

GRAINGER W W INC
Form 10-Q
July 27, 2017

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 quarterly period ended June 30, 2017
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 1-5684

W.W. Grainger, Inc.
(Exact name of registrant as specified in its charter)

Illinois 36-1150280
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

100 Grainger Parkway, Lake Forest, Illinois 60045-5201
(Address of principal executive offices) (Zip Code)
(847) 535-1000
(Registrant's telephone number including area code)

Not Applicable
(Former name, former address and former fiscal year; if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

There were 57,690,673 shares of the Company's Common Stock, par value \$0.50, outstanding as of June 30, 2017.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

W.W. Grainger, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of dollars, except for share and per share amounts)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net sales | \$2,615,269 | \$2,563,668 | \$5,156,398 | \$5,070,206 |
| Cost of merchandise sold | 1,575,313 | 1,523,609 | 3,097,250 | 2,985,094 |
| Gross profit | 1,039,956 | 1,040,059 | 2,059,148 | 2,085,112 |
| Warehousing, marketing and administrative expenses | 807,891 | 734,470 | 1,531,595 | 1,462,431 |
| Operating earnings | 232,065 | 305,589 | 527,553 | 622,681 |
| Other income (expense): | | | | |
| Interest income | 465 | 162 | 658 | 327 |
| Interest expense | (19,905) | (16,806) | (36,884) | (30,531) |
| Loss from equity method investment | (6,121) | (5,427) | (14,495) | (11,815) |
| Other non-operating income and (expense) | 692 | (538) | 1,037 | (98) |
| Total other expense | (24,869) | (22,609) | (49,684) | (42,117) |
| Earnings before income taxes | 207,196 | 282,980 | 477,869 | 580,564 |
| Income taxes | 100,237 | 103,535 | 188,057 | 209,475 |
| Net earnings | 106,959 | 179,445 | 289,812 | 371,089 |
| Less: Net earnings attributable to noncontrolling interest | 9,038 | 6,769 | 17,147 | 11,700 |
| Net earnings attributable to W.W. Grainger, Inc. | \$97,921 | \$172,676 | \$272,665 | \$359,389 |
| Earnings per share: | | | | |
| Basic | \$1.68 | \$2.81 | \$4.64 | \$5.81 |
| Diluted | \$1.67 | \$2.79 | \$4.61 | \$5.77 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 58,012,731 | 60,891,298 | 58,363,416 | 61,278,981 |
| Diluted | 58,287,312 | 61,301,545 | 58,741,262 | 61,699,603 |
| Cash dividends paid per share | \$1.28 | \$1.22 | \$2.50 | \$2.39 |

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands of dollars)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings | \$ 106,959 | \$ 179,445 | \$ 289,812 | \$ 371,089 |
| Other comprehensive earnings: | | | | |
| Foreign currency translation adjustments, net of reclassification (see Note 5) | 46,543 | (6,915) | 75,846 | 44,575 |
| Postretirement benefit plan reclassification, net of tax benefit of \$878, \$631, and \$1,757, \$1,262, respectively | (1,400) | (1,009) | (2,798) | (2,018) |
| Other | — | 352 | (12) | 656 |
| Comprehensive earnings, net of tax | 152,102 | 171,873 | 362,848 | 414,302 |
| Less: Comprehensive earnings attributable to noncontrolling interest | | | | |
| Net earnings | 9,038 | 6,769 | 17,147 | 11,700 |
| Foreign currency translation adjustments | (1,186) | 8,729 | 4,346 | 14,433 |
| Comprehensive earnings attributable to W.W. Grainger, Inc. | \$ 144,250 | \$ 156,375 | \$ 341,355 | \$ 388,169 |

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands of dollars, except for share and per share amounts)

| | (Unaudited) | |
|--|---------------------|----------------------|
| ASSETS | June 30, 2017 | December 31, 2016 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 275,065 | \$ 274,146 |
| Accounts receivable (less allowances for doubtful accounts of \$32,174 and \$26,690, respectively) | 1,369,626 | 1,223,096 |
| Inventories – net | 1,397,804 | 1,406,470 |
| Prepaid expenses and other assets | 106,659 | 81,766 |
| Prepaid income taxes | 37,193 | 34,751 |
| Total current assets | 3,186,347 | 3,020,229 |
| PROPERTY, BUILDINGS AND EQUIPMENT | 3,410,237 | 3,411,502 |
| Less: Accumulated depreciation and amortization | 2,018,041 | 1,990,611 |
| Property, buildings and equipment – net | 1,392,196 | 1,420,891 |
| DEFERRED INCOME TAXES | 79,264 | 64,775 |
| GOODWILL | 536,580 | 527,150 |
| INTANGIBLES - NET | 592,473 | 586,126 |
| OTHER ASSETS | 75,021 | 75,136 |
| TOTAL ASSETS | \$ 5,861,881 | \$ 5,694,307 |

W.W. Grainger, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
 (In thousands of dollars, except for share and per share amounts)

| | (Unaudited) | |
|---|--------------------|----------------------|
| | June 30, 2017 | December 31, 2016 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term debt | \$ 129,066 | \$ 386,140 |
| Current maturities of long-term debt | 29,232 | 19,966 |
| Trade accounts payable | 692,689 | 650,092 |
| Accrued compensation and benefits | 197,073 | 212,525 |
| Accrued contributions to employees' profit sharing plans | 48,905 | 54,948 |
| Accrued expenses | 291,226 | 290,207 |
| Income taxes payable | 22,387 | 15,059 |
| Total current liabilities | 1,410,578 | 1,628,937 |
| LONG-TERM DEBT (less current maturities) | 2,267,872 | 1,840,946 |
| DEFERRED INCOME TAXES AND TAX UNCERTAINTIES | 135,270 | 126,101 |
| EMPLOYMENT-RELATED AND OTHER NON-CURRENT LIABILITIES | 199,965 | 192,555 |
| SHAREHOLDERS' EQUITY | | |
| Cumulative Preferred Stock – \$5 par value – 12,000,000 shares authorized; none issued or outstanding | — | — |
| Common Stock – \$0.50 par value – 300,000,000 shares authorized; 109,659,219 shares issued | 54,830 | 54,830 |
| Additional contributed capital | 1,034,980 | 1,030,256 |
| Retained earnings | 7,239,159 | 7,113,559 |
| Accumulated other comprehensive losses | (203,604) | (272,294) |
| Treasury stock, at cost – 51,968,546 and 50,854,905 shares, respectively | (6,402,037) | (6,128,416) |
| Total W.W. Grainger, Inc. shareholders' equity | 1,723,328 | 1,797,935 |
| Noncontrolling interest | 124,868 | 107,833 |
| Total shareholders' equity | 1,848,196 | 1,905,768 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$5,861,881 | \$ 5,694,307 |

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

(Unaudited)

| | Six Months Ended | |
|--|------------------|---------------|
| | June 30, | |
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$289,812 | \$371,089 |
| Provision for losses on accounts receivable | 12,769 | 8,282 |
| Deferred income taxes and tax uncertainties | (7,339) | 4,565 |
| Depreciation and amortization | 128,195 | 113,496 |
| Net losses (gains) from sales of assets and non-cash charges | 12,537 | (15,564) |
| Stock-based compensation | 20,030 | 21,135 |
| Losses from equity method investment | 14,495 | 11,815 |
| Change in operating assets and liabilities – net of business acquisitions: | | |
| Accounts receivable | (136,844) | (98,394) |
| Inventories | 29,936 | 8,733 |
| Prepaid expenses and other assets | (24,232) | (6,143) |
| Trade accounts payable | 36,817 | 43,338 |
| Other current liabilities | (18,989) | (112,256) |
| Current income taxes payable | 6,360 | (1,368) |
| Accrued employment-related benefits cost | 3,655 | 3,877 |
| Other – net | 4,976 | (9,512) |
| Net cash provided by operating activities | 372,178 | 343,093 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property, buildings and equipment | (131,147) | (105,717) |
| Proceeds from sales of assets | 69,758 | 43,119 |
| Equity method investment | (13,300) | (10,340) |
| Other – net | (146) | (597) |
| Net cash used in investing activities | (74,835) | (73,535) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net (decrease) increase in commercial paper | (269,841) | 19,888 |
| Borrowings under lines of credit | 30,374 | 18,501 |
| Payments against lines of credit | (18,036) | (19,306) |
| Proceeds from issuance of long-term debt | 415,672 | 393,284 |
| Payments of long-term debt | (7,799) | (129,981) |
| Proceeds from stock options exercised | 27,064 | 26,191 |
| Payments for employee taxes withheld from stock awards | (16,719) | (16,704) |
| Excess tax benefits from stock-based compensation | — | 9,770 |
| Purchase of treasury stock | (313,562) | (412,647) |
| Cash dividends paid | (151,637) | (147,480) |
| Net cash used in financing activities | (304,484) | (258,484) |
| Exchange rate effect on cash and cash equivalents | 8,060 | 14,787 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 919 | 25,861 |
| Cash and cash equivalents at beginning of year | 274,146 | 290,136 |
| Cash and cash equivalents at end of period | \$275,065 | \$315,997 |

The accompanying notes are an integral part of these financial statements.

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W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BACKGROUND AND BASIS OF PRESENTATION

W.W. Grainger, Inc. is a broad-line distributor of maintenance, repair and operating (MRO) supplies, and other related products and services used by businesses and institutions. W.W. Grainger, Inc.'s operations are primarily in the United States (U.S.) and Canada, with a presence in Europe, Asia and Latin America. In this report, the words "Company" or "Grainger" mean W.W. Grainger, Inc. and its subsidiaries.

The Condensed Consolidated Financial Statements of the Company and the related notes are unaudited and should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

The Condensed Consolidated Balance Sheet as of December 31, 2016 has been derived from the audited consolidated financial statements at that date, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements.

The unaudited financial information reflects all adjustments (primarily consisting of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the statements contained herein.

Certain amounts in the Condensed Consolidated Statements of Cash Flows, as previously reported, have been reclassified to conform to the 2017 presentation. In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Stock Based Compensation: Improvements to Employee Share-Based Payment Accounting, which became effective January 1, 2017. As a result, the Company reclassified \$16.7 million of employee taxes paid from cash flows from operating activities to cash flows from financing activities in the Consolidated Statements of Cash Flows for the six months ended June 30, 2016.

2. NEW ACCOUNTING STANDARDS

In January 2016, the FASB issued ASU 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities. This change to the financial instrument model primarily affects the accounting for equity investments, financial liabilities under the fair value options and the presentation and disclosure requirements for financial instruments. The effective date of this ASU is for fiscal years and interim periods beginning after December 15, 2017. Certain provisions for the new guidance can be adopted early. The Company is evaluating the impact of this ASU.

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU improves transparency and comparability related to the accounting and reporting of leasing arrangements. The guidance will require balance sheet recognition for assets and liabilities associated with rights and obligations created by leases with terms greater than twelve months. The effective date of this ASU is for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the impact of this ASU.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The effective date of this ASU is for fiscal years and interim periods beginning after December 15, 2017. This ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The effective date of this ASU is for fiscal years and interim periods beginning after December 15, 2017. The ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. This ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies how an entity is required to test goodwill for impairment. The effective date of this ASU is for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted. The Company is evaluating the impact of this ASU.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gain and Losses from the Derecognition of Nonfinancial Assets. This ASU 2017-05 clarifies the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. The ASU is effective at the same time as ASU 2014-09. Therefore, for public entities, the amendments are effective for fiscal years and interim periods beginning after December 15, 2017. The Company is evaluating the impact of this ASU.

In March 2017, the FASB issued ASU 2017-07, Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this ASU are effective for public entities for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this ASU should be applied retrospectively for the presentation of the net periodic postretirement cost components in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Company is evaluating the impact of this ASU.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this ASU are effective for public entities for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied prospectively on and after the effective date. The Company is evaluating the impact of this ASU.

REVENUE RECOGNITION STANDARDS

In July 2015, FASB announced a one-year delay in the effective date of ASU 2014-09, Revenue from Contracts with Customers. This ASU will now be effective for interim and fiscal years beginning after December 15, 2017. The standard will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contract with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This ASU reduces the potential for diversity in practice arising from inconsistent application of principal versus agent guidance as well as reduce the cost and complexity during the transition and on an ongoing basis.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing. This ASU clarifies the identification of performance obligations and the licensing implementation guidelines, while retaining the related principles of those areas.

In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. This ASU includes technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to ASU 2014-09. The effective dates of ASU 2016-08, ASU 2016-10 and ASU 2016-20 are consistent with ASU 2014-09. The Company has elected not to early adopt these ASUs. The standard permits the use of either the full retrospective or the modified retrospective adoption method. The Company is planning to elect the modified retrospective method and recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of equity as of January 1, 2018.

W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

These ASUs require expanded qualitative and quantitative disclosures of revenue and cash flows emerging from contracts with customers. The Company has evaluated the provisions of the new standard and is in the process of assessing its impact on financial statements, information systems, business processes and financial statement disclosures. Based on initial reviews, the standard is not expected to have a material impact on the Company's Consolidated Financial Statements.

3. DIVIDEND

On July 26, 2017, the Company's Board of Directors declared a quarterly dividend of \$1.28 per share, payable September 1, 2017, to shareholders of record on August 14, 2017.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Grainger had approximately \$1.1 billion of goodwill and intangible assets as of June 30, 2017 and December 31, 2016, or 19% and 20% of total assets, respectively. Goodwill and intangible assets with indefinite lives are tested for impairment at least annually or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. To detect these events, Grainger periodically performs qualitative assessments of factors such as reporting units' historical and current performance, strategic initiatives and overall economic factors and assumptions regarding future performance, to determine if it is more likely than not that the goodwill and intangible assets might be impaired and whether it is necessary to perform the two-step quantitative impairment test.

Grainger's quarterly qualitative assessment did not indicate the presence of impairment triggering events for goodwill and intangible assets as of June 30, 2017. The Company considered the restructuring actions discussed in Note 5 below to determine if it were more likely than not that the goodwill of its Canada reporting unit was impaired and concluded that the two-step quantitative impairment test was not necessary as of June 30, 2017. However, as Canada's improvement plan evolves, volume growth, price increases and execution of market pricing programs and productivity initiatives may have a significant impact on the reporting unit's cash flows.

Changes in assumptions regarding future performance of the Company's reporting units and their ability to execute on growth initiatives and productivity improvements, along with cost increases outpacing price increases and operating margin declines, may have a significant impact on performance. Likewise, unfavorable economic environment or other factors and changes in market conditions may occur in key markets the Company's reporting units operate and future impairments of the goodwill and intangible assets may result.

5. RESTRUCTURING RESERVES

The Company continues to evaluate performance and take restructuring actions to reduce costs in the U.S., and to streamline and focus on profitability in Canada and Other Businesses. Total restructuring and related charges for the Company were \$62 million and \$57 million in the three and six months ended June 30, 2017, respectively, net of gains on sale of branches of \$13 million and \$23 million for the same periods. Total restructuring and other charges for the Company were \$17 million and \$37 million in the three and six months ended June 30, 2016, respectively, net of gains on sale of branches of \$15 million for the same periods. Approximately 80% and 50% of the charges in the six months ended June 30, 2017 and 2016, respectively, were non-cash. The total amount the Company expects to incur in connection with these restructuring activities is an additional \$17 million, approximately, through 2018. The current year net charges are primarily comprised of the following:

U.S.

Through the first half of 2017, the Company continued initiatives to take cost out in the U.S., including contact centers consolidation and other actions resulting in \$13 million and \$17 million restructuring charges, primarily related to involuntary employee termination costs and asset write-down in the three and six months ended June 30, 2017, respectively. These restructuring activities are expected to be completed in 2018.

Canada

In May 2017, the Company announced the closures of 59 underperforming branches and other actions in Canada, resulting in \$20 million of restructuring charges, primarily related to involuntary employee termination costs, facility closures and asset write-downs. The branch closures are expected to occur in 2017 through early 2018.

W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Other Businesses

In May 2017, the Company announced plans to wind-down its operations in Colombia, expected to be completed in 2018. As a result, the Company recorded total charges of \$26 million related to involuntary employee termination costs, asset write-downs and other exit costs. In addition, \$16 million of accumulated foreign currency translation losses from the consolidation of this business unit was reclassified from Accumulated other comprehensive earnings (losses) to the Consolidated Statement of Earnings and is reported in Warehousing, marketing and administrative expenses. The Company cannot recognize the tax benefit associated with the Colombia exit.

Company Involuntary Employee Termination Costs

The total of involuntary employee termination costs related to the restructuring in the U.S. and Canada are included in Warehousing, marketing and administrative expenses and were approximately \$13 million and \$17 million in the three and six months ended June 30, 2017, respectively, and approximately \$9 million and \$25 million in the three and six months ended June 30, 2016, respectively. The severance reserve balance as of June 30, 2017 and December 31, 2016 was approximately \$26 million and \$23 million, respectively, and is included in Accrued compensation and benefits, with the majority expected to be paid through 2017 and early 2018.

6. SHORT-TERM AND LONG-TERM DEBT

The following summarizes information concerning short-term debt (in thousands of dollars):

| | June 30, 2017 | December 31, 2016 |
|------------------------------|------------------|----------------------|
| Outstanding lines of credit | \$29,160 | \$ 16,392 |
| Outstanding commercial paper | 99,906 | 369,748 |
| | \$129,066 | \$ 386,140 |

As of June 30, 2017 and December 31, 2016, there was \$100 million and \$370 million, respectively, of commercial paper outstanding. A portion of the proceeds from the May 2017 bond issuance (see below) were used to redeem outstanding commercial paper.

Long-term debt consisted of the following (in thousands of dollars):

| | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| 4.60% senior notes due 2045 | \$1,000,000 | \$ 1,000,000 |
| 3.75% senior notes due 2046 | 400,000 | 400,000 |
| 4.20% senior notes due 2047 | 400,000 | — |
| British pound term loan and revolving credit facility | 192,771 | 187,506 |
| Euro term loan and revolving credit facility | 131,364 | 120,900 |
| Canadian dollar revolving credit facility | 111,865 | 100,521 |
| Other | 85,373 | 71,109 |
| | 2,321,373 | 1,880,036 |
| Less current maturities | (29,232) | (19,966) |
| Debt issuance costs and discounts | (24,269) | (19,124) |
| | \$2,267,872 | \$ 1,840,946 |

On May 22, 2017, the Company issued \$400 million of unsecured 4.20% Senior Notes (4.20% Notes) that mature on May 15, 2047. The 4.20% Notes require no principal payments until the maturity date and interest is payable semi-annually on May 15 and November 15, beginning on November 15, 2017. Prior to November 15, 2046, the Company may redeem the 4.20% Notes in whole at any time or gradually at a “make-whole” redemption price. This redemption price is calculated by reference to the then-current yield on a U.S. treasury security with a maturity comparable to the remaining term of the 4.20% Notes plus 20 basis points, together with accrued and unpaid interest, if any, at the redemption date. Additionally, if the Company experiences specific kinds of changes in control, it will be required to make an offer to purchase the 4.20% Notes at 101% of their principal amount plus accrued and unpaid interest, if any, at the date of purchase. Costs and discounts of approximately \$5.8 million associated with the issuance of the 4.20% Notes, representing underwriting fees and other expenses, have been recorded as a contra-liability within Long-term debt and will be amortized to interest expense over the term of the 4.20% Notes.

W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The estimated fair value of the Company's 4.20% Notes, 3.75% Senior Notes due 2046 (3.75% Notes) and 4.60% Senior Notes due 2045 (4.60% Notes) was based on available external pricing data and current market rates for similar debt instruments, among other factors, which are classified as level 2 inputs within the fair value hierarchy. The fair value of the 4.20% Notes was approximately \$410 million as of June 30, 2017. The fair value of the 3.75% Notes was approximately \$384 million and \$371 million as of June 30, 2017 and December 31, 2016, respectively. The fair value of the 4.60% Notes was approximately \$1.1 billion as of June 30, 2017 and December 31, 2016, respectively. The carrying value of other long-term debt approximates fair value due to their variable interest rates.

7. EMPLOYEE BENEFITS - POSTRETIREMENT

The Company has a postretirement healthcare benefits plan that provides coverage for a majority of its U.S. employees (and their dependents) hired prior to January 1, 2013, should they elect to maintain such coverage upon retirement. Covered employees become eligible for participation when they qualify for retirement while working for the Company. Participation in the plan is voluntary and requires participants to make contributions toward the cost of the plan, as determined by the Company.

The net periodic benefit costs charged to operating expenses, which are valued at the measurement date of January 1 and recognized evenly throughout the year, consisted of the following components (in thousands of dollars):

| | Three Months | | Six Months | |
|---|----------------|----------|----------------|----------|
| | Ended June 30, | | Ended June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$1,897 | \$2,060 | \$3,794 | \$4,119 |
| Interest cost | 2,148 | 2,463 | 4,297 | 4,927 |
| Expected return on assets | (2,857) | (2,528) | (5,714) | (5,056) |
| Amortization of unrecognized (gains) losses | (656) | 32 | (1,311) | 64 |
| Amortization of prior service credits | (1,622) | (1,672) | (3,244) | (3,344) |
| Net periodic (benefits) costs | \$(1,090) | \$355 | \$(2,178) | \$710 |

The Company has established a Group Benefit Trust to fund the plan and process benefit payments. The funding of the trust is an estimated amount which is intended to allow the maximum deductible contribution under the Internal Revenue Code of 1986 (IRC), as amended. There are zero minimum funding requirements and the Company did not make contributions to the trust during the six months ended June 30, 2017. The Company intends to follow its practice of funding the maximum deductible amounts under the IRC.

W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. SEGMENT INFORMATION

The Company has two reportable segments: the U.S. and Canada. The U.S. operating segment reflects the results of the Company's U.S. business. The Canada operating segment reflects the results for Acklands – Grainger Inc. and its subsidiaries (Acklands-Grainger), the Company's Canadian business. Other businesses include MonotaRO in Japan, Zoro in the U.S. and certain Company business operations in Europe, Asia and Latin America. Other businesses do not meet the definition of a reportable segment. Operating segments generate revenue almost exclusively through the distribution of maintenance, repair and operating supplies, as service revenues account for less than 1% of total revenues for each operating segment. Following is a summary of segment results (in thousands of dollars):

| | Three Months Ended June 30, 2017 | | | |
|-------------------------------------|----------------------------------|-------------|------------------|-------------|
| | United States | Canada | Other Businesses | Total |
| Total net sales | \$1,999,153 | \$189,113 | \$526,560 | \$2,714,826 |
| Intersegment net sales | (98,507) | 10 | (1,060) | (99,557) |
| Net sales to external customers | \$1,900,646 | \$189,123 | \$525,500 | \$2,615,269 |
| Segment operating earnings (losses) | \$312,289 | \$(27,727) | \$(14,222) | \$270,340 |

| | Three Months Ended June 30, 2016 | | | |
|-------------------------------------|----------------------------------|-------------|------------------|-------------|
| | United States | Canada | Other Businesses | Total |
| Total net sales | \$1,978,542 | \$194,418 | \$474,166 | \$2,647,126 |
| Intersegment net sales | (82,442) | (50) | (966) | (83,458) |
| Net sales to external customers | \$1,896,100 | \$194,368 | \$473,200 | \$2,563,668 |
| Segment operating earnings (losses) | \$348,938 | \$(27,741) | \$29,724 | \$350,921 |

| | Six Months Ended June 30, 2017 | | | |
|-------------------------------------|--------------------------------|-------------|------------------|-------------|
| | United States | Canada | Other Businesses | Total |
| Total net sales | \$3,952,597 | \$375,254 | \$1,023,967 | \$5,351,818 |
| Intersegment net sales | (193,579) | (3) | (1,838) | (195,420) |
| Net sales to external customers | \$3,759,018 | \$375,251 | \$1,022,129 | \$5,156,398 |
| Segment operating earnings (losses) | \$624,759 | \$(44,456) | \$17,285 | \$597,588 |

| | Six Months Ended June 30, 2016 | | | |
|-------------------------------------|--------------------------------|-------------|------------------|-------------|
| | United States | Canada | Other Businesses | Total |
| Total net sales | \$3,944,809 | \$373,189 | \$919,500 | \$5,237,498 |
| Intersegment net sales | (164,941) | (86) | (2,265) | (167,292) |
| Net sales to external customers | \$3,779,868 | \$373,103 | \$917,235 | \$5,070,206 |
| Segment operating earnings (losses) | \$680,795 | \$(40,088) | \$51,508 | \$692,215 |

W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| | United States | Canada | Other Businesses | Total |
|-------------------|---------------|-----------|------------------|-------------|
| Segment assets: | | | | |
| June 30, 2017 | \$2,334,275 | \$289,060 | \$ 563,315 | \$3,186,650 |
| December 31, 2016 | \$2,275,009 | \$286,035 | \$ 494,067 | \$3,055,111 |

Following are reconciliations of segment information with the consolidated totals per the financial statements (in thousands of dollars):

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, 2017 | 2016 | June 30, 2017 | 2016 |
| Operating earnings: | | | | |
| Total operating earnings for operating segments | \$270,340 | \$350,921 | \$597,588 | \$692,215 |
| Unallocated expenses and eliminations | (38,275) | (45,332) | (70,035) | (69,534) |
| Total consolidated operating earnings | \$232,065 | \$305,589 | \$527,553 | \$622,681 |

| | June 30, 2017 | December 31, 2016 |
|--------------------------------------|---------------|-------------------|
| Assets: | | |
| Total assets for operating segments | \$3,186,650 | \$ 3,055,111 |
| Other current and non-current assets | 2,509,003 | 2,464,656 |
| Unallocated assets | 166,228 | 174,540 |
| Total consolidated assets | \$5,861,881 | \$ 5,694,307 |

Assets for reportable segments include net accounts receivable and first-in, first-out inventory which are reported to the Company's Chief Operating Decision Maker. Other current and non-current assets include all other assets of the reportable segments.

Unallocated expenses and unallocated assets primarily relate to the Company headquarter's support services, which are not part of any business segment, as well as intercompany eliminations. Unallocated expenses include payroll and benefits, depreciation and other costs associated with headquarters-related support services. Unallocated assets include non-operating cash and cash equivalents, certain prepaid expenses and property, buildings and equipment-net.

Intersegment net sales for the U.S. segment increased by \$16 million and \$29 million for the three and six months ended June 30, 2017, respectively, compared to the prior year, driven by increased sales from the U.S. business to Zoro. Zoro's primary source of inventory is the U.S. business' supply chain network.

W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share under the two-class method (in thousands of dollars, except for share and per share amounts):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings attributable to W.W. Grainger, Inc. as reported | \$97,921 | \$172,676 | \$272,665 | \$359,389 |
| Distributed earnings available to participating securities | (427) | (576) | (973) | (1,202) |
| Undistributed earnings available to participating securities | (217) | (970) | (1,159) | (2,092) |
| Numerator for basic earnings per share – Undistributed and distributed earnings available to common shareholders | 97,277 | 171,130 | 270,533 | 356,095 |
| Undistributed earnings allocated to participating securities | 217 | 970 | 1,159 | 2,092 |
| Undistributed earnings reallocated to participating securities | (216) | (964) | (1,152) | (2,078) |
| Numerator for diluted earnings per share – Undistributed and distributed earnings available to common shareholders | \$97,278 | \$171,136 | \$270,540 | \$356,109 |
| Denominator for basic earnings per share – weighted average shares | 58,012,731 | 60,891,298 | 58,363,416 | 61,278,981 |
| Effect of dilutive securities | 274,581 | 410,247 | 377,846 | 420,622 |
| Denominator for diluted earnings per share – weighted average shares adjusted for dilutive securities | 58,287,312 | 61,301,545 | 58,741,262 | 61,699,603 |
| Earnings per share two-class method | | | | |
| Basic | \$1.68 | \$2.81 | \$4.64 | \$5.81 |
| Diluted | \$1.67 | \$2.79 | \$4.61 | \$5.77 |

10. CONTINGENCIES AND LEGAL MATTERS

From time to time the Company is involved in various legal and administrative proceedings that are incidental to its business, including claims related to product liability, general negligence, contract disputes, environmental issues, wage and hour laws, intellectual property, employment practices, regulatory compliance or other matters and actions brought by employees, consumers, competitors, suppliers or governmental entities. As a government contractor selling to federal, state and local governmental entities, the Company is also subject to governmental or regulatory inquiries or audits or other proceedings, including those related to pricing compliance. It is not expected that the ultimate resolution of any of these matters will have, either individually or in the aggregate, a material adverse effect on the Company's consolidated financial position or results of operations.

W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Grainger is a broad-line distributor of maintenance, repair and operating (MRO) supplies, and other related products and services used by businesses and institutions. Grainger's operations are primarily in the United States (U.S.) and Canada, with a presence in Europe, Asia and Latin America. Grainger uses a combination of multichannel and single channel business models to provide customers with a range of options for finding and purchasing products utilizing sales representatives, catalogs, direct marketing materials and eCommerce. Grainger serves approximately 3 million customers worldwide through a network of highly integrated branches, distribution centers and websites.

Business Environment

Given Grainger's large number of customers and the diverse industries it serves, several economic factors and industry trends tend to shape Grainger's business environment. The overall economy and leading economic indicators provide general insight into projecting Grainger's growth. Grainger's sales in the U.S. and Canada tend to positively correlate with Business Investment, Business Inventory, Exports and Industrial Production. In the U.S., sales tend to positively correlate with Gross Domestic Product (GDP). In Canada, sales tend to positively correlate with oil prices. The table below provides these estimated indicators for 2017:

| | United States | | Canada | |
|-----------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | 2017 Forecast (July) | 2017 Forecast (April) | 2017 Forecast (July) | 2017 Forecast (April) |
| Business Investment | 4.3% | 4.4% | 1.1% | 0.7% |
| Business Inventory | 0.6% | 1.5% | —% | — |
| Exports | 2.7% | 3.0% | 1.2% | 1.9% |
| Industrial Production | 2.0% | 2.3% | 3.9% | 2.3% |
| GDP | 2.3% | 2.4% | 2.5% | 2.3% |
| Oil Prices | — | — | \$49/barrel | \$53/barrel |

Source: Global Insight (April & July 2017)

In the U.S., Business Investment and Exports are two major indicators of MRO spending. Per the Global Insight July 2017 forecast, Business Investment is forecast to improve in 2017 through equipment-related spending as the influence from slow growth abroad and in the U.S. fades. Export growth has improved, as exports have responded to improved economic growth among countries that the U.S. exports to.

Per the Global Insight July 2017 forecast, Canada economic growth, as measured by GDP, is forecast to grow to 2.5% in 2017. The 2017 forecast assumes that oil prices will continue to grow and stabilize as compared to 2016 and that business nonresidential investment (a component of Business Investment) will begin to increase. The latest forecast is for the Canadian dollar to strengthen against the U.S. dollar over the next two years.

Outlook

On July 19, 2017, Grainger reiterated 2017 sales growth guidance of 1 to 4 percent and the 2017 adjusted earnings per share guidance of the range of \$10.00 to \$11.30. The second quarter performance was as expected and the Company anticipates continued positive response to the U.S. pricing actions in the second half of the year.

Matters Affecting Comparability

There were 64 sales days in the second quarter of 2017 and 2016.

Results of Operations – Three Months Ended June 30, 2017

The following table is included as an aid to understanding the changes in Grainger's Condensed Consolidated Statements of Earnings (in millions of dollars):

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W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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| | Three Months Ended June 30, | | | | As a Percent of | |
|--|-----------------------------|-------------|---------------------|----|-----------------|--------|
| | 2017 (A) | 2016 (A) | Percent | | Net Sales | |
| | | | Increase/(Decrease) | | 2017 | 2016 |
| Net sales | \$2,615 | \$2,564 | 2 | % | 100.0% | 100.0% |
| Cost of merchandise sold | 1,575 | 1,524 | 3 | % | 60.2 | 59.4 |
| Gross profit | 1,040 | 1,040 | — | % | 39.8 | 40.6 |
| Operating expenses | 808 | 734 | 10 | % | 30.9 | 28.7 |
| Operating earnings | 232 | 306 | (24) |)% | 8.9 | 11.9 |
| Other expense | 25 | 23 | 10 | % | 1.0 | 0.9 |
| Income taxes | 100 | 104 | (3) |)% | 3.8 | 4.0 |
| Noncontrolling interest | 9 | 7 | 34 | % | 0.3 | 0.3 |
| Net earnings attributable to W.W. Grainger, Inc. | \$98 | \$173 | (43) |)% | 3.7 | 6.7 |

(A) May not sum due to rounding

Grainger's net sales of \$2,615 million for the second quarter of 2017 increased 2% compared with sales of \$2,564 million for the comparable 2016 quarter. The 2% increase consisted of the following:

| | Percent Increase/(Decrease) |
|----------------------|-----------------------------|
| Volume | 7 |
| Foreign exchange (1) | |
| Holiday timing (1) | |
| Price (3) | |
| Total | 2% |

The increase in net sales was primarily driven by single channel online businesses in the U.S. and Japan, as well as, volume increases in the U.S. as a result of the pricing actions. Refer to the Segment Analysis below for further details.

In the three months ended June 30, 2017, eCommerce sales for Grainger were \$1,349 million, an increase of 14% over the prior year. Total eCommerce sales represented 52% and 46% of total sales for the three months ended June 30, 2017 and 2016, respectively. The increase was primarily driven by an increase in sales via EDI and electronic purchasing platforms in the U.S. and the online business in Japan. If the Company included KeepStock®, the electronic inventory management offering, total eCommerce and KeepStock® sales would represent 57% and 52% of total sales for the three months ended June 30, 2017 and 2016, respectively.

Gross profit of \$1,040 million for the second quarter of 2017 was flat compared to the same quarter in 2016. The gross profit margin of 39.8% during the second quarter of 2017 decreased 0.8 percentage point when compared to the same period in 2016, driven by customer response to U.S. pricing actions.

Operating expenses of \$808 million for the second quarter of 2017 increased 10% from \$734 million for the comparable 2016 quarter. The increase was primarily due to the following:

\$13 million in restructuring in the U.S., primarily related to contact centers and asset write-downs offset by \$13 million in gains on the sales of branches.

\$17 million in restructuring due to announced branch closures and asset write-downs in Canada.

\$42 million in Other Businesses, primarily related to the wind-down of Colombia.

Excluding restructuring costs and the gain on sale of assets in both periods, operating expenses increased 3%, driven primarily by increased expense based on higher volume.

Operating earnings for the second quarter of 2017 were \$232 million, a decrease of 24% compared to the second quarter of 2016. Excluding restructuring costs and the gain on the sale of assets in both periods mentioned above,

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W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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operating earnings decreased 9%, driven primarily by lower gross profit from the pricing actions in the U.S business and increased operating expense based on higher volume.

Net earnings attributable to W.W. Grainger, Inc. for the second quarter of 2017 decreased 43% to \$98 million from \$173 million in the second quarter of 2016. Excluding restructuring costs and gains on sales of assets in both periods mentioned above, net earnings decreased 10%, primarily related to higher operating expenses.

Diluted earnings per share of \$1.67 in the second quarter of 2017 were down 40% versus the \$2.79 for the second quarter of 2016, due to lower earnings, partially offset by lower average shares outstanding.

The table below reconciles reported operating earnings determined in accordance with U.S. generally accepted accounting principles (GAAP) to adjusted operating earnings, a non-GAAP measure. Management believes adjusted operating earnings is an important indicator of operations because it excludes items that may not be indicative of core operating results. Because non-GAAP financial measures are not standardized, it may not be possible to compare this financial measure with other companies' non-GAAP financial measures having the same or similar names.

| | Three Months Ended June 30, | | |
|---------------------------------------|-----------------------------------|-----------|-------|
| | 2017 | 2016 | % |
| Operating earnings reported | \$232,065 | \$305,589 | (24)% |
| Branch gains (United States) | (13,438) | (15,376) | |
| Restructuring (United States) | 13,541 | 6,024 | |
| Restructuring (Canada) | 20,485 | 8,055 | |
| Inventory reserve adjustment (Canada) | — | 9,847 | |
| Restructuring (Other Businesses) | 41,510 | — | |
| Restructuring (Unallocated expense) | — | 8,947 | |
| Subtotal | 62,098 | 17,497 | |
| Operating earnings adjusted | \$294,163 | \$323,086 | (9)% |

Segment Analysis

Grainger's two reportable segments are the U.S. and Canada. The U.S. operating segment reflects the results of Grainger's U.S. business. The Canada operating segment reflects the results for Acklands – Grainger. Other businesses include MonotaRO in Japan, Zoro in the U.S. and operations in Europe, Asia and Latin America.

The following comments at the segment and business unit level include external and intersegment net sales and operating earnings. See Note 8 to the Condensed Consolidated Financial Statements.

United States

Net sales were \$1,999 million for the second quarter of 2017, an increase of 1% when compared with net sales of \$1,979 million for the same period in 2016. The 1% increase consisted of the following:

| | Percent Increase/(Decrease) |
|----------------------------|-----------------------------|
| Volume | 5 |
| Intercompany sales to Zoro | 1 |
| Holiday timing | (1) |
| Price | (4) |
| Total | 1% |

Sales to customers in natural resources and retail end markets increased mid-single digits, while heavy manufacturing and resellers increased low single digits. Sales to commercial end markets and government were flat. The Company believes Government sales have slowed due to budgets not coming through and the funds not being released. Sales

W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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to Zoro continue to contribute to sales growth as the U.S. business' supply chain network is Zoro's primary source of inventory, as well as volume increases in the U.S. as a result of the pricing actions.

In the three months ended June 30, 2017, eCommerce sales for the U.S. business were \$1,009 million, an increase of 10% over the prior year. Total eCommerce sales represented 50% and 46% of total sales for the three months ended June 30, 2017 and 2016, respectively. The increase was primarily driven by an increase in sales via EDI and electronic purchasing platforms. If the Company included KeepStock®, the electronic inventory management offering, total eCommerce and KeepStock® sales would represent 57% and 53% of total sales for the three months ended June 30, 2017 and 2016, respectively.

The gross profit margin for the second quarter of 2017 decreased 1.3 percentage points compared to the same period in 2016 largely due to the pricing actions. Excluding sales to Zoro, the gross profit margin decreased 1.1 percentage points versus prior year.

Operating expenses of \$507 million in the second quarter of 2017 increased \$20 million, or 4% versus the second quarter of 2016. Operating expenses in 2017 included a \$13 million benefit from the gain on sale of branches and \$13 million of restructuring costs. Excluding restructuring costs and gain on sale of assets in both periods mentioned above, operating expenses increased 2% on 5% of volume growth.

Operating earnings of \$312 million for the second quarter of 2017 decreased 11% from \$349 million for the second quarter of 2016. Excluding the restructuring charges and gain on the sale of assets in both periods mentioned above, operating earnings decreased 8%, driven primarily by the pricing actions.

Canada

Net sales were \$189 million for the second quarter of 2017, a decrease of \$5 million, or 3%, when compared with \$194 million for the same period in 2016. In local currency, sales increased 2%. The 3% decrease consisted of the following:

| | Percent Increase/(Decrease) |
|------------------|-----------------------------|
| Wildfire impact | 2 |
| Volume | 2 |
| Price | (1) |
| Holiday timing | (1) |
| Foreign exchange | (5) |
| Total | (3)% |

The business in Canada continues to stabilize based on the improved economy and recovery from the 2016 implementation of the Company's common North American ERP platform. The business also increased prices to offset foreign exchange-related costs of goods sold inflation in the first quarter, but most customers are under contract and will not experience price increases until later in the year.

In the three months ended June 30, 2017, eCommerce sales in Canada were \$32 million, an increase of 27% over the prior year. Total eCommerce sales represented 17% and 13% of total sales for the three months ended June 30, 2017 and 2016, respectively. If the Company included KeepStock®, the electronic inventory management offering, total eCommerce and KeepStock® sales would represent 31% and 24% of total sales for the three months ended June 30, 2017 and 2016, respectively.

The gross profit margin increased 4.1 percentage points in the second quarter of 2017 versus the second quarter of 2016 due largely to a favorable comparison to an inventory adjustment in the prior year. During the quarter ended June 30, 2016, the Canadian business recorded an additional reserve of \$10 million, as a result of additional visibility to inventory performance provided by the conversion to the North American ERP platform.

Operating expenses increased \$6 million, or 8% in the second quarter of 2017 versus the second quarter of 2016. Excluding restructuring costs in both quarters mentioned above, operating expenses decreased 6%, primarily related to reductions in employee related costs.

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Operating loss of \$28 million for the second quarter of 2017, was flat versus a \$28 million operating loss in the second quarter of 2016. Excluding restructuring costs in both quarters mentioned above, operating loss would have decreased \$3 million, primarily related to reductions in employee related costs. Canada continues to manage expenses resulting in improved performance and a smaller loss than prior year.

Other Businesses

Net sales for other businesses, which include MonotaRO in Japan, Zoro in the U.S., and operations in Europe, Asia and Latin America, were \$527 million for the second quarter of 2017, an increase of \$52 million, or 11%, when compared with net sales of \$474 million for the same period in 2016. Sales increased 11% for the quarter and consisted of the following:

| | Percent Increase/(Decrease) |
|----------------------|-----------------------------|
| Price/volume | 14 |
| Foreign exchange (3) | |
| Total | 11% |

Operating loss of \$14 million for the second quarter of 2017 was down \$44 million compared to operating earnings of \$30 million the second quarter of 2016. The operating loss included the \$42 million in charges, primarily from the wind-down of the business in Colombia, partially offset by strong results from Zoro in the U.S. and MonotaRo in Japan.

Other Income and Expense

Other income and expense was \$25 million of expense in the second quarter of 2017 compared to \$23 million of expense in the second quarter of 2016. The increase in expense was primarily due to interest expense from the additional \$400 million in long-term debt issued in May 2017, as well as expected losses from the Company's investments in clean energy.

Income Taxes

For the quarter, the effective tax rate in 2017 was 48.4% versus 36.6% in 2016. The increase is primarily due to the wind-down of the business in Colombia and the inability to realize the associated tax benefits.

Matters Affecting Comparability

There were 128 sales days in the six months ended June 30, 2017 and 2016.

Results of Operations – Six Months Ended June 30, 2017

The following table is included as an aid to understanding the changes in Grainger's Condensed Consolidated Statements of Earnings (in millions of dollars):

| | Six Months Ended June 30, | | | | As a Percent of Net Sales | |
|--------------------------|---------------------------|-------------|--------------------------------|--------|------------------------------|--|
| | 2017 (A) | 2016 (A) | Percent Increase/(Decrease) | 2017 | 2016 | |
| Net sales | \$5,156 | \$5,070 | | 100.0% | 100.0% | |
| Cost of merchandise sold | 3,097 | 2,985 | 4 | 60.1 | 58.9 | |
| Gross profit | 2,059 | 2,085 | (1) | 39.9 | 41.1 | |
| Operating expenses | 1,532 | 1,462 | 5 | 29.7 | 28.8 | |
| Operating earnings | 528 | 623 | (15) | 10.2 | 12.3 | |
| Other expense | 50 | 42 | 18 | 1.0 | 0.8 | |

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| | | | | | | |
|--|-------|-------|------|----|-----|-------|
| Income taxes | 188 | 209 | (10) |)% | 3.6 | 4.1 |
| Noncontrolling interest | 17 | 12 | 47 | % | 0.3 | 0.2 |
| Net earnings attributable to W.W. Grainger, Inc. | \$273 | \$359 | (24) |)% | 5.3 | % 7.1 |

(A) May not sum due to rounding

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W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Grainger's net sales of \$5,156 million for the six months ended June 30, 2017 increased 2% compared with sales of \$5,070 million for the comparable 2016 period. The 2% increase consisted of the following:

| | Percent Increase/(Decrease) |
|----------------------|-----------------------------|
| Volume | 6 |
| Foreign exchange (1) | |
| Price | (3) |
| Total | 2% |

The increase in net sales was primarily driven by single channel online businesses in the U.S. and Japan, as well as, volume increases in the U.S. as a result of the pricing actions. Refer to the Segment Analysis below for further details.

In the six months ended June 30, 2017, eCommerce sales for Grainger were \$2,642 million, an increase of 14% over the prior year. Total eCommerce sales represented 51% and 46% of total sales for the six months ended June 30, 2017 and 2016, respectively. The increase was primarily driven by an increase in sales via EDI and electronic purchasing platforms in the U.S. If the Company included KeepStock®, the electronic inventory management offering, total eCommerce and KeepStock® sales would represent 57% and 52% of total sales for the six months ended June 30, 2017 and 2016, respectively.

Gross profit of \$2,059 million for the six months ended June 30, 2017 decreased 1% compared with \$2,085 million in the same period in 2016. The gross profit margin during the six months ended June 30, 2017 decreased 1.2 percentage points when compared to the same period in 2016, primarily due to the customer response to the U.S. pricing action.

Operating expenses of \$1,532 million for the six months ended June 30, 2017 increased 5% compared with \$1,462 million for the comparable 2016 period. The increase was primarily due to the following:

\$17 million in restructuring in the U.S., primarily related to contact centers and asset write-downs offset by \$23 million in gain on sales of branches.

\$18 million in restructuring due to announced branch closures and asset write-downs in Canada.

\$42 million in Other Businesses, primarily related to the wind-down of Colombia.

Excluding restructuring costs and the gain on sale of assets in both periods, operating expenses increased 3%, driven primarily by increased expense based on higher volume.

Operating earnings for the six months ended June 30, 2017 were \$528 million, a decrease of \$95 million or 15%, compared to the six months ended June 30, 2016. Excluding restructuring costs and the gain on sale of assets in both periods mentioned above, operating earnings decreased 11%, driven primarily by lower gross profit and higher operating expenses.

Net earnings attributable to W.W. Grainger, Inc. for the six months ended June 30, 2017 decreased 24% to \$273 million from \$359 million in the six months ended June 30, 2016.

Diluted earnings per share of \$4.61 in the six months ended June 30, 2017 were 20% lower than the \$5.77 for the six months ended June 30, 2016, due to lower earnings, partially offset by lower average shares outstanding.

The table below reconciles reported operating earnings determined in accordance with generally accepted accounting principles in the U.S. to adjusted operating earnings, a non-GAAP measure. Management believes adjusted operating earnings is an important indicator of operations because it excludes items that may not be indicative of core operating results. Because non-GAAP financial measures are not standardized, it may not be possible to compare this financial measure with other companies' non-GAAP financial measures having the same or similar names.

W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

| | Six Months Ended | | |
|---------------------------------------|------------------|-----------|-------|
| | June 30, | | |
| | 2017 | 2016 | % |
| Operating earnings reported | \$527,553 | \$622,681 | (15)% |
| Branch gains (United States) | (22,826) | (15,380) | |
| Restructuring (United States) | 16,607 | 22,435 | |
| Restructuring (Canada) | 21,572 | 11,132 | |
| Inventory reserve adjustment (Canada) | — | 9,847 | |
| Restructuring (Other Businesses) | 41,510 | — | |
| Restructuring (Unallocated expense) | — | 8,947 | |
| Subtotal | 56,863 | 36,981 | |
| Operating earnings adjusted | \$584,416 | \$659,662 | (11)% |

Segment Analysis

The following comments at the segment and business unit level include external and intersegment net sales and operating earnings. See Note 8 to the Condensed Consolidated Financial Statements.

United States

Net sales were \$3,953 million for the six months ended June 30, 2017, and were flat when compared with net sales of \$3,945 million for the same period in 2016. Sales for the period consisted of the following:

| | Percent Increase/(Decrease) |
|----------------------------|-----------------------------|
| Volume | 4 |
| Intercompany sales to Zoro | 1 |
| Seasonal sales | (1) |
| Price | (4) |
| Total | 0% |

Sales to customers in retail end markets increased mid-single digits, while heavy manufacturing and natural resources increased low single digits. The sales growth was partially offset by declines in contractors and commercial services. Sales to Zoro continue to contribute to sales growth as the U.S. business' supply chain network is Zoro's primary source of inventory, as well as volume increases in the U.S. as a result of the pricing actions.

In the six months ended June 30 2017, eCommerce sales for the U.S. business were \$1,985 million, an increase of 10% over the prior year. Total eCommerce sales represented 50% and 46% of total sales for the six months ended June 30, 2017 and 2016, respectively. The increase was primarily driven by an increase in sales via EDI and electronic purchasing platforms. If the Company included KeepStock®, the electronic inventory management offering, total eCommerce and KeepStock® sales would represent 57% and 52% of total sales for the six months ended June 30, 2017 and 2016, respectively.

The gross profit margin for the six months ended June 30, 2017 decreased 1.5 percentage points compared to the same period in 2016, driven by pricing actions. Excluding sales to Zoro, gross profit margin decreased 1.3 percentage points versus the prior year.

Operating expenses were flat for the six months ended June 30, 2017 versus the six months ended June 30, 2016. Excluding restructuring costs and gain on the sale of assets in both periods mentioned above, operating expenses increased 1%.

Operating earnings of \$625 million for the six months ended June 30, 2017 decreased 8% from \$681 million for the six months ended June 30, 2016. Excluding restructuring costs and gain on the sale of assets in both periods mentioned above, operating earnings decrease 10%, driven primarily by pricing actions.

W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Canada

Net sales were \$375 million for the six months ended June 30, 2017, increased 1% when compared with \$373 million for the same period in 2016. In local currency, sales were also flat. The 1% increase consisted of the following:

| | Percent Increase/(Decrease) |
|----------------------|-----------------------------|
| Volume | 3 |
| Wildfire impact | 1 |
| Foreign exchange (1) | |
| Price | (2) |
| Total | 1% |

The business in Canada continues to stabilize based on the improved economy and recovery from the 2016 implementation of the Company's common North American ERP platform. The business also increased prices to offset foreign exchange-related costs of goods sold inflation in the first quarter, but most customers are under contract and will not experience price increases until later in the year.

In the six months ended June 30, 2017, eCommerce sales for Grainger were \$64 million, an increase of 32% over the prior year. Total eCommerce sales represented 17% and 13% of total sales for the six months ended June 30, 2017 and 2016, respectively. If the Company included KeepStock®, the electronic inventory management offering, total eCommerce and KeepStock® sales would represent 31% and 25% of total sales for the six months ended June 30, 2017 and 2016, respectively.

The gross profit margin increased 0.9 percentage points in the six months ended June 30, 2017 versus the six months ended June 30, 2016, largely due to a favorable comparison to an inventory adjustment in the second quarter of 2016, offset by price deflation versus cost inflation and higher freight costs from an increase in shipping directly to customers.

Operating expenses in the six months ended June 30, 2017 were \$154 million compared to \$145 million for the six months ended June 30, 2016. Excluding restructuring costs in both periods mentioned above, operating expenses would have been flat.

Operating loss was \$44 million for the six months ended June 30, 2017 versus operating loss of \$40 million in the six months ended June 30, 2016. Excluding the restructuring costs and the inventory adjustment mentioned above, the operating loss would have been \$23 million compared to a operating loss of \$19 million in the prior year, primarily driven by improved gross profit and lower operating expenses.

Other Businesses

Net sales for other businesses, which include MonotaRO in Japan, Zoro in the U.S. and operations in Europe, Asia and Latin America, were \$1,024 million for the six months ended June 30, 2017, an increase of \$104 million, when compared with net sales of \$920 million for the same period in 2016. Sale increased 11% for the period and consisted of the following:

| | Percent Increase/(Decrease) |
|----------------------|-----------------------------|
| Volume | 14 |
| Foreign exchange (3) | |
| Total | 11% |

Operating earnings of \$17 million in the six months ended June 30, 2017 decreased \$35 million compared operating earnings of \$52 million in the six months ended June 30, 2016. Operating earnings in 2017 included a \$42 million

charge primarily for the wind-down of the business in Colombia partially offset by strong performance from Zoro in the U.S. and MonotaRO in Japan. Excluding restructuring costs mentioned above, operating earnings would have increased 14%.

Other Income and Expense

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W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Other income and expense was \$50 million of expense in the six months ended June 30, 2017 compared to \$42 million of expense in the six months ended June 30, 2016. The increase in expense was primarily due to interest expense from the \$400 million of additional long-term debt issued in May 2017, as well as expected losses from the Company's investments in clean energy.

Income Taxes

Grainger's effective tax rates were 39.4% and 36.1% for the six months ended June 30, 2017 and 2016, respectively. The increase was primarily due to the wind-down of the business in Colombia and the inability to realize the associated tax benefits. Grainger is expecting an effective tax rate of approximately 35% to 36% for the full year 2017.

Financial Condition

Cash Flow

Net cash provided by operating activities was \$372 million and \$343 million for the six months ended June 30, 2017 and 2016, respectively. The increase in cash provided is primarily the result of lower payments related to employee benefits, offset by lower earnings. Net cash provided had been reported as \$326 million in the prior year. The \$343 million is based on the adoption of ASU 2016-09, which required retrospective reclassification of \$17 million from operating activities to financing activities. The reclassification relates to employee taxes paid as part of the exercise of stock options. The increase in cash provided is the result of lower payments related to employee benefits.

Net cash used in investing activities was \$75 million and \$74 million in the six months ended June 30, 2017 and 2016, respectively. The net cash used in investing activities was driven by higher additions to property, buildings and equipment compared to the prior year offset by higher proceeds from the sales of branch real estate assets when compared to the prior year.

Net cash used in financing activities was \$304 million compared to \$258 million in the six months ended June 30, 2017 and 2016, respectively. The increase in net cash used in financing activities of \$46 million was primarily driven by net payments of commercial paper, offset by lower stock repurchases in 2017 compared to 2016.

Working Capital

Working capital consists of current assets (less non-operating cash) and current liabilities (less short-term debt and current maturities of long-term debt).

Working capital at June 30, 2017, was \$1,862 million, an increase of \$140 million when compared to \$1,722 million at December 31, 2016, primarily due to an increase in accounts receivable. The working capital assets to working capital liabilities ratio increased to 2.5 at June 30, 2017, from 2.4 at December 31, 2016.

Debt

Grainger maintains a debt ratio and liquidity position that provide flexibility in funding working capital needs and long-term cash requirements. In addition to internally generated funds, Grainger has various sources of financing available, including bank borrowings under lines of credit. Total interest-bearing debt as a percent of total capitalization was 56.8% at June 30, 2017, and 54.1% at December 31, 2016.

Critical Accounting Policies and Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make judgments, estimates and assumptions that affect the reported

amounts of assets, liabilities, revenues and expenses in the financial statements. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable. If actual amounts are ultimately different from these estimates, the revisions are included in Grainger's results of operations for the period in which the actual amounts become known.

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimates are made and when there are different estimates that management reasonably could have made, which would have a material impact on the presentation of Grainger's financial condition, changes in financial condition or results of operations. For a description of Grainger's critical accounting policies see Grainger's Annual Report on Form 10-K for the year ended December 31, 2016.

W.W. Grainger, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

From time to time, in this Quarterly Report on Form 10-Q, as well as in other written reports, communications and verbal statements, Grainger makes forward-looking statements that are not historical in nature but concern forecasts of future results, business plans, analyses, prospects, strategies, objectives and other matters that may be deemed to be "forward-looking statements" under the federal securities laws. Such forward-looking statements are identified by words such as "anticipate," "estimate," "believe," "expect," "could," "forecast," "may," "intend," "plan," "predict," "project" and similar expressions.

Grainger cannot guarantee that any forward-looking statement will be realized, although Grainger does believe that its assumptions underlying its forward-looking statements are reasonable. Achievement of future results is subject to risks and uncertainties, many of which are beyond the Company's control, which could cause Grainger's results to differ materially from those that are presented.

Important factors that could cause actual results to differ materially from those presented or implied in a forward-looking statement include, without limitation: higher product costs or other expenses; a major loss of customers; loss or disruption of source of supply; increased competitive pricing pressures; failure to develop or implement new technologies or business strategies; the implementation, timing and results of the Company's strategic pricing actions and other responses to market pressures; the outcome of pending and future litigation or governmental or regulatory proceedings, including with respect to wage and hour, anti-bribery and corruption, environmental, advertising, privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; disruption of information technology or data security systems; general industry or market conditions; general global economic conditions; currency exchange rate fluctuations; market volatility; commodity price volatility; labor shortages; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; natural and other catastrophes; unanticipated weather conditions; loss of key members of management; the Company's ability to operate, integrate and leverage acquired businesses; changes in credit ratings; changes in effective tax rates; and other factors identified under Item 1A: Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as updated in the Company's Quarterly Reports on Form 10-Q.

Caution should be taken not to place undue reliance on Grainger's forward-looking statements and Grainger undertakes no obligation to publicly update any of its forward-looking statements, whether as a result of new information, future events or otherwise.

W.W. Grainger, Inc. and Subsidiaries

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For quantitative and qualitative disclosures about market risk, see “Item 7A: Quantitative and Qualitative Disclosures About Market Risk” in Grainger's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Grainger carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of Grainger's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that Grainger's disclosure controls and procedures were effective as of the end of the period covered by this report in (i) ensuring that information required to be disclosed by Grainger in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in Grainger's internal control over financial reporting that occurred during the second quarter that have materially affected, or are reasonably likely to materially affect, Grainger's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Other Matters

The disclosures contained in "Part I, Item 1. Financial Statements," of this report are incorporated herein by reference. In addition, please note the following matter:

TCPA Matter

As previously disclosed, on April 5, 2013, David Davies filed a putative class action lawsuit in the Circuit Court of Cook County, Illinois under the Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005 (the “TCPA”), and sought certification of a class of persons who may have received one or more of approximately 400,000 faxes Grainger sent in connection with a 2009 marketing campaign. The TCPA provides for penalties of \$500 to \$1,500 for each noncompliant individual fax.

On May 13, 2013, the Company removed the case to the Federal District Court for the Northern District of Illinois (the “District Court”). On June 27, 2014, the District Court found that Davies was not an adequate class representative. The United States Court of Appeals for the Seventh Circuit denied Davies' petition for immediate review of the ruling. Davies subsequently moved the District Court for reconsideration of its ruling and his motion was denied on September 28, 2016. Davies may seek to pursue an appeal of the ruling at the conclusion of the District Court proceeding.

On April 4, 2016, the District Court denied the Company's motion to dismiss Davies' individual claims and subsequently the parties filed cross-motions for summary judgment. The District Court entered judgment for Grainger on Davies' common law claim for conversion while granting partial summary judgment for Grainger on Davies' TCPA claim. On November 21, 2016, the District Court denied Grainger's motion for summary judgment which argued that Davies lacks standing to bring his TCPA claim and held that the issue of whether Grainger's opt-out notice is clear and conspicuous was a contested issue of fact to be resolved by a jury at trial. Trial is currently set for February 5, 2018.

The Company believes it has strong legal and factual defenses and intends to continue defending itself vigorously in the pending lawsuit. While the Company is unable to predict the outcome of this proceeding, the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations.

W.W. Grainger, Inc. and Subsidiaries

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

Issuer Purchases of Equity Securities – second quarter

| Period | Total Number of Shares Purchased (A) | Average Price Paid per Share (B) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (C) | Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs |
|---------------------|--------------------------------------|----------------------------------|--|--|
| Apr. 1 – Apr. 30 | 346,244 | \$208.88 | 346,244 | 4,866,239 |
| May 1 – May 31 | 262,722 | \$181.59 | 262,722 | 4,603,517 |
| June 1 – June 30 | 171,242 | \$174.99 | 171,242 | 4,432,275 |
| Total | 780,208 | \$192.25 | 780,208 | |

(A) There were no shares withheld to satisfy tax withholding obligations.

(B) Average price paid per share includes any commissions paid and includes only those amounts related to purchases as part of publicly announced plans or programs.

(C) Purchases were made pursuant to a share repurchase program approved by Grainger's Board of Directors on April 6, 2015. The program has no specified expiration date. Activity is reported on a trade date basis.

Item 6. Exhibits.

A list of exhibits filed with this report on Form 10-Q is provided in the Exhibit Index on page 30 of this report.

W.W. Grainger, Inc. and Subsidiaries

SIGNATURES

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

W.W. Grainger, Inc.
(Registrant)

Date: July 27, 2017

By: /s/ R. L. Jadin
R. L. Jadin, Senior Vice President
and Chief Financial Officer

Date: July 27, 2017

By: /s/ E. R. Tapia
E. R. Tapia, Vice President
and Controller

EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION |
|----------------|--|
| 4.1 | Third Supplemental Indenture, dated as of May 22, 2017, between W.W. Grainger, Inc., and U.S. Bank National Association, as trustee (filed as Exhibit 4.1 to W.W. Grainger, Inc's Current Report of Form 8-K on May 22, 2017, and incorporated herein by reference). |
| 4.2 | Form of 4.20% Senior Notes due 2047 (included in Exhibit 4.1) (filed as Exhibit 4.1 to W. W. Grainger, Inc's Current report on Form 8-K on May 22, 2017, and incorporated herein by reference). |
| 10.1 | Summary Description of the Company Management Incentive Program (updated).* |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

(* Management contract or compensatory plan or arrangement.