SHERWIN WILLIAMS CO
Form 10-Q
October 25, 2017

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

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Period Ended September 30, 2017
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from to
Commission file number 1-04851

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one:)

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

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes o   No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, $1.00 Par Value – 93,513,916 shares as of September 30, 2017.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	2
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	32

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	33
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 5. Other Information	36
Item 6. Exhibits	37

SIGNATURES	38

EX-4.1
EX-4.2
EX-4.3
EX-4.4
EX-10.1
EX-10.2
EX-31(a)
EX-31(b)
EX-32(a)
EX-32(b)
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABEL LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales	$4,507,020	$3,279,462	$11,004,224	$9,073,011
Cost of goods sold	2,604,878	1,643,037	6,021,752	4,538,840
Gross profit	1,902,142	1,636,425	4,982,472	4,534,171
Percent to net sales	42.2 %	49.9 %	45.3 %	50.0 %
Selling, general and administrative expenses	1,306,121	1,050,081	3,461,788	3,095,250
Percent to net sales	29.0 %	32.0 %	31.5 %	34.1 %
Other general expense - net	4,109	813	6,160	21,100
Amortization	83,711	8,183	118,799	19,549
Interest expense	91,593	44,100	174,017	110,710
Interest and net investment income	(2,448)	(1,647)	(6,819)	(3,086)
Other income - net	(8,666)	(725)	(14,803)	(551)
Income from continuing operations before income taxes	427,722	535,620	1,243,330	1,291,199
Income taxes	111,116	148,887	326,921	361,526
Net income from continuing operations	316,606	386,733	916,409	929,673
Loss from discontinued operations (see Note 3)				
Income taxes			41,540	
Net loss from discontinued operations	—	—	(41,540)	—
Net income	$316,606	$386,733	$874,869	$929,673
Basic net income per common share				
Continuing operations	$3.40	$4.20	$9.88	$10.13
Discontinued operations	—		(.45)	
Net income per common share	$3.40	$4.20	$9.43	$10.13
Diluted net income per common share				
Continuing operations	$3.33	$4.08	$9.67	$9.85
Discontinued operations	—		(.44)	
Net income per common share	$3.33	$4.08	$9.23	$9.85
Average shares outstanding - basic	92,988,118	91,992,854	92,793,275	91,752,482
Average shares and equivalents outstanding - diluted	95,207,884	94,771,807	94,817,669	94,421,190
Comprehensive income	$383,541	$390,601	$962,919	$858,547

See notes to condensed consolidated financial statements.

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

	September 30, 2017	December 31, 2016	September 30, 2016
Assets			
Current assets:			
Cash and cash equivalents	$ 207,937	$ 889,793	$ 702,569
Accounts receivable, less allowance	2,426,222	1,230,987	1,458,073
Inventories:			
Finished goods	1,333,798	898,627	947,059
Work in process and raw materials	370,415	169,699	165,453
	1,704,213	1,068,326	1,112,512
Deferred income taxes		57,162	148,550
Other current assets	345,532	381,030	286,527
Total current assets	4,683,904	3,627,298	3,708,231
Goodwill	6,915,028	1,126,892	1,144,738
Intangible assets	6,471,527	255,010	255,159
Deferred pension assets	224,330	225,529	246,051
Other assets	589,319	421,904	479,670
Property, plant and equipment:			
Land	252,832	115,555	118,170
Buildings	992,862	714,815	709,640
Machinery and equipment	2,642,019	2,153,437	2,118,049
Construction in progress	149,927	117,126	111,252
	4,037,640	3,100,933	3,057,111
Less allowances for depreciation	2,142,091	2,005,045	1,973,189
	1,895,549	1,095,888	1,083,922
Total Assets	$ 20,779,657	$ 6,752,521	$ 6,917,771
Liabilities and Shareholders’ Equity			
Current liabilities:			
Short-term borrowings	$ 164,133	$ 40,739	$ 50,325
Accounts payable	1,832,434	1,034,608	1,224,358
Compensation and taxes withheld	500,977	398,045	379,887
Accrued taxes	280,854	76,765	145,167
Current portion of long-term debt	701,419	700,475	1,679
Other accruals	891,844	578,547	714,391
Total current liabilities	4,371,661	2,829,179	2,515,807
Long-term debt	10,083,828	1,211,326	1,909,713
Postretirement benefits other than pensions	262,543	250,397	253,457
Deferred income taxes	2,611,065	73,833	132,327
Other long-term liabilities	709,571	509,345	508,684
Shareholders’ equity:			
Common stock—$1.00 par value:			
93,513,916, 93,013,031 and 92,907,741 shares outstanding			
at September 30, 2017, December 31, 2016 and September 30, 2016, respectively	117,189	116,563	116,457
Other capital	2,654,176	2,488,564	2,451,196

Retained earnings	4,685,313	4,049,497	3,924,686
Treasury stock, at cost	(4,263,388)	(4,235,832)	(4,236,335)
Cumulative other comprehensive loss	(452,301)	(540,351)	(658,221)
Total shareholders' equity	2,740,989	1,878,441	1,597,783
Total Liabilities and Shareholders’ Equity	$ 20,779,657	$ 6,752,521	$ 6,917,771

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2017	September 30, 2016
OPERATING ACTIVITIES		
Net income	$874,869	$ 929,673
Adjustments to reconcile net income to net operating cash:		
Loss from discontinued operations	41,540	
Depreciation	162,214	128,313
Amortization of intangible assets	118,799	19,549
Amortization of inventory step-up	114,025	
Stock-based compensation expense	59,146	48,115
Amortization of credit facility and debt issuance costs	5,969	44,823
Provisions for qualified exit costs	32,416	1,541
Provisions for environmental-related matters	5,812	21,219
Defined benefit pension plans net cost	15,246	12,550
Net change in postretirement liability	(7,422)	961
Other	93	8,448
Change in working capital accounts - net	(163,513)	(241,619)
Costs incurred for environmental-related matters	(8,254)	(8,825)
Costs incurred for qualified exit costs	(26,925)	(5,074)
Other	34,817	6,860
Net operating cash	1,258,832	966,534
INVESTING ACTIVITIES		
Capital expenditures	(143,406)	(173,101)
Acquisitions of businesses, net of cash acquired and divestiture (see Note 3)	(8,810,314)	
Proceeds from sale of assets	39,528	5,545
Decrease (increase) in other investments	3,499	(69,143)
Net investing cash	(8,910,693)	(236,699)
FINANCING ACTIVITIES		
Net (decrease) increase in short-term borrowings	(113,942)	6,547
Proceeds from long-term debt	8,269,930	500
Payments of long-term debt	(951,253)	(1,150)
Payments for credit facility and debt issuance costs	(49,022)	(61,433)
Payments of cash dividends	(239,016)	(233,863)
Proceeds from stock options exercised	93,791	66,337
Other	(20,434)	(12,644)
Net financing cash	6,990,054	(235,706)
Effect of exchange rate changes on cash	(20,049)	2,696
Net (decrease) increase in cash and cash equivalents	(681,856)	496,825
Cash and cash equivalents at beginning of year	889,793	205,744
Cash and cash equivalents at end of period	$207,937	$ 702,569
Income taxes paid	$403,495	$ 314,663

Interest paid	88,776	115,370

See notes to condensed consolidated financial statements.

4

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Periods ended September 30, 2017 and 2016

NOTE 1—BASIS OF PRESENTATION

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

There have been no significant changes in critical accounting policies since December 31, 2016. Accounting estimates were revised as necessary during the first nine months of 2017 based on new information and changes in facts and circumstances. Certain amounts in the 2016 condensed consolidated financial statements have been reclassified to conform to the 2017 presentation. See Note 14 for information on the changes in the Company's reportable segments.

The Company primarily uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs are subject to the final year-end LIFO inventory valuation. In addition, interim inventory levels include management’s estimates of annual inventory losses due to shrinkage and other factors. The final year-end valuation of inventory is based on a cycle count program or an annual physical inventory count performed during the third and fourth quarters. 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, 2016.

The consolidated results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

NOTE 2—IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2017, the Company adopted the Accounting Standard Update (ASU) No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which eliminates the requirement for separate presentation of current and non-current portions of deferred tax. Subsequent to adoption, all deferred tax assets and deferred tax liabilities are presented as non-current on the balance sheet. The changes have been applied prospectively as permitted by the ASU and prior years have not been restated. The adoption of this ASU does not have a material effect on the Company's results of operations, financial condition or liquidity.

In March 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs." The standard requires the service component of pension and other postretirement benefit expense to be presented in the same income statement lines as other employee compensation costs, however, the other components will be presented outside of operating income. In addition, only the service cost component will be eligible for capitalization in assets. The standard is effective starting in 2018, with early adoption permitted. Retrospective application is required for the guidance on the income statement presentation. Prospective application is required for the guidance on the cost capitalization in assets. The Company is in the process of evaluating the impact of the standard.

In January 2017, the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment.” This standard simplifies the accounting for goodwill impairment by eliminating the Step 2 requirement to calculate the implied fair value of goodwill. Instead, if a reporting unit's carrying amount exceeds its fair value, an impairment charge will be recorded based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard will be applied prospectively and is effective for impairment tests performed after December 15, 2019, with early adoption permitted. The standard is not expected to have a material effect on the Company's results of operations, financial condition or liquidity.

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which consists of a comprehensive lease accounting standard. Under the new standard, assets and liabilities arising from most leases will be recognized on the balance sheet. Leases will be classified as either operating or financing, and the lease classification will determine whether

expense is recognized on a straight line basis (operating leases) or based on an effective interest method (financing leases). The new standard is effective for interim and annual periods starting in 2019. A modified retrospective transition approach is required with certain practical

expedients available. The Company has made significant progress with its assessment process, and anticipates this standard will have a material impact on its consolidated balance sheet. While the Company continues to assess all potential impacts of the standard, it currently believes the most significant impact relates to recording lease assets and related liabilities on the balance sheet for its retail operations in The Americas Group.
In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” which amends the guidance for certain aspects of recognition, measurement and disclosure of financial instruments. The standard is effective for interim and annual periods starting in 2018, and early adoption is not permitted. Although the Company continues to assess the potential impacts of the standard, it currently believes that the main impact will be that changes in fair value of marketable securities currently classified as available-for-sale will be recognized in earnings rather than in other comprehensive income. The standard is not expected to have a material effect on the Company's results of operations, financial condition or liquidity.
In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which consists of a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The standard is effective for interim and annual periods beginning after December 15, 2017. The Company expects to adopt the standard using the modified retrospective method. The Company is nearing completion of its determination of the expanded disclosures regarding revenue, as well as potential impacts on timing of recognition in some arrangements with variable consideration or contracts for the sale of goods or services. In addition, the Company has made progress with developing plans for enhancements to its information systems and internal controls in response to the new rule requirements.

NOTE 3—ACQUISITIONS

On June 1, 2017, the Company completed the acquisition of Valspar at $113 per share in an all cash transaction for a total purchase price of $8.9 billion, net of divestiture proceeds of $431.0 million. As previously disclosed, on April 11, 2017, the Company and Valspar entered into a definitive agreement with Axalta Coating Systems Ltd. to divest the assets related to Valspar's North American industrial wood coatings business. The divestiture was also completed on June 1, 2017, and is reported as a discontinued operation with no pre-tax gain or loss but includes the tax expense effect of this separate transaction. Proceeds of $431.0 million were received for the divested assets sold. The divestiture resulted in a tax provision of $41.5 million, which reduced basic and diluted net income per common share for the nine months ended September 30, 2017 by $.45 and $.44, respectively. The Valspar acquisition expands the Company's diversified array of brands and technologies, expands its global platform and adds new capabilities in its packaging and coil businesses.
The preliminary allocation of the fair value of the Valspar acquisition is summarized in the table below. Allocations are based on the acquisition method of accounting and in-process third-party valuation appraisals. The allocation of the fair value will be finalized within the allowable measurement period.

(Millions of dollars)	
Cash	$129.1
Accounts receivable	817.5
Inventories	688.9
Indefinite-lived trademarks	1,284.7
Finite-lived intangible assets	5,034.7
Goodwill	5,753.4
Property, plant and equipment	813.5
All other assets	254.8
Accounts payable	(553.2)
Long-term debt	(1,603.5)
Deferred taxes	(2,599.8)
All other liabilities	(1,080.7)
Total	$8,939.4
Total, net of cash	$8,810.3

Finite-lived intangible assets include customer relationships of $3.0 billion and intellectual property and technology of $2.0 billion, which are being amortized over weighted average amortization periods ranging from 15 to 20 years. Based on the

6

---

preliminary purchase accounting, goodwill of $3.0 billion, $1.7 billion and $1.0 billion was recorded in Performance Coatings, Consumer Brands and The Americas Groups, respectively, and relates primarily to expected synergies.
The Company's Net sales and Income from continuing operations for the three and nine months ended September 30, 2017 include sales of $1.075 billion and $1.456 billion, respectively, and a profit before tax of $66.8 million and $80.9 million related to the Valspar acquisition. Net income from continuing operations for the three and nine months ended September 30, 2017 includes approximately $78.0 million and $100.9 million of intangibles amortization expense, respectively, and $78.6 million and $114.8 million of inventory step-up amortization included in cost of sales, respectively. During the nine months ended September 30, 2017 and 2016, the Company incurred transaction and integration related SG&A expense of $59.7 million and $49.2 million, respectively, and interest expense of $112.2 million and $49.9 million, respectively, related to the acquisition of Valspar.
The following pro forma information presents consolidated financial information as if Valspar had been acquired at the beginning of 2016. Pro forma adjustments have been made to exclude Valspar's North American industrial wood coatings business results and certain transaction and integration costs from all periods presented. Interest expense has been adjusted as though total debt outstanding at June 1, 2017 had been outstanding at January 1, 2016. Each quarter presented includes intangible amortization expense of approximately $78.0 million resulting from the preliminary purchase accounting. The full $114.8 million of inventory step-up amortization resulting from the preliminary purchase accounting asset step-up has been included in the first quarter of 2016 to reflect the pro forma transaction date of January 1, 2016, and thus the inventory step-up amortization of $78.6 million and $114.8 million recorded in the three and nine months ended September 30, 2017, respectively, has been excluded. The unaudited pro forma consolidated financial information does not necessarily reflect the actual results that would have occurred had the acquisition taken place on January 1, 2016, nor is it meant to be indicative of future results of operations of the combined companies under the ownership and operation of the Company.

(Thousands of dollars except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales	$4,507,020	$4,309,284	$12,655,349	$12,103,829
Net income from continuing operations	395,497	378,217	969,554	823,344
Net income per common share from continuing operations:				
Basic	$4.25	$4.11	$10.45	$8.97
Diluted	$4.15	$3.99	$10.23	$8.72

NOTE 4—DIVIDENDS
Dividends paid on common stock for each of the first three quarters of 2017 and 2016 were $.85 per common share and $.84 per common share, respectively.

NOTE 5—CHANGES IN CUMULATIVE OTHER COMPREHENSIVE LOSS

The following tables summarize the changes in Cumulative other comprehensive loss for the nine months ended September 30, 2017 and 2016:

(Thousands of dollars)	Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefit Adjustments	Unrealized Net Gains on Available-for-Sale Securities	Unrealized Net Gains (Losses) on Cash Flow Hedges	Total Cumulative Other Comprehensive (Loss) Income
Balance at December 31, 2016	$ (501,277)	$ (125,096)	$ 1,015	$ 85,007	$ (540,351)
Amounts recognized in Other comprehensive loss [(1)]	119,274		1,513	(30,754)	90,033
Amounts reclassified from Other comprehensive loss [(2)]		794	(844)	(1,933)	(1,983)
Net change	119,274	794	669	(32,687)	88,050
Balance at September 30, 2017	$ (382,003)	$ (124,302)	$ 1,684	$ 52,320	$ (452,301)

[(1)] Net of taxes of $(931) for unrealized net gains on available-for-sale securities and $18,895 for unrealized net losses on cash flow hedges.

[(2)] Net of taxes of $(299) for pension and other postretirement benefit adjustments, $518 for realized gains on the sale of available-for-sale securities and $1,188 for realized gains on cash flow hedges.

(Thousands of dollars)	Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefit Adjustments	Unrealized Net (Losses) Gains on Available-for-Sale Securities	Unrealized Net Losses on Cash Flow Hedges	Total Cumulative Other Comprehensive (Loss) Income
Balance at December 31, 2015	$ (482,629)	$ (104,346)	$ (120)		$ (587,095)
Amounts recognized in Other comprehensive loss [(3)]	24,702		822	$ (97,223)	(71,699)
Amounts reclassified from Other comprehensive loss [(4)]		474	99		573
Net change	24,702	474	921	(97,223)	(71,126)
Balance at September 30, 2016	$ (457,927)	$ (103,872)	$ 801	$ (97,223)	$ (658,221)

[(3)] Net of taxes of $(509) for unrealized net gains on available-for-sale securities and $60,093 for unrealized net losses on cash flow hedges.

[(4)] Net of taxes of $10 for pension and other postretirement benefit adjustments and $(61) for realized losses on the sale of available-for-sale securities.

NOTE 6—PRODUCT WARRANTIES

Changes in the Company's accrual for product warranty claims during the first nine months of 2017 and 2016, including customer satisfaction settlements, were as follows:

(Thousands of dollars)

	2017	2016
Balance at January 1	$34,419	$31,878
Charges to expense	27,802	25,391
Settlements	(41,408)	(25,330)
Acquisition	107,321	
Balance at September 30	$128,134	$31,939

Warranty accruals of $107.3 million were acquired in connection with the Valspar acquisition. This amount includes warranties for certain products under extended furniture protection plans. In the U.S., revenue related to furniture protection plans is deferred and recognized over the contract life.

For further details on the Company's accrual for product warranty claims, see Note 1 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

NOTE 7—EXIT OR DISPOSAL ACTIVITIES

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

In the nine months ended September 30, 2017, five stores in The Americas Group and two branches in the Performance Coatings Group were closed due to lower demand or redundancy. Accruals for exit or disposal activities of $4.5 million were acquired in connection with the Valspar acquisition. The Company is currently evaluating all legacy operations in response to the Valspar acquisition in order to optimize restructured operations. These acquisition-related restructuring charges to date are recorded in the Administrative segment as presented in the table below in 2017.

The following table summarizes the activity and remaining liabilities associated with qualified exit costs at September 30, 2017:

(Thousands of dollars)

Exit Plan	Balance at December 31, 2016	Acquired Balances	Provisions in Cost of Goods Sold or SG&A	Actual Expenditures Charged to Accrual	Balance at September 30, 2017
Administrative segment acquisition-related restructuring in 2017:					
Severance and related costs		$ 3,303	$ 25,397	$ (20,784)	$ 7,916
Other qualified exit costs		1,153	3,941	(980)	4,114
Consumer Brands Group facilities shutdown in 2016:					
Severance and related costs	$ 907		2,934	(3,756)	85
Performance Coatings Group stores shutdown in 2016:					
Severance and related costs	136			(136)	
Other qualified exit costs	269		97	(211)	155
The Americas Group stores shutdown in 2015:					
Other qualified exit costs	195		22	(217)	
Performance Coatings Group stores shutdown in 2015:					
Other qualified exit costs	433		25	(448)	10
Severance and other qualified exit costs for facilities shutdown prior to 2015	1,908			(393)	1,515

Totals	$ 3,848	$ 4,456	$ 32,416	$ (26,925)	$ 13,795

For further details on the Company’s exit or disposal activities, see Note 5 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

NOTE 8—HEALTH CARE, PENSION AND OTHER BENEFITS

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

(Thousands of dollars)	Domestic Defined Benefit Pension Plans		Foreign Defined Benefit Pension Plans		Postretirement Benefits Other than Pensions	
	2017	2016	2017	2016	2017	2016
Three Months Ended September 30:						
Net periodic benefit cost:						
Service cost	$5,356	$5,741	$2,052	$955	$524	$562
Interest cost	8,734	6,587	2,240	1,788	2,755	2,752
Expected return on assets	(13,351)	(12,514)	(2,488)	(1,581)		
Amortization of:						
Prior service cost (credit)	341	302			(1,645)	(1,645)
Actuarial loss	1,334	1,094	474	230	8	
Net periodic benefit cost	$2,414	$1,210	$2,278	$1,392	$1,642	$1,669
Nine Months Ended September 30:						
Net periodic benefit cost (credit):						
Service cost	$16,128	$16,719	$6,257	$3,494	$1,538	$1,684
Interest cost	22,335	19,873	5,742	5,949	7,991	8,257
Expected return on assets	(34,959)	(37,648)	(6,260)	(5,273)		
Amortization of:						
Prior service cost (credit)	1,022	904			(4,935)	(4,935)
Actuarial loss	4,657	3,399	324	1,095	24	
Settlement (gain) loss				4,038	(9,332)	
Net periodic benefit cost (credit)	$9,183	$3,247	$6,063	$9,303	$(4,714)	$5,006

The Company acquired new benefit plans in each category above as a result of the Valspar acquisition. The costs (credits) for these plans subsequent to the acquisition date are included in the tables above and are not significant. The settlement gain recognized in the nine months ended September 30, 2017 relates to the termination of a life insurance benefit plan during the second quarter. The settlement loss recognized in the nine months ended September 30, 2016 relates to the wind up of an acquired Canada plan. For further details on the Company's health care, pension and other benefits, see Note 6 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

NOTE 9—OTHER LONG-TERM LIABILITIES

The Company initially provides for estimated costs of environmental-related activities relating to its past operations and third party sites for which commitments or clean-up plans have been developed and when such costs can be reasonably estimated based on industry standards and professional judgment. These estimated costs are determined based on currently available facts regarding each site. If the best estimate of costs can only be identified as a range and no specific amount within that range can be determined more likely than any other amount within the range, the minimum of the range is provided. At September 30, 2017, the unaccrued maximum of the estimated range of possible outcomes is $84.8 million higher than the minimum.

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

relative to that attributed to other parties, the nature and magnitude of the wastes involved, the various technologies that can be used for remediation and the determination of acceptable remediation with respect to a particular site.

Included in Other long-term liabilities at September 30, 2017 and 2016 were accruals for extended environmental-related activities of $162.9 million and $143.9 million, respectively. Estimated costs of current investigation and remediation activities of $32.6 million and $22.5 million are included in Other accruals at September 30, 2017 and 2016, respectively. Other accruals in the second quarter of 2017 increased $12.6 million due to environmental-related liabilities the Company assumed as a part of the preliminary opening balance sheet of Valspar and is subject to measurement period adjustments.

Three of the Company's currently and formerly owned manufacturing sites account for the majority of the accrual for environmental-related activities and the unaccrued maximum of the estimated range of possible outcomes at September 30, 2017. At September 30, 2017, $151.3 million, or 77.4 percent of the total accrual, related directly to these three sites. In the aggregate unaccrued maximum of $84.8 million at September 30, 2017, $70.8 million, or 83.5 percent, related to the three manufacturing sites. While environmental investigations and remedial actions are in different stages at these sites, additional investigations, remedial actions and monitoring will likely be required at each site.

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

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

For further details on the Company's Other long-term liabilities, see Note 8 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

NOTE 10 – LITIGATION

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

Lead pigment and lead-based paint litigation. The Company's past operations included the manufacture and sale of lead pigments and lead-based paints. The Company, along with other companies, is and has been a defendant in a

number of legal proceedings, including individual personal injury actions, purported class actions, and actions brought by various counties, cities, school districts and other government-related entities, arising from the manufacture and sale of lead pigments and lead-based paints. The plaintiffs' claims have been based upon various legal theories, including negligence, strict liability, breach of warranty, negligent misrepresentations and omissions, fraudulent misrepresentations and omissions, concert of action, civil conspiracy, violations of unfair trade practice and consumer protection laws, enterprise liability, market share liability, public nuisance, unjust enrichment and other theories. The plaintiffs seek various damages and relief, including personal injury and property damage, costs relating to the detection and abatement of lead-based paint from buildings, costs associated with a public education campaign, medical monitoring costs and others. The Company has also been a defendant in legal proceedings arising from the manufacture and sale of non-lead-based paints that seek recovery based upon various legal theories, including the failure to adequately warn of potential exposure to lead during surface preparation when using non-lead-based paint on

surfaces previously painted with lead-based paint. The Company believes that the litigation brought to date is without merit or subject to meritorious defenses and is vigorously defending such litigation. The Company has not settled any material lead pigment or lead-based paint litigation. The Company expects that additional lead pigment and lead-based paint litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

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

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

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

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

The Santa Clara County, California proceeding was initiated in March 2000 in the Superior Court of the State of California, County of Santa Clara. In the original complaint, the plaintiffs asserted various claims including fraud and concealment, strict product liability/failure to warn, strict product liability/design defect, negligence, negligent breach of a special duty, public nuisance, private nuisance, and violations of California's Business and Professions Code. A number of the asserted claims were resolved in favor of the defendants through pre-trial proceedings. The named

plaintiffs in the Fourth Amended Complaint, filed on March 16, 2011, are the Counties of Santa Clara, Alameda, Los Angeles, Monterey, San Mateo, Solano and Ventura, the Cities of Oakland and San Diego and the City and County of San Francisco. The Fourth Amended Complaint asserted a sole claim for public nuisance, alleging that the presence of lead pigments for use in paint and coatings in, on and around residences in the plaintiffs' jurisdictions constitutes a public nuisance. The plaintiffs sought the abatement of the alleged public nuisance that exists within the plaintiffs' jurisdictions. A trial commenced on July 15, 2013 and ended on August 22, 2013. The court entered final judgment on January 27, 2014, finding in favor of the plaintiffs and against the Company and two other defendants (ConAgra Grocery Products Company and NL Industries, Inc.). The final judgment held the Company jointly and severally liable with the other two defendants to pay $1.15 billion into a fund to abate the public nuisance. The Company strongly disagrees with the judgment. On February 18, 2014, the Company filed a motion for new trial and a motion to vacate

the judgment. The court denied these motions on March 24, 2014. On March 28, 2014, the Company filed a notice of appeal to the Sixth District Court of Appeal for the State of California. The filing of the notice of appeal effects an automatic stay of the judgment without the requirement to post a bond. Oral argument before the Sixth District Court of Appeal was held on August 24, 2017. The Company is awaiting the Sixth District Court of Appeal's decision, which is expected to be issued within 90 days of oral argument. The Company believes that the judgment conflicts with established principles of law and is unsupported by the evidence. The Company has had a favorable history with respect to lead pigment and lead-based paint litigation, particularly other public nuisance litigation, and accordingly, the Company believes that it is not probable that a loss has occurred and it is not possible to estimate the range of potential loss with respect to the case.
Litigation seeking damages from alleged personal injury. The Company and other companies are defendants in a number of legal proceedings seeking monetary damages and other relief from alleged personal injuries. These proceedings include claims by children allegedly injured from ingestion of lead pigment or lead-containing paint and claims for damages allegedly incurred by the children’s parents or guardians. These proceedings generally seek compensatory and punitive damages, and seek other relief including medical monitoring costs. These proceedings include purported claims by individuals, groups of individuals and class actions.
The plaintiff in Thomas v. Lead Industries Association, et al., initiated an action in state court against the Company, other alleged former lead pigment manufacturers and the Lead Industries Association in September 1999. The claims against the Company and the other defendants included strict liability, negligence, negligent misrepresentation and omissions, fraudulent misrepresentation and omissions, concert of action, civil conspiracy and enterprise liability. Implicit within these claims is the theory of “risk contribution” liability (Wisconsin’s theory which is similar to market share liability, except that liability can be joint and several) due to the plaintiff’s inability to identify the manufacturer of any product that allegedly injured the plaintiff. The case ultimately proceeded to trial and, on November 5, 2007, the jury returned a defense verdict, finding that the plaintiff had ingested white lead carbonate, but was not brain damaged or injured as a result. The plaintiff appealed and, on December 16, 2010, the Wisconsin Court of Appeals affirmed the final judgment in favor of the Company and other defendants.
Wisconsin is the only jurisdiction to date to apply a theory of liability with respect to alleged personal injury (i.e., risk contribution/market share liability) that does not require the plaintiff to identify the manufacturer of the product that allegedly injured the plaintiff in the lead pigment and lead-based paint litigation. Although the risk contribution liability theory was applied during the Thomas trial, the constitutionality of this theory as applied to the lead pigment cases has not been judicially determined by the Wisconsin state courts. However, in an unrelated action filed in the United States District Court for the Eastern District of Wisconsin, Gibson v. American Cyanamid, et al., on November 15, 2010, the District Court held that Wisconsin’s risk contribution theory as applied in that case violated the defendants’ right to substantive due process and is unconstitutionally retroactive. The District Court's decision in Gibson v. American Cyanamid, et al., was appealed by the plaintiff to the United States Court of Appeals for the Seventh Circuit. On July 24, 2014, the United States Court of Appeals for the Seventh Circuit reversed the judgment and remanded the case back to the District Court for further proceedings. On January 16, 2015, the defendants filed a petition for certiorari in the United States Supreme Court seeking that Court's review of the Seventh Circuit's decision, and on May 18, 2015, the United States Supreme Court denied the defendants' petition. The case is currently pending in the District Court. Three cases also currently pending in the United States District Court for the Eastern District of Wisconsin (Ravon Owens v. American Cyanamid, et al., Cesar Sifuentes v. American Cyanamid, et al., and Glenn Burton, Jr. v. American Cyanamid, et al.) are being prepared for dispositive motions, and if necessary, trial, although no trial dates have been set by the District Court. 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 eight of the 167 plaintiffs have been selected for discovery, although no trial dates have been set by the District Court.
Insurance coverage litigation. The Company and its liability insurers, including certain underwriters at Lloyd’s of London, initiated legal proceedings against each other to primarily determine, among other things, whether the costs and liabilities associated with the abatement of lead pigment are covered under certain insurance policies issued to the Company. The Company’s action, filed on March 3, 2006 in the Common Pleas Court, Cuyahoga County, Ohio, is currently stayed and inactive. The liability insurers’ action, which was filed on February 23, 2006 in the Supreme

Court of the State of New York, County of New York, has been dismissed. An ultimate loss in the insurance coverage litigation would mean that insurance proceeds could be unavailable under the policies at issue to mitigate any ultimate abatement related costs and liabilities. The Company has not recorded any assets related to these insurance policies or otherwise assumed that proceeds from these insurance policies would be received in estimating any contingent liability accrual. Therefore, an ultimate loss in the insurance coverage litigation without a determination of liability against the Company in the lead pigment or lead-based paint litigation will have no impact on the Company's results of operation, liquidity or financial condition. As previously stated, however, the Company has not accrued any amounts for the lead pigment or lead-based paint litigation and any significant liability ultimately determined to be attributable to the Company relating to such litigation may result in a material impact on the

Company's results of operations, liquidity or financial condition for the annual or interim period during which such liability is accrued.

NOTE 11—OTHER

Other general expense - net

Included in Other general expense - net were the following:

(Thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Provisions for environmental matters - net	$4,183	$683	$5,812	$21,219
(Gain) loss on sale or disposition of assets	(74)	130	348	(119)
Total	$4,109	$813	$6,160	$21,100

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 9 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 income - net

Included in Other income - net were the following:

(Thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Dividend and royalty income	$(3,064)	$(1,346)	$(6,106)	$(3,511)
Net expense from banking activities	2,196	2,161	7,181	6,532
Foreign currency transaction related losses (gains)	571	3,779	(2,039)	7,288
Other income	(12,167)	(7,920)	(23,064)	(18,250)
Other expense	3,798	2,601	9,225	7,390
Total	$(8,666)	$(725)	$(14,803)	$(551)

Foreign currency transaction related losses (gains) represent net realized losses (gains) on U.S. dollar-denominated liabilities of foreign subsidiaries and net realized and unrealized losses (gains) from foreign currency option and forward contracts. There were no material foreign currency option and forward contracts outstanding at September 30, 2017 and 2016.

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 12—INCOME TAXES

The effective tax rate for income from continuing operations was 26.0 percent and 26.3 percent for the third quarter and first nine months of 2017, respectively, compared to 27.8 percent and 28.0 percent for the third quarter and first nine months of 2016, respectively. The Company recorded an income tax provision of $41.5 million in the second quarter of 2017 related to the divestiture of Valspar's North American industrial wood coatings business, which is reported as a discontinued operation. See Note 3. Excluding the impact of share-based payments, the effective tax rate was 27.8 percent and 31.0 percent for the third quarter and first nine months of 2017, respectively, compared to 29.9 percent and 31.2 percent for the third quarter and first nine months of 2016, respectively.

As of September 30, 2017, the Company's deferred income tax liability related to the preliminary purchase price accounting for Valspar was approximately $2.6 billion. This amount is preliminary and is subject to measurement period adjustments. Included in this amount are third quarter measurement period adjustments for $30.5 million valuation allowance related to foreign tax credits and $48.0 million of estimated tax payable on retained earnings of certain foreign subsidiaries expected to be repatriated by the Company.

At December 31, 2016, the Company had $32.8 million in unrecognized tax benefits, the recognition of which would have an effect of $27.7 million on the effective tax rate. Included in the balance of unrecognized tax benefits at December 31, 2016 was $2.6 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits comprised primarily of items related to federal audits of partnership investments and expiring statutes in federal, foreign and state jurisdictions. In the second quarter of 2017, the Company acquired $19.9 million of unrecognized tax benefits as a part of the preliminary opening balance sheet of Valspar and is subject to measurement period adjustments. During the third quarter of 2017, the Company recorded an additional $4.6 million of unrecognized tax benefits on the opening balance sheet of Valspar and is subject to measurement period adjustments.

The Company classifies all income tax related interest and penalties as income tax expense. At December 31, 2016, the Company had accrued $9.3 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, 2016 during the first nine months of 2017 with the exception of the unrecognized tax benefits recorded as a part of the acquisition of Valspar.

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 refund claims that the Company filed for the 2010, 2011 and 2012 tax years and the 2014 and 2015 tax years of a Valspar subsidiary. During the second quarter of 2017, the IRS informed the Company that it will commence an audit of the 2014 and 2015 tax years by the end of 2017. As of September 30, 2017, the federal statute of limitations has not expired for the 2013, 2014 and 2015 tax years.

As of September 30, 2017, the Company is subject to non-U.S. income tax examinations for the tax years of 2010 through 2016. In addition, the Company is subject to state and local income tax examinations for the tax years 2005 through 2016.

NOTE 13—NET INCOME PER COMMON SHARE

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

(Thousands of dollars except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic				
Average common shares outstanding	92,988,118	91,992,854	92,793,275	91,752,482
Net income				
Continuing operations	$316,606	$386,733	$916,409	$929,673
Discontinued operations [2]	—	—	(41,540)	—
Net income	$316,606	$386,733	$874,869	$929,673
Basic net income per common share				
Continuing operations	$3.40	$4.20	$9.88	$10.13
Discontinued operations [2]	—	—	(0.45)	—
Net income per common share	$3.40	$4.20	$9.43	$10.13
Diluted				
Average common shares outstanding	92,988,118	91,992,854	92,793,275	91,752,482
Stock options and other contingently issuable shares [1]	2,106,912	2,218,617	1,942,845	2,109,359
Non-vested restricted stock grants	112,854	560,336	81,549	559,349
Average common shares outstanding assuming dilution	95,207,884	94,771,807	94,817,669	94,421,190
Net income				
Continuing operations	$316,606	$386,733	$916,409	$929,673
Discontinued operations [2]	—	—	(41,540)	—
Net income	$316,606	$386,733	$874,869	$929,673
Diluted net income per common share				
Continuing operations	$3.33	$4.08	$9.67	$9.85
Discontinued operations [2]	—	—	(0.44)	—
Net income per common share	$3.33	$4.08	$9.23	$9.85

(1) Stock options and other contingently issuable shares excludes 26,859 shares due to their anti-dilutive effect for the three and nine months ended September 30, 2017. Stock options and other contingently issuable shares excludes 32,633 and 63,310 shares due to their anti-dilutive effect for the three and nine months ended September 30, 2016, respectively.

(2) Relates to the divestiture of Valspar's North American industrial wood coatings business. See Note 3.

NOTE 14—REPORTABLE SEGMENT INFORMATION

The Company reports segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources in accordance with the Segment Disclosures Topic of the ASC. Upon completion of the Valspar acquisition in the second quarter of 2017 (see Note 3), the Company made important changes to its organizational and reporting structure that resulted in establishing three new reportable segments. The Americas Group reportable segment includes the Company's previous Paint Stores Group and Latin America Coatings Group, along with a specialty retail business of Valspar. The Americas Group operates stores in the United States, Canada, Latin America, and the Caribbean islands servicing the needs of architectural and industrial painting contractors and do-it-yourself homeowners. The Americas Group sells a variety of architectural paints, coatings and related products through dedicated dealers, home centers, distributors, hardware stores and other retailers throughout Latin America. The Consumer Brands Group reportable segment includes the

Company's previous Consumer Group along with Valspar's previous Consumer Paints segment, excluding Valspar's automotive refinishes products business. The Consumer Brands Group supplies a broad portfolio of branded and private-label architectural paints, stains, varnishes, industrial products, wood finishes products, wood preservatives, applicators, corrosion inhibitors, aerosols, caulks and adhesives to retailers and distributors throughout North America, as well as in

Australia, China and Europe. The Consumer Brands Group also supports the Company's other businesses around the world with new product research and development, manufacturing, distribution and logistics. The Performance Coatings Group reportable segment includes the Company's previous Global Finishes Group and Valspar's previous Coatings Group segment. The Performance Coatings Group also includes Valspar's automotive refinishes products business, which was previously reported under Valspar's Consumer Paints segment. Valspar’s North American industrial wood coatings business, which was previously reported under the Valspar's Coatings Group segment, was divested. The Performance Coatings Group develops and sells industrial coatings for wood finishing and general industrial (metal and plastic) applications, automotive refinish, protective and marine coatings, coil coatings, packaging coatings and performance-based resins and colorants worldwide. In addition, a specialty coatings business previously in the Company's Consumer Group is now included in the Performance Coatings Group. Prior period segment reporting has been adjusted to reflect the updated reportable segments.

(Thousands of dollars)	Three Months Ended September 30, 2017				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	$2,539,256	$723,341	$1,242,336	$2,087	$4,507,020
Intersegment transfers	1,184	860,181	4,709	(866,074)	
Total net sales and intersegment transfers	$2,540,440	$1,583,522	$1,247,045	$(863,987)	$4,507,020
Segment profit	$525,577	$70,427	$59,615		$655,619
Interest expense				$(91,593)	(91,593)
Administrative expenses and other				(136,304)	(136,304)
Income from continuing operations before income taxes *	$525,577	$70,427	$59,615	$(227,897)	$427,722

* Income from continuing operations before income taxes for the Consumer Brands Group and Performance Coatings Group includes inventory step-up amortization of $35.0 million and $43.5 million, respectively, and intangibles amortization of $19.5 million and $58.4 million, respectively, based on the preliminary purchase accounting. Income from continuing operations before income taxes for the Administrative segment includes $28.0 million of acquisition-related expenses included in SG&A.

	Three Months Ended September 30, 2016				
	The Americas Group	Consumer Brands Group	Performance Coatings Group	Administrative	Consolidated Totals
Net external sales	$2,384,528	$398,222	$495,422	$1,290	$3,279,462
Intersegment transfers	10,348	760,594	2,954	(773,896)	
Total net sales and intersegment transfers	$2,394,876	$1,158,816	$498,376	$(772,606)	$3,279,462
Segment profit	$519,283	$87,193	$68,023		