

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Period Ended September 30, 2020

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____
Commission file number 1-04851

THE SHERWIN-WILLIAMS COMPANY

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

101 West Prospect Avenue

Cleveland, Ohio

(Address of principal executive offices)

34-0526850

(I.R.S. Employer Identification No.)

44115-1075

(Zip Code)

(216) 566-2000

(Registrant's telephone number including area code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

Common Stock, \$1.00 Par Value – 90,824,506 shares as of September 30, 2020.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(millions of dollars, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	\$ 5,122.2	\$ 4,867.7	\$ 13,872.9	\$ 13,786.4
Cost of goods sold	2,666.9	2,642.1	7,319.0	7,644.3
Gross profit	2,455.3	2,225.6	6,553.9	6,142.1
<i>Percent to net sales</i>	47.9 %	45.7 %	47.2 %	44.6 %
Selling, general and administrative expenses	1,406.8	1,345.2	4,005.7	3,920.5
<i>Percent to net sales</i>	27.5 %	27.6 %	28.9 %	28.4 %
Other general expense - net	10.5	12.0	13.1	18.7
Amortization	78.7	77.5	234.2	234.4
Interest expense	83.3	85.3	257.6	265.5
Interest and net investment income	(1.4)	(0.6)	(2.6)	(1.6)
California litigation expense	—	(34.7)	—	(34.7)
Other expense - net	1.8	31.1	30.6	54.9
Income before income taxes	875.6	709.8	2,015.3	1,684.4
Income taxes	169.8	133.3	391.9	391.7
Net income	\$ 705.8	\$ 576.5	\$ 1,623.4	\$ 1,292.7

Net income per common share:

Basic	\$ 7.80	\$ 6.28	\$ 17.90	\$ 14.07
Diluted	\$ 7.66	\$ 6.16	\$ 17.60	\$ 13.82

Weighted average shares outstanding:

Basic	90,537,314	91,823,573	90,694,317	91,850,565
Diluted	92,110,229	93,604,260	92,257,788	93,510,104

See notes to condensed consolidated financial statements.

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

(millions of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 705.8	\$ 576.5	\$ 1,623.4	\$ 1,292.7
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments ⁽¹⁾	75.2	(131.9)	(109.1)	(120.6)
Pension and other postretirement benefit adjustments:				
Amounts reclassified from Other comprehensive income (loss) ⁽²⁾	0.6	(0.4)	1.9	(1.1)
	0.6	(0.4)	1.9	(1.1)
Unrealized net gains on cash flow hedges:				
Amounts reclassified from Other comprehensive income (loss) ⁽³⁾	(0.9)	(4.0)	(5.6)	(7.2)
	(0.9)	(4.0)	(5.6)	(7.2)
Other comprehensive income (loss)	74.9	(136.3)	(112.8)	(128.9)
Comprehensive income	\$ 780.7	\$ 440.2	\$ 1,510.6	\$ 1,163.8

⁽¹⁾ The three months ended September 30, 2020 includes unrealized losses of \$(26.3) million, net of taxes of \$8.7 million, related to net investment hedges. The three months ended September 30, 2019 includes unrealized gains of \$13.9 million, net of taxes of \$(4.6) million, related to net investment hedges. The nine months ended September 30, 2020 includes unrealized losses of \$(26.4) million, net of taxes of \$8.7 million, related to net investment hedges. The nine months ended September 30, 2019 includes unrealized gains of \$8.9 million, net of taxes of \$(2.9) million, related to net investment hedges. See Note 12 for additional information.

⁽²⁾ Net of taxes of \$(0.2) million and \$0.2 million in the three months ended September 30, 2020 and 2019, respectively. Net of taxes of \$(0.5) million and \$0.5 million in the nine months ended September 30, 2020 and 2019, respectively.

⁽³⁾ Net of taxes of \$0.4 million and \$1.7 million in the three months ended September 30, 2020 and 2019, respectively. Net of taxes of \$1.8 million and \$2.6 million in the nine months ended September 30, 2020 and 2019, respectively.

See notes to condensed consolidated financial statements.

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

(millions of dollars, except per share data)

	September 30, 2020	December 31, 2019	September 30, 2019
Assets			
Current assets:			
Cash and cash equivalents	\$ 619.9	\$ 161.8	\$ 189.6
Accounts receivable, net	2,454.5	2,088.9	2,479.0
Inventories	1,672.8	1,889.6	1,825.0
Other current assets	428.4	491.4	414.1
Total current assets	5,175.6	4,631.7	4,907.7
Property, plant and equipment, net	1,780.0	1,835.2	1,798.3
Goodwill	7,005.6	7,004.8	6,958.7
Intangible assets	4,498.7	4,734.5	4,889.3
Operating lease right-of-use assets	1,738.6	1,685.6	1,659.0
Other assets	611.2	604.4	651.3
Total assets	\$ 20,809.7	\$ 20,496.2	\$ 20,864.3
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings	\$ 0.2	\$ 204.7	\$ 435.7
Accounts payable	2,056.2	1,876.3	2,028.4
Compensation and taxes withheld	654.5	552.7	538.9
Accrued taxes	165.2	85.7	95.0
Current portion of long-term debt	24.1	429.8	429.6
California litigation accrual	12.0	12.0	12.0
Current portion of operating lease liabilities	379.5	371.6	364.4
Other accruals	1,066.6	989.1	961.8
Total current liabilities	4,358.3	4,521.9	4,865.8
Long-term debt	8,266.9	8,050.7	8,043.0
Postretirement benefits other than pensions	262.3	263.0	261.0
Deferred income taxes	956.7	969.9	1,096.9
Long-term operating lease liabilities	1,421.3	1,370.7	1,352.2
Other long-term liabilities	1,336.9	1,196.7	1,222.5
Shareholders' equity:			
Common stock—\$1.00 par value:			
90.8 million, 92.1 million and 92.3 million shares outstanding			
at September 30, 2020, December 31, 2019 and September 30, 2019, respectively	120.4	119.4	119.2
Other capital	3,373.3	3,153.0	3,079.3
Retained earnings	8,619.5	7,366.9	7,224.3
Treasury stock, at cost	(7,113.6)	(5,836.5)	(5,632.8)
Accumulated other comprehensive loss	(792.3)	(679.5)	(767.1)
Total shareholders' equity	4,207.3	4,123.3	4,022.9
Total liabilities and shareholders' equity	\$ 20,809.7	\$ 20,496.2	\$ 20,864.3

See notes to condensed consolidated financial statements.

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

(millions of dollars)

	Nine Months Ended	
	September 30, 2020	September 30, 2019
OPERATING ACTIVITIES		
Net income	\$ 1,623.4	\$ 1,292.7
Adjustments to reconcile net income to net operating cash:		
Depreciation	200.0	195.0
Non-cash lease expense	276.1	275.7
Amortization of intangible assets	234.2	234.4
Loss on extinguishment of debt	21.3	14.8
Amortization of credit facility and debt issuance costs	5.5	7.3
Stock-based compensation expense	72.9	70.9
Provisions for environmental-related matters	20.8	17.9
Defined benefit pension plans net cost	5.8	40.4
Deferred income taxes	2.1	(43.4)
Other	(4.0)	(16.9)
Change in working capital accounts - net	312.2	(259.6)
Change in operating lease liabilities	(270.6)	(272.3)
Costs incurred for environmental-related matters	(24.2)	(20.0)
Other	88.3	124.5
Net operating cash	<u>2,563.8</u>	<u>1,661.4</u>
INVESTING ACTIVITIES		
Capital expenditures	(193.8)	(224.8)
Acquisitions of businesses, net of cash acquired		(72.6)
Proceeds from sale of assets	38.8	6.9
(Increase) decrease in other investments	(21.6)	2.0
Net investing cash	<u>(176.6)</u>	<u>(288.5)</u>
FINANCING ACTIVITIES		
Net (decrease) increase in short-term borrowings	(204.5)	109.0
Proceeds from long-term debt	999.0	1,332.8
Payments of long-term debt	(1,204.7)	(1,875.7)
Payments for credit facility and debt issuance costs	(10.0)	(13.0)
Payments of cash dividends	(367.8)	(314.9)
Proceeds from stock options exercised	135.7	111.2
Treasury stock purchased	(1,294.7)	(577.8)
Proceeds from treasury stock issued	57.4	
Other	(26.6)	(113.3)
Net financing cash	<u>(1,916.2)</u>	<u>(1,341.7)</u>
Effect of exchange rate changes on cash	(12.9)	2.9
Net increase in cash and cash equivalents	458.1	34.1
Cash and cash equivalents at beginning of year	161.8	155.5
Cash and cash equivalents at end of period	<u>\$ 619.9</u>	<u>\$ 189.6</u>
Income taxes paid	\$ 300.9	\$ 310.1
Interest paid	243.0	246.8

See notes to condensed consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY (UNAUDITED)

(millions of dollars, except per share data)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2019	\$ 119.4	\$ 3,153.0	\$ 7,366.9	\$ (5,836.5)	\$ (679.5)	\$ 4,123.3
Net income			321.7			321.7
Other comprehensive loss					(221.6)	(221.6)
Adjustment to initially adopt ASU 2016-13			(3.0)			(3.0)
Treasury stock purchased				(890.3)		(890.3)
Treasury stock issued		13.5		43.9		57.4
Stock-based compensation activity	0.3	48.7		(24.8)		24.2
Other adjustments		0.3				0.3
Cash dividends -- \$1.34 per share			(122.9)			(122.9)
Balance at March 31, 2020	\$ 119.7	\$ 3,215.5	\$ 7,562.7	\$ (6,707.7)	\$ (901.1)	\$ 3,289.1
Net income			595.9			595.9
Other comprehensive income					33.9	33.9
Stock-based compensation activity	0.3	73.3		(0.3)		73.3
Other adjustments		0.3	0.1			0.4
Cash dividends -- \$1.34 per share			(122.7)			(122.7)
Balance at June 30, 2020	\$ 120.0	\$ 3,289.1	\$ 8,036.0	\$ (6,708.0)	\$ (867.2)	\$ 3,869.9
Net income			705.8			705.8
Other comprehensive loss					74.9	74.9
Treasury stock purchased				(404.4)		(404.4)
Stock-based compensation activity	0.4	84.5		(1.2)		83.7
Other adjustments		(0.3)	(0.1)			(0.4)
Cash dividends -- \$1.34 per share			(122.2)			(122.2)
Balance at September 30, 2020	\$ 120.4	\$ 3,373.3	\$ 8,619.5	\$ (7,113.6)	\$ (792.3)	\$ 4,207.3

See notes to condensed consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY (UNAUDITED)

(millions of dollars, except per share data)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2018	\$ 118.4	\$ 2,896.4	\$ 6,246.5	\$ (4,900.7)	\$ (629.9)	\$ 3,730.7
Net income			245.2			245.2
Other comprehensive income					6.0	6.0
Adjustment to initially adopt ASU 2016-02			(8.4)			(8.4)
Adjustment to initially adopt ASU 2018-02			8.3		(8.3)	—
Treasury stock purchased				(305.1)		(305.1)
Treasury stock transferred to qualified replacement plan				(131.8)		(131.8)
Stock-based compensation activity	0.3	47.6		(21.3)		26.6
Other adjustments		1.6	0.1			1.7
Cash dividends -- \$1.13 per share			(104.8)			(104.8)
Balance at March 31, 2019	\$ 118.7	\$ 2,945.6	\$ 6,386.9	\$ (5,358.9)	\$ (632.2)	\$ 3,460.1
Net income			471.0			471.0
Other comprehensive income					1.4	1.4
Treasury stock purchased				(145.4)		(145.4)
Stock-based compensation activity	0.2	65.0				65.2
Other adjustments		0.1	0.1			0.2
Cash dividends -- \$1.13 per share			(105.0)			(105.0)
Balance at June 30, 2019	\$ 118.9	\$ 3,010.7	\$ 6,753.0	\$ (5,504.3)	\$ (630.8)	\$ 3,747.5
Net income			576.5			576.5
Other comprehensive loss					(136.3)	(136.3)
Treasury stock purchased				(127.3)		(127.3)
Stock-based compensation activity	0.3	68.4	0.1	(1.2)		67.6
Other adjustments		0.2	(0.2)			—
Cash dividends -- \$1.13 per share			(105.1)			(105.1)
Balance at September 30, 2019	\$ 119.2	\$ 3,079.3	\$ 7,224.3	\$ (5,632.8)	\$ (767.1)	\$ 4,022.9

See notes to condensed consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(millions of dollars, unless otherwise noted)

Periods ended September 30, 2020 and 2019

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (US 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 US 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 significant accounting policies since December 31, 2019, except as described in Note 2.

In April 2020, the Financial Accounting Standards Board (FASB) provided guidance on accounting for lease concessions due to the economic effects of the COVID-19 pandemic. In accordance with the guidance, the Company has elected not to evaluate whether certain lessor-provided concessions related to the COVID-19 pandemic were contemplated in the original contract and has elected to treat all COVID-19 related concessions as lease modifications in accordance with ASC 842.

Accounting estimates were revised as necessary during the first nine months of 2020 based on new information and changes in facts and circumstances. Certain amounts in the 2019 condensed consolidated financial statements have been reclassified to conform to the 2020 presentation.

The Company primarily uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs are subject to the final year-end LIFO inventory valuation. In addition, interim inventory levels include management's estimates of annual inventory losses due to shrinkage and other factors. For further information on inventory valuations and other matters, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2019.

The Company has historically experienced, and expects to continue to experience, variability in quarterly results. The results of operations for the three and nine months ended September 30, 2020 are not indicative of the results to be expected for the full year as business is seasonal in nature with the majority of Net sales for the Reportable Segments traditionally occurring during the second and third quarters. However, periods of economic downturn can alter the Company's seasonal patterns.

NOTE 2—RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2020, the Company adopted Accounting Standards Update (ASU) 2016-13, "Measurement of Credit Losses on Financial Instruments" (ASC 326). This ASU replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In addition, new disclosures are required. The Company adopted ASU 2016-13 using the modified retrospective transition method. The adoption of ASU 2016-13 did not result in a material cumulative-effect adjustment to the opening balance of retained earnings at January 1, 2020 and did not have a material impact on the Company's results of operations, financial condition or liquidity. See Note 3 for additional information.

NOTE 3—REVENUE

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

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

Refer to Note 17 for the Company's disaggregation of Net sales by reportable segment. As the reportable segments are aligned by similar economic factors, trends and customers, this disaggregation best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Company has made payments or credits for rebates or incentives at the beginning of a long-term contract where future revenue is expected and before satisfaction of performance obligations. Under these circumstances, the Company recognizes a contract asset and amortizes these prepayments over the expected benefit life of the long-term contract typically on a straight-line basis.

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

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

	Accounts Receivable, Less Allowance	Contract Assets (Current)	Contract Assets (Long-Term)	Contract Liabilities (Current)	Contract Liabilities (Long-Term)
Balance at December 31, 2019	\$ 2,088.9	\$ 50.5	\$ 178.2	\$ 242.8	\$ 10.4
Balance at September 30, 2020	2,454.5	49.0	177.8	243.9	10.7

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

Provisions for estimated returns are established and the expected costs continue to be recognized as contra-revenue per ASC 606 when the products are sold. The Company only offers an assurance type warranty on products sold, and there is no material service to the customer beyond fixing defects that existed at the time of sale and no warranties are sold separately.

Warranty liabilities are excluded from the table above. Amounts recognized during the quarter from deferred revenue were not material. The Company records a right of return liability within each of its operations to accrue for expected customer returns. Historical actual returns are used to estimate future returns as a percentage of current sales. Obligations for returns and refunds were not material individually or in the aggregate.

Allowance for Credit Losses

The Company's primary allowance for credit losses is the allowance for doubtful accounts. The allowance for doubtful accounts reduces the Accounts receivable balance to the net amount expected to be collected (estimated net realizable value). The Company reviews the collectibility of the Accounts receivable balance each reporting period and estimates the allowance based on historical bad debt experience, aging of accounts receivable, current creditworthiness of customers, current economic factors, as well as reasonable and supportable forward-looking information. Accounts receivable balances are written-off against the allowance if a final determination of uncollectibility is made. All provisions for allowances for doubtful accounts are included in Selling, general and administrative expenses. During the first nine months of 2020, the Company recognized approximately \$21 million of incremental bad debt expense related to the expected impact from the COVID-19 pandemic. See Note 2 for additional information.

The following table summarizes the movement in the Company's allowance for doubtful accounts:

Balance at December 31, 2019	\$	36.5
Adjustment upon adoption of ASU 2016-13		3.0
Bad debt expense		63.6
Uncollectible accounts written off, net of recoveries		(26.0)
Balance at September 30, 2020	\$	77.1

NOTE 4—INVENTORIES

Included in Inventories were the following:

	September 30, 2020	December 31, 2019	September 30, 2019
Finished goods	\$ 1,342.4	\$ 1,509.6	\$ 1,474.9
Work in process and raw materials	330.4	380.0	350.1
Inventories	\$ 1,672.8	\$ 1,889.6	\$ 1,825.0

NOTE 5—GOODWILL, INTANGIBLE AND LONG-LIVED ASSETS

Included in Property, plant and equipment, net were the following:

	September 30, 2020	December 31, 2019	September 30, 2019
Land	\$ 276.2	\$ 242.1	\$ 239.4
Buildings	1,061.4	1,044.2	1,006.7
Machinery and equipment	2,971.5	2,952.1	2,837.5
Construction in progress	109.6	144.0	179.5
Property, plant and equipment, gross	4,418.7	4,382.4	4,263.1
Less allowances for depreciation	2,638.7	2,547.2	2,464.8
Property, plant and equipment, net	\$ 1,780.0	\$ 1,835.2	\$ 1,798.3

In accordance with the Goodwill and Other Intangibles Topic of the ASC, goodwill and indefinite-lived intangible assets are tested for impairment annually during the fourth quarter, and interim impairment tests are performed whenever an event occurs or circumstances change that indicate an impairment has more likely than not occurred.

As of September 30, 2020, the Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and its potential impact on each of the reporting units and intangible assets. During this review, management considered the Company's current market capitalization, forecasts for reporting units, as well as the results of the annual 2019 impairment tests performed during the fourth quarter of 2019. The Company determined it was not more likely than not that the goodwill and intangible assets were impaired, and thus, a triggering event had not occurred which would require an interim impairment test to be performed.

Although the Company believes its assumptions and estimates of fair value related to reporting units and indefinite-lived trademarks are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results (including sales projections which have a significant impact on the valuation of trademarks under the royalty savings method) or other underlying assumptions could have a significant impact and future impairment charges could be required.

NOTE 6—DEBT

In March 2020, the Company issued \$500.0 million of 2.30% Senior Notes due May 2030 and \$500.0 million of 3.30% Senior Notes due May 2050 (collectively the “New Notes”) in a public offering. The net proceeds from the issuance of the New Notes were used to repurchase a portion of the 2.75% Senior Notes due 2022 and redeem the 2.25% Senior Notes due May 2020. The repurchase of the 2.75% Senior Notes due 2022 during the first quarter of 2020 resulted in a loss of \$21.3 million recorded in Other expense - net.

On September 14, 2020, the Company amended its five-year credit agreement entered into on May 6, 2016. The primary purpose of the amendment was to extend the maturity of \$75.0 million of the commitments available for borrowing and obtaining the issuance, renewal, extension and increase of a revolving letter of credit from June 20, 2021 to June 20, 2025.

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

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

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

For further details on the Company’s debt, see Note 7 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

NOTE 7—PENSION, HEALTH CARE AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The following table summarizes the components of the Company’s net periodic benefit cost for domestic defined benefit pension plans, foreign defined benefit pension plans and postretirement benefits other than pensions:

	Domestic Defined Benefit Pension Plans		Foreign Defined Benefit Pension Plans		Postretirement Benefits Other than Pensions	
	2020	2019	2020	2019	2020	2019
Three Months Ended September 30:						
Net periodic benefit cost:						
Service cost	\$ 1.2	\$ 0.7	\$ 1.7	\$ 1.5	\$ 0.3	\$ 0.4
Interest cost	0.8	1.2	1.9	2.5	2.0	2.8
Expected return on assets	(1.6)	(1.3)	(2.6)	(2.8)		
Recognition of:						
Unrecognized prior service cost (credit)	0.3	0.4			(0.3)	(1.3)
Unrecognized actuarial loss			0.3	0.2	0.5	0.1
Net periodic benefit cost	\$ 0.7	\$ 1.0	\$ 1.3	\$ 1.4	\$ 2.5	\$ 2.0
Nine Months Ended September 30:						
Net periodic benefit cost:						
Service cost	\$ 3.4	\$ 2.6	\$ 5.2	\$ 4.5	\$ 1.1	\$ 1.1
Interest cost	2.4	3.6	5.6	7.2	5.7	8.4
Expected return on assets	(4.7)	(4.0)	(7.8)	(7.7)		
Recognition of:						
Unrecognized prior service cost (credit)	1.0	1.1			(0.8)	(3.8)
Unrecognized actuarial loss			0.7	0.7	1.5	0.4
Ongoing pension cost	2.1	3.3	3.7	4.7	7.5	6.1
Settlement expense		32.4				
Net periodic benefit cost	\$ 2.1	\$ 35.7	\$ 3.7	\$ 4.7	\$ 7.5	\$ 6.1

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

During the first quarter of 2019, the Company purchased annuity contracts to settle the remaining liabilities of the domestic defined benefit pension plan that was terminated in 2018. The annuity contract purchase resulted in a settlement charge of \$32.4 million in the first quarter of 2019.

For further details on the Company’s health care, pension and other benefits, see Note 8 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

NOTE 8—OTHER LONG-TERM LIABILITIES

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

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

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

The Company continuously assesses its potential liability for investigation and remediation-related activities and adjusts its environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated and as additional accounting guidelines are issued. At September 30, 2020 and 2019, the Company had accruals reported on the balance sheet as Other long-term liabilities of \$310.5 million and \$321.8 million, respectively. Estimated costs of current investigation and remediation activities of \$57.6 million and \$51.0 million are included in Other accruals at September 30, 2020 and 2019, respectively.

Actual costs incurred may vary from the accrued estimates due to the inherent uncertainties involved including, among others, the number and financial condition of parties involved with respect to any given site, the volumetric contribution which may be attributed to the Company relative to that attributed to other parties, the nature and magnitude of the wastes involved, the various technologies that can be used for remediation and the determination of acceptable remediation with respect to a particular site. If the Company's future loss contingency is ultimately determined to be at the unaccrued maximum of the estimated range of possible outcomes for every site for which costs can be reasonably estimated, the Company's accrual for environmental-related activities would be \$115.9 million higher than the minimum accruals at September 30, 2020. Additionally, costs for environmental-related activities may not be reasonably estimable at early stages of investigation and therefore would not be included in the unaccrued maximum amount.

Four of the Company's currently and formerly owned manufacturing sites ("Major Sites") account for the majority of the accrual for environmental-related activities and the unaccrued maximum of the estimated range of possible outcomes at September 30, 2020. At September 30, 2020, \$316.7 million, or 86.0% of the total accrual, related directly to the Major Sites. In the aggregate unaccrued maximum of \$115.9 million at September 30, 2020, \$91.9 million, or 79.3%, related to the Major Sites. The significant cost components of this liability continue to be related to remedy implementation, regulatory agency interaction, project management and other costs. While different for each specific environmental situation, these components generally each account for approximately 85%, 10%, and 5%, respectively, of the accrued amount and those percentages are subject to change over time. While environmental investigations and remedial actions are in different stages at these sites, additional investigations, remedial actions and monitoring will likely be required at each site.

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

The remaining three Major Sites comprising the majority of the accrual include (1) a multi-party Superfund site that has received a record of decision from the federal EPA and is currently in the remedial design phase for one operable unit and for which a remedial investigation/feasibility study has been submitted for another operable unit, (2) a closed paint manufacturing facility that is in the operation and maintenance phase of remediation under both federal and state EPA programs, and (3) a formerly-owned site containing warehouse and office space that is in the remedial investigation phase under a state EPA program. Each of these three Major Sites are in phases of investigation and remediation that provide sufficient information to reasonably estimate cost ranges and record environmental-related accruals.

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

Management cannot presently estimate the ultimate potential loss contingencies related to these sites or other less significant sites until such time as a substantial portion of the investigation at the sites is completed and remedial action plans are developed. Unasserted claims could have a material effect on the Company's loss contingency as more information becomes available over time. At September 30, 2020, the Company did not have material loss contingency accruals related to unasserted claims. Management does not expect that a material portion of unrecognized loss contingencies will be recoverable through insurance, indemnification agreements or other sources. In the event any future loss contingency significantly exceeds the current amount accrued, the recording of the ultimate liability may result in a material impact on net income for the annual or interim period during which the additional costs are accrued. Moreover, management does not believe that any potential liability ultimately attributed to the Company for its environmental-related matters will have a material adverse effect on the Company's financial condition, liquidity, or cash flow due to the extended length of time during which environmental investigation and remediation takes place. An estimate of the potential impact on the Company's operations cannot be made due to the aforementioned uncertainties.

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

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

NOTE 9—LITIGATION

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

Lead pigment and lead-based paint litigation. The Company's past operations included the manufacture and sale of lead pigments and lead-based paints. The Company, along with other companies, is and has been a defendant in a number of legal proceedings, including individual personal injury actions, purported class actions, and actions brought by various counties, cities, school districts and other government-related entities, arising from the manufacture and sale of lead pigments and lead-based paints. The plaintiffs' claims have been based upon various legal theories, including negligence, strict liability, breach of warranty, negligent misrepresentations and omissions, fraudulent misrepresentations and omissions, concert of action, civil conspiracy, violations of unfair trade practice and consumer protection laws, enterprise liability, market share liability, public

nuisance, unjust enrichment and other theories. The plaintiffs seek various damages and relief, including personal injury and property damage, costs relating to the detection and abatement of lead-based paint from buildings, costs associated with a public education campaign, medical monitoring costs and others. The Company has also been a defendant in legal proceedings arising from the manufacture and sale of non-lead-based paints that seek recovery based upon various legal theories, including the failure to adequately warn of potential exposure to lead during surface preparation when using non-lead-based paint on surfaces previously painted with lead-based paint. The Company believes that the litigation brought to date is without merit or subject to meritorious defenses and is vigorously defending such litigation. The Company expects that additional lead pigment and lead-based paint litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief. The Company will continue to vigorously defend against any additional lead pigment and lead-based paint litigation that may be filed, including utilizing all avenues of appeal, if necessary.

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

Due to the uncertainties involved, management is unable to predict the outcome of the lead pigment and lead-based paint litigation, the number or nature of possible future claims and proceedings or the effect that any legislation and/or administrative regulations may have on the litigation or against the Company. In addition, management cannot reasonably determine the scope or amount of the potential costs and liabilities related to such litigation, or resulting from any such legislation and regulations. Except with respect to the litigation in California discussed below, the Company has not accrued any amounts for such litigation because the Company does not believe it is probable that a loss has occurred, and the Company believes it is not possible to estimate the range of potential losses as there is no substantive information upon which an estimate could be based. In addition, any potential liability that may result from any changes to legislation and regulations cannot reasonably be estimated. Due to the uncertainties associated with the amount of any such liability and/or the nature of any other remedy which may be imposed in such litigation, any potential liability determined to be attributable to the Company arising out of such litigation may have a material adverse effect on the Company's results of operations, liquidity or financial condition. An estimate of the potential impact on the Company's results of operations, liquidity or financial condition cannot be made due to the aforementioned uncertainties.

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

Santa Clara County, California Proceeding. The Santa Clara County, California proceeding was initiated in March 2000 in the Superior Court of the State of California, County of Santa Clara. In an amended complaint filed in March 2011, the plaintiffs 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 bench trial commenced in July 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 \$1.150 billion into a fund to abate the public nuisance. The Company strongly disagrees with the judgment.

The Company filed a notice of appeal to the Sixth District Court of Appeal for the State of California. On November 14, 2017, the Sixth District Court of Appeal entered its decision, which affirmed the trial court's judgment of liability with respect to residences built before 1951 and reversed and vacated the trial court's judgment with respect to residences built after 1950. The Sixth District Court of Appeal directed the trial court to: (i) recalculate the amount of the abatement fund to limit the fund to the amount necessary to cover the cost of inspecting and remediating pre-1951 residences; and (ii) hold an evidentiary hearing to appoint a suitable receiver. On December 22, 2017, the Company and the two other defendants submitted separate Petitions for Review to the California Supreme Court, which were subsequently denied. On July 16, 2018, the Company filed a Petition for Writ of Certiorari with the Supreme Court of the United States seeking discretionary review, which was subsequently denied. On April 17, 2018, the parties filed their briefs with the trial court regarding the recalculation of the amount of the abatement

fund. The trial court subsequently ruled the amount of the abatement fund to be \$409.1 million, which was later reduced to \$401.1 million. The trial court also subsequently issued a tentative ruling on May 10, 2019, denying the plaintiffs' motion for fees and costs.

On July 17, 2019, the Company, ConAgra and NL Industries reached an agreement in principle with the plaintiffs to resolve the litigation. The agreement provides that, in full and final satisfaction of any and all claims of the plaintiffs, the Company and the other two defendants collectively shall pay a total of \$305.0 million, with the Company and the other two defendants each paying approximately \$101.7 million as follows: (i) an initial payment of \$25.0 million within sixty days after the entry of a dismissal order and judgment; (ii) subsequent annual payments of \$12.0 million one year after the initial payment and for a period of four years thereafter; and (iii) a final payment of approximately \$16.7 million on the sixth anniversary of the initial payment. Should NL Industries fail to make any of its payments required under the agreement, the Company has agreed to backstop and pay on behalf of NL Industries a maximum amount of \$15.0 million. On July 24, 2019, the trial court approved the agreement, discharged the receiver, and granted a judgment of dismissal with prejudice in favor of the Company and the other two defendants. The Company accrued \$136.3 million for this litigation in the third quarter of 2018. During the third quarter of 2019, the Company reduced its accrual by \$59.6 million as a result of the final court approved agreement to resolve the litigation and the initial payment of \$25.0 million made to the plaintiffs on September 23, 2019. At September 30, 2020 and 2019, the Company had accruals reported on the balance sheet of \$64.7 million and \$76.7 million, respectively, with \$12.0 million included in current liabilities and the remaining \$52.7 million and \$64.7 million, respectively, included in Other long-term liabilities.

Pennsylvania Proceedings. Two proceedings in Pennsylvania were initiated in October 2018. The County of Montgomery, Pennsylvania filed a Complaint against the Company and several other former lead-based paint and lead pigment manufacturers in the Court of Common Pleas of Montgomery County, Pennsylvania. The County of Lehigh, Pennsylvania also filed a Complaint against the Company and several other former lead-based paint and lead pigment manufacturers in the Court of Common Pleas of Lehigh County, Pennsylvania. The Company removed both actions to the United States District Court for the Eastern District of Pennsylvania on November 28, 2018. The plaintiffs filed a motion for remand in each action on January 7, 2019, which the defendants opposed. The federal trial court remanded each action on June 5, 2019. The defendants asked the federal court to stay the order of remand pending appeal, which the federal court granted on June 27, 2019, and the defendants filed a notice of appeal with the United States Court of Appeals for the Third Circuit. On February 26, 2020, the Third Circuit affirmed the trial court's order to remand the cases to state court. Both cases were ordered to be remanded to state court on July 21, 2020.

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

In October 2018, the Company filed a Complaint in the United States District Court for the Eastern District of Pennsylvania against the Pennsylvania Counties of Delaware, Erie and York seeking injunctive and declaratory relief to prevent the violation of the Company's rights under the First Amendment and Due Process Clause of the U.S. Constitution. The Company voluntarily dismissed defendant Erie County on November 9, 2018 and defendant York County on November 21, 2018. Defendant Delaware County filed a motion to dismiss the Complaint, which the federal trial court granted on October 4, 2019. The Company appealed the federal trial court's dismissal on November 1, 2019 to the United States Court of Appeals for the Third Circuit. On July 31, 2020, the Third Circuit affirmed the federal trial court's dismissal of the Complaint.

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

The plaintiff in *Thomas v. Lead Industries Association, et al.*, initiated an action in Wisconsin state court against the Company, other alleged former lead pigment manufacturers and the Lead Industries Association in September 1999. The claims against the Company and the other defendants included strict liability, negligence, negligent misrepresentation and omissions, fraudulent misrepresentation and omissions, concert of action, civil conspiracy and enterprise liability. Implicit within these claims is the theory of "risk contribution" liability (Wisconsin's theory which is similar to market share liability, except that liability can be joint and several) due to the plaintiff's inability to identify the manufacturer of any product that allegedly injured the plaintiff. The case ultimately proceeded to trial and, on November 5, 2007, the jury returned a defense verdict, finding that the plaintiff had ingested white lead carbonate, but was not brain damaged or injured as a result. The plaintiff

appealed and, on December 16, 2010, the Wisconsin Court of Appeals affirmed the final judgment in favor of the Company and other defendants.

Wisconsin is the only jurisdiction to date to apply a theory of liability with respect to alleged personal injury (i.e., risk contribution/market share liability) that does not require the plaintiff to identify the manufacturer of the product that allegedly injured the plaintiff in the lead pigment and lead-based paint litigation. Although the risk contribution liability theory was applied during the Thomas trial, the constitutionality of this theory as applied to the lead pigment cases has not been judicially determined by the Wisconsin state courts. However, in an unrelated action filed in the United States District Court for the Eastern District of Wisconsin, *Gibson v. American Cyanamid, et al.*, on November 15, 2010, the District Court held that Wisconsin's risk contribution theory as applied in that case violated the defendants' right to substantive due process and is unconstitutionally retroactive. The District Court's decision in *Gibson v. American Cyanamid, et al.*, was appealed by the plaintiff to the United States Court of Appeals for the Seventh Circuit. On July 24, 2014, the United States Court of Appeals for the Seventh Circuit reversed the judgment and remanded the case back to the District Court for further proceedings. On January 16, 2015, the defendants filed a petition for certiorari in the United States Supreme Court seeking that Court's review of the Seventh Circuit's decision, and on May 18, 2015, the United States Supreme Court denied the defendants' petition. The case is currently pending in the District Court.

The United States District Court for the Eastern District of Wisconsin consolidated three cases (*Ravon Owens v. American Cyanamid, et al.*, *Cesar Sifuentes v. American Cyanamid, et al.*, and *Glenn Burton, Jr. v. American Cyanamid, et al.*) for purposes of trial. A trial commenced on May 6, 2019 and ended on May 31, 2019, with a jury verdict for the three plaintiffs in the amount of \$2.0 million each for a total of \$6.0 million against the Company and two other defendants (*Armstrong Containers Inc.* and *E.I. du Pont de Nemours*). The Company filed a motion for judgment in its favor based on public policy factors under Wisconsin law. On September 20, 2019, the trial court denied the motion and entered judgment in favor of the plaintiffs. On October 18, 2019, the Company filed post-trial motions for judgment as a matter of law and for a new trial. On February 27, 2020, the trial court denied the Company's post-trial motion for judgment as a matter of law. On April 10, 2020, the trial court granted the Company's post-trial motion for a new trial to the extent that the damages award to plaintiff Glenn Burton, Jr. shall be remitted to \$800,000, and denied the motion in all other respects. The Company filed a notice of appeal with the United States Court of Appeals for the Seventh Circuit on May 8, 2020 and its opening brief on July 17, 2020. The plaintiffs filed their opposition brief on October 7, 2020. The Company is to file its reply brief on or before November 12, 2020.

In *Maniya Allen, et al. v. American Cyanamid, et al.*, also pending in the United States District Court for the Eastern District of Wisconsin, cases involving six of the 146 plaintiffs were selected for discovery. In *Dijonae Trammell, et al. v. American Cyanamid, et al.*, also pending in the United States District Court for the Eastern District of Wisconsin, discovery for one of the three plaintiffs was consolidated with the six Allen cases referenced above. The parties selected four of the cases to proceed to expert discovery and to prepare for trial. The District Court previously issued an order scheduling trial in the four cases to commence on June 15, 2020, but the trial date was continued due to the COVID-19 pandemic, and no new trial date has been scheduled.

Other lead-based paint and lead pigment litigation. In *Mary Lewis v. Lead Industries Association, et al.* pending in the Circuit Court of Cook County, Illinois, parents seek to recover the cost of their children's blood lead testing against the Company and three other defendants that made (or whose alleged corporate predecessors made) white lead pigments. The Circuit Court has certified a statewide class and a Chicago subclass of parents or legal guardians of children who lived in high-risk zip codes identified by the Illinois Department of Health and who were screened for lead toxicity between August 1995 and February 2008. Excluded from the class are those parents or guardians who have incurred no expense, liability or obligation to pay for the cost of their children's blood lead testing. In 2017, the Company and other defendants moved for summary judgment on the grounds that the three named plaintiffs have not paid and have no obligation or liability to pay for their children's blood lead testing because Medicaid paid for the children of two plaintiffs and private insurance paid for the third plaintiff without any evidence of a co-pay or deductible. The Circuit Court granted the motion, but on September 7, 2018, the Appellate Court reversed with respect to the two plaintiffs for whom Medicaid paid for their children's testing. Defendants filed a petition with the Supreme Court of Illinois for discretionary review. By order entered January 31, 2019, that court allowed defendants' petition for leave to appeal. On May 21, 2020, the Supreme Court of Illinois reversed the Appellate Court's judgment, affirmed the Circuit Court's summary judgment dismissing the claims of the two plaintiffs for whom Medicaid paid for their children's testing, and remanded the case for further proceedings consistent with the Supreme Court's decision. On August 19, 2020, the defendants filed their renewed motion for class decertification and entry of final judgment with the Circuit Court. The plaintiffs filed their opposition brief on September 29, 2020. The defendants filed their reply brief on October 12, 2020.

Insurance coverage litigation. The Company and its liability insurers, including certain underwriters at Lloyd's of London, initiated legal proceedings against each other to determine, among other things, whether the costs and liabilities associated with the abatement of lead pigment are covered under certain insurance policies issued to the Company. The Company's action, filed

on March 3, 2006 in the Common Pleas Court, Cuyahoga County, Ohio, previously was stayed and inactive. On January 9, 2019, the Company filed an unopposed motion to lift the stay with the trial court, which was granted, allowing the case to proceed. On June 28, 2019, the Company and its liability insurers each filed separate motions for summary judgment seeking various forms of relief. Oral argument regarding those motions occurred on October 24, 2019 and those motions remain pending before the trial court. The liability insurers' action, which was filed on February 23, 2006 in the Supreme Court of the State of New York, County of New York, has been dismissed. An ultimate loss in the insurance coverage litigation would mean that insurance proceeds could be unavailable under the policies at issue to mitigate any ultimate abatement related costs and liabilities. The Company has not recorded any assets related to these insurance policies or otherwise assumed that proceeds from these insurance policies would be received in estimating any contingent liability accrual. Therefore, an ultimate loss in the insurance coverage litigation without a determination of liability against the Company in the lead pigment or lead-based paint litigation will have no impact on the Company's results of operation, liquidity or financial condition. As previously stated, however, except with respect to the litigation in California discussed above, the Company has not accrued any amounts for the lead pigment or lead-based paint litigation and any significant liability ultimately determined to be attributable to the Company relating to such litigation may result in a material impact on the Company's results of operations, liquidity or financial condition for the annual or interim period during which such liability is accrued.

Other litigation. On December 18, 2019, the New Jersey Department of Environmental Protection, the Commissioner of the New Jersey Department of Environmental Protection, and the Administrator of the New Jersey Spill Compensation Fund filed a lawsuit against the Company in the Superior Court of New Jersey Law Division in Camden County, New Jersey. The plaintiffs seek to recover natural resource damages, punitive damages, and litigation fees and costs, as well as other costs, damages, declaratory relief, and penalties pursuant to New Jersey state statutes and common law theories in connection with the alleged discharge of hazardous substances and pollutants at the Company's Gibbsboro, New Jersey site, a former manufacturing plant and related facilities. On February 21, 2020, the Company filed a motion to dismiss. On April 7, 2020, the plaintiffs filed a brief in opposition. The Company filed a reply brief on April 20, 2020. A hearing on the motion to dismiss is scheduled for January 29, 2021.

NOTE 10—SHAREHOLDERS' EQUITY

Dividends paid on common stock during each of the first three quarters of 2020 and 2019 were \$1.34 per share and \$1.13 per share, respectively.

During the nine months ended September 30, 2020, 796,531 stock options were exercised at a weighted average price per share of \$170.86. In addition, 128,436 restricted stock units vested during this period.

The treasury stock transferred from defined benefit pension plan during the three months ended March 31, 2019 relates to the termination of the Company's domestic defined benefit pension plan as described in Note 7. In February 2020, the Company received proceeds of \$57.4 million in conjunction with the issuance of 100,000 treasury shares to fund Company contributions to the domestic defined contribution plan.

NOTE 11—ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of accumulated other comprehensive (loss) income (AOCI), including the reclassification adjustments for items that were reclassified from AOCI to net income, are shown below.

	Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefits Adjustments	Unrealized Net Gains on Cash Flow Hedges	Total
Balance at December 31, 2019	\$ (657.4)	\$ (69.2)	\$ 47.1	\$ (679.5)
Amounts recognized in AOCI	(109.1)			(109.1)
Amounts reclassified from AOCI		1.9	(5.6)	(3.7)
Balance at September 30, 2020	<u>\$ (766.5)</u>	<u>\$ (67.3)</u>	<u>\$ 41.5</u>	<u>\$ (792.3)</u>

	Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefits Adjustments	Unrealized Net Gains on Cash Flow Hedges	Total
Balance at December 31, 2018	\$ (607.6)	\$ (67.1)	\$ 44.8	\$ (629.9)
Reclassifications from AOCI to Retained earnings for adoption of ASU 2018-02		(19.3)	11.0	(8.3)
Amounts recognized in AOCI	(120.6)			(120.6)
Amounts reclassified from AOCI		(1.1)	(7.2)	(8.3)
Balance at September 30, 2019	<u>\$ (728.2)</u>	<u>\$ (87.5)</u>	<u>\$ 48.6</u>	<u>\$ (767.1)</u>

NOTE 12—DERIVATIVES AND HEDGING

In February 2020, the Company settled its \$400.0 million U.S. Dollar to Euro cross currency swap contract entered into in May 2019 to hedge the Company's net investment in its European operations. At the time of the settlement, an unrealized gain of \$11.8 million, net of tax, was recognized in AOCI. For the three and nine months ended September 30, 2019, an unrealized gain of \$13.9 million and \$8.9 million, respectively, net of tax, was recognized in AOCI.

In February 2020, the Company entered into two U.S. Dollar to Euro cross currency swap contracts to hedge the Company's net investment in its European operations. The contracts have a notional value of \$500.0 million and \$244.0 million, respectively, and mature on June 1, 2024 and November 15, 2021, respectively. During the term of the \$500.0 million contract, the Company will pay fixed-rate interest in Euros and receive fixed-rate interest in U.S. Dollars, thereby effectively converting a portion of the Company's U.S. Dollar denominated fixed-rate debt to Euro denominated fixed-rate debt. During the term of the \$244.0 million contract, the Company will pay floating-rate interest in Euros and receive floating-rate interest in U.S. Dollars. The fair value of the contracts are included in Other liabilities on the balance sheet. See Note 13. The changes in fair value are recognized in the foreign currency translation adjustments component of AOCI. For the three and nine months ended September 30, 2020, an unrealized loss of \$26.4 million and \$37.1 million, respectively, net of tax, was recognized in AOCI.

NOTE 13—FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the ASC applies to the Company's financial and non-financial assets and liabilities. The guidance applies when other standards require or permit the fair value measurement of assets and liabilities. The Company did not have any fair value measurements for its non-financial assets and liabilities during the third quarter. There were no assets and liabilities measured at fair value on a nonrecurring basis. 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:

	September 30, 2020			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deferred compensation plan assets ⁽¹⁾	\$ 63.5	\$ 30.7	\$ 32.8	\$ —
	<u>\$ 63.5</u>	<u>\$ 30.7</u>	<u>\$ 32.8</u>	<u>\$ —</u>
Liabilities:				
Deferred compensation plan liabilities ⁽²⁾	\$ 81.8	\$ 81.8		
Net investment hedge liability ⁽³⁾	49.2		\$ 49.2	
	<u>\$ 131.0</u>	<u>\$ 81.8</u>	<u>\$ 49.2</u>	<u>\$ —</u>
	December 31, 2019			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deferred compensation plan assets ⁽¹⁾	\$ 61.1	\$ 29.9	\$ 31.2	
Net investment hedge asset ⁽³⁾	1.5		1.5	
	<u>\$ 62.6</u>	<u>\$ 29.9</u>	<u>\$ 32.7</u>	<u>\$ —</u>
Liabilities:				
Deferred compensation plan liabilities ⁽²⁾	\$ 76.9	\$ 76.9		
	<u>\$ 76.9</u>	<u>\$ 76.9</u>	<u>\$ —</u>	<u>\$ —</u>

⁽¹⁾ The deferred compensation plan assets consist of the investment funds maintained for the future payments under the Company's executive deferred compensation plans, which are structured as rabbi trusts. The investments are marketable securities accounted for under the Debt and Equity Securities Topics 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 was \$56.2 million and \$54.8 million at September 30, 2020 and December 31, 2019, respectively.

⁽²⁾ The Company's liabilities under its deferred compensation plans represent the fair value of the participant shadow accounts, and the value is based on quoted market prices in active markets for identical assets.

⁽³⁾ The net investment hedge liability and asset are the fair value of the cross currency swaps (see Note 12). The fair value is based on a valuation model that uses observable inputs, including interest rate curves and foreign currency rates.

The table below summarizes the carrying amounts and fair values of the Company's debt. The Company's publicly traded debt and non-publicly traded debt are classified as level 1 and level 2, respectively, in the fair value hierarchy.

	September 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Publicly traded debt	\$ 8,265.3	\$ 9,440.1	\$ 8,203.2	\$ 8,735.8
Non-publicly traded debt	25.7	25.5	277.3	270.7

NOTE 14—OTHER*Other general expense - net*

Included in Other general expense - net were the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Provisions for environmental matters - net	\$ 10.1	\$ 10.6	\$ 20.8	\$ 17.9
(Gain) loss on sale or disposition of assets	0.4	1.4	(7.7)	0.8
Other general expense - net	\$ 10.5	\$ 12.0	\$ 13.1	\$ 18.7

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

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

Other expense - net

Included in Other expense - net were the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment and royalty income	\$ (3.1)	\$ (2.2)	\$ (5.7)	\$ (7.8)
Loss on extinguishment of debt (see Note 6)		14.8	21.3	14.8
Net expense from banking activities	2.6	2.6	7.8	8.0
Foreign currency transaction related (gains) losses	(0.1)	16.4	10.3	12.5
Domestic pension plan settlement expense				32.4
Miscellaneous pension (income) expense	1.3	1.8	3.6	5.9
Other income	(8.4)	(6.0)	(19.5)	(21.5)
Other expense	9.5	3.7	12.8	10.6
Other expense - net	\$ 1.8	\$ 31.1	\$ 30.6	\$ 54.9

Foreign currency transaction related (gains) losses represent net realized (gains) losses on U.S. dollar-denominated liabilities of foreign subsidiaries and net realized (gains) losses from foreign currency option and forward contracts. There were no material foreign currency option and forward contracts outstanding at September 30, 2020 and 2019.

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

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

NOTE 15—INCOME TAXES

The effective tax rate was 19.4% for the third quarter and first nine months of 2020, respectively, compared to 18.8% and 23.3% for the third quarter and first nine months of 2019, respectively. The decrease in the effective tax rate for the first nine months of 2020 compared to 2019 was primarily due to a \$74.3 million tax provision recorded in the first nine months of 2019 related to the reversal of net tax benefits recognized in previous tax years from federal renewable energy tax credit funds. The effective tax rate was also favorably impacted by tax benefits related to employee share based payments during the third quarter and first nine months of 2020 and 2019. The other significant components of the Company's effective tax rate were consistent for the third quarter and first nine months of 2020 compared to the same periods in 2019.

In response to the COVID-19 outbreak, global legislation concerning income taxes was passed in March 2020. The Company assessed the applicability of the stimulus elements within the global legislation, and it is not expected to have a material impact on the Company's consolidated financial statements. The primary benefit to the Company is the delay of payment of federal and state income taxes as well as federal payroll withholding taxes until subsequent periods.

At December 31, 2019, the Company had \$203.0 million in unrecognized tax benefits, the recognition of which would have an effect of \$195.3 million on the effective tax rate. Included in the balance of unrecognized tax benefits at December 31, 2019 was \$17.3 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months.

The Company classifies all income tax related interest and penalties as income tax expense. At December 31, 2019, the Company had accrued \$26.2 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, 2019 during the nine months ended September 30, 2020.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The IRS is currently auditing the Company's 2013, 2014, 2015 and 2016 income tax returns. As a result of these audits, certain adjustments have been proposed. The Company is evaluating the proposed adjustments and believes that it is adequately reserved for any potential exposure. At September 30, 2020, the federal statute of limitations had not expired for the 2013 through 2019 tax years.

At September 30, 2020, the Company is subject to non-U.S. income tax examinations for the tax years of 2013 through 2019. In addition, the Company is subject to state and local income tax examinations for the tax years 1998 through 2019.

NOTE 16—NET INCOME PER SHARE

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

(in millions, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic				
Net income	\$ 705.8	\$ 576.5	\$ 1,623.4	\$ 1,292.7
Average shares outstanding	90,537,314	91,823,573	90,694,317	91,850,565
Basic net income per share	\$ 7.80	\$ 6.28	\$ 17.90	\$ 14.07
Diluted				
Net income	\$ 705.8	\$ 576.5	\$ 1,623.4	\$ 1,292.7
Average shares outstanding assuming dilution:				
Average shares outstanding	90,537,314	91,823,573	90,694,317	91,850,565
Stock options and other contingently issuable shares ⁽¹⁾	1,561,994	1,742,298	1,546,419	1,611,078
Non-vested restricted stock grants	10,921	38,389	17,052	48,461
Average shares outstanding assuming dilution	92,110,229	93,604,260	92,257,788	93,510,104
Diluted net income per share	\$ 7.66	\$ 6.16	\$ 17.60	\$ 13.82

⁽¹⁾ There were no stock options and other contingently issuable shares excluded due to their anti-dilutive effect for the three months ended September 30, 2020 and September 30, 2019. There were 63,753 and 9,853 stock options and other contingently issuable shares excluded due to their anti-dilutive effect for the nine months ended September 30, 2020 and September 30, 2019, respectively.

NOTE 17—REPORTABLE SEGMENT INFORMATION

The Company reports its segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources in accordance with the Segment Reporting Topic of the ASC. The Company has determined that it has three reportable operating segments: The Americas Group, Consumer Brands Group and Performance Coatings Group (individually, a Reportable Segment and collectively, the Reportable Segments).

	Three Months Ended September 30, 2020				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 2,978.3	\$ 838.1	\$ 1,305.3	\$ 0.5	\$ 5,122.2
Intersegment transfers		1,024.3	28.7	(1,053.0)	—
Total net sales and intersegment transfers	\$ 2,978.3	\$ 1,862.4	\$ 1,334.0	\$ (1,052.5)	\$ 5,122.2
Segment profit	\$ 747.4	\$ 198.3	\$ 155.3		\$ 1,101.0
Interest expense				\$ (83.3)	(83.3)
Administrative expenses and other				(142.1)	(142.1)
Income before income taxes	\$ 747.4	\$ 198.3	\$ 155.3	\$ (225.4)	\$ 875.6

	Three Months Ended September 30, 2019				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 2,898.2	\$ 678.4	\$ 1,290.2	\$ 0.9	\$ 4,867.7
Intersegment transfers		995.2	29.5	(1,024.7)	—
Total net sales and intersegment transfers	\$ 2,898.2	\$ 1,673.6	\$ 1,319.7	\$ (1,023.8)	\$ 4,867.7
Segment profit	\$ 663.6	\$ 114.9	\$ 137.5		\$ 916.0
California litigation expense				\$ 34.7	34.7
Interest expense				(85.3)	(85.3)
Administrative expenses and other				(155.6)	(155.6)
Income before income taxes	\$ 663.6	\$ 114.9	\$ 137.5	\$ (206.2)	\$ 709.8

	Nine Months Ended September 30, 2020				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 7,807.5	\$ 2,440.6	\$ 3,622.7	\$ 2.1	\$ 13,872.9
Intersegment transfers		2,770.0	105.0	(2,875.0)	—
Total net sales and intersegment transfers	\$ 7,807.5	\$ 5,210.6	\$ 3,727.7	\$ (2,872.9)	\$ 13,872.9
Segment profit	\$ 1,735.4	\$ 519.2	\$ 366.4		\$ 2,621.0
Interest expense				\$ (257.6)	(257.6)
Administrative expenses and other				(348.1)	(348.1)
Income before income taxes	\$ 1,735.4	\$ 519.2	\$ 366.4	\$ (605.7)	\$ 2,015.3

Nine Months Ended September 30, 2019

	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	\$ 7,809.1	\$ 2,137.4	\$ 3,838.0	\$ 1.9	\$ 13,786.4
Intersegment transfers		2,769.0	88.3	(2,857.3)	—
Total net sales and intersegment transfers	\$ 7,809.1	\$ 4,906.4	\$ 3,926.3	\$ (2,855.4)	\$ 13,786.4
Segment profit	\$ 1,607.1	\$ 343.5	\$ 386.5		\$ 2,337.1
California litigation expense				\$ 34.7	34.7
Interest expense				(265.5)	(265.5)
Administrative expenses and other				(421.9)	(421.9)
Income before income taxes	\$ 1,607.1	\$ 343.5	\$ 386.5	\$ (652.7)	\$ 1,684.4

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 and the operations of 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. Also included in the Administrative segment was interest expense, interest and investment income, certain expenses related to closed facilities and environmental-related matters, and other expenses that were not directly associated with the Reportable Segments. 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. The Administrative segment did not include any significant foreign operations. Gains and losses from the sale of property were not a significant operating factor in determining the performance of the Administrative segment.

Net external sales of all consolidated foreign subsidiaries were \$967.6 million and \$918.8 million for the third quarter of 2020 and 2019, respectively. Net external sales of all consolidated foreign subsidiaries were \$2.572 billion and \$2.768 billion for the first nine months of 2020 and 2019, respectively. Long-lived assets of these subsidiaries totaled \$3.077 billion and \$3.112 billion at September 30, 2020 and 2019, respectively. Domestic operations accounted for the remaining net external sales and long-lived assets. No single geographic area outside the United States was significant relative to consolidated net external sales, income before taxes or consolidated long-lived assets. Export sales and sales to any individual customer were each less than 10% of consolidated sales in 2020 and 2019.

For further details on the Company's Reportable Segments, see Note 21 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

NOTE 18—NON-TRADED INVESTMENTS

The Company has invested in the U.S. affordable housing and historic renovation real estate markets and certain other investments that have been identified as variable interest entities. However, because the Company does not have the power to direct the day-to-day operations of the investments and the risk of loss is limited to the amount of contributed capital, the Company is not considered the primary beneficiary. In accordance with the Consolidation Topic of the ASC, the investments are not consolidated. The carrying amount of the investments, included in Other assets, was \$199.8 million and \$225.4 million at September 30, 2020 and 2019, respectively. The liability for estimated future capital contributions to the investments was \$155.2 million and \$162.4 million at September 30, 2020 and 2019, respectively.

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

(dollars in millions, except as noted and per share data)

BACKGROUND

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 and throughout Europe, Asia and Australia.

The Company is structured into three reportable segments—The Americas Group, Consumer Brands Group and Performance Coatings Group (collectively, the "Reportable Segments")—and an Administrative segment in the same way it is internally organized for assessing performance and making decisions regarding allocation of resources. See Note 17 of Item 1 for additional information on the Company's Reportable Segments.

SUMMARY

- Consolidated net sales increased 5.2% in the quarter to \$5.122 billion
- Net sales from stores in U.S. and Canada open more than twelve calendar months increased 3.1% in the quarter
- Diluted net income per share increased to \$7.66 per share in the quarter compared to \$6.16 per share in the third quarter 2019
 - Third quarter 2020 included charges of \$0.63 per share for acquisition-related amortization expense; third quarter 2019 included charges of \$0.63 per share for acquisition-related amortization expense and \$0.14 per share for integration costs, partially offset by a \$0.28 per share benefit from the resolution of the California litigation
- Net operating cash increased 54% year-to-date to \$2.56 billion, or 18.5% of sales

OUTLOOK

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. While the response to the outbreak continues to evolve, it has led to stay-at-home orders and physical distancing guidelines, among other mandates, that have substantially disrupted normal activities in most segments of the global economy. We have worked with government and health authorities to continue to operate our business during this crisis, including our company-operated stores, manufacturing plants and other facilities, due to the essential nature of our products. We have endeavored to follow recommended actions of government authorities and health officials in order to protect the health and well-being of our employees, customers and their families worldwide by implementing online and phone ordering of products, using curb side pickup or delivery, and implementing remote, alternate and flexible work arrangements where possible. We will continue to work with government authorities and health officials in implementing appropriate safety measures, adapting as recommendations and safety protocols evolve so that we may maintain our operations, keep our stores open and continue to return employees who work in office environments.

While the COVID-19 pandemic did not have a material adverse effect on our consolidated financial results for the first three quarters, we anticipate the impact of the deterioration of the U.S and global economies may continue and could have an adverse impact on our business in future periods. The extent to which our operations will be impacted by the outbreak depends largely on future developments, including the duration, severity and scope of the pandemic, all of which remain uncertain.

We have a strong liquidity position, with \$619.9 million in cash and \$3.50 billion of unused capacity under our credit facilities at September 30, 2020. The Company is in compliance with bank covenants and expects to remain in compliance. During the first half of the year, we took actions to preserve liquidity and generate cash flow during the crisis. As the circumstances around the COVID-19 pandemic remain fluid, we continue to actively monitor the pandemic's impact to the Company worldwide, including our financial position, liquidity, results of operations and cash flows, while managing our response to the crisis through collaboration with employees, customers, suppliers, government authorities, health officials and other business partners.

Please see Item 1A "Risk Factors" in Part II of this Quarterly Report on Form 10-Q for further information regarding the current and potential impact of the COVID-19 pandemic on the Company.

RESULTS OF OPERATIONS

The Company has historically experienced, and expects to continue to experience, variability in quarterly results. The results of operations for the three and nine months ended September 30, 2020 are not indicative of the results to be expected for the full year as business is seasonal in nature with the majority of Net sales for the Reportable Segments traditionally occurring during the second and third quarters. However, periods of economic downturn can alter the Company's seasonal patterns.

The following discussion and analysis addresses comparisons of material changes in the consolidated financial statements for the three and nine months ended September 30, 2020 and 2019.

Net Sales

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
The Americas Group	\$ 2,978.3	\$ 2,898.2	\$ 80.1	2.8 %	\$ 7,807.5	\$ 7,809.1	\$ (1.6)	— %
Consumer Brands Group	838.1	678.4	159.7	23.5 %	2,440.6	2,137.4	303.2	14.2 %
Performance Coatings Group	1,305.3	1,290.2	15.1	1.2 %	3,622.7	3,838.0	(215.3)	(5.6) %
Administrative	0.5	0.9	(0.4)	(44.4)%	2.1	1.9	0.2	10.5 %
Total	\$ 5,122.2	\$ 4,867.7	\$ 254.5	5.2 %	\$ 13,872.9	\$ 13,786.4	\$ 86.5	0.6 %

Three Months Ended September 30, 2020

Consolidated net sales increased in the third quarter of 2020 due primarily to higher sales to most of the Consumer Brands Group's retail customers in all regions, continued strong sales in residential repaint and DIY in North American stores, and a return to growth in Performance Coatings Group. Currency translation rate changes decreased net sales by 0.9% in the third quarter of 2020. Net sales of all consolidated foreign subsidiaries were up 5.3% to \$967.6 million in the third quarter compared to \$918.8 million in the same period last year. The increase in net sales for all consolidated foreign subsidiaries in the third quarter was due primarily to higher volume sales to most of the Consumer Brands Group's retail customers. Net sales of all operations other than consolidated foreign subsidiaries were up 5.2% to \$4.155 billion in the third quarter compared to \$3.949 billion in the same period last year.

Net sales in The Americas Group increased in the third quarter of 2020 due primarily to higher residential repaint, DIY and new residential paint sales in the U.S. and Canada, partially offset by the impacts of COVID-19 on demand in some end market segments served. Net sales from stores open for more than twelve calendar months in the U.S. and Canada increased 3.1% in the third quarter compared to last year's comparable period. Sales of non-paint products increased 0.2% compared to last year's third quarter. A discussion of changes in volume versus pricing for sales of products other than paint is not pertinent due to the wide assortment of general merchandise sold.

Net sales of the Consumer Brands Group increased in the third quarter due primarily to higher volume sales to most of the group's retail customers in all regions.

Net sales in the Performance Coatings Group stated in U.S. dollars increased in the third quarter primarily due to higher sales volume and improving demand in most businesses and regions, led by our Packaging and Industrial Wood divisions. Currency translation rate changes decreased the Performance Coatings Group's net sales by 1.4% in the third quarter.

Nine Months Ended September 30, 2020

Consolidated net sales increased slightly in the first nine months of 2020 due primarily to higher sales to most of the Consumer Brands Group's retail customers in all regions, mostly offset by demand softness in some end markets in The Americas Group and the Performance Coatings Group caused by the impacts of COVID-19 and unfavorable currency translation rate changes. Currency translation rate changes decreased net sales by 1.3% in the first nine months of 2020. Net sales of all consolidated foreign subsidiaries were down 7.1% to \$2.572 billion in the first nine months compared to \$2.768 billion in the same period last year. The decrease in net sales for all consolidated foreign subsidiaries in the first nine months was due primarily to demand softness in some end markets from the impacts of COVID-19, and unfavorable currency translation rate changes. Net sales of all operations other than consolidated foreign subsidiaries were up 2.6% to \$11.301 billion in the first nine months compared to \$11.019 billion in the same period last year.

Net sales in The Americas Group were essentially flat in the first nine months of 2020 due primarily to the impacts of COVID-19 on demand in most end market segments served during the second quarter. Net sales from stores open for more than twelve calendar months in the U.S. and Canada increased 0.7% in the first nine months compared to last year's comparable

period. Sales of non-paint products decreased 4.3% over last year's first nine months. A discussion of changes in volume versus pricing for sales of products other than paint is not pertinent due to the wide assortment of general merchandise sold.

Net sales of the Consumer Brands Group increased in the first nine months due primarily to higher volume sales to most of the group's North American and European retail customers.

Net sales in the Performance Coatings Group stated in U.S. dollars decreased in the first nine months primarily due to softer end market demand in most businesses, mostly due to the impacts of COVID-19, and unfavorable currency translation rate changes, partially offset by increased sales in the Packaging and Coil divisions in all regions. Currency translation rate changes decreased the Performance Coatings Group's net sales by 2.2% in the first nine months of 2020.

Income Before Income Taxes

The following table presents the components of income before income taxes as a percentage of net sales:

(millions of dollars, except % of sales data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
		% of Net Sales		% of Net Sales		% of Net Sales		% of Net Sales
Gross profit	\$ 2,455.3	47.9 %	\$ 2,225.6	45.7 %	\$ 6,553.9	47.2 %	\$ 6,142.1	44.6 %
Selling, general and administrative expenses	1,406.8	27.5 %	1,345.2	27.6 %	4,005.7	28.9 %	3,920.5	28.4 %
Other general expense - net	10.5	0.2 %	12.0	0.2 %	13.1	0.1 %	18.7	0.2 %
Amortization	78.7	1.5 %	77.5	1.6 %	234.2	1.7 %	234.4	1.7 %
Interest expense	83.3	1.6 %	85.3	1.8 %	257.6	1.8 %	265.5	1.9 %
Interest and net investment income	(1.4)	— %	(0.6)	— %	(2.6)	— %	(1.6)	— %
California litigation expense	—	— %	(34.7)	(0.7)%	—	— %	(34.7)	(0.2)%
Other expense - net	1.8	— %	31.1	0.6 %	30.6	0.2 %	54.9	0.4 %
Income before income taxes	\$ 875.6	17.1 %	\$ 709.8	14.6 %	\$ 2,015.3	14.5 %	\$ 1,684.4	12.2 %

Three Months Ended September 30, 2020

Consolidated gross profit increased \$229.7 million in the third quarter of 2020 compared to the same period in 2019. Consolidated gross profit as a percent of consolidated net sales increased in the third quarter of 2020 to 47.9%, compared to 45.7% during the same period in 2019. Consolidated gross profit dollars and percent improved as a result of favorable customer and product mix and moderating raw material costs.

The Americas Group's gross profit in the third quarter of 2020 was higher than last year by \$107.2 million due primarily to favorable customer and product mix and moderating raw material costs, partially offset by unfavorable currency translation rate changes. The Americas Group's gross profit as a percent of sales increased in the third quarter of 2020 compared to the same period in 2019 for these same reasons. The Consumer Brands Group's gross profit increased by \$90.3 million in the third quarter compared to the same period last year due primarily to higher sales volume to most of the group's retail customers and moderating raw material costs. The Consumer Brands Group's gross profit as a percent of sales increased in the third quarter compared to the same period last year due to higher sales volume, moderating raw material costs and actions taken over the past year to improve international operating margins. The Performance Coatings Group's gross profit increased \$31.2 in the third quarter compared to the same period last year, when stated in U.S. dollars, primarily due to moderating raw material costs and higher sales volume. The Performance Coatings Group's gross profit as a percent of sales increased in the third quarter compared to the same period last year for these same reasons.

Consolidated selling, general and administrative expenses (SG&A) increased \$61.6 million in the third quarter of 2020 versus the same period last year due primarily to increased spending from new store openings, and to support higher DIY sales levels with our retail customers. As a percent of sales, consolidated SG&A remained relatively flat at 27.5% in the third quarter of 2020, from 27.6% in the same period last year.

The Americas Group's SG&A increased \$36.5 million in the third quarter of 2020 compared to the same period last year due primarily to increased spending from new store openings and additional sales reps. The Consumer Brands Group's SG&A increased \$8.3 million in the third quarter compared to the same period last year to support higher sales levels. The Performance Coatings Group's SG&A increased \$9.1 million in the third quarter compared to the same period last year to

support higher sales levels and investments in information technology systems. The Administrative segment's SG&A increased \$7.7 million in the third quarter compared to the same period last year due primarily to investments in information technology systems, partially offset by lower integration costs.

In the third quarter of 2020, amortization of acquired intangibles was \$50.5 million and \$21.7 million for the Performance Coatings and Consumer Brands Groups, respectively. In the third quarter of 2019, amortization of acquired intangibles was \$50.5 million and \$21.4 million for the Performance Coatings and Consumer Brands Groups, respectively.

Other expense - net improved \$29.3 million in the third quarter of 2020 compared to the same period in 2019 primarily due to a decrease in foreign currency transaction related losses and the recognition of a \$14.8 million loss on extinguishment of debt in the prior year.

Nine Months Ended September 30, 2020

Consolidated gross profit increased \$411.8 million in the first nine months of 2020 compared to the same period in 2019. Consolidated gross profit as a percent of consolidated net sales increased in the first nine months of 2020 to 47.2%, compared to 44.6% during the same period in 2019. Consolidated gross profit dollars and percent improved as a result of favorable customer and product mix and moderating raw material costs.

The Americas Group's gross profit in the first nine months of 2020 was higher than last year by \$236.6 million due to moderating raw material costs and favorable customer and product mix, partially offset by unfavorable currency translation rate changes. The Americas Group's gross profit as a percent of sales increased in the first nine months of 2020 compared to the same period in 2019 for the same reasons. The Consumer Brands Group's gross profit increased by \$178.7 million in the first nine months compared to the same period last year due primarily to higher sales volume to most of the group's North American and European retail customers and moderating raw material costs. The Consumer Brands Group's gross profit as a percent of sales increased in the first nine months compared to the same period last year for these same reasons. The Performance Coatings Group's gross profit decreased \$15.5 million in the first nine months compared to the same period last year, when stated in U.S. dollars, primarily due to unfavorable currency translation rate changes, partially offset by moderating raw material costs. The Performance Coatings Group's gross profit as a percent of sales increased in the first nine months compared to the same period last year due to moderating raw material costs.

Consolidated SG&A increased \$85.2 million in the first nine months of 2020 versus the same period last year due primarily to increased expenses in The Americas Group, partially offset by reduced or deferred corporate costs related to COVID-19. As a percent of sales, consolidated SG&A in the first nine months compared to the same period last year increased due to these same reasons.

The Americas Group's SG&A increased \$108.0 million in the first nine months of 2020 due primarily to increased spending from new store openings, additional sales reps and COVID-19 costs primarily in the second quarter. The Consumer Brands Group's SG&A increased \$3.1 million in the first nine months compared to the same period last year primarily to support higher sales levels, partially offset by currency translation rate changes. The Performance Coatings Group's SG&A increased \$2.1 million in the first nine months compared to the same period last year primarily due to investments in information technology systems and expenses related to COVID-19, partially offset by currency translation rate changes. The Administrative segment's SG&A decreased \$28.0 million in the first nine months compared to the same period last year due primarily to lower investments in information technology systems.

Other general expense - net decreased \$5.6 million in the first nine months of 2020 compared to the same period in 2019 primarily due to increased gains from the sale and disposition of fixed assets in the current year.

In the first nine months of 2020, amortization of acquired intangibles was \$150.6 million and \$64.5 million for the Performance Coatings and Consumer Brands Groups, respectively. In the first nine months of 2019, amortization of acquired intangibles was \$152.1 million and \$64.1 million for the Performance Coatings and Consumer Brands Groups, respectively.

Other expense - net improved \$24.3 million in the first nine months of 2020 compared to the same period in 2019 primarily due to a \$32.4 million charge recognized in 2019 for the settlement of a domestic pension plan, partially offset by a \$6.5 million increase in losses recognized upon extinguishment of debt.

The following table presents income before income taxes by segment and as a percentage of net sales by segment:

	Three Months Ended September 30,			%	Nine Months Ended September 30,			%
	2020	2019	Change		2020	2019	Change	
Income Before Income Taxes:								
The Americas Group	\$ 747.4	\$ 663.6	12.6 %	\$ 1,735.4	\$ 1,607.1	8.0 %		
Consumer Brands Group	198.3	114.9	72.6 %	519.2	343.5	51.1 %		
Performance Coatings Group	155.3	137.5	12.9 %	366.4	386.5	(5.2) %		
Administrative	(225.4)	(206.2)	(9.3) %	(605.7)	(652.7)	7.2 %		
Total	\$ 875.6	\$ 709.8	23.4 %	\$ 2,015.3	\$ 1,684.4	19.6 %		

**Income Before Income Taxes
as a % of Net Sales:**

The Americas Group	25.1 %	22.9 %	22.2 %	20.6 %
Consumer Brands Group	23.7 %	16.9 %	21.3 %	16.1 %
Performance Coatings Group	11.9 %	10.7 %	10.1 %	10.1 %
Administrative	nm	nm	nm	nm
Total	17.1 %	14.6 %	14.5 %	12.2 %

nm - not meaningful

Income Tax Expense

The effective tax rate was 19.4% for the third quarter of 2020 compared to 18.8% for the third quarter of 2019 and 19.4% for the first nine months of 2020 compared to 23.3% for the first nine months of 2019. The decrease in the effective tax rate in the current year compared to prior year was primarily due to a \$74.3 million tax provision recorded in the first nine months of 2019 related to the reversal of previously recognized net tax benefits from federal renewable energy tax credit funds. The effective tax rate was also favorably impacted by tax benefits related to employee share based payments during 2020 and 2019. The other significant components of the Company's tax rate were consistent year over year. See Note 15 of Item 1 for additional information.

Net Income Per Share

Diluted net income per share in the third quarter of 2020 increased to \$7.66 per share compared to \$6.16 per share in the third quarter of 2019. Diluted net income per share for the third quarter of 2020 included a \$0.63 per share charge for acquisition-related amortization expense. The third quarter of 2019 included charges of \$0.63 per share for acquisition-related amortization expense and \$0.14 per share for integration costs, partially offset by a benefit of \$0.28 per share from the resolution of the California litigation. Currency translation rate changes had a negligible impact on diluted net income per share in the third quarter.

Diluted net income per share in the first nine months of 2020 increased to \$17.60 per share compared to \$13.82 per share in the first nine months of 2019. Diluted net income per share for the first nine months of 2020 included a \$1.87 per share charge for acquisition-related amortization expense. The first nine months of 2019 included charges of \$1.90 per share for acquisition-related amortization expense, \$0.33 per share for integration costs, \$0.79 per share for a tax credit investment loss and \$0.27 per share for pension plan settlement expense, partially offset by a benefit of \$0.28 per share from the resolution of the California litigation. Currency translation rate changes decreased diluted net income per share in the first nine months by \$0.09 per share.

FINANCIAL CONDITION, LIQUIDITY AND CASH FLOW

Overview

The Company's financial condition, liquidity and cash flow continued to be strong during the first nine months of 2020 as net operating cash was \$2.564 billion, an improvement of \$902.4 million from the prior year comparable period, primarily due to improved operating results as consolidated income before income taxes increased \$330.9 million to \$2.015 billion in the current year or 14.5% of net sales.

Cash and cash equivalents increased \$458.1 million during the first nine months of 2020. Cash flow from operations funded normal seasonal working capital increases, allowed the Company to return \$1.663 billion to shareholders in the form of share

buybacks and cash dividends and repay \$205.7 million in long-term debt (net of proceeds from issuances) during the first nine months of 2020. At September 30, 2020, the Company's cash and cash equivalents were \$619.9 million compared to \$161.8 million and \$189.6 million at December 31, 2019 and September 30, 2019, respectively.

Total debt at September 30, 2020 was \$8.291 billion or 66.3% as a percentage of total capitalization compared to \$8.685 billion or 67.8% at December 31, 2019 and \$8.908 billion or 68.9% at September 30, 2019. At September 30, 2020, the Company had remaining short-term borrowing ability of \$3.500 billion. The Company continues to maintain sufficient short-term borrowing capacity at reasonable rates, and the Company has sufficient cash on hand and total available borrowing capacity to fund its current operating needs.

Net Working Capital

Net working capital, defined as total current assets less total current liabilities, increased \$775.4 million to a surplus of \$817.3 million at September 30, 2020 compared to a surplus of \$41.9 million at September 30, 2019. The net working capital increase is primarily due to cash generated from operations, a reduction in short-term borrowings and the current portion of long-term debt, partially offset by decreases in accounts receivable and inventory.

Comparing current asset balances at September 30, 2020 to September 30, 2019, cash and cash equivalents increased \$430.3 million, accounts receivable decreased \$24.5 million, inventories decreased \$152.2 million due to increased DIY paint demand, and other current assets increased \$14.3 million primarily related to prepaid expenses. Current liability balances decreased at September 30, 2020 compared to September 30, 2019 primarily due to a \$435.5 million decrease in short-term borrowings, a \$405.5 million decrease in the current portion of long-term debt, partially offset by increases in accrued expenses and accounts payable. At September 30, 2020, the Company's current ratio was 1.19 compared to 1.02 and 1.01 at December 31, 2019 and September 30, 2019, respectively.

Goodwill and Intangible Assets

Goodwill and intangible assets decreased \$235.0 million from December 31, 2019 and decreased \$343.7 million from September 30, 2019. The net decrease during the first nine months of 2020 was primarily due to amortization of \$234.2 million and foreign currency translation of \$1.6 million. The net decrease over the twelve month period from September 30, 2019 was primarily due to amortization of \$312.6 million, impairment of indefinite-lived trademarks during the fourth quarter of 2019 of \$122.1 million and foreign currency translation of \$86.6 million, partially offset by acquisitions of \$3.6 million. The fair value of the Company's acquired intangible assets may be impacted by the Company's ongoing integration efforts.

During the first nine months of 2020, the Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic when evaluating whether an interim impairment trigger had occurred related to the Company's recognized goodwill and intangible assets. While the Company determined no impairment trigger occurred during the first nine months of 2020 and believes its assumptions and estimates of fair value related to reporting units and indefinite-lived trademarks are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results (including sales projections related to trademarks impaired during the fourth quarter of 2019) or other underlying assumptions could have a significant impact and future impairment charges could be required.

See Note 6 in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for more information concerning the Company's goodwill and intangible assets, including impairment testing of these assets.

Other Assets

Other assets at September 30, 2020 increased \$6.8 million in the first nine months of 2020 and decreased \$40.1 million from a year ago. The increase in the first nine months was primarily due to an increase in other investments, partially offset by a decrease in deposits. The decrease from September 30, 2019 was primarily due to decreases in deferred tax assets and other investments.

Property, Plant and Equipment

Net property, plant and equipment decreased \$55.2 million in the first nine months of 2020 and decreased \$18.3 million in the twelve months since September 30, 2019. The decrease in the first nine months was primarily due to depreciation expense of \$200.0 million, unfavorable changes in currency translation rates of \$14.6 million and sale or disposition of fixed assets of \$34.4 million, partially offset by capital expenditures of \$193.8 million. Since September 30, 2019, the decrease was primarily due to depreciation expense of \$267.1 million, sale or disposition of fixed assets of \$54.1 million, and unfavorable changes in currency translation rates of \$11.8 million, partially offset by capital expenditures of \$297.9 million and acquisitions of \$16.8 million. Capital expenditures primarily represented expenditures associated with improvements and normal equipment

replacement in manufacturing and distribution facilities in the Consumer Brands Group, normal equipment replacement in The Americas and Performance Coatings Groups, and aviation transportation and information systems hardware in the Administrative segment.

Debt

In March 2020, the Company issued \$500.0 million of 2.30% Senior Notes due May 2030 and \$500.0 million of 3.30% Senior Notes due May 2050 (collectively the “New Notes”) in a public offering. The net proceeds from the issuance of the New Notes were used to repurchase a portion of the 2.75% Senior Notes due 2022 and redeem the 2.25% Senior Notes due May 2020. The repurchase of the 2.75% Senior Notes due 2022 during the first quarter of 2020 resulted in a loss of \$21.3 million recorded in Other expense - net.

On September 14, 2020, the Company amended its five-year credit agreement entered into on May 6, 2016. The primary purpose of the amendment was to extend the maturity of \$75.0 million of the commitments available for borrowing and obtaining the issuance, renewal, extension and increase of a revolving letter of credit from June 20, 2021 to June 20, 2025.

At September 30, 2020, the Company's outstanding debt was primarily comprised of \$8.291 billion of long-term debt primarily associated with senior notes. There were no borrowings outstanding on its revolving lines of credit or under its commercial paper program. The Company had unused capacity under its various credit agreements of \$3.500 billion at September 30, 2020.

Defined Benefit Pension and Other Postretirement Benefit Plans

Long-term liabilities for postretirement benefits other than pensions did not change significantly from December 31, 2019 and September 30, 2019. See Note 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for more information concerning the Company's benefit plan obligations.

Deferred Income Taxes

Deferred income taxes at September 30, 2020 decreased \$13.2 million in the first nine months of 2020, and decreased \$140.2 million from a year ago, primarily due to amortization of acquisition-related intangible assets.

Other Long-Term 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 nine months of 2020. 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 2020. See Note 8 for further information on environmental-related long-term liabilities.

Contractual Obligations, Commercial Commitments and Warranties

Short-term borrowings decreased \$204.5 million to \$0.2 million at September 30, 2020 from \$204.7 million at December 31, 2019. Total long-term debt decreased \$189.5 million to \$8.291 billion at September 30, 2020 from \$8.481 billion at December 31, 2019, and decreased \$181.6 million from \$8.473 billion at September 30, 2019.

The California litigation accrual decreased \$12.0 million to \$64.7 million (\$12.0 million current and \$52.7 million long-term) at September 30, 2020 from \$76.7 million at September 30, 2019 as a result of the Company remitting its annual payment in September in accordance with the final court approved agreement to resolve the litigation. See Note 9 for additional information.

There have been no other significant changes to the Company's contractual obligations and commercial commitments in the third quarter of 2020 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, 2019.

Litigation

See Note 9 for information concerning litigation.

Shareholders' Equity

Shareholders' equity increased \$84.0 million to \$4.207 billion at September 30, 2020 from \$4.123 billion at December 31, 2019 and increased \$184.4 million from \$4.023 billion at September 30, 2019.

The increase in Shareholders' equity for the first nine months of 2020 resulted from net income of \$1.623 billion and an increase in other capital of \$220.3 million primarily associated with stock-based compensation expense and stock option exercises, partially offset by \$1.277 billion of Treasury stock activity primarily attributable to treasury stock repurchases, cash dividends paid on common stock of \$367.8 million and an increase in Accumulated other comprehensive loss of \$112.8 million.

The increase in Shareholders' equity since September 30, 2019 resulted from net income of \$1.872 billion and an increase in other capital of \$294.0 million primarily associated with stock-based compensation expense and stock option exercises, partially offset by \$1.481 billion of Treasury stock activity primarily attributable to treasury stock repurchases, cash dividends paid on common stock of \$473.7 million and an increase in Accumulated other comprehensive loss of \$25.2 million.

During the first nine months of 2020, the Company purchased 2,300,000 shares of its common stock for treasury purposes through open market purchases. The Company acquires its common stock for general corporate purposes, and depending on its cash position and market conditions, it may acquire additional shares in the future. The Company had remaining authorization at September 30, 2020 to purchase 6.15 million shares of its common stock.

In February 2020, the Company's Board of Directors increased the quarterly cash dividend from \$1.13 per share to \$1.34 per share. This quarterly dividend will result in an annual dividend for 2020 of \$5.36 per share or a 32.5% payout of 2019 diluted net income per share.

Net Investment Hedges

In February 2020, the Company settled its \$400.0 million U.S. Dollar to Euro cross currency swap contract entered into in May 2019 to hedge the Company's net investment in its European operations. At the time of the settlement, an unrealized gain of \$11.8 million, net of tax, was recognized in AOCI. For the three and nine months ended September 30, 2019, an unrealized gain of \$13.9 million and \$8.9 million, respectively, net of tax, was recognized in AOCI.

In February 2020, the Company entered into two U.S. Dollar to Euro cross currency swap contracts to hedge the Company's net investment in its European operations. The contracts have a notional value of \$500.0 million and \$244.0 million, respectively, and mature on June 1, 2024 and November 15, 2021, respectively. During the term of the \$500.0 million contract, the Company will pay fixed-rate interest in Euros and receive fixed-rate interest in U.S. Dollars, thereby effectively converting a portion of the Company's U.S. Dollar denominated fixed-rate debt to Euro denominated fixed-rate debt. During the term of the \$244.0 million contract, the Company will pay floating-rate interest in Euros and receive floating-rate interest in U.S. Dollars. The fair value of the contracts are included in Other liabilities on the balance sheet. See Note 13. The changes in fair value are recognized in the foreign currency translation adjustments component of AOCI. For the three and nine months ended September 30, 2020, an unrealized loss of \$26.4 million and \$37.1 million, respectively, net of tax, was recognized in AOCI.

Cash Flow

Net operating cash for the nine months ended September 30, 2020 was a cash source of \$2.564 billion compared to a cash source of \$1.661 billion for the same period in 2019. The improvement in net operating cash was primarily due to an increase in net income and improved working capital management, partially offset by an increase in cash requirements for long-term items.

Net investing cash usage decreased \$111.9 million in the first nine months of 2020 to a usage of \$176.6 million from a usage of \$288.5 million in 2019 primarily due to a decrease in cash used for acquisitions and an increase in proceeds from sale of assets.

Net financing cash usage increased \$574.5 million to a usage of \$1.916 billion in the first nine months of 2020 from a usage of \$1.342 billion for the same period in 2019 primarily due to an increase in treasury stock purchases, repayments of short-term borrowings and cash dividends, partially offset by a decrease in long-term debt repayments and issuances, as well as the issuance of 100,000 shares of treasury stock (which were associated with the domestic defined benefit plan terminated in 2018).

In the twelve month period from October 1, 2019 through September 30, 2020, the Company generated net operating cash of \$3.224 billion, used \$350.7 million in investing activities and used \$2.421 billion in financing activities.

Market Risk

The Company is exposed to market risk associated with interest rate, foreign currency and commodity fluctuations. The Company occasionally utilizes derivative instruments as part of its overall financial risk management policy, but does not use derivative instruments for speculative or trading purposes. The Company believes it may be exposed to continuing market risk from foreign currency exchange rate and commodity price fluctuations. However, the Company does not expect that foreign currency exchange rate and commodity price fluctuations or hedging contract losses will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Financial Covenant

Certain borrowings contain a consolidated leverage covenant. The covenant states that the Company's leverage ratio is not to exceed 3.75 to 1.00. The leverage ratio is defined as the ratio of total indebtedness (the sum of Short-term borrowings, Current portion of long-term debt and Long-term debt) at the reporting date to consolidated "Earnings Before Interest, Taxes, Depreciation, and Amortization" (EBITDA), as defined in the credit agreement, for the 12-month period ended on the same date. Refer to the "Non-GAAP Financial Measures" section below for a reconciliation of EBITDA to Net income. At September 30, 2020, the Company was in compliance with the covenant and expects to remain in compliance. 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for more information concerning the Company's debt and related covenant.

Non-GAAP Financial Measures

Management utilizes certain financial measures that are not in accordance with U.S. generally accepted accounting principles (US GAAP) to analyze and manage the performance of the business. The required disclosures for these non-GAAP measures are shown below. The Company provides such non-GAAP information in reporting its financial results to give investors additional data to evaluate the Company's operations. Management does not, nor does it suggest investors should, consider such non-GAAP measures in isolation from, or in substitution for, financial information prepared in accordance with US GAAP.

EBITDA

EBITDA is a non-GAAP financial measure defined as net income from continuing operations before income taxes and interest, depreciation and amortization. Management considers EBITDA useful in understanding the operating performance of the Company. The reader is cautioned that the Company's EBITDA should not be compared to other entities unknowingly. Further, EBITDA should not be considered alternatives to Net income or Net operating cash as an indicator of operating performance or as a measure of liquidity. The reader should refer to the determination of Net income and Net operating cash in accordance with US GAAP disclosed in the Statements of Consolidated Income and Statements of Consolidated Cash Flows in Item 1.

The following table summarizes EBITDA as calculated by management for the periods indicated below:

(millions of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 705.8	\$ 576.5	\$ 1,623.4	\$ 1,292.7
Interest expense	83.3	85.3	257.6	265.5
Income taxes	169.8	133.3	391.9	391.7
Depreciation	67.4	65.3	200.0	195.0
Amortization	78.7	77.5	234.2	234.4
EBITDA	\$ 1,105.0	\$ 937.9	\$ 2,707.1	\$ 2,379.3

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (US GAAP) requires management to make estimates and assumptions that affect amounts reported in the accompanying consolidated unaudited interim financial statements. These determinations were made based upon management's best estimates, judgments and assumptions that were believed to be reasonable under the circumstances, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. However, application of these accounting policies

involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

A comprehensive discussion of the Company's critical accounting policies, management estimates and significant accounting policies followed in the preparation of the financial statements is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. There have been no significant changes in critical accounting policies, management estimates or accounting policies followed since the year ended December 31, 2019.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report constitute “forward-looking statements” within the meaning of the federal securities laws. These forward-looking statements are based upon management’s current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and the costs and potential liability for environmental-related matters and the lead pigment and lead-based paint litigation. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as “believe,” “expect,” “may,” “will,” “should,” “project,” “could,” “plan,” “goal,” “potential,” “seek,” “intend” or “anticipate” or the negative thereof or comparable terminology.

Readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside our control, that could cause actual results to differ materially from such statements and from our historical results and experience. These risks, uncertainties and other factors include such things as:

- general business conditions, strengths of retail and manufacturing economies and growth in the coatings industry;
- changes in general domestic and international economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions, and changing government policies, laws and regulations;
- changes in raw material and energy supplies and pricing;
- changes in our relationships with customers and suppliers;
- our ability to successfully integrate past and future acquisitions into our existing operations, as well as the performance of the businesses acquired;
- competitive factors, including pricing pressures and product innovation and quality;
- our ability to attain cost savings from productivity initiatives;
- risks and uncertainties associated with our expansion into and our operations in Asia, Europe, South America and other foreign markets, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest and other external economic and political factors;
- the achievement of growth in foreign markets, such as Asia, Europe and South America;
- increasingly stringent domestic and foreign governmental regulations, including those affecting health, safety and the environment;
- inherent uncertainties involved in assessing our potential liability for environmental-related activities;
- other changes in governmental policies, laws and regulations, including changes in tariff policies, as well as changes in accounting policies and standards and taxation requirements (such as new tax laws and new or revised tax law interpretations);
- the nature, cost, quantity and outcome of pending and future litigation and other claims, including the lead pigment and lead-based paint litigation, and the effect of any legislation and administrative regulations relating thereto;
- adverse weather conditions or impacts of climate change, natural disasters and public health crises, including the COVID-19 pandemic; and
- the duration, severity and scope of the COVID-19 pandemic and the actions implemented by international, federal, state and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19, which may exacerbate one or more of the aforementioned and/or other risks, uncertainties and factors more fully described in the Company’s reports filed with the Securities and Exchange Commission.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk associated with interest rate, foreign currency and commodity fluctuations. The Company occasionally utilizes derivative instruments as part of its overall financial risk management policy, but does not use derivative instruments for speculative or trading purposes. The Company enters into option and forward currency exchange contracts and commodity swaps to hedge against value changes in foreign currency and commodities. The Company believes it may experience continuing losses from foreign currency translation and commodity price fluctuations. However, the Company does not expect currency translation, transaction, commodity price fluctuations or hedging contract losses to have a material adverse effect on the Company's financial condition, results of operations or cash flows. There were no material changes in the Company's exposure to market risk since the disclosure included in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On July 1, 2020, the Company was notified by the California Department of Pesticide Regulation (“DPR”) alleging that the Company engaged in the delivery and/or sale of misbranded and/or unregistered pesticides in violation of the California Food and Agricultural Code. DPR offered to settle the allegations for approximately \$134,000. Subsequently, the Company provided DPR with information in support of a reduction of the settlement amount. The Company and DPR are involved in discussions to resolve the matter.

For information regarding certain other environmental-related matters and other legal proceedings, see the information included under the captions titled “Other Long-Term 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.” The information contained in Note 9 to the Condensed Consolidated Financial Statements is incorporated herein by reference.

Item 1A. Risk Factors.

We face a number of risks that could materially and adversely affect our business, results of operations, cash flow, liquidity or financial condition. A discussion of our risk factors can be found in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and Part II, Item 1A, Risk Factors in our Quarterly Reports on Forms 10-Q for the quarterly periods ended March 31, 2020 and June 30, 2020. The information below updates the risks relating to the COVID-19 pandemic disclosed in Part II, Item 1A, Risk Factors in our Quarterly Reports on Forms 10-Q for the quarterly periods ended March 31, 2020 and June 30, 2020. The impact of COVID-19 may also exacerbate other risks discussed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, any of which could have a material effect on us. This situation continues to change rapidly and additional impacts are likely to arise that we are not aware of currently.

The COVID-19 pandemic has adversely impacted our business, results of operations, cash flow and financial condition, and the extent to which the COVID-19 pandemic will adversely impact our business, results of operations, cash flow, liquidity and financial condition in the future remains uncertain.

A novel strain of coronavirus (COVID-19) was first identified in Wuhan, China in December 2019. On March 11, 2020, the World Health Organization declared COVID-19 to be a global pandemic and recommended containment and mitigation measures. On March 13, 2020, the United States declared a national emergency concerning the outbreak. Along with these declarations, extraordinary and wide-ranging actions have been taken by international, federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19. These actions have included quarantines, physical distancing, face coverings, restrictions on public gatherings and other health and safety protocols, “stay-at-home” orders, travel restrictions, mandatory business closures, and other mandates that have substantially restricted individuals’ daily activities and curtailed or ceased many businesses’ normal operations. While some of these actions and mandates have been lifted or eased as COVID-19 cases decreased or stabilized and economies partially or fully reopened, certain jurisdictions have seen increases in COVID-19 cases recently, resulting in some of these actions and mandates being reinstated or new restrictions being imposed.

In response to the pandemic and these actions, we began implementing changes in our business in March 2020 designed to protect the health and well-being of our employees and customers and to support appropriate physical distancing and other health and safety protocols. In late March, we temporarily reduced store hours and closed our sales floors in our company-operated paint stores to the general public, requiring our customers to order product online or via phone and to access their products via curbside pickup or delivery. We implemented remote, alternate and flexible work arrangements where possible, including implementing split shifts at facilities and remote work options for non-essential on-site functions, enhanced cleaning and sanitary procedures, transitioned some of our facilities to manufacture hand sanitizer for use in our facilities and surrounding communities, implemented domestic and international travel restrictions, implemented return to work and visitor screening protocols, and postponed or canceled hosting or attending large events. We also enhanced certain employee benefits, such as tele-health, paid sick leave and family leave, and established voluntary leave of absence policies. In May, we began the process of reinstating regular store hours and re-opening the sales floors in our stores with appropriate health and safety protocols, which resulted in all of our stores in the U.S. and Canada being fully re-opened. We also began the process of returning some of our employees who work in office environments to the office, although many employees continue to work remotely. The necessary and appropriate measures we have taken have resulted in additional costs and have adversely impacted our business and financial performance. In addition, we face additional operational risks in connection with remote work arrangements, including but not limited to cybersecurity risks and increased vulnerability to security breaches, cyber attacks, phishing, malware, including computer viruses and ransomware, or other similar events, intrusions and disruptions. As our

response to the pandemic continues and evolves, we expect to incur additional costs and are likely to experience further adverse impacts to our business, each of which may be significant.

To date, the COVID-19 outbreak has surfaced in all regions around the world and has severely impacted the global economy, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets, all of which are expected to continue, and all of which have adversely affected, and are expected to continue to adversely affect, our business. We continue to experience occasional, temporary disruptions and closures of some of our facilities due to COVID-19. We also continue to see shifts in consumer behaviors and preferences, as well as impacts in the demand for some of our products. We have experienced an unprecedented surge in do-it-yourself (DIY) demand due to some of our customers spending more time at home and focusing on home improvement projects. Some of our architectural and industrial businesses were quick to recover from the onset of the pandemic, while others are recovering at a slower pace. While we expect demand levels to return to more normalized levels eventually, our ability to predict and meet any future changes in the demand for our products due to the pandemic remains uncertain. Although the raw materials used in the manufacturing, distribution, and sale of our products are typically available from various sources in sufficient quantities, and although we have not experienced significant raw material shortages, delays or increased costs to date, COVID-19 may result in increased costs and unexpected shortages or delays in the delivery of some raw materials. We reduced spending in certain areas of our business, including through voluntary and involuntary leave programs and reductions in capital expenditures, temporarily suspending share repurchases and reducing discretionary spending, and we may need to take additional actions to reduce spending in the future.

While we are closely monitoring the impact of the pandemic on all aspects of our business, the extent of the impact on our results of operations, cash flow, liquidity, and financial performance, as well as our ability to execute near-term and long-term business strategies and initiatives, will depend on numerous evolving factors and future developments, which are highly uncertain and which we cannot predict or control, and some of which we are not currently aware, including, but not limited to: (a) the duration, severity and scope of the pandemic, including additional waves, increases and spikes in the number of COVID-19 cases in certain areas; (b) rapidly-changing governmental and public health directives to contain and combat the outbreak, including the duration, degree and effectiveness of directives, as well as the easing, removal and potential reinstatement of directives; (c) the development, availability and effectiveness of treatments and vaccines for COVID-19; (d) the extent and duration of the pandemic's adverse and volatile effects on economic and social activity, consumer confidence, discretionary spending and preferences, labor and healthcare costs, and unemployment rates, any of which may reduce demand for some of our products and impair the ability of those with whom we do business to satisfy their obligations to us; (e) our ability to sell and provide our services and products, including as a result of potential reinstatement of temporarily-reduced store hours and sales floor closures in our stores and continued travel restrictions, mandatory business closures, and stay-at home or similar orders; (f) any temporary reduction in our workforce, closures of our offices and facilities and our ability to adequately staff and maintain our operations; (g) the ability of our customers and suppliers to continue their operations, which could result in terminations of contracts, losses of revenue and adverse effects to our supply chain; and (h) any impairment in value of our tangible or intangible assets which could be recorded as a result of weaker economic conditions. If the pandemic continues to create disruptions or turmoil in the credit or financial markets, or further impacts our credit ratings, it could adversely affect our ability to access capital on favorable terms and continue to meet our liquidity needs.

Given the inherent uncertainty surrounding COVID-19, we expect the pandemic will continue to create challenging operating environments and have an adverse impact on our business in the near term. If these conditions persist for a prolonged period, the COVID-19 pandemic, including any of the above factors and others that are currently unknown, may have a material adverse effect on our business, results of operations, cash flow, liquidity, or financial condition.

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

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan
July 1 - July 31				
Share repurchase program ⁽¹⁾	50,000	\$ 648.56	50,000	6,700,000
Employee transactions ⁽²⁾	2,585	\$ 601.60		N/A
August 1 - August 31				
Share repurchase program ⁽¹⁾	275,000	\$ 657.30	275,000	6,425,000
Employee transactions ⁽²⁾	124	\$ 666.94		N/A
September 1 - September 30				
Share repurchase program ⁽¹⁾	275,000	\$ 695.43	275,000	6,150,000
Employee transactions ⁽²⁾				N/A
Total				
Share repurchase program ⁽¹⁾	600,000	\$ 674.05	600,000	6,150,000
Employee transactions ⁽²⁾	2,709	\$ 604.59		N/A

⁽¹⁾ Shares were purchased through the Company's publicly announced share repurchase program. There is no expiration date specified for the program.

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

Item 5. Other Information.

During the nine months ended September 30, 2020, 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 global tax advisory and tax compliance services.

Item 6. Exhibits.

- 4.1 [Amendment No. 11 to the Credit Agreement, dated as of September 14, 2020, 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 September 14, 2020, and incorporated herein by reference.](#)
- 10.1* [Schedule of Executive Officers who are Parties to the Amended and Restated Severance Agreements in the forms filed as Exhibit 10\(e\) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 \(filed herewith\).](#)
- 31(a) [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Executive Officer \(filed herewith\).](#)
- 31(b) [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Financial Officer \(filed herewith\).](#)
- 32(a) [Section 1350 Certification of Chief Executive Officer \(furnished herewith\).](#)
- 32(b) [Section 1350 Certification of Chief Financial Officer \(furnished herewith\).](#)
- 101.INS Inline XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 The cover page from this Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL and contained in Exhibit 101.

* Management contract or compensatory plan or arrangement.

Signatures

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

THE SHERWIN-WILLIAMS COMPANY

October 27, 2020

By:

/s/ Jane M. Cronin

Jane M. Cronin
Senior Vice President -
Corporate Controller

October 27, 2020

By:

/s/ Allen J. Mistysyn

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

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

Form A of Severance Agreement

John G. Morikis

Form B of Severance Agreement

Joel D. Baxter
Peter J. Ippolito

Form C of Severance Agreement

Jane M. Cronin
Aaron M. Erter
Mary L. Garceau
Thomas P. Gilligan
James R. Jaye
Allen J. Mistysyn
Heidi G. Petz
David B. Sewell

CERTIFICATION

I, John G. Morikis, certify that:

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

Date: October 27, 2020

/s/ John G. Morikis

John G. Morikis

Chairman and Chief Executive Officer

CERTIFICATION

I, Allen J. Mistysyn, certify that:

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

Date: October 27, 2020

/s/ Allen J. Mistysyn

Allen J. Mistysyn

Senior Vice President - Finance and

Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of The Sherwin-Williams Company (the "Company") for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John G. Morikis, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: October 27, 2020

/s/ John G. Morikis

John G. Morikis

Chairman and Chief Executive Officer

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

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

In connection with the Quarterly Report on Form 10-Q of The Sherwin-Williams Company (the "Company") for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen J. Mistysyn, Senior Vice President - Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: October 27, 2020

/s/ Allen J. Mistysyn

Allen J. Mistysyn

Senior Vice President - Finance and
Chief Financial Officer

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