a defendant in a number of legal proceedings, including individual personal injury actions, purported class actions, and actions brought by various counties, cities, school districts and other government-related entities, arising from the manufacture and sale of lead pigments and lead-based paints. The plaintiffs claims have been based upon various legal theories, including negligence, strict liability, breach of warranty, negligent misrepresentations and omissions, fraudulent misrepresentations and omissions, concert of action, civil conspiracy, violations of unfair trade practice and consumer protection laws, enterprise liability, market share liability, public nuisance, unjust enrichment and other theories. The plaintiffs seek various damages and relief, including personal injury and property damage, costs relating to the detection and abatement of lead-based paint from buildings, costs associated with a public education campaign, medical monitoring costs and others. The Company is also a defendant in legal proceedings arising from the manufacture and sale of non-lead-based paints that seek recovery based upon various legal theories, including the failure to adequately warn of potential exposure to lead during surface preparation when using non-lead-based paint on surfaces previously painted with lead-based paint. The Company believes that the litigation brought to date is without merit or subject to meritorious defenses and is vigorously defending such litigation. The Company has not settled any lead pigment or lead-based paint litigation. The Company expects that additional lead pigment and lead-based paint litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

Notwithstanding the Company s views on the merits, litigation is inherently subject to many uncertainties, and the Company ultimately may not prevail. Adverse court rulings or determinations of liability, among other factors, could affect the lead pigment and lead-based paint litigation against the Company and encourage an increase in the number and nature of future claims and proceedings. In addition, from time to time, various legislation and administrative regulations have been enacted, promulgated or proposed to impose obligations on present and former manufacturers of lead pigments and lead-based paints respecting asserted health concerns associated with such products or to overturn the effect of court decisions in which the Company and other manufacturers have been successful.

Due to the uncertainties involved, management is unable to predict the outcome of the lead pigment and lead-based paint litigation, the number or nature of possible future claims and proceedings, or the effect that any legislation and/or administrative regulations may have on the litigation or against the Company. In addition, management cannot reasonably determine the scope or amount of the potential costs and liabilities related to such litigation, or resulting from any such legislation and regulations. The Company has not accrued any amounts for such litigation. Any potential liability that may result from such litigation or such legislation and regulations cannot reasonably be estimated. In the event any significant liability is determined to be attributable to the Company relating to such litigation, the recording of the liability may result in a material impact on net income for the annual or interim period during which such liability is accrued. Additionally, due to the uncertainties associated with the amount of any such liability and/or the nature of any other remedy which may be imposed in such litigation, any potential liability determined to be attributable to the Company arising out of such litigation may have a material adverse effect on the Company s results of operations, liquidity or financial condition. An estimate of the potential impact on the Company s results of operations, liquidity or financial condition cannot be made due to the aforementioned uncertainties.

Public nuisance claim litigation. The Company and other companies are or were defendants in legal proceedings seeking recovery based on public nuisance liability theories, among other theories, brought by the State of Rhode Island, the City of St. Louis, Missouri, various cities and counties in the State of New Jersey, various cities in the State of Ohio and the State of Ohio, the City of Milwaukee, Wisconsin and the County of Santa Clara, California and other public entities in the State of California. Except for the Santa Clara County, California proceeding, all of these legal proceedings have been concluded in favor of the Company and other defendants at various stages in the proceedings.

The proceedings initiated by the State of Rhode Island included two jury trials. The claim was originally tried to a jury in 2002 and the court declared a mistrial as the jury, which was split four to two in favor of the defendants, was unable to reach a unanimous decision. The State of Rhode Island retried the case and on February 22, 2006, the jury returned a verdict, finding that (i) the cumulative presence of lead pigment in paints and coatings on buildings in the State of Rhode Island constitutes a public nuisance, (ii) the Company, along with two other defendants, caused or substantially contributed to the creation of the public nuisance, and (iii) the Company and two other defendants should be ordered to abate the public nuisance. The Company and two other defendants appealed, and on July 1, 2008, the Rhode Island Supreme Court, among other determinations, reversed the judgment of abatement with respect to the Company and two other defendants. The Rhode Island Supreme Court s decision reversed the public nuisance liability judgment against the Company on the basis that the complaint failed to state a public nuisance claim as a matter of law.

The Santa Clara County, California proceeding was initiated in March 2000 and purports to be a class action on behalf of all public entities in the State of California other than the State and its agencies. The plaintiffs asserted various claims including fraud and concealment, strict product liability/failure to warn, strict product liability/design defect, negligence, negligent breach of a special duty, public nuisance, private nuisance, and violations of California s Business and Professions Code. A number of the asserted claims were resolved in favor of the defendants

Table of Contents

through pre-trial proceedings. On March 3, 2006, the Court of Appeal, Sixth Appellate District, among other determinations, reversed the dismissal of the public nuisance claim for abatement brought by the cities of Santa Clara and Oakland and the City and County of San Francisco, and affirmed the dismissal of the public nuisance claim for damages to the plaintiffs properties. The plaintiffs have filed a motion for leave to file a fourth amended complaint. On April 4, 2007, the trial court entered an order granting the defendants motion to bar payment of contingent fees to private attorneys. The plaintiffs appealed, and on April 8, 2008, the California Court of Appeal reversed the trial court s order. The defendants filed a petition for review with the California Supreme Court, and on July 26, 2010, the Supreme Court issued an opinion mostly affirming the Court of Appeal s decision and remanding the case to the trial court. The California Supreme Court upheld the plaintiffs right to retain private counsel on a contingency fee basis subject to certain requirements set forth in the Supreme Court s opinion. The proceedings in the trial court were stayed through July 26, 2010 pending the appeal.

Litigation seeking damages from alleged personal injury. The Company and other companies are defendants in a number of legal proceedings seeking monetary damages and other relief from alleged personal injuries. These proceedings include claims by children allegedly injured from ingestion of lead pigment or lead-containing paint, claims for damages allegedly incurred by the children s parents or guardians, and claims for damages allegedly incurred by professional painting contractors. These proceedings generally seek compensatory and punitive damages, and seek other relief including medical monitoring costs. These proceedings include purported claims by individuals, groups of individuals and class actions.

The plaintiff in Thomas v. Lead Industries Association, et al., initiated an action against the Company, other alleged former lead pigment manufacturers and the Lead Industries Association in September 1999. The claims against the Company and the other defendants include strict liability, negligence, negligent misrepresentation and omissions, fraudulent misrepresentation and omissions, concert of action, civil conspiracy and enterprise liability. Implicit within these claims is the theory of risk contribution liability (Wisconsin s theory which is similar to market share liability) due to the plaintiff s inability to identify the manufacturer of any product that allegedly injured the plaintiff. Following various pre-trial proceedings during which certain of the plaintiff s claims were dismissed by the court, on March 10, 2003, the trial court granted the defendants motion for summary judgment, dismissing the case with prejudice and awarding costs to each defendant. The plaintiff appealed, and on June 14, 2004, the Wisconsin Court of Appeals affirmed the trial court s decision. On July 15, 2005, the Wisconsin Supreme Court reversed in part the trial court s decision and decided, assuming all of plaintiff s facts in the summary judgment record to be true, that the risk contribution theory could then apply to excuse the plaintiff s lack of evidence identifying any of the Company s or the other defendant s products as the cause of the alleged injury. The case was remanded to the trial court for further proceedings and a trial commenced on October 1, 2007. On November 5, 2007, the jury returned a defense verdict, finding that the plaintiff had ingested white lead carbonate, but was not brain damaged or injured as a result. The plaintiff filed post-trial motions for a new trial that was denied by the trial court. On March 4, 2008, final judgment was entered in favor of the Company and other defendants. The plaintiff has filed an appeal of the final judgment.

Table of Contents

Wisconsin is the only jurisdiction to date to apply a theory of liability with respect to alleged personal injury (i.e., risk contribution/market share liability) that does not require the plaintiff to identify the manufacturer of the product that allegedly injured the plaintiff in the lead pigment and lead-based paint litigation.

Insurance coverage litigation. The Company and its liability insurers, including certain Underwriters at Lloyd s of London, initiated legal proceedings against each other to determine, among other things, whether the costs and liabilities associated with the abatement of lead pigment are covered under certain insurance policies issued to the Company. An ultimate loss in the insurance coverage litigation would mean that insurance proceeds could be unavailable under the policies at issue to mitigate any ultimate abatement related costs and liabilities. The Company has not recorded any assets related to these insurance policies or otherwise assumed that proceeds from these insurance policies would be received in estimating any contingent liability accrual. Therefore, an ultimate loss in the insurance coverage litigation without a determination of liability against the Company in the lead pigment or lead-based paint litigation will have no impact on the Company s results of operation, liquidity or financial condition. As previously stated, however, the Company has not accrued any amounts for the lead pigment or lead-based paint litigation and any significant liability ultimately determined to be attributable to the Company relating to such litigation may result in a material impact on the Company s results of operations, liquidity or financial condition for the annual or interim period during which such liability is accrued. The Company s action, an Ohio state court action, has been stayed and the liability insurers action, a New York state court action, has been dismissed.

Shareholders Equity

Shareholders equity increased $152.2 million to $1.643 billion at September 30, 2010 from $1.491 billion at December 31, 2009 and decreased $59.7 million from $1.703 billion at September 30, 2009. The increase in Shareholders equity for the first nine months of 2010 resulted primarily from net income of $389.6 million and increased other capital of $113.8 million resulting from stock option exercises partially offset by the purchase of treasury stock of $253.6 million, cash dividends paid on common stock of $117.7 million, and an decrease in Cumulative other comprehensive loss of $25.3 million. Purchases of treasury stock for $507.7 million since September 30, 2009 more than offset an increase in retained earnings and other capital of $298.3 million and $113.2 million, respectively, and a decrease in Cumulative other comprehensive loss of $42.0 million in twelve months due primarily to favorable foreign currency translation effects. During the first nine months of 2010, the Company purchased 3.48 million shares of its common stock for treasury purposes through open market purchases. The Company purchased 7.60 million shares of its common stock since September 30, 2009 for treasury. The Company acquires its common stock for general corporate purposes, and depending on its cash position and market conditions, it may acquire additional shares in the future. The Company had remaining authorization at September 30, 2010 to purchase 7.28 million shares of its common stock.

Total increases in common stock and other capital of $115.9 million during the first nine months of 2010 and $115.5 million during the last twelve months were due primarily to the recognition of stock-based compensation expense and stock option exercises. Retained earnings increased $271.9 million during the first nine months due primarily to Net income of $175.3 million exceeding cash dividends of $117.7 million and increased $298.3 million from September 30, 2009 due to Net income that was only partially offset by $155.6 million in cash dividends paid. At a meeting held on October 20, 2010, the Board of Directors increased the quarterly cash dividend from $.355 per common share to $.36 per common share for the third time in 2010. This quarterly dividend, if approved in the last quarter of 2010, would result in an annual dividend for 2010 of $1.44 per common share or a 38.1 percent payout of 2009 diluted net income per common share. The Board of Directors considered the increase in the proposed cash dividend payout for 2010 appropriate, representing a percentage payout of 2009 diluted net income per common share exceeding 30.0 percent, in respect to the Net operating cash achieved by the Company.

Cash Flow

Net operating cash decreased $138.0 million in the first nine months of 2010 to a cash source of $477.6 million from a cash source of $615.6 million in 2009 primarily due to greater net working capital requirements of $139.3 million from increased sales levels and raw material costs and normal seasonal increases partially offset by increased net income of $19.1 million. The Company used this cash along with increases to total debt of $233.9 million and invested $76.1 million in capital additions and improvements and $264.3 million in acquisitions of businesses, purchased $253.6 million in treasury stock and paid $117.7 million in cash dividends to its shareholders of common stock. In the twelve month period from October 1, 2009 through September 30, 2010, the Company generated net operating cash of $721.2 million and invested $103.9 million in capital additions and improvements and $265.7 million in acquisitions of businesses, purchased $507.7 million in treasury stock and paid $155.6 million in cash dividends to its shareholders of common stock.

Market Risk

The Company is exposed to market risk associated with interest rate, foreign currency and commodity fluctuations. The Company occasionally utilizes derivative instruments as part of its overall financial risk management policy, but does not use derivative instruments for speculative or trading purposes. During the second quarter of 2010, the Company purchased call warrants on the Company s 7.45% debentures due 2097 with expiration dates matching the underlying debt to hedge interest rate and credit rating risk. These warrants were designated as fair value hedges against changes in fair value of the related debt. In the first nine months of 2010, the Company entered into forward currency exchange contracts with maturity dates of less than twelve months to hedge against value changes in foreign currency. The Company believes it may be exposed to continuing market risk from foreign currency exchange rate and commodity price fluctuations. However, the Company does not expect that foreign currency exchange rate and commodity price fluctuations or hedging contract losses will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

Financial Covenant

Certain borrowings contain a consolidated leverage covenant. The covenant states the Company s leverage ratio is not to exceed 3.00 to 1.00. The leverage ratio is defined as the ratio of total indebtedness (the sum of Short-term borrowings, Current portion of long-term debt and Long-term debt) at the reporting date to consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) for the 12-month period ended on the same date.

Table of Contents

Refer to the Results of Operations caption below for a reconciliation of EBITDA to Net income. At September 30, 2010, the Company was in compliance with the covenant. The Company s Notes, Debentures and revolving credit agreements contain various default and cross-default provisions. In the event of default under any one of these arrangements, acceleration of the maturity of any one or more of these borrowings may result. See Note 8, on page 62 and 63, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for more information concerning the Company s debt and related covenant.

RESULTS OF OPERATIONS

Shown below are net sales and income before taxes by segment for the third quarter and first nine months:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(thousands of dollars)	**2010**	2009	Change	**2010**	2009	Change
Net Sales:						
Paint Stores Group	**$ 1,286,063**	$ 1,220,717	5.4%	**$ 3,381,955**	$ 3,289,164	2.8%
Consumer Group	**340,365**	330,450	3.0%	**1,042,731**	985,090	5.9%
Global Finishes Group	**544,548**	444,138	22.6%	**1,452,194**	1,216,340	19.4%
Administrative	**1,283**	1,604	-20.0%	**3,925**	4,819	-18.6%
Total	**$ 2,172,259**	$ 1,996,909	8.8%	**$ 5,880,805**	$ 5,495,413	7.0%

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	**2010**	2009	Change
Income Before Income Taxes:						
Paint Stores Group	**$ 225,079**	$ 230,193	-2.2%	**$ 484,795**	$ 480,261	0.9%
Consumer Group	**59,699**	56,473	5.7%	**177,859**	152,762	16.4%
Global Finishes Group	**31,925**	29,658	7.6%	**94,882**	66,120	43.5%
Administrative	**(61,324)**	(57,676)	6.3%	**(183,450)**	(157,479)	16.5%
Total	**$ 255,379**	$ 258,648	-1.3%	**$ 574,086**	$ 541,664	6.0%

Consolidated net sales increased in the third quarter and increased in the first nine months of 2010 due primarily to acquisitions, favorable foreign currency translation rate changes, selling price increases, and improved global demand for architectural, OEM, and automotive finishes products.

Net sales of all consolidated foreign subsidiaries were up 38.5 percent to $376.1 million in the quarter and up 34.6 percent to $995.2 million in the first nine months versus $271.5 million and $739.5 million in the same periods last year. The increases in net sales for all consolidated foreign subsidiaries in the quarter and first nine months were due primarily to acquisitions, which increased net sales in the quarter 24.7 percent and 14.2 percent in nine months, and a 4.4 percent positive impact of foreign currency translation rate changes in the quarter and a 9.7 percent positive impact in the first nine months. Net sales of all operations other than consolidated foreign subsidiaries were up 4.1 percent to $1.80 billion in the quarter and up 2.7

percent to $4.89 billion in nine months as compared to $1.73 billion and $4.76 billion in the same periods last year. Net sales in the Paint Stores Group increased due primarily to improving domestic architectural paint sales primarily to residential repaint contractors and retail do-it-yourself customers and selected selling price increases. Net sales from stores open for more than twelve calendar months increased 5.1 percent in the quarter and increased 2.5 percent in the first nine months over last year s comparable periods. Total paint sales volume percentage was essentially flat for the quarter and first nine months as compared to the third quarter and first nine months last year. Sales of non-paint products increased by 6.0 percent over last year s third quarter and increased by 3.4 percent over last year s first nine months. A discussion of changes in volume versus pricing for sales of products other than paint is not pertinent due to the wide assortment of general merchandise sold. Net sales of the Consumer Group increased in the third quarter and first nine months primarily due to improving demand at some of the Segment s retail, industrial and institutional customers. Net sales in the Global Finishes Group stated in U.S. dollars increased in the third quarter and first nine months primarily due to acquisitions, favorable currency translation rate changes and increased paint volume sales. Acquisitions increased sales by 15.1 percent and 8.6 percent for the third quarter and first nine months, respectively. Currency translation rate changes increased sales 2.5 percent in the quarter and 5.5 percent in the first nine months, respectively. Net sales in the Administrative segment, which primarily consist of external leasing revenue of excess headquarters space and leasing of facilities no longer used by the Company in its primary business, decreased by an insignificant amount in the third quarter and first nine months.

Consolidated gross profit increased $42.6 million in the third quarter and $130.5 million in the first nine months of 2010 compared to the same periods in 2009. As a percent of sales, consolidated gross profit decreased to 44.7 percent in the quarter from 46.5 percent in the third quarter of 2009 and decreased to 44.8 percent in the first nine months of 2010 from 45.6 percent last year. Increased sales volumes and favorable currency translation rate changes favorably impacted gross profit dollars for both the third quarter and first nine months of 2010 compared to the same periods in 2009. Selling price increases, cost control efforts and realized savings from prior year site rationalizations, primarily in the Consumer Group, only partially offset raw material cost increases which adversely impacted gross profit margins in the third quarter and first nine months of 2010 compared to 2009.

The Paint Stores Group s gross profit was higher than last year in the third quarter by $18.6 million and higher than last year in the first nine months by $31.6 million due to higher sales. The Paint Stores Group s gross profit margins in the quarter and first nine months were down 1.2 and 0.5 percent of sales, respectively, compared to the same periods last year due to increasing raw material costs only partially offset by selected selling price increases. The Consumer Group s gross profit decreased from last year by $0.4 million in the quarter and increased $17.4 million in the first nine months from last year due primarily to increased sales volume, good cost control efforts and cost savings realized from prior year site rationalizations partially offset by increasing raw material costs that began in the second quarter of 2010. These actions were not enough to offset the increasing raw material costs in the third quarter, which led to the gross profit dollar decline. Consumer Group s gross profit margins declined 1.2 and 0.4 percent of sales for the third quarter and first nine months, respectively, compared to the same periods last year due to the increasing raw material costs. The Global Finishes Group s gross profit increased $26.2 million in the third quarter and increased $82.1 million in the first nine months compared to the same periods last year, when stated in U.S. dollars, due primarily to increased paint sales volume, acquisitions, and favorable currency translation rate changes of $3.7 million in the quarter and $23.7 million in the first nine months. The Global Finishes Group s gross profit margins were down 1.9 percent of sales in the quarter and 0.2 percent of sales for the first nine months compared to last year primarily due to increasing raw material costs. The Administrative segment s gross profit decreased by an insignificant amount in the third quarter and first nine months compared to the same periods last year.

Selling, general and administrative expenses (SG&A) increased $49.4 million in the third quarter and increased $91.7 million in the first nine months of 2010 versus last year due primarily to increased sales volume, acquisitions and the impact of currency translation rate changes. As a percent of sales, consolidated SG&A decreased to 32.4 percent in the quarter and decreased to 34.1 percent in the first nine months from 32.8 percent in the third quarter and 34.9 percent in the first nine months of 2009.

The Paint Stores Group s SG&A increased $20.4 million in the third quarter and increased $27.4 million in the first nine months due primarily to higher sales and service expenses required to ensure product availability and customer service. The Consumer Group s SG&A decreased $3.1 million in the third quarter and decreased $6.0 million in the first nine months due primarily to good expense control. The Global Finishes Group s SG&A increased $25.2 million in the quarter and increased $56.2 million in the first nine months relating primarily to acquisitions, currency translation rate changes, and higher sales volume. The Administrative segment s SG&A increased by $7.0 million in the third quarter and increased by $14.0 million in the first nine months due primarily to an increase in compensation, including stock-based compensation expense.

Other general (income) expense net decreased $7.7 million in the third quarter and decreased by $14.1 million in the first nine months primarily due to a decrease in the provision for environmental-related matters in the Administrative segment for both periods.

Interest expense, included in the Administrative segment, increased $2.8 million in the third quarter primarily due to higher average total debt levels and $18.2 million in the first nine months due primarily to the write-off of origination costs related to the repurchase of a portion of the Company s 7.45% debentures.

Other expense (income) net decreased $1.8 million in the third quarter and decreased $2.7 million in the first nine months primarily due to a decrease in foreign currency related gains in the Global Finishes Group and impacts to the Administrative segment from an increase in net expense from financing and investing activities, partially offset by increased dividend and royalty income.

Consolidated income before income taxes decreased $3.3 million in the third quarter due primarily to the lower segment profit of the Paint Stores Group and higher Administrative Segment expenses partially offset by higher segment profit from Global Finishes and Consumer

Table of Contents

Group. Consolidated income before income taxes increased $32.4 million in the first nine months of 2010 due primarily to the higher segment profits of the Paint Stores Group, Global Finishes and Consumer Groups partially offset by an increase in Administrative Segment expenses.

The effective income tax rate of 31.4 percent for the third quarter of 2010 was lower than the 32.3 percent effective income tax rate for the third quarter of 2009. The effective income tax rate of 32.1 percent for the first nine months of 2010 was higher than the 31.6 effective income tax rate for the first nine months of 2009 as a result of a one-time increase in income tax expense of $11.4 million due to the Acts.

Net income for the quarter increased $0.1 million to $175.3 million from $175.2 million in the third quarter of 2009 and increased $19.1 million to $389.6 million from $370.5 million in the first nine months of 2009. Diluted net income per common share increased 6.0 percent from $1.51 per share in the third quarter of 2009 to $1.60 per share in the third quarter of 2010. Diluted net income per common share increased 11.4 percent from $3.17 in the first nine months of 2009 to $3.53 in the first nine months of 2010, including charges aggregating $.18 per share related to repurchase of debt and the Acts. Average diluted shares decreased during the period primarily due to treasury stock repurchases.

Management considers a measurement that is not in accordance with U.S. generally accepted accounting principles a useful measurement of the operational profitability of the Company. Some investment professionals also utilize such a measurement as an indicator of the value of profits and cash that are generated strictly from operating activities, putting aside working capital and certain other balance sheet changes. For this measurement, management increases net income for significant non-operating and non-cash expense items to arrive at an amount known as Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). The reader is cautioned that the following value for EBITDA should not be compared to other entities unknowingly. EBITDA should not be considered an alternative to net income or cash flows from operating activities as an indicator of operating performance or as a measure of liquidity. The reader should refer to the determination of net income and cash flows from operating activities in accordance with U. S. generally accepted accounting principles disclosed in the Statements of Consolidated Income and Statements of Consolidated Cash Flows. EBITDA as used by management is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands of dollars)	**2010**	2009	**2010**	2009
Net income	**$ 175,258**	$ 175,208	**$ 389,567**	$ 370,510
Interest expense	**11,310**	8,471	**49,219**	31,029
Income taxes	**80,121**	83,440	**184,519**	171,154
Depreciation	**34,467**	36,411	**100,673**	109,611
Amortization	**8,568**	6,623	**21,774**	18,819
EBITDA	**$ 309,724**	$ 310,153	**$ 745,752**	$ 701,123

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon management s current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and the costs and potential liability for environmental-related matters and the lead pigment and lead-based paint litigation. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as expects, anticipates, believes, will, will l result, will continue, plans to and similar expressions. Readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, that could cause actual results to differ materially from such statements and from the Company s historical results and experience.

These risks, uncertainties and other factors include such things as: (a) the duration and severity of the current negative global economic and financial conditions; (b) general business conditions, strengths of retail and manufacturing economies and the growth in the coatings industry; (c) competitive factors, including pricing pressures and product innovation and quality; (d) changes in raw material and energy supplies and pricing; (e) changes in the Company s relationships with customers and suppliers; (f) the Company s ability to attain cost savings from productivity initiatives; (g) the Company s ability to successfully integrate past and future acquisitions into its existing operations, as well as the performance of the businesses acquired; (h) risks and uncertainties associated with the Company s ownership of Life Shield Engineered Systems LLC; (i) changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions, and changing governmental policies, laws and regulations; (j) risks and uncertainties associated with the Company s expansion into and its operations in Asia, Mexico and South America and other foreign markets, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest and other external economic and political factors; (k) the achievement of growth in developing markets, such as Asia, Mexico and South America; (l) increasingly stringent domestic and foreign governmental regulations including those affecting health, safety and the environment; (m) inherent uncertainties involved in assessing the Company s potential liability for environmental-related activities; (n) other changes in governmental policies, laws and regulations, including changes in accounting policies and standards and taxation requirements (such as new tax laws and new or revised tax law interpretations); (o) the nature, cost, quantity and outcome of pending and future litigation and other claims, including the lead pigment and lead-based paint litigation, and the effect of any legislation and administrative regulations relating thereto; and (p) unusual weather conditions.

Table of Contents

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk associated with interest rate, foreign currency and commodity fluctuations. The Company occasionally utilizes derivative instruments as part of its overall financial risk management policy, but does not use derivative instruments for speculative or trading purposes. The Company enters into option and forward currency exchange contracts and commodity swaps to hedge against value changes in foreign currency and commodities. The Company believes it may experience continuing losses from foreign currency translation and commodity price fluctuations. However, the Company does not expect currency translation, transaction, commodity price fluctuations or hedging contract losses to have a material adverse effect on the Company s financial condition, results of operations or cash flows. There were no material changes in the Company s exposure to market risk since the disclosure included in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Table of Contents

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chairman and Chief Executive Officer and our Senior Vice President Finance and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 and Rule 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our Chairman and Chief Executive Officer and our Senior Vice President Finance and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and accumulated and communicated to our management including our Chairman and Chief Executive Officer and Our Senior Vice President Finance and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Securities and Use of Proceeds.

A summary of the repurchase activity for the Company s third quarter is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Number of Shares Purchased as Part of a Publicly Announced Plan	Number of Shares That May Yet Be Purchased Under the Plan
July 1 - July 31				
Share repurchase program				8,400,000
August 1 - August 31				
Share repurchase program (1)	1,023,900	$ 69.20	1,023,900	7,376,100
September 1 - September 30				
Share repurchase program (1)	101,100	$ 71.37	101,100	7,275,000
Total				
Share repurchase program (1)	1,125,000	$ 69.39	1,125,000	7,275,000

(1) All shares were purchased through the Company s publicly announced share repurchased program. On October 19, 2007, the Board of Directors of the Company authorized the Company to purchase, in the aggregate, 30.0 million shares of its common stock and rescinded

the previous authorization limit. The Company had remaining authorization at September 30, 2010 to purchase 7,275,000 shares. There is no expiration date specified for the program. The Company intends to repurchase stock under the program in the future.

46

Table of Contents

Item 5. Other Information.

During the fiscal quarter ended September 30, 2010, the Audit Committee of the Board of Directors of the Company approved permitted non-audit services to be performed by Ernst & Young LLP, the Company s independent registered public accounting firm. These non-audit services were approved within categories related to domestic advisory and compliance services and tax compliance.

Table of Contents

Item 6. Exhibits.

4(a)	Credit Agreement, dated as of July 19, 2010, among Sherwin-Williams Luxembourg S.à r.l., as borrower, The Sherwin-Williams Company, as guarantor, the lenders party thereto, Bank of America, N.A., as administrative agent and L/C issuer, Banc of America Securities LLC, as sole bookrunner and joint mandated lead arranger, and HSBC Securities (USA) Inc., as joint mandated lead arranger, filed as Exhibit 4.1 to Sherwin-Williams Current Report on Form 8-K dated July 19, 2010, and incorporated herein by reference.
4(b)	Credit Agreement, dated as of July 19, 2010, among Sherwin-Williams Canada Inc., as borrower, The Sherwin-Williams Company, as guarantor, the lenders party thereto, KeyBank National Association, as joint lead arranger, sole bookrunner and administrative agent, and PNC Capital Markets, LLC, as joint lead arranger and syndication agent, filed as Exhibit 4.2 to Sherwin-Williams Current Report on Form 8-K dated July 19, 2010, and incorporated herein by reference.
31(a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith).
31(b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith).
32(a)	Section 1350 Certification of Chief Executive Officer (filed herewith).
32(b)	Section 1350 Certification of Chief Financial Officer (filed herewith).
101. INS	XBRL Instance Document
101. SCH	XBRL Taxonomy Extension Schema Document
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101. LAB	XBRL Taxonomy Extension Label Linkbase Document

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE SHERWIN-WILLIAMS COMPANY

October 28, 2010	By: /s/ A.J. Mistysyn A.J. Mistysyn Vice President-Corporate Controller
October 28, 2010	By: /s/ L.E. Stellato L.E. Stellato Senior Vice President, General Counsel and Secretary

Table of Contents

INDEX TO EXHIBITS

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101. INS	XBRL Instance Document
101. SCH	XBRL Taxonomy Extension Schema Document
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101. LAB	XBRL Taxonomy Extension Label Linkbase Document