

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

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Period Ended September 30, 2019
or

☐ **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
(State or other jurisdiction of incorporation or organization)

34-0526850
(I.R.S. Employer Identification No.)

101 West Prospect Avenue
Cleveland, Ohio
(Address of principal executive offices)

44115-1075
(Zip Code)

(216) 566-2000
(Registrant's telephone number including area code)

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, par value of \$1.00 per share	SHW	New York Stock Exchange

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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 – 92,309,240 shares as of September 30, 2019.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>2</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
<u>Item 4. Controls and Procedures</u>	<u>36</u>

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>37</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
<u>Item 5. Other Information</u>	<u>40</u>
<u>Item 6. Exhibits</u>	<u>41</u>

<u>SIGNATURES</u>	<u>42</u>
-----------------------------------	---------------------------

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,	
	2019	2018	2019	2018
Net sales	\$ 4,867,650	\$ 4,731,470	\$ 13,786,371	\$ 13,470,272
Cost of goods sold	2,642,096	2,721,066	7,644,305	7,734,393
Gross profit	2,225,554	2,010,404	6,142,066	5,735,879
Percent to net sales	45.7%	42.5%	44.6%	42.6%
Selling, general and administrative expenses	1,345,171	1,273,066	3,920,476	3,795,492
Percent to net sales	27.6%	26.9%	28.4%	28.2%
Other general expense - net	12,032	11,526	18,696	41,495
Amortization	77,548	80,077	234,400	239,019
Interest expense	85,282	92,281	265,474	277,335
Interest and net investment income	(637)	(555)	(1,588)	(2,732)
California litigation expense	(34,667)	136,333	(34,667)	136,333
Other expense (income) - net	30,992	1,723	54,887	(8,688)
Income before income taxes	709,833	415,953	1,684,388	1,257,625
Income taxes	133,395	61,926	391,710	249,867
Net income	\$ 576,438	\$ 354,027	\$ 1,292,678	\$ 1,007,758
Net income per share - basic	\$ 6.28	\$ 3.80	\$ 14.07	\$ 10.82
Net income per share - diluted	\$ 6.16	\$ 3.72	\$ 13.82	\$ 10.59
Average shares outstanding - basic	91,823,573	93,099,714	91,850,565	93,121,900
Average shares and equivalents outstanding - diluted	93,604,260	95,135,257	93,510,104	95,170,768

See notes to condensed consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (UNAUDITED)

Thousands of dollars

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 576,438	\$ 354,027	\$ 1,292,678	\$ 1,007,758
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments ⁽¹⁾	(131,867)	(66,366)	(120,561)	(218,662)
Pension and other postretirement benefit adjustments:				
Amounts reclassified from Other comprehensive loss ⁽²⁾	(389)	(492)	(1,122)	(557)
	(389)	(492)	(1,122)	(557)
Unrealized net gains on cash flow hedges:				
Amounts reclassified from Other comprehensive loss ⁽³⁾	(4,172)	(1,289)	(7,250)	(4,187)
	(4,172)	(1,289)	(7,250)	(4,187)
Total	(136,428)	(68,147)	(128,933)	(223,406)
Comprehensive income	\$ 440,010	\$ 285,880	\$ 1,163,745	\$ 784,352

⁽¹⁾ The three months ended September 30, 2019 includes unrealized gains of \$13,881, net of taxes of \$(4,572), related to the net investment hedge. The nine months ended September 30, 2019 includes unrealized gains of \$8,946, net of taxes of \$(2,946), related to the net investment hedge.

⁽²⁾ Net of taxes of \$150 and \$(220) in the three months ended September 30, 2019 and 2018, respectively. Net of taxes of \$433 and \$285 in the nine months ended September 30, 2019 and 2018, respectively.

⁽³⁾ Net of taxes of \$1,488 and \$791 in the three months ended September 30, 2019 and 2018, respectively. Net of taxes of \$2,503 and \$1,986 in the nine months ended September 30, 2019 and 2018, respectively.

See notes to condensed consolidated financial statements.

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

Thousands of dollars

	September 30, 2019	December 31, 2018	September 30, 2018
Assets			
Current assets:			
Cash and cash equivalents	\$ 189,645	\$ 155,505	\$ 181,511
Accounts receivable, less allowance	2,479,043	2,018,768	2,584,280
Inventories:			
Finished goods	1,474,835	1,426,366	1,369,689
Work in process and raw materials	350,134	388,909	432,729
	1,824,969	1,815,275	1,802,418
Other current assets	414,082	354,939	410,913
Total current assets	4,907,739	4,344,487	4,979,122
Property, plant and equipment:			
Land	239,446	244,608	249,787
Buildings	1,006,718	979,140	955,203
Machinery and equipment	2,837,377	2,668,492	2,623,884
Construction in progress	179,516	147,931	143,955
	4,263,057	4,040,171	3,972,829
Less allowances for depreciation	2,464,756	2,263,332	2,206,475
	1,798,301	1,776,839	1,766,354
Goodwill	6,958,681	6,956,702	6,963,198
Intangible assets	4,889,275	5,201,579	5,289,986
Operating lease right-of-use assets	1,659,010		
Deferred pension assets	33,468	270,664	305,979
Other assets	617,865	584,008	617,147
Total assets	\$ 20,864,339	\$ 19,134,279	\$ 19,921,786
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings	\$ 435,699	\$ 328,403	\$ 650,134
Accounts payable	2,028,402	1,799,424	2,165,724
Compensation and taxes withheld	538,932	504,547	500,248
Accrued taxes	94,966	80,766	98,632
Current portion of long-term debt	429,569	307,191	310,561
California litigation accrual	12,000	136,333	136,333
Current portion of operating lease liabilities	364,379		
Other accruals	961,843	1,141,083	980,433
Total current liabilities	4,865,790	4,297,747	4,842,065
Long-term debt	8,043,030	8,708,057	8,710,831
Postretirement benefits other than pensions	260,968	257,621	277,857
Deferred income taxes	1,096,854	1,130,872	1,356,566
Long-term operating lease liabilities	1,352,246		
Other long-term liabilities	1,222,591	1,009,237	803,942
Shareholders' equity:			
Common stock—\$1.00 par value:			
92,309,240, 93,116,762 and 93,626,317 shares outstanding			
at September 30, 2019, December 31, 2018 and September 30, 2018, respectively	119,245	118,373	118,282
Other capital	3,079,342	2,896,448	2,851,983
Retained earnings	7,224,292	6,246,548	6,226,443
Treasury stock, at cost	(5,632,812)	(4,900,690)	(4,655,587)
Cumulative other comprehensive loss	(767,207)	(629,934)	(610,596)

Total shareholders' equity	4,022,860	3,730,745	3,930,525
Total liabilities and shareholders' equity	\$ 20,864,339	\$ 19,134,279	\$ 19,921,786

See notes to condensed consolidated financial statements.

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

Thousands of dollars

	Nine Months Ended	
	September 30, 2019	September 30, 2018
OPERATING ACTIVITIES		
Net income	\$ 1,292,678	\$ 1,007,758
Adjustments to reconcile net income to net operating cash:		
Depreciation	194,957	211,514
Amortization of intangible assets	234,400	239,019
Stock-based compensation expense	70,895	53,132
Loss on extinguishment of debt	14,754	
Amortization of credit facility and debt issuance costs	7,311	9,512
Provisions for qualified exit costs	6,057	13,103
Provisions for environmental-related matters	17,874	34,317
Defined benefit pension plans net cost	40,364	(3,079)
Net change in postretirement liability	672	996
Deferred income taxes	(43,399)	1,484
Other	(23,500)	18,967
Change in working capital accounts - net	(247,136)	(81,600)
Costs incurred for environmental-related matters	(20,023)	(13,991)
Costs incurred for qualified exit costs	(7,431)	(19,595)
Other	122,934	(40,322)
Net operating cash	1,661,407	1,431,215
INVESTING ACTIVITIES		
Capital expenditures	(224,825)	(166,184)
Acquisitions of businesses, net of cash acquired	(72,636)	
Proceeds from sale of assets	6,916	38,354
Decrease in other investments	2,024	12,552
Net investing cash	(288,521)	(115,278)
FINANCING ACTIVITIES		
Net increase in short-term borrowings	109,022	23,389
Proceeds from long-term debt	1,332,810	
Payments of long-term debt	(1,875,688)	(851,977)
Payments for credit facility and debt issuance costs	(12,969)	(5,135)
Payments of cash dividends	(314,859)	(242,539)
Proceeds from stock options exercised	111,155	74,285
Treasury stock purchased	(577,777)	(368,334)
Proceeds from real estate financing transactions	7,948	88,581
Other	(121,315)	(43,756)
Net financing cash	(1,341,673)	(1,325,486)
Effect of exchange rate changes on cash	2,927	(13,153)
Net increase (decrease) in cash and cash equivalents	34,140	(22,702)
Cash and cash equivalents at beginning of year	155,505	204,213
Cash and cash equivalents at end of period	\$ 189,645	\$ 181,511
Income taxes paid	\$ 310,106	\$ 236,586
Interest paid	246,849	245,734

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

Periods ended September 30, 2019 and 2018

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.

There have been no significant changes in critical accounting policies since December 31, 2018, except as described in Note 2. Accounting estimates were revised as necessary during the first nine months of 2019 based on new information and changes in facts and circumstances. Certain amounts in the 2018 condensed consolidated financial statements have been reclassified to conform to the 2019 presentation.

The Company primarily 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. 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, 2018.

During the third quarter of 2019, the Company completed the acquisition of a domestic packaging company and a European coatings company for an aggregate purchase price of \$79.7 million, including amounts withheld as security for certain representations, warranties and obligations of the sellers. These acquisitions support the growth of the Performance Coatings Group by providing new technologies and an expanded global platform. Both acquisitions have been accounted for as business combinations. The preliminary purchase price allocations will be finalized within the allowable measurement period. The results of operations of both companies have been included in the consolidated financial statements since the date of acquisition.

The consolidated results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019.

NOTE 2—RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adopted in 2019

Effective January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2016-02, "Leases" (ASC 842). ASC 842 consists of a comprehensive lease accounting standard requiring most leases to be recognized on the balance sheet and significant new disclosures. The Company adopted ASC 842 using the modified retrospective optional transition method. Therefore, the standard was applied starting January 1, 2019 and prior periods were not restated. The adoption of ASC 842 did not result in a material cumulative-effect adjustment to the opening balance of retained earnings.

The Company applied the package of practical expedients permitted under the ASC 842 transition guidance. As a result, the Company did not reassess the identification, classification and initial direct costs of leases commencing before the effective date. The Company also applied the practical expedient to not separate lease and non-lease components to all new leases as well as leases commencing before the effective date.

As a result of the adoption of ASC 842, right-of-use assets, current liabilities and non-current liabilities related to operating leases of \$1.7 billion, \$4 billion and \$1.4 billion, respectively, were recognized on the balance sheet at September 30, 2019. In addition, the adoption of ASC 842 resulted in a transition adjustment reducing the opening balance of retained earnings by \$8.4 million at January 1, 2019. The adoption of ASC 842 did not have a material impact on the Company's results of operations, cash flows or debt covenants. See Note 17 for additional information.

Effective January 1, 2019, the Company adopted ASU 2018-02, "Reclassification of Certain Income Tax Effects from Accumulated Other Comprehensive Income." This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. As a result of this standard, the Company recorded an \$8.3 million reclassification from cumulative other comprehensive loss to retained earnings. See Note 4.

The adoption of this standard did not have a significant impact on the Company's results of operations, financial condition or liquidity.

Effective January 1, 2019, the Company adopted ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities." This standard better aligns hedging activities and financial reporting for hedging relationships. It eliminates the requirement to separately measure and report hedge ineffectiveness and reduces the complexity of applying certain aspects of hedge accounting. There were no outstanding hedges as of the adoption date. The prospective adoption of this standard did not have a significant impact on the Company's results of operations, financial condition or liquidity. The disclosures required by this standard are included in Note 16.

Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In addition, new disclosures are required. The ASU is effective for fiscal years beginning after December 15, 2019. The Company is evaluating the potential impact of the standard.

NOTE 3—REVENUE

The Company manufactures and sells paint, stains, supplies, equipment and floor covering through Company-operated stores, branded and private label products through retailers, and a broad range of industrial coatings directly to global manufacturing customers through company-operated branches. A large portion of the Company's revenue is recognized at a point in time and made to customers who are not engaged in a long-term supply agreement or any form of contract with the Company. These sales are paid for at the time of sale in cash, credit card, or may be on account with the vast majority of customers having terms between 30 and 60 days, not to exceed one year. Many customers who purchase on account take advantage of early payment discounts offered by paying within 30 days of being invoiced. The Company estimates variable consideration for these sales on the basis of both historical information and current trends to estimate the expected amount of discounts to which customers are likely to be entitled.

The remaining revenue is governed by long-term supply agreements and related purchase orders ("contracts") that specify shipping terms and aspects of the transaction price including rebates, discounts and other sales incentives, such as advertising support. Contracts are at standalone pricing. The performance obligation in these contracts is determined by each of the individual purchase orders and the respective stated quantities, with revenue being recognized at a point in time when obligations under the terms of the agreement are satisfied. This generally occurs with the transfer of control of our products to the customer. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

Refer to Note 13 for the Company's disaggregation of Net sales by reportable segment. As the reportable segments are aligned by similar economic factors, trends and customers, this disaggregation best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Company has made payments or credits for rebates or incentives at the beginning of a long-term contract where future revenue is expected and before satisfaction of performance obligations. Under these circumstances, the Company recognizes a contract asset and amortizes these prepayments over the expected benefit life of the long-term contract typically on a straight-line basis. Management judgment is required when estimating sales-based variable consideration, determining whether it is constrained, measuring obligations for returns, refunds, and determining amortization periods for prepayments.

The majority of variable consideration in the Company's contracts include a form of volume rebate, discounts, and other incentives, where the customer receives a retrospective percentage rebate based on the amount of their purchases. In these situations, the rebates are accrued as a fixed percentage of sales and recorded as a reduction of net sales until paid to the customer per the terms of the supply agreement. Forms of variable consideration such as tiered rebates, whereby a customer receives a retrospective price decrease dependent on the volume of their purchases, are calculated using a forecasted percentage to determine the most likely amount to accrue. Management creates a baseline calculation using historical sales and then utilizing forecast information, estimates the anticipated sales volume each quarter to calculate the expected reduction to sales. The remainder of the transaction price is fixed as agreed upon with the customer, limiting estimation of revenues including constraints.

The Company's Accounts receivable and current and long-term contract assets and liabilities are summarized in the following table.

(Thousands of dollars)

	Accounts Receivable, Less Allowance	Contract Assets (Current)	Contract Assets (Long-Term)	Contract Liabilities (Current)	Contract Liabilities (Long-Term)
Balance at December 31, 2018	\$ 2,018,768	\$ 56,598	\$ 213,954	\$ 272,857	\$ 8,745
Balance at September 30, 2019	2,479,043	60,545	184,686	224,916	8,745

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing difference between the Company's performance and the customer's payment.

Provisions for estimated returns are established and the expected costs continue to be recognized as contra-revenue per ASC 606 when the products are sold. The Company only offers an assurance type warranty on products sold, and there is no material service to the customer beyond fixing defects that existed at the time of sale and no warranties are sold separately. Warranty liabilities are excluded from the table above and discussed in Note 5. Amounts recognized during the quarter from deferred liabilities to revenue were not material. The Company records a right of return liability within each of its operations to accrue for expected customer returns. Historical actual returns are used to estimate future returns as a percentage of current sales. Obligations for returns and refunds were not material individually or in the aggregate.

NOTE 4—SHAREHOLDERS' EQUITY

Dividends paid on common stock during each of the first three quarters of 2019 and 2018 were \$1.13 per share and \$.86 per share, respectively. During the nine months ended September 30, 2019, 725,147 stock options were exercised at a weighted average price per share of \$153.29. In addition, 156,983 restricted stock units vested during this period.

The following tables summarize the changes in the components of shareholders' equity for the three months ended September 30, 2019 and 2018.

(Thousands of dollars)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Cumulative Other Comprehensive Loss	Total
Balance at June 30, 2019	\$ 118,936	\$ 3,010,662	\$ 6,752,956	\$ (5,504,293)	\$ (630,779)	\$ 3,747,482
Net income			576,438			576,438
Other comprehensive loss					(136,428)	(136,428)
Treasury stock purchased				(127,270)		(127,270)
Stock-based compensation activity	309	68,553		(1,249)		67,613
Other adjustments		127				127
Cash dividends			(105,102)			(105,102)
Balance at September 30, 2019	<u>\$ 119,245</u>	<u>\$ 3,079,342</u>	<u>\$ 7,224,292</u>	<u>\$ (5,632,812)</u>	<u>\$ (767,207)</u>	<u>\$ 4,022,860</u>

(Thousands of dollars)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Cumulative Other Comprehensive Loss	Total
Balance at June 30, 2018	\$ 117,964	\$ 2,795,196	\$ 5,953,313	\$ (4,621,250)	\$ (542,449)	\$ 3,702,774
Net income			354,027			354,027
Other comprehensive loss					(68,147)	(68,147)
Treasury stock purchased				(34,179)		(34,179)
Stock-based compensation activity	318	56,904		(158)		57,064
Other adjustments		(117)	1			(116)
Cash dividends			(80,898)			(80,898)
Balance at September 30, 2018	<u>\$ 118,282</u>	<u>\$ 2,851,983</u>	<u>\$ 6,226,443</u>	<u>\$ (4,655,587)</u>	<u>\$ (610,596)</u>	<u>\$ 3,930,525</u>

The following tables summarize the changes in the components of Shareholders' equity for the nine months ended September 30, 2019 and 2018.

(Thousands of dollars)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Cumulative Other Comprehensive Loss	Total
Balance at December 31, 2018	\$ 118,373	\$ 2,896,448	\$ 6,246,548	\$ (4,900,690)	\$ (629,934)	\$ 3,730,745
Net income			1,292,678			1,292,678
Other comprehensive loss					(128,933)	(128,933)
Adjustment to initially adopt ASU 2016-02			(8,415)			(8,415)
Adjustment to initially adopt ASU 2018-02			8,340		(8,340)	—
Treasury stock purchased				(577,777)		(577,777)
Treasury stock transferred from defined benefit pension plan				(131,781)		(131,781)
Stock-based compensation activity	872	181,039		(22,564)		159,347
Other adjustments		1,855				1,855
Cash dividends			(314,859)			(314,859)
Balance at September 30, 2019	<u>\$ 119,245</u>	<u>\$ 3,079,342</u>	<u>\$ 7,224,292</u>	<u>\$ (5,632,812)</u>	<u>\$ (767,207)</u>	<u>\$ 4,022,860</u>

(Thousands of dollars)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Cumulative Other Comprehensive Loss	Total
Balance at December 31, 2017	\$ 117,561	\$ 2,723,183	\$ 5,458,416	\$ (4,266,416)	\$ (384,870)	\$ 3,647,874
Net income			1,007,758			1,007,758
Other comprehensive loss					(223,406)	(223,406)
Adjustment to initially adopt ASU 2016-01			2,320		(2,320)	—
Treasury stock purchased				(368,334)		(368,334)
Stock-based compensation activity	721	126,659		(20,837)		106,543
Other adjustments		2,141	488			2,629
Cash dividends			(242,539)			(242,539)
Balance at September 30, 2018	<u>\$ 118,282</u>	<u>\$ 2,851,983</u>	<u>\$ 6,226,443</u>	<u>\$ (4,655,587)</u>	<u>\$ (610,596)</u>	<u>\$ 3,930,525</u>

The treasury stock transferred from defined benefit pension plan relates to the termination of the Company's domestic defined benefit pension plan as described in Note 7. See Note 2 for information on ASU 2018-02.

NOTE 5—PRODUCT WARRANTIES

Changes in the Company's accrual for product warranty claims during the first nine months of 2019 and 2018, including customer satisfaction settlements, were as follows:

(Thousands of dollars)

	2019	2018
Balance at January 1	\$ 57,067	\$ 151,425
Charges to expense	24,123	22,148
Settlements	(28,054)	(39,933)
Acquisition, divestiture and other adjustments		(66,236)
Balance at September 30	\$ 53,136	\$ 67,404

The decrease in the accrual for product warranty claims in the nine months ended September 30, 2018 was primarily due to the divestiture of the furniture protection plan business in the third quarter of 2018. 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, 2018.

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, 2019, twenty-one stores in The Americas Group and three branches in the Performance Coatings Group were closed due to lower demand or redundancy. The Company continues to evaluate all legacy operations in response to the Valspar acquisition in order to optimize restructured operations. These acquisition-related restructuring charges to date are recorded in the Administrative segment. The following table summarizes the activity and remaining liabilities associated with qualified exit costs at September 30, 2019 and 2018. The provisions and expenditures relate primarily to acquisition-related restructuring.

(Thousands of dollars)

	2019	2018
Balance at January 1	\$ 7,052	\$ 13,385
Provisions in Cost of goods sold or SG&A	6,057	13,103
Actual expenditures charged to accrual	(7,431)	(19,595)
Balance at September 30	\$ 5,678	\$ 6,893

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, 2018.

NOTE 7—HEALTH CARE, PENSION AND OTHER BENEFITS

Shown below are the components of the Company's net periodic benefit cost (credit) 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		Foreign Defined Benefit Pension Plans		Postretirement Benefits Other than Pensions	
	2019	2018	2019	2018	2019	2018
Three Months Ended September 30:						
Net periodic benefit cost (credit):						
Service cost	\$ 759	\$ 1,158	\$ 1,488	\$ 2,016	\$ 362	\$ 499
Interest cost	1,232	8,541	2,387	2,352	2,800	2,545
Expected return on assets	(1,325)	(14,383)	(2,788)	(2,685)		
Recognition of:						
Unrecognized prior service cost (credit)	349	407			(1,249)	(1,643)
Unrecognized actuarial loss			228	383	133	581
Net periodic benefit cost (credit)	<u>\$ 1,015</u>	<u>\$ (4,277)</u>	<u>\$ 1,315</u>	<u>\$ 2,066</u>	<u>\$ 2,046</u>	<u>\$ 1,982</u>
Nine Months Ended September 30:						
Net periodic benefit cost (credit):						
Service cost	\$ 2,624	\$ 6,673	\$ 4,468	\$ 6,048	\$ 1,085	\$ 1,496
Interest cost	3,629	25,233	7,099	7,055	8,401	7,634
Expected return on assets	(3,989)	(43,199)	(7,669)	(8,055)		
Recognition of:						
Unrecognized prior service cost (credit)	1,048	1,192			(3,748)	(4,927)
Unrecognized actuarial loss			744	1,149	401	1,744
Ongoing pension cost (credit)	3,312	(10,101)	4,642	6,197	6,139	5,947
Curtailment expense		825				
Settlement expense	32,410					
Net periodic benefit cost (credit)	<u>\$ 35,722</u>	<u>\$ (9,276)</u>	<u>\$ 4,642</u>	<u>\$ 6,197</u>	<u>\$ 6,139</u>	<u>\$ 5,947</u>

Service cost is recorded in Cost of goods sold and Selling, general and administrative expenses. All other components are recorded in Other expense (income) - net.

During the first quarter of 2019, the Company purchased annuity contracts to settle the remaining liabilities of the domestic defined benefit pension plan that was terminated in 2018 (Terminated Plan). The annuity contract purchase resulted in a settlement charge of \$32.4 million in the first quarter of 2019. The remaining surplus of the Terminated Plan will be used, as prescribed in the applicable regulations, to fund future Company contributions to a qualified replacement pension plan, which is the current domestic defined contribution plan (Qualified Replacement Plan). During the first quarter of 2019, the Company transferred \$201.8 million of the surplus to a suspense account held within a trust for the Qualified Replacement Plan. This amount included \$131.8 million of Company stock (300,000 shares). The shares are treated as treasury stock in accordance with ASC 715. The remainder of the surplus related to the Terminated Plan will be transferred to the Qualified Replacement Plan suspense account after the final expenses associated with the wind-up of the Terminated Plan have been settled.

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, 2018.

NOTE 8—OTHER LONG-TERM LIABILITIES

The operations of the Company, like those of other companies in its industry, are subject to various domestic and foreign 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.

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. In general, these laws provide that potentially responsible parties may be held jointly and severally liable for investigation and remediation costs regardless of fault. The Company may be similarly designated with respect to additional third-party sites in the future.

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, which are not discounted, are determined based on currently available facts regarding each site. If the reasonably estimable 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.

The Company continuously assesses its potential liability for investigation and remediation-related activities and adjusts its environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated and as additional accounting guidelines are issued. At September 30, 2019 and 2018, the Company had accruals reported on the Company's balance sheet as other long-term liabilities of \$321.8 million and \$209.9 million, respectively. Estimated costs of current investigation and remediation activities of \$51.0 million and \$27.0 million are included in other accruals at September 30, 2019 and 2018, respectively.

Actual costs incurred may vary from the accrued 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. If the Company's future loss contingency is ultimately determined to be at the unaccrued maximum of the estimated range of possible outcomes for every site for which costs can be reasonably estimated, the Company's accrual for environmental-related activities would be \$116.4 million higher than the minimum accruals at September 30, 2019. Additionally, costs for environmental-related activities may not be reasonably estimable at early stages of investigation and therefore would not be included in the unaccrued maximum amount.

Four of the Company's currently and formerly owned manufacturing sites ("Major 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, 2019. At September 30, 2019, \$322.2 million, or 86.4% of the total accrual, related directly to the Major Sites. In the aggregate unaccrued maximum of \$116.4 million at September 30, 2019, \$92.7 million, or 79.7%, related to the Major Sites. The significant cost components of this liability continue to be related to remedy implementation, regulatory agency interaction, project management and other costs. While different for each specific environmental situation, these components generally each account for approximately 85%, 10%, and 5%, respectively, of the accrued amount and those percentages are subject to change over time. 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.

The largest and most complex of the Major Sites is the Gibbsboro, New Jersey site ("Gibbsboro") which comprises the substantial majority of the environmental-related accrual. Gibbsboro, a former manufacturing plant, and related facilities, which ceased operations in 1978, has had various facilities included on the National Priorities List since 1999. This location has soil, waterbodies, and groundwater contamination related to the historic operations of the facility. Gibbsboro has been divided by the Environmental Protection Agency ("EPA") into six operable units ("OUs") based on location and characteristics, whose investigation and remediation efforts are likely to occur over an extended period of time. Each of the OUs are in various phases of investigation and remediation with the EPA that provide enough information to reasonably estimate cost ranges and record environmental-related accruals. The most significant assumptions underlying the reliability and precision of remediation cost estimates for the Gibbsboro site are the types and extent of contamination.

Excluding the four Major Sites making up the majority of the accrual, no sites are individually material to the total accrual balance. There are multiple, future events yet to occur, including further remedy selection and design, remedy implementation and execution, and securing applicable governmental agency approvals, all of which have the potential to contribute to the uncertainty surrounding these future events. As these events occur and to the extent that the cost estimates of the environmental remediation change, the existing reserve will be adjusted.

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. Unasserted claims could have a material effect on the Company's loss contingency as more information becomes available over time. At September 30, 2019, the Company did not have material loss contingency accruals related to unasserted claims. Management does not expect that a material portion of unrecognized loss contingencies will be recoverable through insurance, indemnification agreements or other sources. 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. Moreover, 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 length 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 indeterminate amount of time to conduct investigation activities at any site, the indeterminate amount of time to obtain environmental agency approval, as necessary, with respect to investigation and remediation activities, and the indeterminate amount of time necessary to conduct remediation activities.

The Asset Retirement and Environmental Obligations Topic of the ASC requires a liability to be recognized for the fair value of a conditional asset retirement obligation if a settlement date and fair value can be reasonably estimated. The Company recognizes a liability for any conditional asset retirement obligation when sufficient information is available to reasonably estimate a settlement date to determine the fair value of such a liability. The Company has identified certain conditional asset retirement obligations at various current and closed manufacturing, distribution and store facilities. These obligations relate primarily to asbestos abatement, hazardous waste Resource Conservation and Recovery Act (RCRA) closures, well abandonment, transformers and used oil disposals and underground storage tank closures. Using investigative, remediation and disposal methods that are currently available to the Company, the estimated costs of these obligations were accrued and are not significant. The recording of additional liabilities for future conditional asset retirement obligations may result in a material impact on net income for the annual or interim period during which the costs are accrued. Management does not believe that any potential liability ultimately attributed to the Company for its 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 over which sufficient information may become available regarding the closure or modification of any one or group of the Company's facilities. An estimate of the potential impact on the Company's operations cannot be made due to the aforementioned uncertainties.

NOTE 9—LITIGATION

In the course of its business, the Company is subject to a variety of claims and lawsuits, including, but not limited to, 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 the amount of any such loss 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.

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 has also been 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 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. The Company will continue to vigorously defend against any additional lead pigment and lead-based paint litigation that may be filed, including utilizing all avenues of appeal, if necessary.

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. Except with respect to the litigation in California discussed below, the Company has not accrued any amounts for such litigation because the Company does not believe it is probable that a loss has occurred, and the Company believes it is not possible to estimate the range of potential losses as there is no substantive information upon which an estimate could be based. In addition, any potential liability that may result from any changes to 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 or any such liability is higher than any amount currently accrued for 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 Chicago, Illinois; the City of Milwaukee, Wisconsin; the County of Santa Clara, California, and other public entities in the State of California; and Lehigh and Montgomery Counties in Pennsylvania. Except for the Santa Clara County, California proceeding and the pending Pennsylvania proceedings, all of these legal proceedings have been concluded in favor of the Company and other defendants at various stages in the proceedings.

Santa Clara County, California Proceeding. The Santa Clara County, California proceeding was initiated in March 2000 in the Superior Court of the State of California, County of Santa Clara. In the original complaint, 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. The named plaintiffs in the Fourth Amended Complaint, filed on March 16, 2011, are the Counties of Santa Clara, Alameda, Los Angeles, Monterey, San Mateo, Solano and Ventura, as well as the Cities of Oakland and San Diego and the City and County of San Francisco (individually, a Prosecuting Jurisdiction). The Fourth Amended Complaint asserted a sole claim for public nuisance, alleging that the presence of lead pigments for use in paint and coatings in, on and around residences in the plaintiffs' jurisdictions constitutes a public nuisance. The plaintiffs sought the abatement of the alleged public nuisance that exists within the plaintiffs' jurisdictions. A trial commenced on July 15, 2013 and ended on August 22, 2013. The court entered final judgment on January 27, 2014, finding in favor of the plaintiffs and against the Company and two other defendants (ConAgra Grocery Products Company and NL Industries, Inc.). The final judgment held the Company jointly and severally liable with the other two defendants to pay \$1.15 billion into a fund to abate the public nuisance. The Company strongly disagrees with the judgment.

On February 18, 2014, the Company filed a motion for new trial and a motion to vacate the judgment. The court denied these motions on March 24, 2014. On March 28, 2014, the Company filed a notice of appeal to the Sixth District Court of Appeal for the State of California. Oral argument before the Sixth District Court of Appeal was held on August 24, 2017. On November 14, 2017, the Sixth District Court of Appeal entered its decision, which affirmed the trial court's judgment of liability with respect to residences built before 1951 and reversed and vacated the trial court's judgment with respect to residences built after 1950. The Sixth District Court of Appeal directed the trial court to: (i) recalculate the amount of the abatement fund to limit the fund to the amount necessary to cover the cost of inspecting and remediating pre-1951 residences; and (ii) hold an evidentiary hearing to appoint a suitable receiver. On November 29, 2017, the Company and the two other defendants filed separate Petitions for Rehearing, which the Sixth District Court of Appeal denied on December 6, 2017. The Sixth District Court of Appeal's decision became final on December 14, 2017. On December 22, 2017, the Company and the two other defendants submitted separate Petitions for Review to the California Supreme Court. On February 14, 2018, the California Supreme Court issued an order denying the Petitions for Review. On July 16, 2018, the Company filed a Petition for Writ of Certiorari with the Supreme Court of the United States seeking discretionary review. On October 15, 2018, the Supreme Court of the United States denied the Company's Petition for Writ of Certiorari.

On April 17, 2018, the parties filed their briefs with the trial court regarding the recalculation of the amount of the abatement fund. The plaintiffs proposed \$730.0 million as the amount of the abatement fund, and the Company and the other two defendants jointly proposed a maximum amount of no more than \$409.1 million. On August 17, 2018, the trial court held a hearing regarding the recalculation of the amount of the abatement fund. On September 4, 2018, the trial court ruled that the amount of the abatement fund is \$409.1 million. On March 8, 2019, the trial court approved a setoff of \$8.0 million to the abatement fund reducing the abatement fund to \$401.1 million.

On May 17, 2018, NL Industries filed a Motion for Good Faith Settlement, which the Company and ConAgra opposed. The trial court held a hearing on NL Industries' Motion for Good Faith Settlement on July 12, 2018 and subsequently denied NL Industries' Motion. NL Industries filed a petition for writ of mandate with the Sixth District Court of Appeal seeking to obtain immediate appellate review and reversal of the denial of its motion. On June 20, 2019, the Sixth District Court of Appeal denied the petition for writ of mandate.

On April 8, 2019, the plaintiffs filed a motion to recover attorneys' fees and litigation costs from the abatement fund. On May 10, 2019, the trial court issued a tentative ruling denying the plaintiffs' motion for fees and costs.

On July 17, 2019, the Company, ConAgra and NL Industries reached an agreement in principle with the plaintiffs to resolve the litigation. The agreement provides for a mutual release of all pending and related future claims and contribution rights in exchange for certain payments of money over time by the Company and the other two defendants to the plaintiffs. More specifically, the agreement provides that, in full and final satisfaction of any and all claims of the plaintiffs, the Company and the other two defendants collectively shall pay a total of \$305.0 million, with the Company and the other two defendants each paying approximately \$101.7 million as follows: (i) an initial payment of \$25.0 million within sixty days after the entry of a dismissal order and judgment; (ii) subsequent annual payments of \$12.0 million one year after the initial payment and for a period of four years thereafter; and (iii) a final payment of approximately \$16.7 million on the sixth anniversary of the initial payment. Should NL Industries fail to make any of its payments required under the agreement, the Company has agreed to backstop and pay on behalf of NL Industries a maximum amount of \$15.0 million. To implement the agreement, the Company and the other two defendants filed a joint motion to dismiss with prejudice and a motion to stay all proceedings, pending the trial court's approval of the agreement. On July 24, 2019, the trial court approved the agreement, discharged the receiver, and granted a judgment of dismissal with prejudice in favor of the Company and the other two defendants. The Company made its initial payment of \$25.0 million to the plaintiffs on September 23, 2019.

The Company accrued \$136.3 million for this litigation in the third quarter of 2018. During the third quarter of 2019, the Company reduced its accrual by \$59.6 million as a result of the final court approved agreement to resolve the litigation and the initial payment of \$25.0 million to the plaintiffs in accordance with the agreement. The next payment of \$12.0 million is due within twelve months and is included in current liabilities, while the remaining \$64.7 million is included in other long-term liabilities.

Pennsylvania Proceedings. Two proceedings in Pennsylvania were initiated in October 2018. The County of Montgomery, Pennsylvania filed a Complaint against the Company and several other former lead-based paint and lead pigment manufacturers in the Court of Common Pleas of Montgomery County, Pennsylvania. The County of Lehigh, Pennsylvania also filed a Complaint against the Company and several other former lead-based paint and lead pigment manufacturers in the Court of Common Pleas of Lehigh County, Pennsylvania. The Company removed both actions to the United States District Court for the Eastern District of Pennsylvania on November 28, 2018. The plaintiffs filed a motion for remand in each action on January 7, 2019, which the defendants opposed. The federal trial court remanded each action on June 5, 2019. The defendants asked the federal court to stay the order of remand pending appeal, which the federal court granted on June 27, 2019, and the defendants

filed a notice of appeal with the United States Court of Appeals for the Third Circuit. On August 12, 2019, the defendants filed their opening brief with the Third Circuit, to which the plaintiffs filed their opposition brief on September 11, 2019, and the defendants filed their reply brief on October 2, 2019.

In both actions, the counties request declaratory relief establishing the existence of a public nuisance and the defendants' contribution to it, the abatement of an ongoing public nuisance arising from the presence of lead-based paint in housing throughout the applicable county, an injunction against future illicit conduct, and the costs of litigation and attorneys' fees.

In October 2018, the Company filed a Complaint in the United States District Court for the Eastern District of Pennsylvania against the Pennsylvania Counties of Delaware, Erie and York seeking injunctive and declaratory relief to prevent the violation of the Company's rights under the First Amendment and Due Process Clause of the U.S. Constitution. The Company voluntarily dismissed defendant Erie County on November 9, 2018 and defendant York County on November 21, 2018. Defendant Delaware County filed a motion to dismiss the Complaint, which the federal trial court granted on October 4, 2019. The Company intends to appeal the federal trial court's dismissal.

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 and claims for damages allegedly incurred by the children's parents or guardians. 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 in Wisconsin state court 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 included 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, except that liability can be joint and several) due to the plaintiff's inability to identify the manufacturer of any product that allegedly injured the plaintiff. The case ultimately proceeded to trial and, 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 appealed and, on December 16, 2010, the Wisconsin Court of Appeals affirmed the final judgment in favor of the Company and other defendants.

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. Although the risk contribution liability theory was applied during the *Thomas* trial, the constitutionality of this theory as applied to the lead pigment cases has not been judicially determined by the Wisconsin state courts. However, in an unrelated action filed in the United States District Court for the Eastern District of Wisconsin, *Gibson v. American Cyanamid, et al.*, on November 15, 2010, the District Court held that Wisconsin's risk contribution theory as applied in that case violated the defendants' right to substantive due process and is unconstitutionally retroactive. The District Court's decision in *Gibson v. American Cyanamid, et al.*, was appealed by the plaintiff to the United States Court of Appeals for the Seventh Circuit. On July 24, 2014, the United States Court of Appeals for the Seventh Circuit reversed the judgment and remanded the case back to the District Court for further proceedings. On January 16, 2015, the defendants filed a petition for certiorari in the United States Supreme Court seeking that Court's review of the Seventh Circuit's decision, and on May 18, 2015, the United States Supreme Court denied the defendants' petition. The case is currently pending in the District Court.

The United States District Court for the Eastern District of Wisconsin consolidated three cases (*Ravon Owens v. American Cyanamid, et al.*, *Cesar Sifuentes v. American Cyanamid, et al.*, and *Glenn Burton, Jr. v. American Cyanamid, et al.*) for purposes of trial. A trial commenced on May 6, 2019 and ended on May 31, 2019, with a jury verdict for the three plaintiffs in the amount of \$2.0 million each for a total of \$6.0 million against the Company and two other defendants (*Armstrong Containers Inc.* and *E.I. du Pont de Nemours*). The Company filed a motion for judgment in its favor based on public policy factors under Wisconsin law. On September 20, 2019, the trial court denied the motion and entered judgment in favor of the plaintiffs. On October 18, 2019, the Company filed post-trial motions for judgment as a matter of law and for a new trial. If the post-trial motions are denied, the Company intends to appeal the jury verdict.

In *Maniya Allen, et al. v. American Cyanamid, et al.*, also pending in the United States District Court for the Eastern District of Wisconsin, cases involving six of the 146 plaintiffs were selected for discovery. In *Dijonae Trammell, et al. v. American Cyanamid, et al.*, also pending in the United States District Court for the Eastern District of Wisconsin, discovery for one of the three plaintiffs was consolidated with the six Allen cases referenced above. The parties have selected four of the cases to

proceed to expert discovery and to prepare for trial. No dates for expert discovery, pretrial dispositive motions or trial have been set by the District Court in the Allen and Trammell cases.

Other lead-based paint and lead pigment litigation. In *Mary Lewis v. Lead Industries Association, et al.* pending in the Circuit Court of Cook County, Illinois, parents seek to recover the cost of their children's blood lead testing against the Company and three other defendants that made (or whose alleged corporate predecessors made) white lead pigments. The Circuit Court has certified a statewide class and a Chicago subclass of parents or legal guardians of children who lived in high-risk zip codes identified by the Illinois Department of Health and who were screened for lead toxicity between August 1995 and February 2008. Excluded from the class are those parents or guardians who have incurred no expense, liability or obligation to pay for the cost of their children's blood lead testing. In 2017, the Company and other defendants moved for summary judgment on the grounds that the three named plaintiffs have not paid and have no obligation or liability to pay for their children's blood lead testing because Medicaid paid for the children of two plaintiffs and private insurance paid for the third plaintiff without any evidence of a co-pay or deductible. The Circuit Court granted the motion, but on September 7, 2018, the Appellate Court reversed with respect to the two plaintiffs for whom Medicaid paid for their children's testing. Defendants filed a petition with the Supreme Court of Illinois for discretionary review. By order entered January 31, 2019, that court has allowed defendants' petition for leave to appeal. The defendants filed their opening brief in the Supreme Court of Illinois on April 11, 2019, to which the plaintiffs filed a response brief on June 17, 2019. The defendants filed their reply brief on July 15, 2019. On August 7, 2019, the Supreme Court of Illinois entered an order stating oral argument will be scheduled in due course.

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. The Company's action, filed on March 3, 2006 in the Common Pleas Court, Cuyahoga County, Ohio, previously was stayed and inactive. On January 9, 2019, the Company filed an unopposed motion to lift the stay with the trial court, which was granted, allowing the case to proceed. On June 28, 2019, the Company and its liability insurers each filed separate motions for summary judgment seeking various forms of relief. Oral argument regarding those motions is scheduled to occur on October 24, 2019. The liability insurers' action, which was filed on February 23, 2006 in the Supreme Court of the State of New York, County of New York, has been dismissed. 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, except with respect to the litigation in California discussed above, 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.

NOTE 10—OTHER

Other general expense - net

Included in Other general expense - net were the following:

(Thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Provisions for environmental matters - net	\$ 10,602	\$ 2,299	\$ 17,874	\$ 34,317
Loss on sale or disposition of assets	1,430	9,227	822	7,178
Total	\$ 12,032	\$ 11,526	\$ 18,696	\$ 41,495

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 loss on sale or disposition of assets represents net realized losses associated with the sale or disposal of fixed assets previously used in the conduct of the primary business of the Company.

Other expense (income) - net

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

(Thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Dividend and royalty income	\$ (2,253)	\$ (2,995)	\$ (7,830)	\$ (5,967)
Loss on extinguishment of debt (see Note 15)	14,754		14,754	
Expense from banking activities	2,622	2,694	7,973	7,380
Foreign currency transaction related losses	16,394	6,157	12,458	9,321
Domestic pension plan settlement expense			32,410	
Miscellaneous pension expense (income)	1,767	(3,902)	5,916	(11,349)
Other income	(5,957)	(7,652)	(21,385)	(21,760)
Other expense	3,665	7,421	10,591	13,687
Total	\$ 30,992	\$ 1,723	\$ 54,887	\$ (8,688)

Foreign currency transaction related losses represent net realized losses on U.S. dollar-denominated liabilities of foreign subsidiaries and net realized and unrealized losses from foreign currency option and forward contracts. There were no material foreign currency option and forward contracts outstanding at September 30, 2019 and 2018.

Miscellaneous pension expense (income) consists of the non-service components of net pension costs (credits). See Note 7 for information on Miscellaneous pension expense (income) and the Domestic pension plan settlement expense.

Other income and Other expense included items of revenue, gains, expenses and losses that were unrelated to the primary business purpose of the Company. There were no other items within the Other income or Other expense caption that were individually significant.

NOTE 11—INCOME TAXES

The effective tax rate was 18.8% and 23.3% for the third quarter and first nine months of 2019, respectively, compared to 14.9% and 19.9% for the third quarter and first nine months of 2018, respectively. The increase in the effective tax rate for the third quarter of 2019 compared to 2018 was primarily due increased income before taxes in the third quarter of 2019 compared to 2018 and the non-recurrence of favorable tax benefits recognized by the Company in the third quarter of 2018 when completing its 2017 U.S. income tax return. The increase in the effective tax rate for the first nine months of 2019 compared to 2018 was primarily due to an increase to the tax provision of \$74.3 million recorded in the second quarter of 2019 related to the reversal of net tax benefits recognized in previous tax years from federal renewable energy tax credit funds with DC Solar Solutions, Inc. and certain of its affiliates ("DC Solar"). During 2011 and 2013 through 2017, the Company invested in legal entities ("Funds") that purchased mobile solar generators from DC Solar. In December 2018, the Company became aware of an ongoing investigation by federal authorities, which included the seizure of DC Solar's assets. The Company promptly initiated an investigation. Based on information available during the first quarter of 2019, it did not appear reasonably possible that a material loss had occurred as the Company believed its specific investments in the funds were not materially affected. The Company's investigation continued during the second quarter of 2019, and based on additional information revealed during the course of the investigation, the Company determined that it is more likely than not that the tax benefits expected to be received by the Company related to its investments in the Funds will no longer be ultimately realizable. The facts relating to Company investments in the Funds continue to be developed and there are, and will continue to be, material differences in facts relevant to each Fund, as well as to funds owned by other investors. The ultimate tax results relating to the Company's investments continue to be uncertain. The Company's management will continue to use its best judgment based upon the facts and circumstances related to the Company's investments in the Funds when determining the scope and timing of disclosures. The Company continues to participate with other fund investors to gather facts and obtain expert advice in assessing its tax position in these investments.

At December 31, 2018, the Company had \$89.5 million in unrecognized tax benefits, the recognition of which would have an effect of \$83.0 million on the effective tax rate. Included in the balance of unrecognized tax benefits at December 31, 2018 was \$14.5 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. The Company's balance of unrecognized tax benefits increased to \$197.2 million at September 30, 2019, the recognition of which would have an effect of \$189.6 million on the effective tax rate. This increase is primarily due to the Company's investments in the Funds described above.

The Company classifies all income tax related interest and penalties as income tax expense. At December 31, 2018, the Company had accrued \$24.8 million for the potential payment of income tax interest and penalties. This amount has increased to \$29.0 million at September 30, 2019.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The IRS is currently auditing the Company's 2013, 2014, 2015 and 2016 income tax returns. No significant adjustments have been proposed by the IRS. At September 30, 2019, the federal statute of limitations had not expired for the 2013 through 2018 tax years.

At September 30, 2019, the Company is subject to non-U.S. income tax examinations for the tax years of 2010 through 2018. In addition, the Company is subject to state and local income tax examinations for the tax years 1998 through 2018.

NOTE 12—NET INCOME PER SHARE

Basic and diluted earnings per share are calculated using the treasury stock method.

(Thousands of dollars except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic				
Average shares outstanding	91,823,573	93,099,714	91,850,565	93,121,900
Net income	\$ 576,438	\$ 354,027	\$ 1,292,678	\$ 1,007,758
Basic net income per share	\$ 6.28	\$ 3.80	\$ 14.07	\$ 10.82
Diluted				
Average shares outstanding	91,823,573	93,099,714	91,850,565	93,121,900
Stock options and other contingently issuable shares ⁽¹⁾	1,742,298	1,982,841	1,611,078	1,990,622
Non-vested restricted stock grants	38,389	52,702	48,461	58,246
Average shares outstanding assuming dilution	93,604,260	95,135,257	93,510,104	95,170,768
Net income	\$ 576,438	\$ 354,027	\$ 1,292,678	\$ 1,007,758
Diluted net income per share	\$ 6.16	\$ 3.72	\$ 13.82	\$ 10.59

- ⁽¹⁾ There were no stock options and other contingently issuable shares excluded due to their anti-dilutive effect for the three months ended September 30, 2019. Stock options and other contingently issuable shares for the nine months ended September 30, 2019 excludes 9,853 shares due to their anti-dilutive effect. There were no stock options and other contingently issuable shares excluded due to their anti-dilutive effect for the three months ended September 30, 2018. Stock options and other contingently issuable shares for the nine months ended September 30, 2018 excludes 28,871 shares due to their anti-dilutive effect.

NOTE 13—REPORTABLE SEGMENT INFORMATION

The Company reports its 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 Reporting Topic of the ASC. The Company has determined that it has three reportable operating segments: The Americas Group, Consumer Brands Group and Performance Coatings Group (individually, a Reportable Segment and collectively, the Reportable Segments).

(Thousands of dollars)

	Three Months Ended September 30, 2019				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 2,898,158	\$ 678,473	\$ 1,290,247	\$ 772	\$ 4,867,650
Intersegment transfers	(6)	995,115	29,495	(1,024,604)	
Total net sales and intersegment transfers	\$ 2,898,152	\$ 1,673,588	\$ 1,319,742	\$ (1,023,832)	\$ 4,867,650
Segment profit	\$ 663,671	\$ 114,891	\$ 137,432		\$ 915,994
California litigation expense adjustment				\$ 34,667	34,667
Interest expense				(85,282)	(85,282)
Administrative expenses and other				(155,546)	(155,546)
Income before income taxes	\$ 663,671	\$ 114,891	\$ 137,432	\$ (206,161)	\$ 709,833

(Thousands of dollars)

	Three Months Ended September 30, 2018				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 2,665,663	\$ 770,543	\$ 1,294,579	\$ 685	\$ 4,731,470
Intersegment transfers	233	936,281	4,474	(940,988)	
Total net sales and intersegment transfers	\$ 2,665,896	\$ 1,706,824	\$ 1,299,053	\$ (940,303)	\$ 4,731,470
Segment profit	\$ 577,738	\$ 83,941	\$ 104,868		\$ 766,547
California litigation expense				\$ (136,333)	(136,333)
Interest expense				(92,281)	(92,281)
Administrative expenses and other				(121,980)	(121,980)
Income before income taxes	\$ 577,738	\$ 83,941	\$ 104,868	\$ (350,594)	\$ 415,953

(Thousands of dollars)

	Nine Months Ended September 30, 2019				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 7,809,059	\$ 2,137,447	\$ 3,838,002	\$ 1,863	\$ 13,786,371
Intersegment transfers	1	2,768,947	88,331	(2,857,279)	
Total net sales and intersegment transfers	\$ 7,809,060	\$ 4,906,394	\$ 3,926,333	\$ (2,855,416)	\$ 13,786,371
Segment profit	\$ 1,607,143	\$ 343,482	\$ 386,452		\$ 2,337,077
California litigation expense adjustment				\$ 34,667	34,667
Interest expense				(265,474)	(265,474)
Administrative expenses and other				(421,882)	(421,882)
Income before income taxes	\$ 1,607,143	\$ 343,482	\$ 386,452	\$ (652,689)	\$ 1,684,388

(Thousands of dollars)

	Nine Months Ended September 30, 2018				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 7,371,135	\$ 2,204,668	\$ 3,891,678	\$ 2,791	\$ 13,470,272
Intersegment transfers	506	2,657,614	16,888	(2,675,008)	
Total net sales and intersegment transfers	\$ 7,371,641	\$ 4,862,282	\$ 3,908,566	\$ (2,672,217)	\$ 13,470,272
Segment profit	\$ 1,485,027	\$ 249,072	\$ 339,828		\$ 2,073,927
California litigation expense				\$ (136,333)	(136,333)
Interest expense				(277,335)	(277,335)
Administrative expenses and other				(402,634)	(402,634)
Income before income taxes	\$ 1,485,027	\$ 249,072	\$ 339,828	\$ (816,302)	\$ 1,257,625

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 that were not directly associated with the reportable 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 of all consolidated foreign subsidiaries were \$918.8 million and \$951.8 million for the third quarter of 2019 and 2018, respectively. Net external sales of all consolidated foreign subsidiaries were \$2.768 billion and \$2.890 billion for the nine months ended September 30, 2019 and 2018, respectively. Long-lived assets of these subsidiaries totaled \$3.112 billion and \$3.367 billion at September 30, 2019 and 2018, respectively. Domestic operations accounted for the remaining net external sales 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% of consolidated sales during all periods presented.

For further details on the Company's Reportable Segments, see Note 19 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

NOTE 14—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. 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, 2019	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 assets ⁽¹⁾	\$ 56,821	\$ 27,758	\$ 29,063	
Net investment hedge asset ⁽²⁾	11,892		11,892	
	<u>\$ 68,713</u>	<u>\$ 27,758</u>	<u>\$ 40,955</u>	
Liabilities:				
Deferred compensation plan liabilities ⁽³⁾	<u>\$ 70,421</u>	<u>\$ 70,421</u>		

⁽¹⁾ The deferred compensation plan assets consist of the investment funds maintained for the future payments under the Company's executive deferred compensation plans, which are structured as rabbi trusts. 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 \$52,088.

⁽²⁾ The net investment hedge asset is the fair value of the cross currency swap (see Note 16). The fair value is based on a valuation model that uses observable inputs, including interest rate curves and foreign currency rates.

⁽³⁾ The deferred compensation plan liabilities are the Company's liabilities under its deferred compensation plans. The liabilities represent the fair value of the participant shadow accounts, and the value is based on quoted market prices in active markets for identical assets.

NOTE 15—DEBT

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-publicly traded debt are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The Company's publicly traded debt and non-publicly traded debt are classified as level 1 and level 2, respectively, in the fair value hierarchy.

(Thousands of dollars)

	September 30, 2019		September 30, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Publicly traded debt	\$ 8,203,048	\$ 8,693,801	\$ 8,734,479	\$ 8,512,513
Non-publicly traded debt	269,551	263,138	286,913	276,440

In June 2019, the Company repurchased \$60.9 million of its 2.25% Senior Notes due May 2020. This repurchase resulted in an insignificant gain.

In August 2019, the Company repurchased \$1.010 billion of its 2.25% Senior Notes due May 2020 and \$490.0 million of its 2.75% Senior Notes due June 2022. These repurchases resulted in a loss of \$14.8 million recorded in other expense (income) - net. See Note 10.

In August 2019, the Company issued \$800.0 million of 2.95% Senior Notes due 2029 and \$550.0 million of 3.80% Senior Notes due 2049 (collectively the "New Notes") in a public offering. The net proceeds from the issuance of the New Notes will be used for general corporate purposes.

On October 8, 2019, the Company amended its five-year credit agreement entered into on July 19, 2018 to, among other things, extend the maturity date to October 8, 2024.

NOTE 16—DERIVATIVES AND HEDGING

On May 9, 2019, the Company entered into a U.S. Dollar to Euro cross currency swap contract with a total notional amount of \$400.0 million to hedge the Company's net investment in its European operations. This contract has been designated as a net investment hedge and will mature on January 15, 2022. During the term of the contract, the Company will pay fixed-rate interest in Euros and receive fixed-rate interest in U.S. Dollars, thereby effectively converting a portion of the Company's U.S. Dollar denominated fixed-rate debt to Euro denominated fixed-rate debt. The fair value of the contract is included in other assets on the balance sheet. See Note 14. The changes in fair value are recognized in the foreign currency translation adjustments component of cumulative other comprehensive loss. For the three and nine months ended September 30, 2019, an unrealized gain of \$13.9 million and \$8.9 million, respectively, net of tax, was recognized in cumulative other comprehensive loss.

NOTE 17—LEASES

The Company leases retail stores, manufacturing and distribution facilities, office space and equipment under operating lease agreements. Operating lease right-of-use (ROU) assets and lease liabilities are recognized based on the present value of lease payments over the lease term. The majority of the ROU asset and lease liability balances relate to the retail operations of The Americas Group.

Most leases include one or more options to renew. The exercise of lease renewal options is at the Company's discretion and is not reasonably certain at lease commencement. Some leases have variable payments, however, because they are not based on an index or rate, they are not included in the ROU assets and liabilities. Variable payments for real estate leases relate primarily to common area maintenance, insurance, taxes and utilities associated with the properties. Variable payments for equipment leases relate primarily to hours, miles, or other quantifiable usage factors which are not determinable at the time the lease agreement is entered into by the Company. The Company has made an accounting policy election by class of underlying asset to not apply the recognition requirements of ASC 842 to short-term leases. As a result, certain leases with a term of 12 months or less are not recorded on the balance sheet and expense is recognized on a straight-line basis over the lease term. Most leases do not contain an implicit discount rate. Therefore, the Company's estimated incremental borrowing rate based on information available at the time of lease inception is used to discount lease payments to present value.

Additional lease information is summarized below:

(Thousands of dollars)

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 114,598	\$ 338,627
Short-term lease cost	9,281	29,680
Variable lease cost	18,576	55,057
Operating cash outflows from operating leases	107,136	320,571

At September 30, 2019, the weighted average remaining lease term and discount rate for operating leases was 6.0 years and 4.0%, respectively.

The following table reconciles the undiscounted cash flows for each of the next five years and thereafter to the operating lease liabilities recognized on the balance sheet. The reconciliation excludes short-term leases that are not recorded on the balance sheet.

(Thousands of dollars)

Year Ending December 31,		
2019 (excluding the nine months ended September 30, 2019)	\$	108,257
2020		415,590
2021		358,978
2022		296,923
2023		230,582
Thereafter		525,892
Total lease payments		1,936,222
Amount representing interest		(219,597)
Present value of operating lease liabilities	\$	1,716,625

NOTE 18—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. For affordable housing investments entered into prior to the January 1, 2015 adoption of ASU 2014-01, 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 to income tax expense over the period that the tax credits are recognized. For affordable housing investments entered into on or after the January 1, 2015 adoption of ASU 2014-01, the Company uses the proportional amortization method. Under the proportional amortization method, the initial cost of the investments is amortized to income tax expense in proportion to the tax credits and other tax benefits received. The carrying amount of the affordable housing and historic renovation investments, included in other assets, was \$225.4 million and \$214.4 million at September 30, 2019 and 2018, respectively. The liability for estimated future capital contributions to the investments was \$162.4 million and \$160.5 million at September 30, 2019 and 2018, respectively.

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 paints, 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, Asia and Australia. The Company is structured into three reportable segments—The Americas Group, Consumer Brands Group and Performance Coatings Group (collectively, the "Reportable Segments")—and an Administrative segment in the same way it is internally organized for assessing performance and making decisions regarding allocation of resources. See Note 13 for more information.

The Company's financial condition, liquidity and cash flow continued to be strong through the first nine months of 2019. A decrease in net working capital of \$95.1 million at September 30, 2019 compared to the end of the third quarter of 2018 was primarily due to a decrease in current assets. Current portion of long-term debt increased \$119.0 million while current portion of operating lease liabilities increased \$364.4 million as a result of recording operating leases on the balance sheet as required by ASC 842 (See Notes 2 and 17). In June 2019, the Company repurchased \$60.9 million of its 2.25% Senior Notes due May 2020. This repurchase resulted in an insignificant gain. In August 2019, the Company repurchased \$1.010 billion of its 2.25% Senior Notes due May 2020 and \$490.0 million of its 2.75% Senior Notes due June 2022. These repurchases resulted in a loss of \$14.8 million recorded in other expense (income) - net (See Notes 10 and 15). In August 2019, the Company issued \$800.0 million of 2.95% Senior Notes due 2029 and \$550.0 million of 3.80% Senior Notes due 2049 (collectively the "New Notes") in a public offering. The net proceeds from the issuance of the New Notes will be used for general corporate purposes. The Company has been able to arrange sufficient short-term borrowing capacity at reasonable rates, and the Company continues to have sufficient total available borrowing capacity to fund its current operating needs. Net operating cash for the nine months ended September 30, 2019 was a cash source of \$1.661 billion compared to a cash source of \$1.431 billion for the same period in 2018.

Consolidated net sales increased 2.9% in the third quarter of 2019 to \$4.868 billion from \$4.731 billion in the third quarter of 2018. The effective tax rate was 18.8% for the third quarter of 2019 compared to 14.9% for the third quarter of 2018. Diluted net income per share in the third quarter of 2019 increased to \$6.16 per share compared to \$3.72 per share in the third quarter of 2018. Third quarter 2019 diluted net income per share included a \$.28 per share benefit from the resolution of the California litigation which increased earnings per share and a \$.77 per share charge for acquisition-related costs. Acquisition-related costs are comprised of integration costs recorded in the Administrative segment and primarily amortization of acquired intangible assets recorded in the Performance Coatings and Consumer Brands segments (collectively, "Acquisition-related costs"). Integration costs consist of professional service expenses, salaries, and other employee-related expenses dedicated directly to the integration effort, severance expense, etc., which are included in Selling, general and administrative and other expenses and Cost of goods sold. The amortization of acquired intangible assets is included in Amortization. Third quarter 2018 diluted net income per share included charges for Acquisition-related and California litigation costs of \$.87 and \$1.09 per share, respectively.

Consolidated net sales increased 2.3% in the first nine months of 2019 to \$13.786 billion from \$13.470 billion in the first nine months of 2018. The effective tax rate was 23.3% for the first nine months of 2019 compared to 19.9% in the first nine months of 2018. Diluted net income per share in the first nine months of 2019 increased to \$13.82 compared to \$10.59 in the first nine months of 2018. Diluted net income per share for the nine months ended September 30, 2019 included charges for Acquisition-related costs of \$2.23 per share, a tax credit investment loss of \$.79 per share and pension settlement expense of \$.27 per share, partially offset by a \$.28 per share benefit from the resolution of the California litigation. The first nine months of 2018 included charges of \$3.05, \$1.09 and \$.25 per share for Acquisition-related costs, the California litigation and environmental expense provisions, respectively.

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, 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 45 through 49, in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes in critical accounting policies, management estimates or accounting policies followed since the year ended December 31, 2018, except in connection with the adoption of ASC 842, "Leases," as described in Notes 2 and 17.

FINANCIAL CONDITION, LIQUIDITY AND CASH FLOW

Overview

The Company's financial condition, liquidity and cash flow continued to be strong through the first nine months of 2019. The Company continues to maintain sufficient short-term borrowing capacity at reasonable rates, and the Company has sufficient cash on hand and total available borrowing capacity to fund its current operating needs. Net working capital decreased \$95.1 million at September 30, 2019 compared to the end of the third quarter of 2018 primarily due to a decrease in current assets. Accounts receivable decreased \$105.2 million at September 30, 2019 compared to September 30, 2018, while cash and cash equivalents increased \$8.1 million, inventories increased \$22.6 million, and other current assets increased \$3.2 million. Current portion of long-term debt increased \$119.0 million, due to 2.25% Senior Notes due May 2020, while current portion of operating lease liabilities increased \$364.4 million, as a result of recording operating leases on the balance sheet as required by ASC 842 (See Notes 2 and 17). Accounts payable decreased \$137.3 million, accrued taxes decreased \$3.7 million and other accruals decreased \$18.6 million due to timing of payments. Short-term borrowings decreased \$214.4 million. The Company accrued \$136.3 million for the California public nuisance litigation expense in the third quarter of 2018 which was reduced in the third quarter of 2019 to \$76.7 million as a result of the final court approved agreement to resolve the litigation and the initial payment of \$25.0 million to the plaintiffs in accordance with the agreement. The next payment of \$12.0 million is due within twelve months and is included in current liabilities, while the remaining \$64.7 million is included other long-term liabilities (See Note 9).

In the first nine months of 2019, cash and cash equivalents increased \$34.1 million while accounts receivable increased \$460.3 million, inventories increased \$9.7 million, other current assets increased \$59.1 million, and accounts payable increased \$229.0 million when normal seasonal trends typically require significant growth in these categories. Accrued taxes increased \$14.2 million, while other accruals decreased \$179.2 million and compensation and taxes withheld increased \$34.4 million due to timing of payments. Short-term borrowings increased \$107.3 million to support treasury stock purchases, common stock cash dividends, and normal operations.

Total debt at September 30, 2019 decreased \$763.2 million to \$8.908 billion from \$9.672 billion at September 30, 2018 and decreased as a percentage of total capitalization to 68.9% from 71.1% at the end of the third quarter last year. Total debt decreased \$435.4 million from December 31, 2018 and decreased as a percentage of total capitalization to 68.9% from 71.5%. At September 30, 2019, the Company had remaining short-term borrowing ability of \$3.094 billion. Net operating cash improved \$230.2 million in the first nine months of 2019 to a cash source of \$1.661 billion from a cash source of \$1.431 billion in the first nine months of 2018. In the twelve month period from October 1, 2018 through September 30, 2019, the Company generated net operating cash of \$2.174 billion.

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

Cash and cash equivalents increased \$34.1 million during the first nine months of 2019. Cash flow from operations and increased short-term borrowings funded cash requirements for normal seasonal increases in working capital, treasury stock purchases of \$577.8 million, net payments to reduce long-term debt of \$542.9 million, payments of cash dividends of \$314.9 million, capital expenditures of \$224.8 million, and acquisitions of businesses of \$72.6 million. At September 30, 2019 and December 31, 2018, the Company's current ratio was 1.01 compared to 1.03 at September 30, 2018.

Goodwill and intangible assets decreased \$310.3 million from December 31, 2018 and decreased \$405.2 million from September 30, 2018. The net decrease during the first nine months of 2019 was primarily due to amortization of \$234.4 million and foreign currency translation of \$124.6 million, partially offset by acquisitions of \$45.4 million and capitalized software additions of \$3.3 million. The net decrease over the twelve month period from September 30, 2018 was primarily due to

amortization of \$313.5 million and foreign currency translation of \$140.7 million, partially offset by acquisitions of \$45.4 million and capitalized software additions of \$3.5 million. The fair value of the Company's acquired intangible assets may be impacted by the Company's ongoing integration efforts. See Note 5, on pages 52 and 53, in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for more information concerning the Company's goodwill and intangible assets, including impairment testing of these assets.

Deferred pension assets decreased \$237.2 million during the first nine months of 2019 and decreased \$272.5 million from September 30, 2018. The decrease in both periods is due to settling the majority of the Company's domestic defined benefit pension plan liabilities. See Note 7, on pages 55 through 60, in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for more information concerning the Company's benefit plan assets. During the first quarter of 2019, the Company purchased annuity contracts to settle the remaining liabilities of the domestic defined benefit pension plan that was terminated in 2018 (Terminated Plan). The annuity contract purchase resulted in a settlement charge of \$32.4 million in the first quarter of 2019. The remaining surplus of the Terminated Plan will be used, as prescribed in the applicable regulations, to fund future Company contributions to a qualified replacement pension plan, which is the current domestic defined contribution plan (Qualified Replacement Plan). During the first quarter of 2019, the Company transferred \$201.8 million of the surplus to a suspense account held within a trust for the Qualified Replacement Plan. This amount included \$131.8 million of Company stock (300,000 shares). The shares are treated as treasury stock in accordance with ASC 715. The remainder of the surplus related to the Terminated Plan will be transferred to the Qualified Replacement Plan suspense account after the final expenses associated with the wind-up of the Terminated Plan have been settled.

Other assets at September 30, 2019 increased \$33.9 million in the first nine months of 2019 and increased \$.7 million from a year ago primarily due to increases in deferred tax assets and other investments.

Net property, plant and equipment increased \$21.5 million in the first nine months of 2019 and increased \$31.9 million in the twelve months since September 30, 2018. The increase in the first nine months was primarily due to capital expenditures of \$224.8 million and acquisitions of \$16.3 million, partially offset by depreciation expense of \$195.0 million, sale or disposition of fixed assets of \$17.8 million, and changes in currency translation rates of \$7.0 million. Since September 30, 2018, the increase was primarily due to capital expenditures of \$309.6 million and acquisitions of \$16.3 million, partially offset by depreciation expense of \$261.6 million, sale or disposition of fixed assets of \$21.0 million, and changes in currency translation rates of \$11.3 million. Capital expenditures primarily represented expenditures associated with improvements and normal equipment replacement in manufacturing and distribution facilities in the Consumer Brands Group, normal equipment replacement in The Americas and Performance Coatings Groups, and aviation transportation and information systems hardware in the Administrative Segment.

In June 2019, the Company repurchased \$60.9 million of its 2.25% Senior Notes due May 2020. This repurchase resulted in an insignificant gain. In August 2019, the Company repurchased \$1.010 billion of its 2.25% Senior Notes due May 2020 and \$490.0 million of its 2.75% Senior Notes due June 2022. These repurchases resulted in a loss of \$14.8 million recorded in other expense (income) - net (See Notes 10 and 15). In August 2019, the Company issued \$800.0 million of 2.95% Senior Notes due 2029 and \$550.0 million of 3.80% Senior Notes due 2049 (collectively the "New Notes") in a public offering. The net proceeds from the issuance of the New Notes will be used for general corporate purposes.

On May 9, 2019, the Company entered into a U.S. Dollar to Euro cross currency swap contract with a total notional amount of \$400.0 million to hedge the Company's net investment in its European operations. This contract has been designated as a net investment hedge and will mature on January 15, 2022. During the term of the contract, the Company will pay fixed-rate interest in Euros and receive fixed-rate interest in U.S. Dollars, thereby effectively converting a portion of the Company's U.S. Dollar denominated fixed-rate debt to Euro denominated fixed-rate debt. For the three and nine months ended September 30, 2019, an unrealized gain of \$13.9 million and \$8.9 million, respectively, net of tax, was recognized in cumulative other comprehensive loss.

At September 30, 2019, the Company had outstanding borrowings of \$305.8 million with a weighted average interest rate of 2.4% under its commercial paper program. The Company had unused capacity under its global credit agreement of \$1.694 billion at September 30, 2019. On October 8, 2019, the Company amended its five-year credit agreement entered into on July 19, 2018 to, among other things, extend the maturity date to October 8, 2024. Short-term borrowings under various other foreign programs were \$29.9 million with a weighted average interest rate of 4.3%.

Long-term liabilities for postretirement benefits other than pensions did not change significantly from December 31, 2018 and September 30, 2018. See Note 7, on pages 55 through 60, in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for more information concerning the Company's benefit plan obligations.

Deferred income taxes at September 30, 2019 decreased \$34.0 million in the first nine months of 2019, and decreased \$259.7 million from a year ago primarily due to the overall favorable impact of the Tax Cuts and Jobs Act.

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 2019. 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 2019. See Note 8 for further information on environmental-related long-term liabilities.

Contractual Obligations, Commercial Commitments and Warranties

Short-term borrowings increased \$107.3 million to \$435.7 million at September 30, 2019 from \$328.4 million at December 31, 2018. Total long-term debt decreased \$542.6 million to \$8.473 billion at September 30, 2019 from \$9.015 billion at December 31, 2018, and decreased \$548.8 million from \$9.021 billion at September 30, 2018. The California litigation accrual decreased \$59.6 million to \$76.7 million (\$12.0 million current and \$64.7 million long-term) at September 30, 2019 as a result of the final court approved agreement to resolve the litigation and the initial payment of \$25.0 million to the plaintiffs in accordance with the agreement in September 2019. See Note 9. There have been no other significant changes to the Company's contractual obligations and commercial commitments in the third quarter of 2019 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, 2018.

See Note 5 for changes to the Company's accrual for product warranty claims in the first nine months of 2019.

Litigation

See Note 9 for information concerning litigation.

Shareholders' Equity

Shareholders' equity increased \$292.1 million to \$4.023 billion at September 30, 2019 from \$3.731 billion at December 31, 2018 and increased \$92.3 million from \$3.931 billion at September 30, 2018. The increase in Shareholders' equity for the first nine months of 2019 resulted primarily from net income of \$1.293 billion and an increase in other capital of \$182.9 million, partially offset by increased treasury stock of \$732.1 million, cash dividends paid on common stock of \$314.9 million, and an increase in cumulative other comprehensive loss of \$137.3 million. The increase in Shareholders' equity since September 30, 2018 resulted primarily from net income of \$1.394 billion and an increase in other capital of \$227.4 million, partially offset by increased treasury stock of \$977.2 million, cash dividends paid on common stock of \$395.3 million and an increase in cumulative other comprehensive loss of \$156.6 million.

During the first nine months of 2019, the Company purchased 1,325,000 shares of its common stock for treasury purposes through open market purchases. 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, 2019 to purchase 8.80 million shares of its common stock. In February 2019, the Company's Board of Directors increased the quarterly cash dividend from \$.86 per common share to \$1.13 per common share. This quarterly dividend will result in an annual dividend for 2019 of \$4.52 per common share or a 38.7% payout of 2018 diluted net income per common share.

Cash Flow

Net operating cash for the nine months ended September 30, 2019 was a cash source of \$1.661 billion compared to a cash source of \$1.431 billion for the same period in 2018. The improvement in net operating cash was primarily due to an increase in net income and other long-term items, partially offset by increased cash requirements for working capital. Net investing cash usage increased \$173.2 million in the first nine months of 2019 to a usage of \$288.5 million from a usage of \$115.3 million in 2018 primarily due to an increase in capital expenditures and acquisitions. Net financing cash usage increased \$16.2 million to a usage of \$1.342 billion in the first nine months of 2019 from a usage of \$1.325 billion in 2018 primarily due to increased payments of long-term debt, treasury stock purchases, cash dividends and other accruals, partially offset by the issuance of new

long-term debt and an increase in short-term borrowings. In the twelve month period from October 1, 2018 through September 30, 2019, the Company generated net operating cash of \$2.174 billion, used \$424.9 million in investing activities and used \$1.763 billion in financing activities.

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 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 that the Company's leverage ratio is not to exceed 3.75 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 pro forma "Earnings Before Interest, Taxes, Depreciation, and Amortization" (EBITDA) for the twelve month period ended on the same date. Refer to the "Results of Operations" caption below for a reconciliation of EBITDA to Net income. At September 30, 2019, 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 pages 61 and 62, in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 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 three and nine months ended September 30, 2019:

(Thousands of dollars)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Net Sales:						
The Americas Group	\$ 2,898,158	\$ 2,665,663	8.7 %	\$ 7,809,059	\$ 7,371,135	5.9 %
Consumer Brands Group	678,473	770,543	-11.9 %	2,137,447	2,204,668	-3.0 %
Performance Coatings Group	1,290,247	1,294,579	-0.3 %	3,838,002	3,891,678	-1.4 %
Administrative	772	685	12.7 %	1,863	2,791	-33.2 %
Total	<u>\$ 4,867,650</u>	<u>\$ 4,731,470</u>	<u>2.9 %</u>	<u>\$ 13,786,371</u>	<u>\$ 13,470,272</u>	<u>2.3 %</u>

(Thousands of dollars)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Income Before Income Taxes:						
The Americas Group	\$ 663,671	\$ 577,738	14.9%	\$ 1,607,143	\$ 1,485,027	8.2%
Consumer Brands Group	114,891	83,941	36.9%	343,482	249,072	37.9%
Performance Coatings Group	137,432	104,868	31.1%	386,452	339,828	13.7%
Administrative	(206,161)	(350,594)	41.2%	(652,689)	(816,302)	20.0%
Total	<u>\$ 709,833</u>	<u>\$ 415,953</u>	<u>70.7%</u>	<u>\$ 1,684,388</u>	<u>\$ 1,257,625</u>	<u>33.9%</u>

Three Months Ended September 30, 2019

Consolidated net sales increased in the third quarter of 2019 due primarily to higher paint sales volume in North American stores and selling price increases, partially offset by demand softness in some end markets outside the U.S. and unfavorable currency translation rate changes. Currency translation rate changes decreased net sales by .9% in the quarter. Net sales of all consolidated foreign subsidiaries were down 3.5% to \$918.8 million in the third quarter compared to \$951.8 million in the same period last year. The decrease in net sales for all consolidated foreign subsidiaries in the quarter was due primarily to demand softness in some end markets and unfavorable currency translation rate changes. Net sales of all operations other than

consolidated foreign subsidiaries were up 4.5% to \$3.949 billion in the quarter compared to \$3.780 billion in the same period last year.

Net sales in The Americas Group increased in the third quarter of 2019 due primarily to higher paint sales volume across all end markets in North American stores and selling price increases, partially offset by unfavorable currency translation rate changes. Currency translation rate changes decreased Group net sales by .5% in the quarter. Net sales from stores open for more than twelve calendar months in the U.S. and Canada increased 8.1% in the quarter compared to last year's comparable period. Sales of non-paint products increased 8.3% over last year's third quarter. 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 Brands Group decreased in the third quarter due primarily to comparisons to load-in sales for a new customer program in 2018, the divestiture of a furniture protection plan business in the third quarter of 2018 and softer sales in some end markets outside of North America, partially offset by selling price increases and higher volume sales to most of the Consumer Brands Group's retail customers. Currency translation rate changes decreased Consumer Brands Group net sales by .8% in the quarter. Net sales in the Performance Coatings Group decreased in the third quarter primarily due to softer sales in some end markets outside North America and unfavorable currency translation rate changes, partially offset by selling price increases. Currency translation rate changes decreased Performance Coatings Group net sales by 1.6% in the quarter. 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, were essentially flat in the third quarter.

Consolidated gross profit increased \$215.2 million in the third quarter of 2019 compared to the same period in 2018. Consolidated gross profit as a percent of consolidated net sales increased in the third quarter of 2019 to 45.7%, compared to 42.5% during the same period in 2018. Consolidated gross profit dollars and percent improved as a result of higher paint sales volume in North American stores and selling price increases, partially offset by unfavorable currency translation rate changes.

The Americas Group's gross profit in the third quarter of 2019 was higher than last year by \$153.8 million due to higher paint sales volume and selling price increases, partially offset by unfavorable currency translation rate changes. The Americas Group's gross profit as a percent of sales increased in the quarter primarily due to increased paint sales volume and selling price increases. The Consumer Brands Group's gross profit increased by \$25.0 million in the quarter compared to the same period last year due primarily to selling price increases, partially offset by unfavorable currency translation rate changes. The Consumer Brands Group's gross profit as a percent of sales was up in the quarter compared to the same period last year for these same reasons. The Performance Coatings Group's gross profit increased \$29.5 million in the third quarter compared to the same period last year, when stated in U.S. dollars, primarily due to selling price increases, partially offset by lower sales volumes and unfavorable currency translation rate changes. The Performance Coatings Group's gross profit as a percent of sales was up in the quarter compared to the same period last year for these same reasons. The Administrative segment's gross profit improved by \$6.9 million in the third quarter compared to the same period last year due primarily to reduced integration expenses.

Selling, general and administrative expenses (SG&A) increased \$72.1 million in the third quarter of 2019 versus the same period last year due primarily to increased expenses to support higher sales levels and net new store openings, partially offset by good cost control. As a percent of sales, consolidated SG&A increased to 27.6% in the third quarter of 2019, from 26.9% in the third quarter of 2018, for these same reasons.

The Americas Group's SG&A increased \$52.3 million in the third quarter compared to the same period last year due primarily to net new store openings and general comparable store expenses to support higher sales levels. The Consumer Brands Group's SG&A decreased \$1.3 million in the quarter compared to the same period last year, primarily due to reduced sales levels, good cost control and currency translation rate changes. The Performance Coatings Group's SG&A increased \$.9 million in the quarter compared to the same period last year primarily due to improvements to information technology systems, partially offset by good cost control and currency translation rate changes. The Administrative segment's SG&A increased \$20.2 million in the quarter compared to the same period last year due primarily to litigation expenses and improvements to information technology systems.

Other general expense - net was essentially flat in the third quarter of 2019, compared to the same period in 2018 at \$12.0 million.

Amortization expense decreased \$2.5 million in the third quarter of 2019 versus the same period in 2018 primarily from the Consumer Brands Group. In the third quarter of 2019, amortization of acquired intangibles was \$50.5 million and \$21.4 million for the Performance Coatings and Consumer Brands Groups, respectively. In the third quarter of 2018, amortization of acquired intangibles was \$50.8 million and \$22.4 million for the Performance Coatings and Consumer Brands Groups, respectively.

Interest expense decreased \$7.0 million in the third quarter of 2019 compared to the same period in 2018.

Other expense (income) - net increased \$29.3 million in the third quarter as compared to the same period in 2018 primarily due to losses related to the extinguishment of the 2.25% and 2.75% Senior Notes recorded in the Administrative segment and increases in foreign currency transaction related losses.

Consolidated income before income taxes increased \$293.9 million in the third quarter of 2019 versus the same period last year primarily due to increased profit for all segments and a reduction of the California litigation provision recorded in the Administrative segment.

The effective tax rate was 18.8% for the third quarter of 2019 compared to 14.9% for the third quarter of 2018. The increase in the effective tax rate for the third quarter of 2019 compared to the third quarter of 2018 was primarily due to lower tax benefits in 2019 as a result of the favorable tax benefits recognized in 2018 related to the reduction in the domestic income tax rate from 35% to 21%.

Diluted net income per share in the third quarter of 2019 increased to \$6.16 per share compared to \$3.72 per share in the third quarter of 2018. Third quarter 2019 diluted net income per share included an accrued expense reduction related to the resolution of the California litigation, which increased earnings per share \$.28, and charges for acquisition-related costs of \$.77 per share. Currency translation rate changes decreased diluted net income per share in the third quarter by \$.11 per share. Third quarter 2018 diluted net income per share included charges for acquisition-related and California litigation costs of \$.87 and \$1.09 per share, respectively.

Nine Months Ended September 30, 2019

Consolidated net sales increased in the first nine months of 2019 due primarily to higher paint sales volume in North American stores and selling price increases, partially offset by demand softness in some end markets outside the U.S. and unfavorable currency translation rate changes. Currency translation rate changes decreased net sales by 1.5% in the first nine months of 2019. Net sales of all consolidated foreign subsidiaries were down 4.2% to \$2.768 billion in the first nine months compared to \$2.890 billion in the same period last year. The decrease in net sales for all consolidated foreign subsidiaries in the first nine months was due primarily to demand softness in some end markets and unfavorable currency translation rate changes. Net sales of all operations other than consolidated foreign subsidiaries were up 4.1% to \$11.018 billion in the first nine months compared to \$10.580 billion in the same period last year.

Net sales in The Americas Group increased in the first nine months of 2019 due primarily to higher paint sales volume across all end markets in North American stores and selling price increases, partially offset by unfavorable currency translation rate changes. Currency translation rate changes decreased Group net sales by .9%. Net sales from stores open for more than twelve calendar months in the U.S. and Canada increased 5.5% in the first nine months compared to last year's comparable period. Sales of non-paint products increased 5.8% 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 Brands Group decreased in the first nine months primarily due to the divestiture of a furniture protection plan business in the third quarter of 2018, softer sales in some end markets outside of North America and unfavorable currency translation rate changes, partially offset by selling price increases and higher volume sales related to a new customer program. Currency translation rate changes decreased Consumer Brands Group net sales by 1.3% in the first nine months. Net sales in the Performance Coatings Group stated in U.S. dollars decreased in the first nine months primarily due to softer sales in some end markets outside North America and unfavorable currency translation rate changes, partially offset by selling price increases. Currency translation rate changes decreased Performance Coatings Group net sales by 2.7%. 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, were essentially flat in the first nine months.

Consolidated gross profit increased \$406.2 million in the first nine months of 2019 compared to the same period in 2018. Consolidated gross profit as a percent of consolidated net sales increased in the first nine months of 2019 to 44.6%, compared to 42.6% during the same period in 2018. Consolidated gross profit dollars and percent improved as a result of higher paint sales volume in North American stores and selling price increases, partially offset by higher raw material costs in the first quarter of 2019 and unfavorable currency translation rate changes.

The Americas Group's gross profit in the first nine months of 2019 was higher than last year by \$256.4 million due to higher paint sales volume and selling price increases, partially offset by unfavorable currency translation rate changes. The Americas Group's gross profit as a percent of sales was essentially flat in the first nine months as increased paint sales volume and selling price increases were mostly offset by raw material costs. The Consumer Brands Group's gross profit increased by \$83.4 million in the first nine months compared to the same period last year due primarily to greater supply chain efficiencies, moderating raw material costs and selling price increases, partially offset by unfavorable currency translation rate changes. The Consumer Brands Group's gross profit as a percent of sales was up in the first nine months compared to the same period last year for these same reasons. The Performance Coatings Group's gross profit increased \$41.2 million in the first nine months compared to the

same period last year, when stated in U.S. dollars, primarily due to selling price increases and moderating raw material costs, partially offset by lower sales volumes and unfavorable currency translation rate changes. The Performance Coatings Group's gross profit as a percent of sales was up in the first nine months compared to the same period last year for these same reasons. The Administrative segment's gross profit improved by \$25.2 million in the first nine months compared to the same period last year due primarily to reduced integration expenses.

SG&A increased \$125.0 million in the first nine months of 2019 versus the same period last year due primarily to increased expenses to support higher sales levels in The Americas Group. As a percent of sales, consolidated SG&A increased slightly to 28.4% in the first nine months of 2019 versus 28.2% in 2018. These increases were primarily due to net new store openings and general comparable store expenses to support higher sales levels partially offset by good cost control.

The Americas Group's SG&A increased \$116.6 million in the first nine months due primarily to net new store openings and general comparable store expenses to support higher sales levels. The Consumer Brands Group's SG&A decreased \$5.5 million in the first nine months compared to the same period last year primarily due to currency translation rate changes and good cost control. The Performance Coatings Group's SG&A decreased \$13.3 million in the first nine months compared to the same period last year primarily due to currency translation rate changes, partially offset by improvements to information technology systems. The Administrative segment's SG&A increased \$27.1 million in the first nine months compared to the same period last year due primarily to litigation expenses and improvements to information technology systems.

Other general expense - net decreased \$22.8 million in the first nine months of 2019 compared to the same period in 2018 primarily due to decreased environmental provisions in the Administrative segment.

Amortization expense decreased \$4.6 million in the first nine months of 2019 versus the same period in 2018 primarily due to purchase accounting measurement period adjustments in second quarter 2018 which impacted amortization of acquired intangibles. In the first nine months of 2019, amortization of acquired intangibles was \$152.1 million and \$64.1 million for the Performance Coatings and Consumer Brands Groups, respectively. In the first nine months of 2018, amortization of acquired intangibles was \$149.1 million and \$68.0 million for the Performance Coatings and Consumer Brands Groups, respectively.

Interest expense decreased \$11.9 million in the first nine months of 2019 compared to the same period in 2018.

Other expense (income) - net increased \$63.6 million in the first nine months of 2019 compared to the same period in 2018 primarily due to a pension plan settlement expense, losses related to the extinguishment of the 2.25% and 2.75% Senior Notes recorded in the Administrative segment and an increase in miscellaneous pension expense.

Consolidated income before income taxes increased \$426.8 million in the first nine months of 2019 versus the same period last year primarily due to an increased profit reported for all segments and reductions of environmental and the California litigation provisions recorded in the Administrative segment.

The effective tax rate was 23.3% for the first nine months of 2019 compared to 19.9% for the first nine months of 2018. The increase in the effective tax rate for the first nine months of 2019 compared to the first nine months of 2018 was primarily due to an increase to the tax provision of \$74.3 million recorded in the first six months of 2019 related to the reversal of net tax benefits recognized in previous tax years from federal renewable energy tax credit funds. (see Note 11).

Diluted net income per share in the first nine months of 2019 increased to \$13.82 per share compared to \$10.59 per share in the first nine months 2018. Diluted net income per share for the first nine months of 2019 included a \$2.23 per share charge for acquisition-related costs, a tax credit investment loss of \$.79 per share and a pension settlement expense of \$.27 per share, partially offset by an accrued expense reduction related to the resolution of the California litigation of \$.28 per share. The first nine months of 2018 included charges of \$3.05, \$1.09 and \$.25 per share from acquisition-related costs, the California litigation and environmental expense provisions, respectively. Currency translation rate changes decreased diluted net income per share in the first nine months by \$.21 per share.

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 Comprehensive Income and Statements of Consolidated Cash Flows. EBITDA as used by management is calculated as follows:

(Thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 576,438	\$ 354,027	\$ 1,292,678	\$ 1,007,758
Interest expense	85,282	92,281	265,474	277,335
Income taxes	133,395	61,926	391,710	249,867
Depreciation	65,209	67,381	194,957	211,514
Amortization	77,548	80,077	234,400	239,019
EBITDA	\$ 937,872	\$ 655,692	\$ 2,379,219	\$ 1,985,493

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 the federal securities laws. 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 “believe,” “expect,” “may,” “will,” “should,” “project,” “could,” “plan,” “goal,” “potential,” “seek,” “intend” or “anticipate” or the negative thereof or comparable terminology.

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 our control, that could cause actual results to differ materially from such statements and from our historical results and experience. These risks, uncertainties and other factors include such things as:

- general business conditions, strengths of retail and manufacturing economies and growth in the coatings industry;
- changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions, and changing government policies, laws and regulations;
- changes in raw material and energy supplies and pricing;
- changes in our relationships with customers and suppliers;
- our ability to successfully integrate past and future acquisitions into our existing operations, including Valspar, as well as the performance of the businesses acquired;
- risks inherent in the achievement of additional anticipated cost synergies resulting from the Valspar acquisition and the timing thereof;
- competitive factors, including pricing pressures and product innovation and quality;
- our ability to attain cost savings from productivity initiatives;
- risks and uncertainties associated with our expansion into and our operations in Asia, Europe, 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;
- the achievement of growth in foreign markets, such as Asia, Europe and South America;
- increasingly stringent domestic and foreign governmental regulations, including those affecting health, safety and the environment;
- inherent uncertainties involved in assessing our potential liability for environmental-related activities;
- other changes in governmental policies, laws and regulations, including changes in tariff policies, as well as changes in accounting policies and standards and taxation requirements (such as new tax laws and new or revised tax law interpretations);
- 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
- adverse weather conditions and natural disasters.

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 we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law.

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, 2018.

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. During the first quarter of 2019, the Company implemented technology, processes and controls related to the global recording of right-of-use assets and lease liabilities in connection with the adoption of ASC 842, "Leases," as described in Notes 2 and 17 of the financial statements. Otherwise, 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

For information with respect to certain environmental-related matters and legal proceedings, see the information included under the captions entitled “Environmental-Related Liabilities” and “Litigation” of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Notes 8 and 9 of the “Notes to Condensed Consolidated Financial Statements,” which is incorporated herein by reference.

Item 1A. Risk Factors

We face a number of risks that could materially and adversely affect our business, results of operations, cash flow, liquidity or financial condition. A discussion of our risk factors can be found in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. During the third quarter ended September 30, 2019, there were no material changes to our previously disclosed risk factors.

Item 2. Unregistered Sales of Equity 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 ⁽¹⁾	100,000	\$ 509.46	100,000	8,950,000
Employee transactions ⁽²⁾	3,583	\$ 465.22		N/A
August 1 - August 31				
Share repurchase program ⁽¹⁾	150,000	\$ 508.83	150,000	8,800,000
Employee transactions ⁽²⁾				N/A
September 1 - September 30				
Share repurchase program ⁽¹⁾				8,800,000
Employee transactions ⁽²⁾	2,802	\$ 545.48		N/A
Total				
Share repurchase program ⁽¹⁾	250,000	\$ 509.08	250,000	8,800,000
Employee transactions ⁽²⁾	6,385	\$ 500.44		N/A

⁽¹⁾ Shares were purchased through the Company's publicly announced share repurchase program. There is no expiration date specified for the program. The Company had remaining authorization at September 30, 2019 to purchase 8,800,000 shares.

⁽²⁾ Shares were delivered to satisfy the exercise price and/or tax withholding obligations by employees who exercised stock options or had restricted stock units vest.

Item 5. Other Information.

During the nine months ended September 30, 2019, 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 tax advisory, tax compliance and other advisory services.

Item 6. Exhibits.

- 4.1 [Thirteenth Supplemental Indenture by and between the Company and Wells Fargo Bank, National Association, as trustee, dated August 26, 2019 \(including Form of Note\), filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 26, 2019, and incorporated herein by reference.](#)
- 4.2 [Fourteenth Supplemental Indenture by and between the Company and Wells Fargo Bank, National Association, as trustee, dated August 26, 2019 \(including Form of Note\), filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated August 26, 2019, and incorporated herein by reference.](#)
- 10.1* [Schedule of Executive Officers who are Parties to the Amended and Restated Severance Agreements in the forms filed as Exhibit 10\(e\) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 \(filed herewith\).](#)
- 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 \(furnished herewith\).](#)
- 32(b) [Section 1350 Certification of Chief Financial Officer \(furnished herewith\).](#)
- 101.INS Inline XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 The cover page from this Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL and contained in Exhibit 101.

* Management contract or compensatory plan or arrangement.

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 22, 2019

By:

/s/ Jane M. Cronin

Jane M. Cronin
Senior Vice President -
Corporate Controller

October 22, 2019

By:

/s/ Allen J. Mistysyn

Allen J. Mistysyn
Senior Vice President - Finance
and Chief Financial Officer

Schedule of Executive Officers who are Parties
to the Amended and Restated Severance Agreements in the Forms Filed as
Exhibit 10(e) to the Company's Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2010

Form A of Severance Agreement

John G. Morikis

Form B of Severance Agreement

Joel D. Baxter
Peter J. Ippolito

Form C of Severance Pay Agreement

Jane M. Cronin
Aaron M. Erter
Mary L. Garceau
Thomas P. Gilligan
James R. Jaye
Robert F. Lynch
Allen J. Mistysyn
David B. Sewell

CERTIFICATION

I, John G. Morikis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Sherwin-Williams Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2019

/s/ John G. Morikis

John G. Morikis

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Allen J. Mistysyn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Sherwin-Williams Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2019

/s/ Allen J. Mistysyn

Allen J. Mistysyn

Senior Vice President - Finance and
Chief Financial Officer

SECTION 1350 CERTIFICATION
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of The Sherwin-Williams Company (the "Company") for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John G. Morikis, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 22, 2019

/s/ John G. Morikis

John G. Morikis

Chairman, President and
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The Sherwin-Williams Company and will be retained by The Sherwin-Williams Company and furnished to the Securities and Exchange Commission or its staff upon request.

SECTION 1350 CERTIFICATION
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of The Sherwin-Williams Company (the "Company") for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen J. Mistysyn, Senior Vice President - Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 22, 2019

/s/ Allen J. Mistysyn

Allen J. Mistysyn

Senior Vice President - Finance and
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The Sherwin-Williams Company and will be retained by The Sherwin-Williams Company and furnished to the Securities and Exchange Commission or its staff upon request.