SHERWIN WILLIAMS CO
Form 10-Q
July 27, 2016

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

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Period Ended June 30, 2016
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from to
Commission file number 1-04851

THE SHERWIN-WILLIAMS COMPANY
(Exact name of registrant as specified in its charter)

OHIO (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)

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 x No o

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

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

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

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

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 – 92,221,707 shares as of June 30, 2016.

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THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
Thousands of dollars, except per share data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$3,219,525	$3,132,139	$5,793,549	$5,582,423
Cost of goods sold	1,583,732	1,602,153	2,896,011	2,919,988
Gross profit	1,635,793	1,529,986	2,897,538	2,662,435
Percent to net sales	50.8 %	48.8 %	50.0 %	47.7 %
Selling, general and administrative expenses	1,053,972	999,224	2,056,327	1,928,421
Percent to net sales	32.7 %	31.9 %	35.5 %	34.5 %
Other general expense - net	2,733	9,971	20,287	8,298
Interest expense	40,878	12,885	66,610	25,236
Interest and net investment income	(952)	(553)	(1,439)	(975)
Other (income) expense - net	(52)	677	174	432
Income before income taxes	539,214	507,782	755,579	701,023
Income taxes	161,150	157,845	212,639	219,682
Net income	$378,064	$349,937	$542,940	$481,341
Net income per common share:				
Basic	$4.12	$3.79	$5.93	$5.20
Diluted	$3.99	$3.70	$5.76	$5.07
Average shares outstanding - basic	91,788,734	92,260,367	91,632,297	92,500,213
Average shares and equivalents outstanding - diluted	94,669,751	94,592,057	94,305,997	94,927,670
Comprehensive income	$284,060	$361,580	$467,946	$436,637

See notes to condensed consolidated financial statements.

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

	June 30, 2016	December 31, 2015	June 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	$402,656	$205,744	$75,068
Accounts receivable, less allowance	1,473,078	1,114,275	1,454,045
Inventories:			
Finished goods	975,366	840,603	945,918
Work in process and raw materials	176,866	177,927	186,058
	1,152,232	1,018,530	1,131,976
Deferred income taxes	155,407	87,883	107,902
Other current assets	300,569	230,748	234,923
Total current assets	3,483,942	2,657,180	3,003,914
Goodwill	1,144,700	1,143,333	1,151,720
Intangible assets	247,070	255,371	273,882
Deferred pension assets	246,090	244,882	251,684
Other assets	471,618	436,309	442,056
Property, plant and equipment:			
Land	119,608	119,530	122,503
Buildings	708,573	696,202	696,426
Machinery and equipment	2,109,786	2,026,617	1,980,796
Construction in progress	100,508	81,082	69,274
	3,038,475	2,923,431	2,868,999
Less allowances for depreciation	1,966,218	1,881,569	1,863,680
	1,072,257	1,041,862	1,005,319
Total Assets	$6,665,677	$5,778,937	$6,128,575
Liabilities and Shareholders’ Equity			
Current liabilities:			
Short-term borrowings	$59,203	$39,462	$1,159,284
Accounts payable	1,289,406	1,157,561	1,253,894
Compensation and taxes withheld	311,111	338,256	267,352
Accrued taxes	230,294	81,146	193,834
Current portion of long-term debt	2,179	3,154	3,179
Other accruals	733,020	522,280	479,696
Total current liabilities	2,625,213	2,141,859	3,357,239
Long-term debt	1,909,217	1,907,278	1,116,667
Postretirement benefits other than pensions	251,812	248,523	279,650
Other long-term liabilities	632,806	613,367	617,677
Shareholders’ equity:			
Common stock—$1.00 par value:			
92,221,707, 92,246,525 and 93,210,645 shares outstanding			
at June 30, 2016, December 31, 2015 and June 30, 2015, respectively	116,259	115,761	115,394
Other capital	2,412,599	2,330,426	2,241,197
Retained earnings	3,616,095	3,228,876	2,780,764
Treasury stock, at cost	(4,236,235)	(4,220,058)	(3,863,351)

Cumulative other comprehensive loss	(662,089)	(587,095)	(516,662)
Total shareholders' equity	1,246,629	867,910	757,342
Total Liabilities and Shareholders’ Equity	$6,665,677	$5,778,937	$6,128,575

See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2016	June 30, 2015
OPERATING ACTIVITIES		
Net income	$542,940	$481,341
Adjustments to reconcile net income to net operating cash:		
Depreciation	86,724	84,581
Amortization of intangible assets	12,003	13,720
Stock-based compensation expense	31,948	32,578
Amortization of credit facility and debt issuance costs	25,691	2,166
Provisions for qualified exit costs	1,422	1,482
Provisions for environmental-related matters	20,536	11,560
Defined benefit pension plans net cost	9,948	3,576
Net increase in postretirement liability	961	(111)
Other	1,196	(4,539)
Change in working capital accounts - net	(211,572)	(238,809)
Costs incurred for environmental-related matters	(6,716)	(5,573)
Costs incurred for qualified exit costs	(4,155)	(5,045)
Other	(943)	(27,907)
Net operating cash	509,983	349,020
INVESTING ACTIVITIES		
Capital expenditures	(114,081)	(87,542)
Proceeds from sale of assets	2,039	8,021
Increase in other investments	(36,950)	(1,486)
Net investing cash	(148,992)	(81,007)
FINANCING ACTIVITIES		
Net increase in short-term borrowings	15,318	484,636
Payments of long-term debt	(84)	—
Payments for credit facility and debt issuance costs	(61,433)	—
Payments of cash dividends	(155,721)	(125,251)
Proceeds from stock options exercised	43,708	57,420
Income tax effect of stock-based compensation exercises and vesting (see Note 11)	—	72,529
Treasury stock purchased	—	(679,449)
Other	(12,645)	(34,081)
Net financing cash	(170,857)	(224,196)
Effect of exchange rate changes on cash	6,778	(9,481)
Net increase in cash and cash equivalents	196,912	34,336
Cash and cash equivalents at beginning of year	205,744	40,732
Cash and cash equivalents at end of period	$402,656	$75,068
Income taxes paid	$73,636	$45,319
Interest paid	66,583	25,234

See notes to condensed consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Periods ended June 30, 2016 and 2015
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, 2015, except for the adoption of Accounting Standards Update (ASU) No. 2016-09 as described in Notes 2 and 11. Accounting estimates were revised as necessary during the first six months of 2016 based on new information and changes in facts and circumstances. Certain amounts in the 2015 condensed consolidated financial statements have been reclassified to conform to the 2016 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. The final year-end valuation of inventory is based on an annual physical inventory count performed during the fourth quarter. For further information on inventory valuations and other matters, refer to the consolidated financial statements and footnotes thereto included in the Company’s Form 10-K for the year ended December 31, 2015.
The consolidated results for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016.
NOTE 2—IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS
During the second quarter of 2016, the Company early adopted, as permitted, ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which simplifies various provisions related to how share-based payments are accounted for and presented in the financial statements. Excess tax benefits for share-based payments are no longer recognized in other capital on the balance sheet and now will be recognized in the income tax provision on the income statement. In addition, excess tax benefits for share-based payments are now included in Net operating cash rather than Net financing cash. The changes have been applied prospectively in accordance with the ASU and prior periods have not been adjusted. Refer to Note 11 for additional information.
Effective January 1, 2016, the Company adopted the Financial Accounting Standards Board (FASB) issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires companies to present debt issuance costs associated with a debt liability as a deduction from the carrying amount of that debt liability on the balance sheet rather than being capitalized as an asset. The adoption of this ASU did not have a material effect on the Company's results of operations, financial condition or liquidity.
In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which consists of a comprehensive lease accounting standard. Under the new standard, assets and liabilities arising from most leases will be recognized on the balance sheet. Leases will be classified as either operating or financing, and the lease classification will determine whether expense is recognized on a straight line basis (operating leases) or based on an effective interest method (financing leases). The new standard is effective for interim and annual periods beginning after December 15, 2018. A modified retrospective transition approach is required with certain practical expedients available. The Company is currently in the process of evaluating the impact of this standard.
In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” which amends the guidance for certain aspects of recognition, measurement and disclosure of financial instruments. The standard is effective for interim and annual periods beginning after December 31, 2017, and early adoption is not permitted. The Company is in the process of evaluating the impact of the standard.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which eliminates the requirement for separate presentation of current and non-current portions of deferred tax. All deferred tax assets and deferred tax liabilities will be presented as non-current on the balance sheet. The standard is effective for interim and annual periods

beginning after December 15, 2016. Either retrospective or prospective presentation can be used. The Company will adopt ASU No. 2016-17 as required. The ASU will not have a material effect on the Company's results of operations, financial condition or liquidity.
In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which consists of a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The issuance of ASU No. 2015-14 in August 2015 delays the effective date of the standard to interim and annual periods beginning after December 15, 2017. Either full retrospective adoption or modified retrospective adoption is permitted. The Company is in the process of evaluating the impact of the standard.
NOTE 3—DIVIDENDS
Dividends paid on common stock during each of the first two quarters of 2016 and 2015 were $.84 per common share and $.67 per common share, respectively.
NOTE 4—CHANGES IN CUMULATIVE OTHER COMPREHENSIVE LOSS
The following tables summarize the changes in Cumulative other comprehensive loss for the six months ended June 30, 2016 and 2015:

(Thousands of dollars)	Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefit Adjustments	Unrealized Net (Losses) Gains on Available-for-Sale Securities	Unrealized Net Losses on Cash Flow Hedges	Total Cumulative Other Comprehensive (Loss) Income
Balance at December 31, 2015	$ (482,629)	$ (104,346)	$ (120)		$ (587,095)
Amounts recognized in Other comprehensive loss [1]	31,935		455	$ (107,948)	(75,558)
Amounts reclassified from Other comprehensive loss [2]		439	125		564
Net change	31,935	439	580	(107,948)	(74,994)
Balance at June 30, 2016	$ (450,694)	$ (103,907)	$ 460	$ (107,948)	$ (662,089)

[1] Net of taxes of $(282) for unrealized net gains on available-for-sale securities and $66,721 for unrealized net losses on cash flow hedges.
[2] Net of taxes of $(45) for pension and other postretirement benefit adjustments and $(78) for realized losses on the sale of available-for-sale securities.

(Thousands of dollars)	Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefit Adjustments	Unrealized Net Gains (Losses) on Available-for-Sale Securities	Total Cumulative Other Comprehensive Loss
Balance at December 31, 2014	$ (354,384)	$ (118,167)	$ 593	$ (471,958)
Amounts recognized in Other comprehensive loss [3]	(45,554)		52	(45,502)
Amounts reclassified from Other comprehensive loss [4]		853	(55)	798
Net change	(45,554)	853	(3)	(44,704)
Balance at June 30, 2015	$ (399,938)	$ (117,314)	$ 590	$ (516,662)

[3] Net of taxes of $(34) for unrealized net gains on available-for-sale securities.

(4) Net of taxes of $(699) for pension and other postretirement benefit adjustments and $33 for realized gains on the sale of available-for-sale securities.

NOTE 5—PRODUCT WARRANTIES

Changes in the Company's accrual for product warranty claims during the first six months of 2016 and 2015, including customer satisfaction settlements, were as follows:

(Thousands of dollars)	2016	2015
Balance at January 1	$31,878	$27,723
Charges to expense	15,763	14,470
Settlements	(14,755)	(14,955)
Balance at June 30	$32,886	$27,238

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, 2015.

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 six months ended June 30, 2016, fourteen stores in the Paint Stores Group, three branches in the Global Finishes Group and one facility in the Consumer Group were closed due to lower demand or redundancy.

The following table summarizes the activity and remaining liabilities associated with qualified exit costs at June 30, 2016:

(Thousands of dollars)

Exit Plan	Balance at December 31, 2015	Provisions in Cost of goods sold or SG&A	Actual expenditures charged to accrual	Balance at June 30, 2016
Consumer Group facilities shutdown in 2016:				
Severance and related costs		$ 117	$ (117)	
Global Finishes Group stores shutdown in 2016:				
Other qualified exit costs		40		$ 40
Paint Stores Group stores shutdown in 2015:				
Other qualified exit costs	$ 12	297	(64)	245
Global Finishes Group exit of a business in 2015:				
Severance and related costs	1,096		(204)	892
Other qualified exit costs	2,750	538	(2,358)	930
Paint Stores Group stores shutdown in 2014:				
Other qualified exit costs	184		(45)	139
Consumer Group facilities shutdown in 2014:				
Severance and related costs	445		(41)	404
Other qualified exit costs	52		(39)	13
Global Finishes Group exit of business in 2014:				
Severance and related costs	430		(430)	
Other qualified exit costs	353	430	(496)	287
Other qualified exit costs for facilities shutdown prior to 2014	1,755		(361)	1,394
Totals	$ 7,077	$ 1,422	$ (4,155)	$ 4,344

For further details on the Company’s exit or disposal activities, see Note 5 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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	
	2016	2015	2016	2015	2016	2015
Three Months Ended June 30:						
Net periodic benefit cost (credit):						
Service cost	$5,489	$5,755	$1,198	$1,325	$561	$621
Interest cost	6,643	6,237	2,081	2,271	2,753	2,796
Expected return on assets	(12,567)	(13,024)	(1,846)	(2,430)		
Amortization of:						
Prior service cost (credit)	301	328			(1,645)	(1,132)
Actuarial loss	1,153	843	504	484		253
Net periodic benefit cost (credit)	$1,019	$139	$1,937	$1,650	$1,669	$2,538
Six Months Ended June 30:						
Net periodic benefit cost (credit):						
Service cost	$10,978	$11,509	$2,539	$2,650	$1,122	$1,242
Interest cost	13,286	12,474	4,161	4,542	5,505	5,591
Expected return on assets	(25,134)	(26,048)	(3,692)	(4,861)		
Amortization of:						
Prior service cost (credit)	602	655			(3,290)	(2,264)
Actuarial loss	2,305	1,686	865	969		506
Settlement costs			4,038			
Net periodic benefit cost (credit)	$2,037	$276	$7,911	$3,300	$3,337	$5,075

The settlement charge recognized in the first quarter of 2016 relates to the wind up of an acquired Canada plan. For further details on the Company’s health care, pension and other benefits, see Note 6 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

NOTE 8—OTHER LONG-TERM LIABILITIES

The Company initially provides for estimated costs of environmental-related activities relating to its past operations and third party sites for which commitments or clean-up plans have been developed and when such costs can be reasonably estimated based on industry standards and professional judgment. These estimated costs are determined based on currently available facts regarding each site. If the best estimate of costs can only be identified as a range and no specific amount within that range can be determined more likely than any other amount within the range, the minimum of the range is provided. At June 30, 2016, the unaccrued maximum of the estimated range of possible outcomes is $83.9 million higher than the minimum.

The Company continuously assesses its potential liability for investigation and remediation-related activities and adjusts its environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated and as additional accounting guidelines are issued. Actual costs incurred may vary from these estimates due to the inherent uncertainties involved including, among others, the number and financial condition of parties involved with respect to any given site, the volumetric contribution which may be attributed to the Company relative to that attributed to other parties, the nature and magnitude of the wastes involved, the various technologies that can be used for remediation and the determination of acceptable remediation with respect to a particular site.

Included in Other long-term liabilities at June 30, 2016 and 2015 were accruals for extended environmental-related activities of $143.0 million and $121.2 million, respectively. Estimated costs of current investigation and remediation activities of $22.5 million and $16.9 million are included in Other accruals at June 30, 2016 and 2015, respectively.

Three of the Company’s currently and formerly owned manufacturing sites account for the majority of the accrual for environmental-related activities and the unaccrued maximum of the estimated range of possible outcomes at June 30, 2016. At June 30, 2016, $129.5 million, or 78.2 percent of the total accrual, related directly to these three sites. In the aggregate unaccrued maximum of $83.9 million at June 30, 2016, $60.7 million, or 72.3 percent, related to the three manufacturing sites. While environmental investigations and remedial actions are in different stages at these sites, additional investigations, remedial actions and monitoring will likely be required at each site.

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

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

For further details on the Company’s Other long-term liabilities, see Note 8 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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 has not settled any material lead pigment or lead-based paint litigation. The Company expects that additional lead pigment and lead-based paint litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

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

Due to the uncertainties involved, management is unable to predict the outcome of the lead pigment and lead-based paint litigation, the number or nature of possible future claims and proceedings or the effect that any legislation and/or administrative regulations may have on the litigation or against the Company. In addition, management cannot reasonably determine the scope or amount of the potential costs and liabilities related to such litigation, or resulting from any such legislation and regulations. The Company has not accrued any amounts for such litigation. With respect to such litigation, including the public nuisance litigation, the Company does not believe that it is probable that a loss has occurred, and it is not possible to estimate the range of potential losses as there is no prior history of a loss of this nature and 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, 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 and the County of Santa Clara, California and other public entities in the State of California. Except for the Santa Clara County, California proceeding, all of these legal proceedings have been concluded in favor of the Company and other defendants at various stages in the proceedings.

The proceedings initiated by the State of Rhode Island included two jury trials. At the conclusion of the second trial, the jury returned a verdict finding that (i) the cumulative presence of lead pigment in paints and coatings on buildings in the State of Rhode Island constitutes a public nuisance, (ii) the Company, along with two other defendants, caused or substantially contributed to the creation of the public nuisance and (iii) the Company and two other defendants should be ordered to abate the public nuisance. The Company and two other defendants appealed and, on July 1, 2008, the Rhode Island Supreme Court, among other determinations, reversed the judgment of abatement with respect to the Company and two other defendants. The Rhode Island Supreme Court’s decision reversed the public nuisance liability judgment against the Company on the basis that the complaint failed to state a public nuisance claim as a matter of law.

The Santa Clara County, California proceeding was initiated in March 2000 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, the Cities of Oakland and San Diego and the City and County of San Francisco. 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. The filing of the notice of appeal effects an automatic stay of the judgment without the requirement to post a bond. The appeal is fully briefed, and the parties are waiting for the Sixth District Court of Appeal to set a date for oral argument. The date for oral argument is at the discretion of the Sixth District Court of Appeal. The Company expects the Sixth District Court of Appeal to issue its ruling within 90 days following oral argument. The Company believes that the judgment conflicts with established principles of law and is unsupported by the evidence. The Company has had a favorable history with respect to lead pigment and lead-based paint litigation, particularly other public nuisance litigation, and accordingly, the Company believes that it is not probable that a loss has occurred and it is not possible to estimate the range of potential loss with respect to the case.

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 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. Also, in Yasmine Clark v. The Sherwin-Williams Company, et al., the Wisconsin Circuit Court, Milwaukee County, on March 25, 2014, held that the application to a pending case of Section 895.046 of the Wisconsin Statutes (which clarifies the application of the risk contribution theory) is unconstitutional as a violation of the plaintiff’s right to due process of law under the Wisconsin Constitution. On August 21, 2014, the Wisconsin Court of Appeals granted defendants' petition to hear the issue as an interlocutory appeal. On September 29, 2015, the Wisconsin Court of Appeals certified the appeal to the Wisconsin Supreme

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Court for its determination. Oral argument before the Wisconsin Supreme Court occurred on April 5, 2016. On April 15, 2016, the Wisconsin Supreme Court published its decision, deciding in a 3 to 3 split decision to remand the case back to the Wisconsin Court of Appeals for its consideration.
Insurance coverage litigation. The Company and its liability insurers, including certain underwriters at Lloyd’s of London, initiated legal proceedings against each other to primarily 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, is currently stayed and inactive. 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, 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.

Litigation related to Consorcio Comex. As previously disclosed, the Company entered into a definitive Stock Purchase Agreement (as subsequently amended and restated, the “Purchase Agreement”), with Avisep, S.A. de C.V. (“Avisep”) and Bevisep, S.A. de C.V. (“Bevisep”) to, among other things, acquire the Mexico business of Consorcio Comex, S.A. de C.V. (the "Acquisition"). Under the terms of the Purchase Agreement, either the Company or Avisep and Bevisep had the right to terminate the Purchase Agreement in the event that the closing of the Acquisition did not occur on or prior to March 31, 2014 and such party was not in material breach of the Purchase Agreement.

On April 3, 2014, the Company sent notice to Avisep and Bevisep that the Company was terminating the Purchase Agreement. On April 3, 2014, the Company filed a complaint for declaratory judgment in the Supreme Court of the State of New York, New York County, requesting the court to declare that the Company had used commercially reasonable efforts as required under the Purchase Agreement and has not breached the Purchase Agreement. On August 7, 2014, the case was removed by Avisep and Bevisep to the United States District Court for the Southern District of New York. On September 24, 2014, Avisep and Bevisep filed a motion to dismiss the case, including for lack of personal jurisdiction. Oral argument on the motion to dismiss before the District Court occurred on January 27, 2016. On January 29, 2016, the District Court entered a judgment dismissing the case without prejudice for lack of personal jurisdiction. On April 11, 2014, Avisep and Bevisep initiated an arbitration proceeding against the Company in the International Court of Arbitration contending that the Company breached the Purchase Agreement by terminating the Purchase Agreement and not utilizing commercially reasonable efforts under the Purchase Agreement, which allegedly caused Avisep and Bevisep to incur damages. On June 1, 2015, Avisep and Bevisep filed their statement of claim in the arbitration alleging damages of approximately $85 million. On August 31, 2015, the Company filed its memorial in support of its statement of defense in the arbitration. A hearing on the merits before an arbitration tribunal commenced on April 11, 2016 and ended on April 19, 2016. On June 27, 2016, the arbitration tribunal issued its final award finding that the Company did not breach its duty to act in good faith under the Purchase Agreement, did not breach the Purchase Agreement by failing to use commercially reasonable efforts under the Purchase Agreement, and did not wrongfully terminate the Purchase Agreement. In addition, the arbitration tribunal found that the Company breached the Purchase Agreement by filing the complaint for declaratory judgment in the Supreme Court of the State of New York and ordered the Company to pay Avisep’s and Bevisep’s costs of defending such action in the amount of $0.5 million, plus interest. The parties were ordered to share the costs of the arbitration and be responsible for their own costs, including attorneys’ fees and expenses.

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NOTE 10—OTHER

Other general expense - net

Included in Other general expense - net were the following:

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Provisions for environmental matters - net	$2,507	$10,510	$20,536	$11,560
Loss (gain) on disposition of assets	226	(539)	(249)	(3,262)
Total	$2,733	$9,971	$20,287	$8,298

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

Other (income) expense - net

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

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Dividend and royalty income	$(999)	$(1,039)	$(2,165)	$(2,120)
Net expense from banking activities	2,108	2,197	4,371	5,164
Foreign currency transaction related losses	1,819	1,722	3,509	2,860
Other income	(5,450)	(4,843)	(10,330)	(10,340)
Other expense	2,470	2,640	4,789	4,868
Total	$(52)	$677	$174	$432

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 June 30, 2016 and 2015.

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 29.9 percent and 28.1 percent for the second quarter and first six months of 2016, respectively, compared to 31.1 percent and 31.3 percent for the second quarter and first six months of 2015, respectively. The decrease in the effective tax rate for the second quarter and first six months of 2016 compared to 2015 was primarily due to the Company's adoption of ASU No. 2016-09.

As disclosed in Note 2, during the second quarter of 2016, the Company adopted ASU No. 2016-09 “Improvements to Employee Share-Based Payment Accounting.” Therefore, effective January 1, 2016, excess tax benefits for share-based payments are recognized in the income tax provision rather than in additional paid-in capital. The impact on the Company's financial statements for the three months ended March 31 and the three and six months ended June 30, 2016 is summarized below:

	Three Months Ended		Six Months Ended
	March 31, 2016	June 30, 2016	June 30, 2016
Decrease in Other capital	$17,748	$11,955	$29,703
Decrease in Income taxes and increase in Net income	$17,748	$11,955	$29,703
Increase in Average shares and equivalents outstanding - diluted	565,880	696,616	595,220
Increase in Basic net income per common share	$0.19	$0.13	$0.33
Increase in Diluted net income per common share	$0.18	$0.09	$0.28

At December 31, 2015, the Company had $33.9 million in unrecognized tax benefits, the recognition of which would have an effect of $30.0 million on the current provision for income taxes. Included in the balance of unrecognized tax benefits at December 31, 2015 was $3.5 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits comprised primarily of items related to federal audits of partnership investments and expiring statutes in foreign and state jurisdictions.

The Company classifies all income tax related interest and penalties as income tax expense. At December 31, 2015, the Company had accrued $8.6 million for the potential payment of income tax interest and penalties.

There were no significant changes to any of the balances of unrecognized tax benefits at December 31, 2015 during the first six months of 2016.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As of June 30, 2016, there were no examinations being conducted by the IRS, however, the statute of limitations has not expired for the 2012, 2013 and 2014 tax years.

As of June 30, 2016, the Company is subject to non-U.S. income tax examinations for the tax years of 2008 through 2015. In addition, the Company is subject to state and local income tax examinations for the tax years 2005 through 2015.

NOTE 12—NET INCOME PER COMMON SHARE

(Thousands of dollars except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic				
Average common shares outstanding	91,788,734	92,260,367	91,632,297	92,500,213
Net income	$378,064	$349,937	$542,940	$481,341
Basic net income per common share	$4.12	$3.79	$5.93	$5.20
Diluted				
Average common shares outstanding	91,788,734	92,260,367	91,632,297	92,500,213
Stock options and other contingently issuable shares [1]	2,318,192	1,864,328	2,114,844	1,926,978
Non-vested restricted stock grants	562,825	467,362	558,856	500,479
Average common shares outstanding assuming dilution	94,669,751	94,592,057	94,305,997	94,927,670
Net income	$378,064	$349,937	$542,940	$481,341
Diluted net income per common share	$3.99	$3.70	$5.76	$5.07

(1) Stock options and other contingently issuable shares excluded 16,013 and 47,273 shares due to their anti-dilutive effect for the three and six months ended June 30, 2016. Stock options and other contingently issuable shares excluded 21,243 shares due to their anti-dilutive effect for the three and six months ended June 30, 2015.

Prior to 2016, the Company used the two-class method of calculating basic and diluted earnings per share as time-based restricted shares were considered a separate class of participating securities since they received non-forfeitable dividends. The time-based restricted shares represented less than 1% of outstanding shares, and therefore the difference between basic and diluted earnings per share under the two-class method and treasury stock method was not significant. Starting in 2016, there will be no additional grants of time-based restricted shares. Accordingly, 2016 basic and diluted earnings per share are calculated using the treasury stock method, and the 2015 calculations are presented under the treasury stock method for comparability.

See Note 11 for the impact of the adoption of ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" on basic and diluted net income per common share.

NOTE 13—REPORTABLE SEGMENT INFORMATION

The Company reports segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources in accordance with the Segment Disclosures Topic of the ASC. The Company has determined that it has four reportable operating segments: Paint Stores Group, Consumer Group, Global Finishes Group and Latin America Coatings Group (individually, a "Reportable Segment" and collectively, the “Reportable Segments”).

(Thousands of dollars)	Three Months Ended June 30, 2016					
	Paint Stores Group	Consumer Group	Global Finishes Group	Latin America Coatings Group	Administrative	Consolidated Totals
Net external sales	$2,108,259	$477,515	$499,156	$ 133,307	$ 1,288	$3,219,525
Intersegment transfers		763,956	6,025	9,960	(779,941)	
Total net sales and intersegment transfers	$2,108,259	$1,241,471	$505,181	$ 143,267	$ (778,653)	$3,219,525
Segment profit	$508,990	$108,296	$65,238	$ (9,643)		$672,881
Interest expense					$ (40,878)	(40,878)
Administrative expenses and other					(92,789)	(92,789)
Income before income taxes	$508,990	$108,296	$65,238	$ (9,643)	$ (133,667)	$539,214

	Three Months Ended June 30, 2015					
	Paint Stores Group	Consumer Group	Global Finishes Group	Latin America Coatings Group	Administrative	Consolidated Totals
Net external sales	$1,984,985	$490,042	$505,767	$ 150,068	$ 1,277	$3,132,139
Intersegment transfers		768,663	1,188	10,484	(780,335)	
Total net sales and intersegment transfers	$1,984,985	$1,258,705	$506,955	$ 160,552	$ (779,058)	$3,132,139
Segment profit	$433,381	$114,247	$57,268	$ 4,031		$608,927
Interest expense					$ (12,885)	(12,885)
Administrative expenses and other					(88,260)	(88,260)
Income before income taxes	$433,381	$114,247	$57,268	$ 4,031	$ (101,145)	$507,782

	Six Months Ended June 30, 2016					
	Paint Stores Group	Consumer Group	Global Finishes Group	Latin America Coatings Group	Administrative	Consolidated Totals
Net external sales	$3,723,566	$855,601	$953,322	$ 258,494	$2,566	$5,793,549
Intersegment transfers		1,377,586	7,981	18,653	(1,404,220)	
Total net sales and intersegment transfers	$3,723,566	$2,233,187	$961,303	$ 277,147	$(1,401,654)	$5,793,549
Segment profit	$762,524	$172,259	$113,821	$ (10,571)		$1,038,033
Interest expense					$(66,610)	(66,610)
Administrative expenses and other					(215,844)	(215,844)
Income before income taxes	$762,524	$172,259	$113,821	$ (10,571)	$(282,454)	$755,579

	Six Months Ended June 30, 2015					
	Paint Stores Group	Consumer Group	Global Finishes Group	Latin America Coatings Group	Administrative	Consolidated Totals
Net external sales	$3,446,490	$841,732	$975,323	$ 316,299	$2,579	$5,582,423
Intersegment transfers		1,376,201	2,962	20,553	(1,399,716)	
	$3,446,490	$2,217,933	$978,285	$ 336,852	$(1,397,137)	$5,582,423

Total net sales and intersegment transfers						
Segment profit	$609,957	$169,653	$96,168	$ 13,531		$889,309
Interest expense					$(25,236)	(25,236)
Administrative expenses and other					(163,050)	(163,050)
Income before income taxes	$609,957	$169,653	$96,168	$ 13,531	$(188,286)	$701,023

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

Net external sales and segment profit of all consolidated foreign subsidiaries were $454.5 million and $17.1 million, respectively, for the second quarter of 2016, and $476.8 million and $22.4 million, respectively, for the second quarter of 2015. Net external sales and segment profit of these subsidiaries were $855.2 million and $27.3 million, respectively, for the first six months of 2016 and $933.3 million and $40.7 million, respectively, for the first six months of 2015. Long-lived assets of these subsidiaries totaled $506.8 million and $521.0 million at June 30, 2016 and June 30, 2015, respectively. Domestic operations accounted for the remaining net external sales, segment profits and long-lived assets. No single geographic area outside the United States was significant relative to consolidated net external sales, income before taxes, or consolidated long-lived assets.

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

NOTE 14—FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the ASC applies to the Company’s financial and non-financial assets and liabilities. The guidance applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurements. The Company did not have any fair value measurements for its non-financial assets and liabilities during the second 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 June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deferred compensation plan asset [1]	$25,415	$3,056	$22,359	
Liabilities:				
Interest rate lock liability [2]	$174,669		$174,669	
Deferred compensation plan liability [3]	35,634	$35,634		
Total liabilities	$210,303	$35,634	$174,669	

(1)

The deferred compensation plan asset consists of the investment funds maintained for the future payments under the Company's executive deferred compensation plan, which is structured as a rabbi trust. The investments are marketable securities accounted for under the Debt and Equity Securities Topic of the ASC. The level 1 investments are valued using quoted market prices multiplied by the number of shares. The level 2 investments are valued based on vendor or broker models. The cost basis of the investment funds is $25,275.

(2) The interest rate lock liability is measured at the present value of the expected future cash flows using market-based observable inputs. See Note 15.

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

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-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-traded debt are classified as level 1 and level 2, respectively, in the fair value hierarchy.

(Thousands of dollars)	June 30, 2016		June 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Publicly traded debt	$1,906,672	$2,021,174	$1,114,952	$1,129,742
Non-traded debt	4,724	4,451	4,894	4,659

In April 2016, the Company entered into a $7.3 billion bridge credit agreement (Bridge Loan) and a $2.0 billion term loan credit agreement (Term Loan) as committed financing for the Valspar acquisition as disclosed in Note 17. No balances were drawn against these facilities as of June 30, 2016. Debt issuance costs of $65.1 million related to these facilities were incurred and recorded in Other current assets. Of this amount, $24.4 million was amortized and included in Interest expense for six months ended June 30, 2016. Periodic fees related to these facilities totaling $2.2 million were also included in interest expense for this period.

During the first six months of 2016, in anticipation of a probable issuance of new long-term fixed rate debt within the next twelve months, the Company entered into a series of interest rate lock agreements (collectively, the interest rate locks) on a combined notional amount of $3.6 billion. The objective of the interest rate locks is to hedge the variability in the future semi-annual payments on the anticipated debt attributable to changes in the benchmark interest rate (U.S. Treasury) during the hedge periods. The future semi-annual interest payments are exposed to interest rate risk due to changes in the benchmark interest rate from the inception of the hedge to the time of issuance. The interest rate locks were evaluated for hedge accounting treatment and were designated as cash flow hedges. Therefore, the interest rate locks are recognized at fair value on the Consolidated Balance Sheet, and changes in fair value (to the extent effective) are recognized in Cumulative other comprehensive loss. Amounts recognized in Cumulative other comprehensive loss will be reclassified to Interest expense in periods following the settlement of the interest rate locks. The Company will evaluate hedge effectiveness each period until settlement. At June 30, 2016, an interest rate lock liability of $174.7 million was included in Other accruals, and the related pretax loss of $174.7 million was recognized in Cumulative other comprehensive loss.

In May 2016 and subsequently amended, the Company entered into a new five-year $150.0 million credit agreement. The credit agreement will be used for general corporate purposes. There were no borrowings outstanding under this credit agreement at June 30, 2016.

NOTE 16—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 No. 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 No. 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 $226.3 million and $227.0 million at June 30, 2016 and 2015, respectively. The liability for estimated future capital contributions to the investments was $186.9 million and $191.5 million at June 30, 2016 and 2015, respectively.

NOTE 17—ACQUISITIONS

On March 19, 2016, the Company and the Valspar Corporation (Valspar) entered into a definitive agreement under which the Company will acquire Valspar for $113 per share in an all cash transaction, or a value of approximately $9.5 billion and assumption of Valspar debt. The transaction is subject to certain conditions and regulatory approvals. If in connection with obtaining the required regulatory approvals, the parties are required to divest assets of Valspar or the Company representing, in the aggregate, more than $650 million in net sales, then the per share consideration will be $105 in cash. The Company is not required to consummate the acquisition if regulatory authorities require the divestiture of assets of Valspar or the Company representing, in the aggregate, more than $1.5 billion. Valspar's architectural coatings assets in Australia are excluded from the calculation of the $650 million and/or $1.5 billion threshold if such assets are required to be divested. During the six months ended June 30, 2016, the Company incurred SG&A and interest expense of $35.6 million and $26.6 million, respectively, related to the anticipated acquisition of Valspar. See Note 15. The acquisition will expand Sherwin-Williams diversified array of brands and technologies, expand its global platform and add new capabilities in the packaging and coil segments.

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

SUMMARY

The Sherwin-Williams Company, founded in 1866, and its consolidated wholly owned subsidiaries (collectively, the "Company") are engaged in the development, manufacture, distribution and sale of paint, coatings and related products to professional, industrial, commercial and retail customers primarily in North and South America with additional operations in the Caribbean region, Europe and Asia. The Company is structured into four reportable segments—Paint Stores Group, Consumer Group, Global Finishes Group and Latin America 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 pages 8 through 17 and Note 18, on pages 72 through 75, in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for more information concerning the Reportable Segments.

The Company's financial condition, liquidity and cash flow continued to be strong through the first six months of 2016 primarily due to improved operating results in our Paint Stores, Consumer and Global Finishes Groups. Net working capital increased $1.212 billion at June 30, 2016 compared to the end of the second quarter of 2015 due to a significant decrease in short-term borrowings due to repayment of short-term borrowings with proceeds from debt issued in July 2015. Short-term borrowings decreased $1.100 billion, current portion of long-term debt decreased $1.0 million, long-term debt increased $792.6 million, and cash and cash equivalents increased $327.6 million. 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 improved $161.0 million in the first six months of 2016 to a cash source of $510.0 million from a cash source of $349.0 million in 2015 primarily due to an increase in net income and non-cash charges along with a decreased cash used for working capital accounts. Net income was increased by $29.7 million from the impact of the adoption of ASU No. 2016-09 in the second quarter of 2016. See Note 11 for more information.

Consolidated net sales increased 2.8 percent in the second quarter of 2016 to $3.220 billion from $3.132 billion in the second quarter of 2015 and increased 3.8 percent in the first six months of 2016 to $5.794 billion from $5.582 billion due primarily to higher paint sales volume in our Paint Stores Group. Consolidated gross profit as a percent of consolidated net sales increased in the second quarter of 2016 to 50.8 percent from 48.8 percent in 2015 and increased in the first six months to 50.0 percent from 47.7 percent due primarily to increased paint volume and improved operating efficiency. Selling, general and administrative expenses (SG&A) increased as a percent of consolidated net sales to 32.7 percent from 31.9 percent in the second quarter of 2015 and increased to 35.5 percent from 34.5 percent in the first six months primarily due to timing of net new store openings and costs associated with the anticipated acquisition of Valspar (Acquisition costs).

Interest expense increased $28.0 million in the second quarter of 2016 and increased $41.4 million in the first six months due to interest on debt issued in July 2015 and amortization of credit facility costs incurred in 2016. The effective income tax rate for the second quarter of 2016 was 29.9 percent compared to 31.1 percent in 2015 and the rate for the first six months of 2016 was 28.1 percent compared to 31.3 percent in 2015. The decrease in the effective tax rate for the second quarter and first six months of 2016 compared to 2015 was primarily due to the Company's adoption of ASU No. 2016-09. Diluted net income per common share in the quarter increased to $3.99 per share, including a $.16 per share charge from Acquisition costs and amortization of credit facility costs incurred in 2016 partially offset by an increase of $.09 per share related to a reduction in the income tax provision, from $3.70 per share in 2015. Diluted net income per common share in six months increased to $5.76 per share, including a $.40 per share charge from Acquisition costs and amortization of credit facility costs incurred in 2016 partially offset by an increase of $.28 per share related to a reduction in the income tax provision, from $5.07 per share in 2015.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

A comprehensive discussion of the Company's critical accounting policies and management estimates and significant accounting policies followed in the preparation of the financial statements is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 1, on pages 44 through 47, in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There have been no significant changes in critical accounting policies, management estimates or accounting policies followed since the year ended December 31, 2015.

FINANCIAL CONDITION, LIQUIDITY AND CASH FLOW

Overview

The Company's financial condition, liquidity and cash flow continued to be strong through the first six months of 2016 primarily due to improved operating results in our Paint Stores, Consumer and Global Finishes Groups. Net working capital increased $1.212 billion at June 30, 2016 compared to the end of the second quarter of 2015 due to a significant decrease in short-term borrowings due to a repayment of short-term borrowings. Cash and cash equivalents increased $327.6 million, accounts receivable increased $19.0 million while inventories increased $20.3 million. Accounts payable increased $35.5 million and all other current liabilities increased $333.5 million from June 30, 2015, including Acquisition costs totaling $29.0 million and interest rate lock liability of $174.7 million both included in other accruals. Accrued taxes and compensation and taxes withheld liabilities also increased primarily due to timing. Short-term borrowings decreased $1.100 billion and long-term debt increased $792.6 million due to repayment of short-term borrowings with proceeds from debt issued in July 2015. In April 2016, the Company entered into a $7.3 billion bridge credit agreement (Bridge Loan) and a $2.0 billion term loan credit agreement (Term Loan) as committed financing for the Valspar acquisition (Valspar) as disclosed in Note 17. No balances were drawn against these facilities as of June 30, 2016. Debt issuance costs of $65.1 million related to these facilities were incurred and recorded in Other current assets. Of this amount, $24.4 million was amortized and included in Interest expense for six months ended June 30, 2016. 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. In the first six months of 2016, accounts receivable increased $358.8 million when normal seasonal trends typically require significant growth in this category and inventories increased $133.7 million. Accounts payable increased $131.8 million and all other current liabilities increased $331.8 million, including Acquisition costs and credit facility costs totaling $29.0 million and interest rate lock liability of $174.7 million both included in other accruals, while short-term borrowings increased $19.7 million. The Company's current ratio was 1.33 at June 30, 2016 compared to 0.89 at June 30, 2015 and 1.24 at December 31, 2015. Total debt at June 30, 2016 decreased $308.5 million to $1.971 billion from $2.279 billion at June 30, 2015 and decreased as a percentage of total capitalization to 61.3 percent from 75.1 percent at the end of the second quarter last year. Total debt increased $20.7 million from December 31, 2015 and decreased as a percentage of total capitalization from 69.2 percent to 61.3 percent. At June 30, 2016, the Company had remaining short-term borrowing ability of $2.221 billion. Net operating cash improved $161.0 million in the first six months of 2016 to a cash source of $510.0 million from a cash source of $349.0 million in 2015. In the twelve month period from July 1, 2015 through June 30, 2016, the Company generated net operating cash of $1.608 billion.

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

Cash and cash equivalents increased $196.9 million during the first six months of 2016. Cash and cash equivalents on hand funded cash requirements for increased sales and normal seasonal increases in working capital, capital expenditures of $114.1 million, and payments of cash dividends of $155.7 million. At June 30, 2016, the Company's current ratio was 1.33 compared to 1.24 at December 31, 2015 and 0.89 a year ago. The increase from a year ago resulted primarily from the decrease in short-term borrowings.

Goodwill and intangible assets decreased $6.9 million from December 31, 2015 and decreased $33.8 million from June 30, 2015. The net decrease during the first six months of 2016 was primarily due to amortization. The net decrease over the twelve month period from June 30, 2015 was primarily due to amortization and foreign currency translation. See Note 4, on pages 50 and 51, in the Company's Annual Report on Form 10-K for the year ended

December 31, 2015 for more information concerning goodwill and intangible assets.
Deferred pension assets increased $1.2 million during the first six months of 2016 and decreased $5.6 million from June 30, 2015. The decrease in the last twelve months was due to decreases in the fair market value of equity securities held by the Company’s defined benefit pension plans partially offset by decreased projected benefit obligations resulting from changes in actuarial assumptions. See Note 6, on pages 54 through 59, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 for more information concerning the Company’s benefit plan assets.

Other assets at June 30, 2016 increased $35.3 million in the first six months of 2016 primarily due to affordable housing and historic renovation investments and increased $29.6 million from a year ago primarily due to increased long-term deposits and other investments partially offset by decreased affordable housing and historic renovation investments.

Net property, plant and equipment increased $30.4 million in the first six months of 2016 and increased $66.9 million in the twelve months since June 30, 2015. The increase in the first six months was primarily due to capital expenditures of $114.1 million and changes in currency translation rates of $4.6 million partially offset by depreciation expense of $86.7 million and sale or disposition of fixed assets of $1.8 million. Since June 30, 2015, capital expenditures of $260.9 million were partially offset by depreciation expense of $172.5 million, changes in currency translation rates of $14.2 million and dispositions or sale of assets with remaining net book value of $7.6 million. Capital expenditures during the first six months of 2016 primarily represented expenditures associated with improvements and normal equipment replacement in manufacturing and distribution facilities in the Consumer Group, normal equipment replacement in the Paint Stores and Global Finishes Groups, and information systems hardware in the Administrative Segment.

At June 30, 2016, there were no borrowings outstanding under the commercial paper program and short-term borrowings under the Company's global five-year $1.350 billion credit agreement were $28.9 million with a weighted average interest rate of 1.0%. Short-term borrowings under various other foreign programs were $30.3 million with a weighted average interest rate of 16.6%. The Company had unused capacity of $1.321 billion at June 30, 2016 under the credit agreement. In April 2016, the Company entered into a $7.3 billion Bridge Loan and a $2.0 billion Term Loan as committed financing for the Valspar acquisition as disclosed in Note 17. No balances were drawn against these facilities as of June 30, 2016. During the first six months of 2016, in anticipation of a probable issuance of new long-term fixed rate debt, the Company entered into a series of interest rate lock agreements (collectively, the interest rate locks) on a combined notional amount of $3.6 billion. The objective of the interest rate locks is to hedge the variability in the future semi-annual payments on the anticipated debt attributable to changes in the benchmark interest rate (U.S. Treasury) during the hedge periods. The future semi-annual interest payments are exposed to interest rate risk due to changes in the benchmark interest rate from the inception of the hedge to the time of issuance. The interest rate locks were evaluated for hedge accounting treatment and were designated as cash flow hedges. Therefore, the interest rate locks are recognized at fair value on the Consolidated Balance Sheet, and changes in fair value (to the extent effective) are recognized in Cumulative other comprehensive loss. Amounts recognized in Cumulative other comprehensive loss will be reclassified to Interest expense in periods following the settlement of the interest rate locks. The Company will evaluate hedge effectiveness each period until settlement. At June 30, 2016, an interest rate lock liability of $174.7 million was included in Other accruals, and the related pretax loss of $174.7 million was recognized in Cumulative other comprehensive loss. In May 2016 and subsequently amended, the Company entered into a new five-year $150.0 million credit agreement. The credit agreement will be used for general corporate purposes. There were no borrowings outstanding under this credit agreement at June 30, 2016. See Note 7, on page 60, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 for more information concerning the Company’s debt.

Long-term liabilities for postretirement benefits other than pensions did not change significantly from December 31, 2015 and decreased $27.8 million from June 30, 2015. The decrease in the liability was due to the decrease in the actuarially determined postretirement benefit obligation resulting from changes in actuarial assumptions. See Note 6, on pages 54 through 59, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 for more information concerning the Company’s benefit plan obligations.

Other long-term liabilities at June 30, 2016 increased $19.4 million in the first six months of 2016 primarily due to increased environmental provisions and an increase in long-term commitments related to affordable housing and historic renovation real estate properties partially offset by a decrease in non-current deferred tax liabilities, and increased $15.1 million from a year ago primarily due to an increase in accruals for extended environmental-related liabilities partially offset by a decrease in long-term commitments related to affordable housing and historic renovation real estate properties and non-current deferred tax liabilities.

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 six months of 2016. 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 2016. See Note 8 for further information on environmental-related long-term liabilities.

Contractual Obligations, Commercial Commitments and Warranties

Short-term borrowings increased $19.7 million to $59.2 million at June 30, 2016 from $39.5 million at December 31, 2015. Total long-term debt increased $1.0 million to $1.911 billion at June 30, 2016 from $1.910 billion at December 31, 2015, and increased $791.6 million from $1.120 billion at June 30, 2015. On March 19, 2016, the Company and Valspar entered into a definitive agreement under which the Company will acquire Valspar for $113 per share in an all cash transaction. The transaction is subject to certain conditions and regulatory approvals. See Note 17 for more information. During the first six months of 2016, in anticipation of a probable issuance of new long-term fixed rate debt, the Company entered into a series of interest rate lock agreements on a combined notional amount of $3.6 billion. See Note 15 for more information. There have been no other significant changes to the Company's contractual obligations and commercial commitments in the second quarter of 2016 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, 2015.

Changes to the Company's accrual for product warranty claims in the first six months of 2016 are disclosed in Note 5.

Litigation

See Note 9 for information concerning litigation.

Shareholders' Equity

Shareholders' equity increased $378.7 million to $1.247 billion at June 30, 2016 from $867.9 million at December 31, 2015 and increased $489.3 million from $757.3 million at June 30, 2015. The increase in Shareholders' equity for the first six months of 2016 resulted primarily from net income of $542.9 million, an increase in Other capital of $82.2 million, resulting primarily from stock option exercises, partially offset by an increase in Cumulative other comprehensive loss of $75.0 million and cash dividends paid on common stock of $155.7 million. Since June 30, 2015, net income of $1.115 billion and an increase in Other capital of $171.4 million more than offset purchases of treasury stock for $355.8 million, cash dividends paid on common stock of $280.1 million, and an increase in Cumulative other comprehensive loss of $145.4 million in twelve months. During the first six months of 2016, the Company did not purchase any shares of its common stock for treasury purposes through open market purchases. The Company purchased 1.33 million shares of its common stock since June 30, 2015 for treasury. The Company acquires its common stock for general corporate purposes, and depending on its cash position and market conditions, it may acquire additional shares in the future. The Company had remaining authorization at June 30, 2016 to purchase 11.65 million shares of its common stock. In February 2016, the Board of Directors increased the quarterly cash dividend from $.67 per common share to $.84 per common share. This quarterly dividend will result in an annual dividend for 2016 of $3.36 per common share or a 30.1 percent payout of 2015 diluted net income per common share.

Cash Flow

Net operating cash improved $161.0 million in the first six months of 2016 to a cash source of $510.0 million from a cash source of $349.0 million in 2015 primarily due to an increase in net income and non-cash charges along with decreased cash used for working capital accounts. Net income was increased by $29.7 million from the impact of the adoption of ASU No. 2016-09 in the second quarter of 2016. See Note 11 for more information. Net investing cash usage increased $68.0 million in the first six months of 2016 to a usage of $149.0 million from a usage of $81.0 million in 2015 primarily due to increased cash used for other investments and higher capital expenditures. Net financing cash usage decreased $53.3 million to a usage of $170.9 million in the first six months of 2016 from a usage of $224.2 million in 2015 primarily due to decreases in treasury stock purchases of $679.4 million partially offset by net decreases in short-term borrowings of $469.3 million and payments for credit facility and debt issuance costs in 2016 of $61.4 million in the first six months of 2016. In the twelve month period from July 1, 2015 through June 30, 2016, the Company generated net operating cash of $1.608 billion, used $356.6 million in investing activities and used $927.0 million in financing activities. In that same period, the Company invested $260.9 million in capital additions and improvements, received long-term debt net proceeds of $797.4 million, decreased short-term borrowings by $1.100 billion, purchased $355.8 million in treasury stock and paid $280.1 million in cash dividends to its shareholders of common stock.

Market Risk

The Company is exposed to market risk associated with interest rate, foreign currency and commodity fluctuations. The Company occasionally utilizes derivative instruments as part of its overall financial risk management policy, but does not use derivative instruments for speculative or trading purposes. In the first six months of 2016, the Company entered into forward currency exchange contracts with maturity dates of less than twelve months to hedge against value changes in foreign currency. The Company believes it may be exposed to continuing market risk from foreign currency exchange rate and commodity price fluctuations. However, the Company does not expect that foreign currency exchange rate and commodity price fluctuations or hedging contract losses will have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

Financial Covenant

Certain borrowings contain a consolidated leverage covenant. The covenant states the Company’s leverage ratio is not to exceed 3.50 to 1.00. The leverage ratio is defined as the ratio of total indebtedness (the sum of Short-term borrowings, Current portion of long-term debt and Long-term debt) at the reporting date to consolidated “Earnings Before Interest, Taxes, Depreciation, and Amortization” (EBITDA) for the 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 June 30, 2016, 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 7, on page 60, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 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 second quarter:

(Thousands of dollars)	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Net Sales:						
Paint Stores Group	$2,108,259	$1,984,985	6.2 %	$3,723,566	$3,446,490	8.0 %
Consumer Group	477,515	490,042	-2.6 %	855,601	841,732	1.6 %
Global Finishes Group	499,156	505,767	-1.3 %	953,322	975,323	-2.3 %
Latin America Coatings Group	133,307	150,068	-11.2 %	258,494	316,299	-18.3 %
Administrative	1,288	1,277	0.9 %	2,566	2,579	-0.5 %
Total	$3,219,525	$3,132,139	2.8 %	$5,793,549	$5,582,423	3.8 %

(Thousands of dollars)	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Income Before Income Taxes:						
Paint Stores Group	$508,990	$433,381	17.4 %	$762,524	$609,957	25.0 %
Consumer Group	108,296	114,247	-5.2 %	172,259	169,653	1.5 %
Global Finishes Group	65,238	57,268	13.9 %	113,821	96,168	18.4 %
Latin America Coatings Group	(9,643)	4,031	-339.2 %	(10,571)	13,531	-178.1 %
Administrative	(133,667)	(101,145)	-32.2 %	(282,454)	(188,286)	-50.0 %
Total	$539,214	$507,782	6.2 %	$755,579	$701,023	7.8 %

Consolidated net sales increased in the second quarter and first six months of 2016 due primarily to higher paint sales volume in our Paint Stores Group, partially offset by unfavorable currency translation rate changes that decreased consolidated net sales 1.5 percent in the quarter and 2.0 percent in the first six months.

Net sales of all consolidated foreign subsidiaries were down 4.7 percent to $454.5 million in the quarter and down 8.4 percent to $855.2 million in the first six months versus $476.8 million and $933.3 million in the same periods last year. The decrease in net sales for all consolidated foreign subsidiaries in the quarter and first six months was due primarily to a 9.0 percent negative impact and a 11.4 percent negative impact of foreign translation rate changes, respectively. Net sales of all operations other than consolidated foreign subsidiaries were up 4.1 percent to $2.765 billion in the quarter and up 6.2 percent to $4.938 billion in the first six months as compared to $2.655 billion and $4.649 billion in the same periods last year.

Net sales in the Paint Stores Group increased in the second quarter and first six months due primarily to higher architectural paint sales volume. Net sales from stores open for more than twelve calendar months increased 5.2 percent in the quarter and increased 7.0 percent in the first six months compared to last year’s comparable periods. Sales of non-paint products increased by 5.2 percent over last year's second quarter and increased by 7.8 percent over last year's first six months. A discussion of changes in volume versus pricing for sales of products other than paint is not pertinent due to the wide assortment of general merchandise sold. Net sales of the Consumer Group decreased in the second quarter, due primarily to initial shipments of a new paint program launch at a national retailer in 2015, and increased in the first six months, due primarily to higher volume sales to most of the Group's retail customers. Net sales in the Global Finishes Group stated in U.S. dollars decreased in the second quarter and first six months due primarily to unfavorable currency translation rate changes, which decreased net sales by 2.6 percent in the quarter and 3.6 percent in the first six months. Net sales in the Latin America Coatings Group stated in U.S. dollars decreased in the second quarter and first six months, which can primarily be attributed to unfavorable currency translation rate changes and volume declines partially offset by selling price increases. Currency translation rate changes decreased net sales by 16.4 percent in the quarter and decreased net sales by 19.4 percent in the first six months. 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 second quarter and first six months.

Consolidated gross profit increased $105.8 million in the second quarter and increased $235.1 million in the first six months of 2016 compared to the same periods in 2015. As a percent of sales, consolidated gross profit increased to 50.8 percent in the quarter from 48.8 percent in the second quarter of 2015 and increased to 50.0 percent in the first six months of 2016 from 47.7 percent last year. The percent to sales and dollar increases were primarily due to increased paint sales volume.

The Paint Stores Group’s gross profit was higher than last year by $116.9 million in the second quarter and was higher than last year by $238.9 million in the first six months due to higher paint sales volume. The Paint Stores Group’s gross profit margins increased in the quarter and first six months compared to the same period last year for that same reason. The Consumer Group’s gross profit increased by $0.4 million in the quarter and increased by $15.5 million in the first six months compared to the same periods last year primarily due to increased sales volume, improved manufacturing volumes and operating efficiency. The Consumer Group's gross profit margins increased as a percent of sales for the second quarter and first six months compared to the same periods last year for those same reasons. The Global Finishes Group’s gross profit increased $2.4 million in the second quarter and increased $7.6 million in the first six months compared to the same periods last year, when stated in U.S. dollars, primarily due to decreasing raw material costs and good cost control partially offset by unfavorable currency translation rate changes. The Global Finishes Group’s gross profit margins were up as a percent of sales in the quarter and up as a percent of sales in the first six months compared to the same periods last year due primarily for those same reasons. The Latin America Coatings Group’s gross profit decreased by $13.0 million in the second quarter and decreased by $25.8 million in the first six months from the same period in the prior year, when stated in U.S. dollars, primarily due to increasing raw material costs and unfavorable currency translation rate changes partially offset by selling price increases. The Administrative segment’s gross profit decreased by $0.9 million in the second quarter and decreased by $1.1 million in the first six months compared to the same period last year.

Selling, general and administrative expenses (SG&A) increased $54.7 million in the second quarter and increased $127.9 million in the first six months of 2016 versus last year due primarily to increased expenses to support higher sales levels and net new store openings as well as the impact from expenses of $4.5 million in the quarter and $35.6 million in the first six months of 2016 associated with the anticipated acquisition of Valspar. As a percent of sales, consolidated SG&A increased slightly to 32.7 percent in the quarter and increased to 35.5 percent in the first six months of 2016 from 31.9 percent in the second quarter and 34.5 percent in the first six months of 2015 primarily due to those same reasons.

The Paint Stores Group’s SG&A increased $41.0 million in the second quarter and increased $86.0 million in the first six months due primarily to net new store openings and general comparable store expenses to support higher sales levels. The Consumer Group’s SG&A increased $5.1 million in the quarter and increased $11.3 million compared to the same period last year primarily due to general expenses to support higher sales levels. The Global Finishes Group’s SG&A decreased $4.4 million in the quarter and decreased $9.5 million in the first six months primarily due to currency translation rate changes. The Latin America Coatings Group’s SG&A increased $1.1 million in the second quarter and decreased $2.0 million in the first six months due to currency translation rate changes partially offset by timing of spending. The Administrative segment’s SG&A increased $11.9 million in the second quarter and increased $42.2 million in the first six months primarily due to costs associated with the anticipated acquisition of Valspar.

Interest expense increased $28.0 million in the second quarter of 2016 and increased $41.4 million in the first six months due to amortization of credit facility costs incurred in 2016 totaling $20.7 million in the second quarter and $26.6 million in the first six months, respectively, and interest on debt issued in July 2015.
Other general expense—net decreased $7.2 million in the second quarter due to decreased provisions for environmental expenses and increased $12.0 million in the first six months primarily due to increased provisions for environmental expenses in the Administrative segment.
Other expense (income) —net improved $0.7 million in the second quarter and increased $0.3 million in the first six months as compared to 2015.
Consolidated income before income taxes increased $31.4 million in the second quarter, due to higher segment profits in Paint Stores and Global Finishes Groups partially offset by lower segment profits in Consumer and Latin America Coatings Groups, and increased $54.6 million in the first six months due to higher segment profits in Paint Stores, Consumer and Global Finishes Groups partially offset by lower segment profits in Latin America Coatings Groups.
The effective tax rate was 29.9 percent and 28.1 percent for the second quarter and first six months of 2016, respectively, compared to 31.1 percent and 31.3 percent for the second quarter and first six months of 2015, respectively. The decrease in the effective tax rate for the second quarter and first six months of 2016 compared to 2015 was primarily due to the Company's adoption of ASU No. 2016-09 during the second quarter of 2016 which lowered income tax provision $12.0 million and $29.7 million for the second quarter and first six months of 2016, respectively. See Note 11 for more information.
Net income for the quarter increased $28.1 million to $378.1 million from $349.9 million in the second quarter of 2015 and increased $61.6 million to $542.9 million from $481.3 million in the first six months of 2015. Diluted net income per common share in the quarter increased to $3.99 per share, compared to $3.70 per share in 2015. Second quarter 2016 earnings per share includes a $.16 per share charge from Acquisition costs and amortization of credit facility costs incurred in 2016 partially offset by an increase of $.09 per share related to a reduction in the income tax provision. Diluted net income per common share in six months increased to $5.76 per share compared to $5.07 per share in 2015. Earnings per share for the six months ended June 30, 2016 includes a $.40 per share charge from Acquisition costs and amortization of credit facility costs incurred in 2016 partially offset by an increase of $.28 per share related to a reduction in the income tax provision.
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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$378,064	$349,937	$542,940	$481,341
Interest expense	40,878	12,885	66,610	25,236
Income taxes	161,150	157,845	212,639	219,682
Depreciation	43,829	42,081	86,724	84,581
Amortization	6,221	6,815	12,003	13,720
EBITDA	$630,142	$569,563	$920,916	$824,560

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon management's current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and the costs and potential liability for environmental-related matters and the lead pigment and lead-based paint litigation. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as "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 the growth in the coatings industry;
- legal, regulatory and other matters that may affect the timing of our ability to complete the planned acquisition of The Valspar Corporation, or Valspar, if at all, including the potential for regulatory authorities to require divestitures in connection with the proposed transaction;
- 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 cost synergies and the timing thereof for the planned acquisition of Valspar;
- competitive factors, including pricing pressures and product innovation and quality;
- changes in raw material and energy supplies and pricing;
- changes in our relationships with customers and suppliers;
- our ability to attain cost savings from productivity initiatives;
- 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;
- 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 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
- unusual weather conditions.

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.

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, 2015.

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 President 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 President 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 President and Chief Executive Officer and our Senior Vice President—Finance and Chief Financial Officer, to allow timely decisions regarding required disclosure.
There were no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

Item1A. Risk Factors

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, 2015. The information below includes additional risks relating to our previously announced plans to acquire The Valspar Corporation, or Valspar. The risks described below and in other documents that we file from time to time with the Securities and Exchange Commission could materially and adversely affect our business, results of operations, cash flow, liquidity or financial condition.

Our planned acquisition of Valspar may not occur at all, may not occur in the expected time frame or may involve the divestiture of certain businesses, which may negatively affect the trading prices of our stock and our future business and financial results.

On March 19, 2016, we and Viking Merger Sub, Inc., one of our wholly owned subsidiaries, which we refer to as Merger Sub, entered into an Agreement and Plan of Merger, or Merger Agreement, with Valspar, pursuant to which, among other things and subject to the satisfaction or waiver of specified conditions, Merger Sub will merge with and into Valspar. As a result of the planned acquisition of Valspar, Merger Sub will cease to exist, and Valspar will survive as a wholly owned subsidiary of ours.

Completion of the planned acquisition of Valspar is not assured and is subject to the satisfaction or waiver of customary closing conditions, including, among others: the adoption of the Merger Agreement by Valspar's stockholders; the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and the receipt of other required antitrust approvals.

The planned acquisition of Valspar is subject to risks and uncertainties, including the risk that the necessary regulatory approvals will not be obtained, the risk that the parties to the Merger Agreement may be required to divest certain businesses or assets in connection with the planned acquisition or that other closing conditions will not be satisfied. For example, in connection with obtaining the required regulatory approvals, the Company and/or Valspar may be required to divest assets of their respective businesses. We are not required to consummate the planned acquisition of Valspar if antitrust authorities require the divestiture of assets of Valspar or us representing, in the aggregate, more than $1.5 billion in net sales, which for purposes of such calculation uses net sales for the applicable Valspar assets calculated as of October 30, 2015, with certain exclusions. In addition, if these divested businesses represent, in the aggregate, less than $1.5 billion in net sales but more than $650 million in net sales, which for purposes of such calculation uses net sales for the applicable Valspar assets calculated as of October 30, 2015 (subject to certain exclusions), then the per share consideration paid to Valspar stockholders in connection with the planned acquisition will be $105 in cash instead of $113 in cash. If the planned acquisition of Valspar is not completed, if there are significant delays in completing the planned acquisition or if the planned acquisition involves the divestiture of certain businesses, it could negatively affect the trading prices of our common stock and our future business and financial results and could result in our failure to realize certain synergies relating to such acquisition.

Our obligation to complete the planned acquisition of Valspar is not subject to a financing condition.

Our obligation to complete the planned acquisition of Valspar is not subject to a financing condition. We have obtained committed financing for $9.3 billion to pay a substantial portion of the purchase price for the acquisition of Valspar. If any of the banks in the committed financing facilities are unable to perform their commitments, we may be required to finance a portion of the purchase price of the planned acquisition at interest rates higher than currently expected.

We may not realize the growth opportunities and cost synergies that are anticipated from the planned acquisition of Valspar.

The benefits that are expected to result from the planned acquisition of Valspar will depend, in part, on our ability to realize the anticipated growth opportunities and cost synergies as a result of the planned acquisition. Our success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on whether the Company or Valspar are required to divest assets of their respective business and on the successful integration of Valspar. There is a significant degree of difficulty and management distraction inherent in the process of integrating an acquisition as sizable as Valspar. The process of integrating operations could cause an interruption of, or loss of momentum in, our and Valspar's activities. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our company, service existing customers, attract new customers, and develop new products or strategies. If senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer. There can be no assurance that we will successfully or cost-effectively integrate Valspar. The failure to do so could have a material adverse effect on our business, financial condition, and results of operations.

Even if we are able to integrate Valspar successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that we currently expect from this integration, and we cannot guarantee that these benefits will be achieved within anticipated time frames or at all. For example, we may not be able to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of Valspar. While it is anticipated that certain expenses will be incurred to achieve cost synergies, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the planned acquisition may be offset by costs incurred to, or delays in, integrating the businesses.

We will incur a substantial amount of debt to complete the planned acquisition of Valspar. To service our debt, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. We also depend on the business of our subsidiaries to satisfy our cash needs. If we cannot generate the required cash, we may not be able to make the necessary payments required under our indebtedness.

At June 30, 2016, we had total debt of approximately $2.0 billion. We have the ability under our existing credit facilities to incur substantial additional indebtedness in the future, and we plan to incur significant additional indebtedness in the event we complete the planned acquisition of Valspar. We expect to incur up to $9.3 billion of debt to complete the acquisition of Valspar. Our ability to make payments on our debt, fund our other liquidity needs, and make planned capital expenditures will depend on our ability to generate cash in the future. Our historical financial results have been, and we anticipate that our future financial results will be, subject to fluctuations. Our ability to generate cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot guarantee that our business will generate sufficient cash flow from our operations or that future borrowings will be available to us in an amount sufficient to enable us to make payments of our debt, fund other liquidity needs and make planned capital expenditures.

The degree to which we are currently leveraged and will be leveraged following the completion of the planned acquisition could have important consequences for shareholders. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to the payment of debt service, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our ability to obtain additional financing in the future to enable us to react to changes in our business; or
- place us at a competitive disadvantage compared to businesses in our industry that have less debt.

Additionally, any failure to comply with covenants in the instruments governing our debt could result in an event of default which, if not cured or waived, would have a material adverse effect on us.

A significant portion of our operations are conducted through our subsidiaries. As a result, our ability to generate sufficient cash flow for our needs is dependent to some extent on the earnings of our subsidiaries and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on our debt or to provide us with funds to meet our cash flow needs, whether in the form of dividends, distributions, loans or other payments. In addition, any payment of dividends, loans or advances by our subsidiaries could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we are a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us. Finally, changes in the laws of foreign jurisdictions in which we operate may adversely affect the ability of some of our foreign subsidiaries to repatriate funds to us.

Our results of operations, cash flow or financial condition may be negatively impacted if we do not successfully integrate future acquisitions into our existing operations and if the performance of the businesses we acquire do not meet our expectations.

We have historically made strategic acquisitions of businesses in the paint and coatings industry and will likely acquire additional businesses in the future as part of our long-term growth strategy. The success of future acquisitions, including Valspar, depends in large part on our ability to integrate the operations and personnel of the acquired companies and manage challenges that may arise as a result of the acquisitions, particularly when the acquired businesses operate in new or foreign markets. In the event that we do not successfully integrate such future acquisitions into our existing operations so as to realize the expected return on our investment, our results of operations, cash flow or financial condition could be adversely affected.

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

A summary of the repurchase activity for the Company's second 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
April 1 - April 30				
Share repurchase program [1]				11,650,000
Employee transactions [2]	368	$293.76		NA
May 1 - May 31				
June 1 - June 30				
Employee transactions [2]	1,147	290.68		NA
Total				
Share repurchase program [1]				11,650,000
Employee transactions [2]	1,515	$291.42		NA

(1) All 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 June 30, 2016 to purchase 11,650,000 shares.

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

Item 5. Other Information.

During the six months ended June 30, 2016, the Audit Committee of the Board of Directors of the Company approved permitted non-audit services to be performed by Ernst & Young LLP, the Company's independent registered public accounting firm. These non-audit services were approved within categories related to domestic advisory tax and tax compliance services and international tax compliance.

Item 6. Exhibits.

4.1	Credit Agreement, dated as of May 9, 2016, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, and the lenders party thereto, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 9, 2016, and incorporated herein by reference.
4.2	Agreement for Letter of Credit, dated as of May 9, 2016, by and between the Company and Citibank, N.A. filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 9, 2016, and incorporated herein by reference.
4.3	Amendment No. 1 to the Credit Agreement, dated as of May 12, 2016, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, and the lenders party thereto, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 12, 2016, and incorporated herein by reference.
4.4	Amendment No. 2 to the Credit Agreement, dated as of June 20, 2016, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, and the lenders party thereto, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 20, 2016, and incorporated herein by reference.
31(a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith).
31(b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith).
32(a)	Section 1350 Certification of Chief Executive Officer (furnished herewith).
32(b)	Section 1350 Certification of Chief Financial Officer (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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

July 27, 2016	By: /s/ Allen J. Mistysyn Allen J. Mistysyn Senior Vice President-Corporate Controller
July 27, 2016	By: /s/ Catherine M. Kilbane Catherine M. Kilbane Senior Vice President, General Counsel and Secretary

INDEX TO EXHIBITS

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