

SHERWIN WILLIAMS CO  
Form 10-K  
February 23, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission file number 1-04851

**THE SHERWIN-WILLIAMS COMPANY**

(Exact name of registrant as specified in its charter)

**OHIO**

(State or other jurisdiction of incorporation or organization)

**101 West Prospect Avenue, Cleveland, Ohio**

(Address of principal executive offices)

**(216) 566-2000**

**34-0526850**

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

**44115-1075**

(Zip Code)

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

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**Title of each class**  
Common Stock, Par Value \$1.00

**Name of each exchange on which registered**  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 website, 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

At January 31, 2012, 104,168,777 shares of common stock were outstanding, net of treasury shares. The aggregate market value of common stock held by non-affiliates of the Registrant at June 30, 2011 was \$8,840,829,712 (computed by reference to the price at which the common stock was last sold on such date).

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report to Shareholders for the fiscal year ended December 31, 2011 ( 2011 Annual Report ) are incorporated by reference into Parts I, II and IV of this report.

Portions of our Proxy Statement for the 2012 Annual Meeting of Shareholders ( Proxy Statement ) to be filed with the Securities and Exchange Commission within 120 days of our fiscal year ended December 31, 2011 are incorporated by reference into Part III of this report.

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**PART I**

**ITEM 1. BUSINESS**

**Introduction**

The Sherwin-Williams Company, founded in 1866 and incorporated in Ohio in 1884, is engaged in the development, manufacture, distribution and sale of paint, coatings and related products to professional, industrial, commercial and retail customers primarily in North and South America with additional operations in the Caribbean region, Europe and Asia. Our principal executive offices are located at 101 West Prospect Avenue, Cleveland, Ohio 44115-1075, telephone (216) 566-2000. As used in this report, the terms Sherwin-Williams, Company, we and our mean The Sherwin-Williams Company and its consolidated subsidiaries unless the context indicates otherwise.

**Available Information**

We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. You may access these documents on the Investor Relations page of our website at [www.sherwin.com](http://www.sherwin.com).

We also make available free of charge on our website our Corporate Governance Guidelines, our Director Independence Standards, our Business Ethics Policy and the charters of our Audit Committee, our Compensation and Management Development Committee and our Nominating and Corporate Governance Committee. You may access these documents in the Corporate Governance section on the Investor Relations page of our website at [www.sherwin.com](http://www.sherwin.com).

**Basis of Reportable Segments**

We report our segment information in the same way that management internally organizes our business for assessing performance and making decisions regarding allocation of resources in accordance with the Segment Reporting Topic of the Financial Accounting Standards Board Accounting Standards Codification (ASC). We have four reportable operating segments: Paint Stores Group, Consumer Group, Global Finishes Group and Latin America Coatings Group (collectively, the Reportable Segments). Factors considered in determining our Reportable Segments include the nature of business activities, the management structure directly accountable to the Company's chief operating decision maker (CODM) for operating and administrative activities, availability of discrete financial information and information presented to our Board of Directors. Prior to December 31, 2011, the Latin America Coatings Group had been aggregated with the Global Finishes Group in accordance with the quantitative thresholds in ASC 280-10-50-12. Based on the performance trends within the two operating segments, effective December 31, 2011, the Latin America Coatings Group is a separate reportable segment. In accordance with ASC 280-10-50-17, prior periods have been restated to reflect the Latin America Coatings Group as a reportable segment. We report all other business activities and immaterial operating segments that are not reportable in the Administrative segment. For more information about the Reportable Segments, see pages 6 through 13 of our 2011 Annual Report, which is incorporated herein by reference.

The Company's CODM has been identified as the Chief Executive Officer because he has final authority over performance assessment and resource allocation decisions. Because of the diverse operations of the Company, the CODM regularly receives discrete financial information about each reportable segment as well as a significant amount of additional financial information about certain divisions, business units or subsidiaries of the Company. The CODM uses all such financial information for performance assessment and

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resource allocation decisions. The CODM evaluates the performance of and allocates resources to the Reportable Segments based on profit or loss before income taxes and cash generated from operations. The accounting policies of the Reportable Segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements on pages 48 through 52 of our 2011 Annual Report, which is incorporated herein by reference.

### **Paint Stores Group**

The Paint Stores Group consisted of 3,450 company-operated specialty paint stores in the United States, Canada, Puerto Rico, Virgin Islands, Trinidad and Tobago, St. Maarten, Jamaica and Curacao at December 31, 2011. Each store in this segment is engaged in the related business activity of selling paint, coatings and related products to end-use customers. The Paint Stores Group markets and sells Sherwin-Williams® branded architectural paint and coatings, protective and marine products, original equipment manufacturer ( OEM ) product finishes and related items. These products are produced by manufacturing facilities in the Consumer Group. In addition, each store sells selected purchased associated products. The loss of any single customer would not have a material adverse effect on the business of this segment. During 2011, this segment opened 60 net new stores, consisting of 66 new stores opened (53 in the United States, 12 in Canada, and 1 in Curacao) and 6 stores closed in the United States. During 2010 and 2009, this segment opened 36 and 8 net new stores, respectively. A map on page 14 of our 2011 Annual Report, which is incorporated herein by reference, shows the number of paint stores and their geographic locations. The CODM uses discrete financial information about the Paint Stores Group, supplemented with information by geographic region, product type and customer type, to assess performance of and allocate resources to the Paint Stores Group as a whole. In accordance with ASC 280-10-50-9, the Paint Stores Group as a whole is considered the operating segment, and because it meets the criteria in ASC 280-10-50-10, it is also considered a reportable segment.

### **Consumer Group**

The Consumer Group develops, manufactures and distributes a variety of paint, coatings and related products to third party customers primarily in the United States and Canada and the Paint Stores Group. Approximately 62 percent of the total sales of the Consumer Group in 2011 were inter-segment transfers of products primarily sold through the Paint Stores Group. Sales and marketing of certain controlled brand and private labeled products is performed by a direct sales staff. The products distributed through third party customers are intended for resale to the ultimate end-user of the product. The Consumer Group had sales to certain customers that, individually, may be a significant portion of the sales of the segment. However, the loss of any single customer would not have a material adverse effect on the overall profitability of the segment. This segment incurred most of the Company's capital expenditures related to ongoing environmental compliance measures. The CODM uses discrete financial information about the Consumer Group, supplemented with information by product types and customer, to assess performance of and allocate resources to the Consumer Group as a whole. In accordance with ASC 280-10-50-9, the Consumer Group as a whole is considered the operating segment, and because it meets the criteria in ASC 280-10-50-10, it is also considered a reportable segment.

### **Global Finishes Group**

The Global Finishes Group develops, licenses, manufactures, distributes and sells a variety of protective and marine products, automotive finishes and refinish products, OEM product finishes and related products in North and South America, Europe and Asia. This segment meets the demands of its customers for a consistent worldwide product development, manufacturing and distribution presence and approach to doing business. This segment licenses certain technology and trade names worldwide. Sherwin-Williams® and other controlled brand products are distributed through the Paint Stores Group and this segment's 303 company-operated branches and by a direct sales staff and outside sales representatives to retailers, dealers, jobbers, licensees and other third party distributors. During 2011, this segment opened 1 new branch in the United States and closed 13 (6 in the United States, 5 in India and 2 in Canada) for a net decrease of 12 branches. At December 31, 2011, the Global

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Finishes Group consisted of operations in the United States, subsidiaries in 36 foreign countries and income from licensing agreements in 15 foreign countries. The CODM uses discrete financial information about the Global Finishes Group, supplemented with information about geographic divisions, business units, and subsidiaries, to assess performance of and allocate resources to the Global Finishes Group as a whole. In accordance with ASC 280-10-50-9, the Global Finishes Group as a whole is considered the operating segment, and because it meets the criteria in ASC 280-10-50-10, it is also considered a reportable segment. A map on pages 14 and 15 of our 2011 Annual Report, which is incorporated herein by reference, shows the number of branches and their geographic locations.

### **Latin America Coatings Group**

The Latin America Coatings Group develops, licenses, manufactures, distributes and sells a variety of architectural paint and coatings, protective and marine products, OEM product finishes and related products in North and South America. This segment meets the demands of its customers for consistent regional product development, manufacturing and distribution presence and approach to doing business. Sherwin-Williams® and other controlled brand products are distributed through this segment's 265 company-operated stores and by a direct sales staff and outside sales representatives to retailers, dealers, licensees and other third party distributors. During 2011, this segment opened or acquired 19 new stores (15 in South America and 4 in Mexico) and closed 3 in South America for a net increase of 16 stores. At December 31, 2011, the Latin America Coatings Group consisted of operations from subsidiaries in 9 foreign countries, 4 foreign joint ventures and income from licensing agreements in 10 foreign countries. The CODM uses discrete financial information about the Latin America Coatings Group, supplemented with information about geographic divisions, business units, and subsidiaries, to assess performance of and allocate resources to the Latin America Coatings Group as a whole. In accordance with ASC 280-10-50-9, the Latin America Coatings Group as a whole is considered the operating segment, and because it meets the criteria in ASC 280-10-50-10, it is also considered a reportable segment. A map on pages 14 and 15 of our 2011 Annual Report, which is incorporated herein by reference, shows the number of stores and their geographic locations.

### **Administrative Segment**

The Administrative segment includes the administrative expenses of the Company's corporate headquarters site. Also included in the Administrative segment was interest expense, interest and investment income, certain expenses related to closed facilities and environmental-related matters, and other expenses which were not directly associated with the Reportable Segments. The Administrative segment did not include any significant foreign operations. Also included in the Administrative segment was a real estate management unit that is responsible for the ownership, management, and leasing of non-retail properties held primarily for use by the Company, including the Company's headquarters site, and disposal of idle facilities. Sales of this segment represented external leasing revenue of excess headquarters space or leasing of facilities no longer used by the Company in its primary businesses. Gains and losses from the sale of property were not a significant operating factor in determining the performance of the Administrative segment.

### **Segment Financial Information**

For financial information regarding our Reportable Segments, including net external sales, segment profit, identifiable assets and other information by segment, see Note 19 of the Notes to Consolidated Financial Statements on pages 76 through 79 of our 2011 Annual Report, which is incorporated herein by reference.

### **Domestic and Foreign Operations**

Financial and other information regarding domestic and foreign operations is set forth in Note 19 of the Notes to Consolidated Financial Statements on page 78 of our 2011 Annual Report, which is incorporated herein by reference.

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Additional information regarding risks attendant to foreign operations is set forth on page 34 of our 2011 Annual Report under the caption "Market Risk" of Management's Discussion and Analysis of Financial Condition and Results of Operation, which is incorporated herein by reference.

### **Business Developments**

For additional information regarding our business and business developments, see pages 6 through 16 of our 2011 Annual Report and the "Letter to Shareholders" on pages 2 through 5 of our 2011 Annual Report, which is incorporated herein by reference.

### **Raw Materials and Products Purchased for Resale**

We believe we generally have adequate sources of raw materials and fuel supplies used in our business. However, consolidation of raw material suppliers and a reduction in raw material manufacturing capacity during the recent recession, along with an increase in global demand for certain raw materials, resulted in increased prices of certain raw materials in 2011. A continued increase in global demand for certain raw materials and coatings as the global economy recovers may result in increased prices of certain raw materials for the Reportable Segments during 2012. There are sufficient suppliers of each product purchased for resale that none of the Reportable Segments anticipate any significant sourcing problems during 2012. See Item 1A Risk Factors for more information regarding cost and sourcing of raw materials.

### **Seasonality**

The majority of the sales for the Reportable Segments traditionally occur during the second and third quarters. There is no significant seasonality in sales for the Administrative segment.

### **Working Capital**

In order to meet increased demand during the second and third quarters, the Company usually builds its inventories during the first quarter. Working capital items (inventories and accounts receivable) are generally financed through short-term borrowings, which include the use of lines of credit and the issuance of commercial paper. For a description of the Company's liquidity and capital resources, see pages 24 through 34 of our 2011 Annual Report under the caption "Financial Condition, Liquidity and Cash Flow" of Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated herein by reference.

### **Trademarks and Trade Names**

Customer recognition of our trademarks and trade names collectively contribute significantly to our sales. The major trademarks and trade names used by each of the Reportable Segments are set forth below.

*Paint Stores Group:* Sherwin-Williams®, ProMar®, SuperPaint®, A-100®, PrepRite®, Duration Home®, ProGreen®, Harmony®, Woodscapes®, Deckscape®, Cashmere®, ProClassic®, Duration®, Duron®, MAB™ and HGTV® Home by Sherwin-Williams®.

*Consumer Group:* Thompson® WaterSeal®, Dutch Boy®, Pratt & Lambert®, Martin Senour®, H&C®, Rubberset®, Dupli-Color®, Minwax®, White Lightning®, Krylon®, Purdy®, Bestt Liebco®, Accurate Dispersions™, Dobco™, Ronseal™, Tri-Flow®, Kool Seal®, Snow Roof®, Altax™, Sprayon®, Uniflex® and VHT®.

*Global Finishes Group:* Sherwin-Williams®, Martin Senour®, Lazzuril®, Excelo®, Baco®, Planet Color®, Ultra-Cure®, Kem Aqua®, Sher-Wood®, Powdura®, Polane®, Euronavy®, Inchem™, Loxon®, AWX®, Ultra™, Sayerlack®, Becker Acroma®, Firetex®, Macropoxy® and Acrolon®.





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*Latin America Coatings Group:* Sherwin-Williams<sup>®</sup>, Martin Senour<sup>®</sup>, Baco<sup>®</sup>, Planet Color<sup>®</sup>, Krylon<sup>®</sup>, Kem Tone<sup>®</sup>, Pratt & Lambert<sup>®</sup>, Minwax<sup>®</sup>, Colorgin<sup>™</sup>, Sumare<sup>™</sup>, Andina<sup>™</sup>, Marson<sup>™</sup>, Metalatex<sup>®</sup>, Novacor<sup>™</sup>, Loxon<sup>®</sup>, Napko<sup>™</sup>, and Condor<sup>™</sup>.

### **Patents**

Although patents and licenses are not of material importance to our business as a whole or any segment, the Global Finishes Group and Latin America Coatings Group derive a portion of their income from the licensing of technology, trademarks and trade names to foreign companies.

### **Backlog and Productive Capacity**

Backlog orders are not significant in the business of any reportable segment since there is normally a short period of time between the placing of an order and shipment. We believe that sufficient productive capacity currently exists to fulfill our needs for paint, coatings and related products through 2012.

### **Research and Development**

For information regarding our costs of research and development included in technical expenditures, see Note 1 of the Notes to Consolidated Financial Statements on page 51 of our 2011 Annual Report, which is incorporated herein by reference.

### **Competition**

We experience competition from many local, regional, national and international competitors of various sizes in the manufacture, distribution and sale of our paint, coatings and related products. We are a leading manufacturer and retailer of paint, coatings and related products to professional, industrial, commercial and retail customers, however, our competitive position varies for our different products and markets.

In the Paint Stores Group, competitors include other paint and wallpaper stores, mass merchandisers, home centers, independent hardware stores, hardware chains and manufacturer-operated direct outlets. Product quality, product innovation, breadth of product line, technical expertise, service and price determine the competitive advantage for this segment.

In the Consumer Group, domestic and foreign competitors include manufacturers and distributors of branded and private labeled paint and coatings products. Technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price are the key competitive factors for this segment.

The Global Finishes Group has numerous competitors in its domestic and foreign markets with broad product offerings and several others with niche products. Key competitive factors for this segment include technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price.

In the Latin America Coatings Group, competitors include other paint and wallpaper stores, mass merchandisers, home centers, independent hardware stores, hardware chains and manufacturer-operated direct outlets. Product quality, product innovation, breadth of product line, technical expertise, service and price determine the competitive advantage for this segment.

The Administrative segment has many competitors consisting of other real estate owners, developers and managers in areas in which this segment owns property. The main competitive factors are the availability of property and price.

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### **Employees**

We employed 32,988 persons at December 31, 2011.

### **Environmental Compliance**

For additional information regarding environmental-related matters, see pages 27 through 29 of our 2011 Annual Report under the caption Environmental-Related Liabilities of Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 9 and 14 of the Notes to Consolidated Financial Statements on pages 50, 65 and 66, and 72 and 73, respectively, of our 2011 Annual Report, which is incorporated herein by reference.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon management's current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and the costs and potential liability for environmental-related matters and the lead pigment and lead-based paint litigation. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as expects, anticipates, believes, will, will likely result, will continue, plans to and similar expressions.

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

the duration and severity of the current negative global economic and financial conditions;

general business conditions, strengths of retail and manufacturing economies and the growth in the coatings industry;

competitive factors, including pricing pressures and product innovation and quality;

changes in raw material and energy supplies and pricing;

changes in our relationships with customers and suppliers;

our ability to attain cost savings from productivity initiatives;

our ability to successfully integrate past and future acquisitions into our existing operations, including the recent acquisitions of Becker Acroma Industrial Wood Coatings, Sayerlack Industrial Wood Coatings, Pinturas Condor and Leighs Paints, as well as the performance of the businesses acquired;

risks and uncertainties associated with our ownership of Life Shield Engineered Systems, LLC;

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changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions, and changing government policies, laws and regulations;

risks and uncertainties associated with our expansion into and our operations in Asia, Europe, Mexico, South America and other foreign markets, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest and other external economic and political factors;

the achievement of growth in foreign markets, such as Asia, Europe, Mexico and South America;

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increasingly stringent domestic and foreign governmental regulations including those affecting health, safety and the environment;

inherent uncertainties involved in assessing our potential liability for environmental-related activities;

other changes in governmental policies, laws and regulations, including changes in accounting policies and standards and taxation requirements (such as new tax laws and new or revised tax law interpretations);

the nature, cost, quantity and outcome of pending and future litigation and other claims, including the lead pigment and lead-based paint litigation, and the effect of any legislation and administrative regulations relating thereto; and

unusual weather conditions.

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

**ITEM 1A. RISK FACTORS**

Described below and elsewhere in this report and other documents that we file from time to time with the Securities and Exchange Commission are risks, uncertainties and other factors that can adversely affect our business, results of operations, cash flow, liquidity or financial condition.

*Adverse changes in general business and economic conditions in the United States and worldwide may adversely affect our results of operations, cash flow, liquidity or financial condition.*

Adverse changes in general business and economic conditions in the United States and worldwide may reduce the demand for some of our products and adversely affect our results of operations, cash flow, liquidity or financial condition. Higher inflation rates, interest rates, tax rates and unemployment rates, higher labor and healthcare costs, recessions, changing governmental policies, laws and regulations, and other economic factors that adversely affect the demand for our paint, coatings and related products could adversely affect our results of operations, cash flow, liquidity or financial condition.

*The duration and severity of global economic and financial conditions may adversely affect our results of operations, cash flow, liquidity or financial condition.*

A worsening of global economic and financial conditions may adversely impact our net sales, the collection of accounts receivable, funding for working capital needs, expected cash flow generation from current and acquired businesses, and our investments, which may adversely impact our results of operations, cash flow, liquidity or financial condition.

We finance a portion of our sales through trade credit. The current global economic and financial conditions have caused some customers to be less profitable and have increased our exposure to credit risk. In addition, due to the tightening of credit markets, some customers who require financing for their businesses have not been able to obtain necessary financing. Continuation of these conditions could limit our ability to collect our accounts receivable, which could adversely affect our results of operations, cash flow, liquidity or financial condition.

We generally fund a portion of our seasonal working capital needs and obtain funding for other general corporate purposes through short-term borrowings backed by our revolving credit facility and other financing facilities. If any of the banks in these credit and financing facilities are unable to perform on their commitments, which could adversely affect our ability to fund seasonal working capital needs and obtain funding for other general corporate purposes, our cash flow, liquidity or financial condition could be adversely impacted.



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Although we currently have available credit facilities to fund our current operating needs, we cannot be certain that we will be able to replace our existing credit facilities or refinance our existing debt when necessary. Our cost of borrowing and ability to access the capital markets are affected not only by market conditions, but also by our debt and credit ratings assigned by the major credit rating agencies. Downgrades in these ratings will increase our cost of borrowing and could have an adverse effect on our access to the capital markets, including our access to the commercial paper market. An inability to access the capital markets could have a material adverse effect on our results of operations, cash flow, liquidity or financial condition.

We have goodwill and intangible assets recorded on our balance sheet. We periodically evaluate the recoverability of the carrying value of our goodwill and intangible assets whenever events or changes in circumstances indicate that such value may not be recoverable. Impairment assessment involves judgment as to assumptions regarding future sales and cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions and may result in changes in our estimates of future sales and cash flows that may result in us incurring substantial impairment charges, which would adversely affect our results of operations or financial condition.

We hold investments in equity and debt securities in some of our defined benefit pension plans. A decrease in the value of plan assets resulting from a general financial downturn may cause a negative pension plan investment performance, which may adversely affect our results of operations, cash flow, liquidity or financial condition.

***Protracted duration of economic downturns in cyclical segments of the economy may continue to depress the demand for some of our products and adversely affect our sales, earnings, cash flow or financial condition.***

Portions of our business involve the sale of paint, coatings and related products to segments of the economy that are cyclical in nature, particularly segments relating to construction, housing and manufacturing. Our sales to these segments are affected by the levels of discretionary consumer and business spending in these segments. During economic downturns in these segments, the levels of consumer and business discretionary spending may decrease, and the recovery of these segments may lag behind the recovery of the overall economy. This decrease in spending will likely reduce the demand for some of our products and may adversely affect our sales, earnings, cash flow or financial condition.

During the recent recession, the U.S. homebuilding industry experienced a significant and sustained decrease in demand for new homes and an oversupply of new and existing homes available for sale. During this same time period, the U.S. real estate industry also experienced a significant decrease in existing home turnover. The commercial and industrial building and maintenance sectors also began to experience a significant decline in 2008. The downturn in each of these segments contributed to an unprecedented decline in the demand for some of our products and has continued to adversely affect our sales and earnings. New home starts, existing home sales and new commercial construction are significantly below their pre-recession highs. Although many of our end markets have started to show signs of stabilization and modest improvement, challenging market conditions are expected to continue for the foreseeable future and may worsen. A continued downturn or worsening in these segments will continue to reduce the demand for some of our products and may adversely impact sales, earnings and cash flow.

***Increases in the cost of raw materials and energy may adversely affect our earnings or cash flow.***

We purchase raw materials and energy for use in the manufacturing, distribution and sale of our products. Factors such as adverse weather conditions, including hurricanes, and other disasters can disrupt raw material and fuel supplies and increase our costs. In addition, many raw material suppliers decreased manufacturing capacity during the recent recession. Continued economic recovery has caused and may continue to cause demand pressure on raw material supplies. The decrease in manufacturing capacity, along with strong global demand for certain raw materials, has caused and may continue to cause tight supplies and significant price increases, especially in titanium dioxide and petrochemicals, which are key ingredients used in the manufacture of paint and coatings. Although raw materials and energy supplies (including oil and natural gas) are generally

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available from various sources in sufficient quantities, unexpected shortages and increases in the cost of raw materials and energy, or any deterioration in our relationships with or the financial viability of our suppliers, may have an adverse effect on our earnings or cash flow in the event we are unable to offset higher costs in a timely manner by sufficiently decreasing our operating costs or raising the prices of our products. Many of our paint and coatings products utilize oil based derivatives, minerals (including titanium dioxide) and metals.

*Although we have an extensive customer base, the loss of any of our largest customers could adversely affect our sales, earnings or cash flow.*

We have a large and varied customer base due to our extensive distribution network. During 2011, no individual customer accounted for sales totaling more than ten percent of our sales. However, we have some customers that, individually, purchase a large amount of products from us. Although our broad distribution channels would help to minimize the impact of the loss of any one customer, the loss of any of these large customers could have an adverse effect on our sales, earnings or cash flow.

*Adverse weather conditions may temporarily reduce the demand for some of our products and could have a negative effect on our sales, earnings or cash flow.*

From time to time, adverse weather conditions in certain parts of the United States have had an adverse effect on our sales of paint, coatings and related products. For example, unusually cold and rainy weather, especially during the exterior painting season, could have an adverse effect on sales of our exterior paint products. An adverse effect on sales may cause a reduction in our earnings or cash flow.

*Increased competition may reduce our sales, earnings or cash flow performance.*

We face substantial competition from many international, national, regional and local competitors of various sizes in the manufacture, distribution and sale of our paint, coatings and related products. Some of our competitors are larger than us and have greater financial resources to compete. Other competitors are smaller and may be able to offer more specialized products. Technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price are the key competitive factors for our business. Competition in any of these areas may reduce our sales and adversely affect our earnings or cash flow by resulting in decreased sales volumes, reduced prices and increased costs of manufacturing, distributing and selling our products.

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

We have historically made strategic acquisitions of businesses in the paint and coatings industry and will likely acquire additional businesses in the future as part of our long-term growth strategy. In 2010, we acquired two industrial wood coatings businesses, Sayerlack and Becker Acroma, with significant operations in Europe, and Pinturas Condor, the largest paint and coatings company in Ecuador. In 2011, we acquired Leighs Paints, a leading industrial fire protection coatings manufacturer headquartered in the United Kingdom. These acquisitions involve challenges and risks. In the event that we do not successfully integrate these acquisitions into our existing operations so as to realize the expected return on our investment, our results of operations, cash flow or financial condition could be adversely affected.

*Risks and uncertainties associated with our expansion into and our operations in Asia, Europe, Mexico, South America and other foreign markets could adversely affect our results of operations, cash flow, liquidity or financial condition.*

Net external sales of our consolidated foreign subsidiaries totaled approximately \$1.98 billion in 2011, or 22.6% of our total consolidated net sales. Sales outside of the United States make up a growing and important part of our current business and future strategic plans. Our results of operations, cash flow, liquidity or financial

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condition could be adversely affected by a variety of international factors, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign currency exchange controls, interest rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest, difficulties in staffing and managing foreign operations and other external economic and political factors. Our inability to successfully manage the risks and uncertainties relating to these factors could adversely affect our results of operations, cash flow, liquidity or financial condition.

In many foreign countries, it is acceptable to engage in certain business practices that we are prohibited from engaging in because of regulations that are applicable to us, such as the Foreign Corrupt Practices Act and the UK Bribery Act. Although we have internal control policies and procedures designed to ensure compliance with these regulations, there can be no assurance that our policies and procedures will prevent a violation of these regulations. Any violation could cause an adverse effect on our results of operations, cash flow or financial condition.

***Fluctuations in foreign currency exchange rates could adversely affect our results of operations, cash flow, liquidity or financial condition.***

Because of our international operations, we are exposed to risk associated with interest rates and value changes in foreign currencies, which may adversely affect our business. Historically, our reported net sales, earnings, cash flow and financial condition have been subjected to fluctuations in foreign exchange rates. Our primary exchange rate exposure is with the euro, the British pound, the Argentine peso, the Brazilian real, the Chilean peso, the Canadian dollar and the Mexican peso against the U.S. dollar. While we actively manage the exposure of our foreign currency risk as part of our overall financial risk management policy, we believe we may experience losses from foreign currency exchange rate fluctuations, and such losses could adversely affect our sales, earnings, cash flow, liquidity or financial condition.

***We are subject to a wide variety of complex domestic and foreign laws and regulations, for which compliance could adversely affect our results of operations, cash flow or financial condition.***

We are subject to a wide variety of complex domestic and foreign laws and regulations, and legal compliance risks, including securities laws, tax laws, employment and pension-related laws, competition laws, U.S. and foreign export and trading laws, and laws governing improper business practices. We are affected by new laws and regulations, and changes to existing laws and regulations, including interpretations by courts and regulators. From time to time, our Company, our operations and the industries in which we operate are being reviewed or investigated by regulators, which could lead to enforcement actions or the assertion of private litigation claims and damages.

Although we believe that we have adopted appropriate risk management and compliance programs to mitigate these risks, the global and diverse nature of our operations means that compliance risks will continue to exist. Investigations, examinations and other proceedings, the nature and outcome of which cannot be predicted, will likely arise from time to time. These investigations, examinations and other proceedings could subject us to significant liability and require us to take significant accruals or pay significant settlements, fines and penalties, which could have a material adverse effect on our results of operations, cash flow or financial condition.

We are subject to tax laws and regulations in the United States and multiple foreign jurisdictions. We are affected by changes in tax laws and regulations, as well as changes in related interpretations and other tax guidance. In the ordinary course of our business, we are subject to examinations and investigations by various tax authorities. In addition to existing examinations and investigations, there could be additional examinations and investigations in the future, and existing examinations and investigations could be expanded.

For non-income tax risks, we estimate material loss contingencies and accrue for such loss contingencies as required by U.S. generally accepted accounting principles based on our assessment of contingencies where liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time. Subsequent developments may affect our assessment and estimates of the loss contingency. In the event the loss contingency is ultimately determined to be significantly higher than currently



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accrued, the recording of the additional liability may result in a material adverse effect on our results of operations 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 cannot be reasonably estimated, any potential liability ultimately determined to be attributable to us may result in a material adverse effect on our results of operations, cash flow or financial condition for the annual or interim period during which such liability is accrued or paid. For income tax risks, we recognize tax benefits based on our assessment that a tax benefit has a greater than 50% likelihood of being sustained upon ultimate settlement with the applicable taxing authority that has full knowledge of all relevant facts. For those income tax positions where we assess that there is not a greater than 50% likelihood that such tax benefits will be sustained, we do not recognize a tax benefit in our financial statements. Subsequent events may cause us to change our assessment of the likelihood of sustaining a previously-recognized benefit which could result in a material adverse effect on our results of operations, cash flow or financial position for the annual or interim period during which such liability is accrued or paid.

We discuss risks and uncertainties with regard to taxes in more detail in Note 15 of the Notes to Consolidated Financial Statements on pages 73 and 74 of our 2011 Annual Report.

***We are required to comply with numerous complex and increasingly stringent domestic and foreign health, safety and environmental laws and regulations, the cost of which is likely to increase and may adversely affect our results of operations, cash flow or financial condition.***

Our operations are subject to various domestic and foreign health, safety and environmental laws and regulations. These laws and regulations not only govern our current operations and products, but also impose potential liability on us for our past operations. We expect health, safety and environmental laws and regulations to impose increasingly stringent requirements upon our industry and us in the future. Our costs to comply with these laws and regulations may increase as these requirements become more stringent in the future, and these increased costs may adversely affect our results of operations, cash flow or financial condition.

***We are involved with environmental investigation and remediation activities at some of our currently and formerly owned sites, as well as a number of third-party sites, for which our ultimate liability may exceed the current amount we have accrued.***

We are involved with environmental investigation and remediation activities at some of our currently and formerly owned sites and a number of third-party sites. We accrue for estimated costs of investigation and remediation activities at these 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 based on currently available facts regarding each site. We continuously assess our potential liability for investigation and remediation activities and adjust our environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated. Due to the uncertainties surrounding environmental investigation and remediation activities, our liability may result in costs that are significantly higher than currently accrued and may have an adverse affect on our earnings. We discuss these risks and uncertainties in more detail on page 23 of our 2011 Annual Report under the caption Environmental Matters, pages 27 through 29 of our 2011 Annual Report under the caption Environmental-Related Liabilities and in Note 9 of the Notes to Consolidated Financial Statements on pages 65 and 66 of our 2011 Annual Report.

***The nature, cost, quantity and outcome of pending and future litigation, such as litigation arising from the historical manufacture and sale of lead pigments and lead-based paint, could have a material adverse effect on our results of operations, cash flow, liquidity and financial condition.***

In the course of our business, we are subject to a variety of claims and lawsuits, including 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 us. 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

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ASC, we accrue 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 a 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 our 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 cannot be reasonably estimated, any potential liability ultimately determined to be attributable to us may result in a material impact on our 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 even if the possibility may be remote.

Our past operations included the manufacture and sale of lead pigments and lead-based paints. Along with other companies, we are 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 are seeking recovery 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. We are also a defendant in legal proceedings arising from the manufacture and sale of non-lead-based paints which 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. We believe that the litigation brought to date is without merit or subject to meritorious defenses and are vigorously defending such litigation. We expect that additional lead pigment and lead-based paint litigation may be filed against us in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

Notwithstanding our views on the merits, litigation is inherently subject to many uncertainties, and we ultimately may not prevail. Adverse court rulings, such as the jury verdict against us and other defendants in the State of Rhode Island action and the Wisconsin State Supreme Court's determination that Wisconsin's risk contribution theory may apply in the lead pigment litigation, or determinations of liability, among other factors, could affect the lead pigment and lead-based paint litigation against us 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 we 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 us. In addition, management cannot reasonably determine the scope or amount of the potential costs and liabilities related to such litigation, or any such legislation and regulations. We have 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 such legislation and regulations cannot reasonably be estimated. In the event any significant liability is determined to be attributable to us 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

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of any other remedy which may be imposed in such litigation, any potential liability determined to be attributable to us arising out of such litigation may have a material adverse effect on our results of operations, cash flow, liquidity or financial condition. An estimate of the potential impact on our results of operations, cash flow, liquidity or financial condition cannot be made due to the aforementioned uncertainties.

We discuss the risks and uncertainties related to litigation, including the lead pigment and lead-based paint litigation, in more detail on page 23 of our 2011 Annual Report under the caption *Litigation and Other Contingent Liabilities*, and pages 31 through 33 of our 2011 Annual Report under the caption *Litigation* of *Management's Discussion and Analysis of Financial Condition and Results of Operations* and in Note 10 of the Notes to Consolidated Financial Statements on pages 67 through 69 of our 2011 Annual Report.

*The costs or potential liability ultimately determined to be attributable to us through our ownership of Life Shield could have an adverse effect on our results of operations, cash flow, liquidity or financial condition.*

We own Life Shield Engineered Systems, LLC. Life Shield develops and manufactures blast and fragment mitigating systems. The blast and fragment mitigating systems create a potentially higher level of product liability for us than is normally associated with coatings and related products we manufacture, distribute and sell. Depending upon the extent of any potential liability ultimately determined to be attributable to us relating to Life Shield, such liability could have an adverse effect on our results of operations, cash flow, liquidity or financial condition. We discuss these risks and uncertainties in more detail on page 31 of our 2011 Annual Report under the caption *Contingent Liabilities* of *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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**ITEM 2. PROPERTIES**

We own our world headquarters located in Cleveland, Ohio, which includes the world headquarters for the Paint Stores Group, Consumer Group, Global Finishes Group and Latin America Coatings Group. Our principal manufacturing and distribution fac