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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2011
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-5684

W.W. Grainger, Inc.

(Exact name of registrant as specified in its charter)

Illinois

(State or other jurisdiction of incorporation or organization)

36-1150280

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

100 Grainger Parkway, Lake Forest, Illinois

(Address of principal executive offices)

60045-5201

(Zip Code)

(847) 535-1000

(Registrant's telephone number including area code)

Not Applicable

(Former name, former address and former fiscal year; if changed since last report)

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

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

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.

Large accelerated filer Accelerated filer Non-accelerated filer 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

There were 69,747,589 shares of the Company's Common Stock outstanding as of September 30, 2011.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

W.W. Grainger, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands of dollars, except for share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 2,114,647	\$ 1,899,412	\$ 6,001,281	\$ 5,355,462
Cost of merchandise sold	1,201,648	1,109,688	3,396,274	3,112,910
Gross profit	912,999	789,724	2,605,007	2,242,552
Warehousing, marketing and administrative expenses	609,959	538,451	1,774,071	1,593,479
Operating earnings	303,040	251,273	830,936	649,073
Other income and (expense):				
Interest income	553	324	1,560	845
Interest expense	(2,579)	(1,954)	(6,437)	(6,204)
Equity in net income (loss) of unconsolidated entity	129	(6)	261	(257)
Other non-operating income	102	277	632	1,243
Other non-operating expense	(786)	(70)	(1,503)	(1,070)
Total other income and (expense)	(2,581)	(1,429)	(5,487)	(5,443)
Earnings before income taxes	300,459	249,844	825,449	643,630
Income taxes	116,412	98,547	310,745	263,249
Net earnings	184,047	151,297	514,704	380,381
Net earnings attributable to noncontrolling interest	1,926	892	4,765	1,726
Net earnings attributable to W.W. Grainger, Inc.	\$ 182,121	\$ 150,405	\$ 509,939	\$ 378,655
Earnings per share:				
Basic	\$ 2.56	\$ 2.10	\$ 7.18	\$ 5.19
Diluted	\$ 2.51	\$ 2.06	\$ 7.03	\$ 5.10
Weighted average number of shares outstanding:				
Basic	69,846,233	69,923,864	69,621,649	71,384,301
Diluted	71,280,405	71,168,281	71,105,343	72,638,066
Cash dividends paid per share	\$ 0.66	\$ 0.54	\$ 1.86	\$ 1.54

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

W.W. Grainger, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In thousands of dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net earnings	\$ 184,047	\$ 151,297	\$ 514,704	\$ 380,381
Other comprehensive earnings (losses):				
Foreign currency translation adjustments, net of tax benefit (expense) of \$5,303, \$(1,726), \$3,094 and \$(1,206), respectively	(72,558)	25,704	(45,332)	27,467
Derivative instruments, net of tax (expense) of \$(3,936), \$0, \$(2,041), \$0, respectively	6,207	—	3,218	—
Comprehensive earnings, net of tax	117,696	177,001	472,590	407,848
Comprehensive earnings attributable to noncontrolling interest	4,629	5,041	8,842	9,029
Comprehensive earnings attributable to W.W. Grainger, Inc.	<u>\$ 113,067</u>	<u>\$ 171,960</u>	<u>\$ 463,748</u>	<u>\$ 398,819</u>

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

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

<u>ASSETS</u>	(Unaudited)	
	<u>Sept. 30, 2011</u>	<u>Dec. 31, 2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 360,663	\$ 313,454
Accounts receivable (less allowances for doubtful accounts of \$22,527 and \$24,552, respectively)	944,984	762,895
Inventories – net	1,114,291	991,577
Prepaid expenses and other assets	87,463	87,125
Deferred income taxes	49,629	44,627
Prepaid income taxes	20,664	38,393
Total current assets	2,577,694	2,238,071
PROPERTY, BUILDINGS AND EQUIPMENT	2,489,321	2,377,760
Less: Accumulated depreciation and amortization	1,481,698	1,414,088
Property, buildings and equipment – net	1,007,623	963,672
DEFERRED INCOME TAXES	102,902	87,244
GOODWILL	546,701	387,232
OTHER ASSETS AND INTANGIBLES – NET	315,725	228,158
TOTAL ASSETS	\$ 4,550,645	\$ 3,904,377

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

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	(Unaudited)	
	<u>Sept. 30, 2011</u>	<u>Dec. 31, 2010</u>
CURRENT LIABILITIES		
Short-term debt	\$ 213,580	\$ 42,769
Current maturities of long-term debt	230,430	31,059
Trade accounts payable	447,687	344,295
Accrued compensation and benefits	193,022	169,343
Accrued contributions to employees' profit sharing plans	125,206	145,119
Accrued expenses	148,872	130,836
Income taxes payable	15,811	5,882
Total current liabilities	<u>1,374,608</u>	<u>869,303</u>
LONG-TERM DEBT (less current maturities)	163,416	420,446
DEFERRED INCOME TAXES, TAX UNCERTAINTIES AND DERIVATIVE INSTRUMENTS	114,872	82,502
ACCRUED EMPLOYMENT-RELATED BENEFITS COSTS	266,244	244,456
SHAREHOLDERS' EQUITY		
Cumulative Preferred Stock – \$5 par value – 12,000,000 shares authorized; none issued nor outstanding	—	—
Common Stock – \$0.50 par value – 300,000,000 shares authorized; issued 109,659,219 shares	54,830	54,830
Additional contributed capital	673,175	637,686
Retained earnings	4,704,619	4,326,761
Accumulated other comprehensive earnings	(3,240)	42,951
Treasury stock, at cost – 39,911,630 and 40,281,417 shares, respectively	<u>(2,890,419)</u>	<u>(2,857,012)</u>
Total W.W. Grainger, Inc. shareholders' equity	<u>2,538,965</u>	<u>2,205,216</u>
Noncontrolling interest	92,540	82,454
Total shareholders' equity	<u>2,631,505</u>	<u>2,287,670</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 4,550,645</u>	<u>\$ 3,904,377</u>

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

W.W. Grainger, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 514,704	\$ 380,381
Provision for losses on accounts receivable	5,019	5,912
Deferred income taxes and tax uncertainties	(6,765)	(26,179)
Depreciation and amortization	103,573	109,223
Stock-based compensation	41,538	38,167
Change in operating assets and liabilities – net of business acquisitions:		
Accounts receivable	(138,726)	(153,807)
Inventories	(55,527)	(30,460)
Prepaid expenses and other assets	23,103	36,015
Trade accounts payable	59,193	97,473
Other current liabilities	(17,814)	7,996
Current income taxes payable	9,715	8,970
Accrued employment-related benefits cost	22,012	23,775
Other – net	(54)	(5,495)
Net cash provided by operating activities	<u>559,971</u>	<u>491,971</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, buildings and equipment – net of dispositions	(123,840)	(64,867)
Net cash paid for business acquisitions and other investments	(348,251)	(51,644)
Net cash used in investing activities	<u>(472,091)</u>	<u>(116,511)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under lines of credit	174,563	24,385
Payments against lines of credit	(158,911)	(17,288)
Proceeds from issuance of long-term debt	172,464	200,000
Payments of long-term debt and commercial paper	(70,647)	(225,784)
Proceeds from stock options exercised	52,837	68,325
Excess tax benefits from stock-based compensation	31,575	19,249
Purchase of treasury stock	(101,382)	(504,375)
Cash dividends paid	(132,719)	(114,128)
Net cash used in financing activities	<u>(32,220)</u>	<u>(549,616)</u>
Exchange rate effect on cash and cash equivalents	(8,451)	793
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>47,209</u>	<u>(173,363)</u>
Cash and cash equivalents at beginning of year	313,454	459,871
Cash and cash equivalents at end of period	<u>\$ 360,663</u>	<u>\$ 286,508</u>

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

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BACKGROUND AND BASIS OF PRESENTATION

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

The Condensed Consolidated Financial Statements of the Company and the related notes are unaudited and should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2010 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

The Condensed Consolidated Balance Sheet as of December 31, 2010 has been derived from the audited consolidated financial statements at that date, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements.

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

2. NEW ACCOUNTING STANDARDS

In September 2011, the FASB (Financial Accounting Standards Board) issued updated guidance on the periodic testing of goodwill for impairment. This guidance allows companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is applicable for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company plans to early adopt this pronouncement and its adoption is not expected to have a material effect on the consolidated financial statements.

3. BUSINESS ACQUISITIONS

On August 31, 2011, the Company acquired BMFGH Holdings BV (Fabory Group), a European distributor of fasteners and related maintenance, repair and operating products. The Fabory Group is headquartered in Tilburg, the Netherlands and has operations in 14 countries throughout Europe. In 2010, the Fabory Group had sales of approximately \$300 million.

The Company paid \$346 million for the acquisition, less cash acquired. The Company preliminarily recorded intangibles, including Goodwill, of approximately \$263 million. The purchase price allocation has not been completed and is subject to change, as the Company obtains additional information during the measurement period. The primary areas that are not yet finalized relate to the valuation of acquired assets and liabilities. Due to the immaterial nature of this transaction, disclosure of pro forma results were not considered necessary.

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

4. DIVIDEND

On October 26, 2011, the Company's Board of Directors declared a quarterly dividend of 66 cents per share, payable December 1, 2011, to shareholders of record on November 14, 2011.

5. WARRANTY RESERVES

The Company generally warrants the products it sells against defects for one year. For a significant portion of warranty claims, the manufacturer of the product is responsible for the expenses associated with this warranty program. For warranty expenses not covered by the manufacturer, the Company provides a reserve for future costs based on historical experience. The warranty reserve activity was as follows (in thousands of dollars):

	Nine Months Ended September 30,	
	2011	2010
Beginning balance	\$ 3,171	\$ 3,238
Returns	(8,329)	(8,346)
Provision	8,244	8,662
Ending balance	<u>\$ 3,086</u>	<u>\$ 3,554</u>

6. LONG-TERM DEBT

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

	September 30, 2011	December 31, 2010
Bank term loan	\$ 227,027	\$ 248,311
Commercial paper	—	200,000
Euro denominated bank term loan	160,557	—
Other	6,262	3,194
Less current maturities	<u>(230,430)</u>	<u>(31,059)</u>
	<u>\$ 163,416</u>	<u>\$ 420,446</u>

On July 30, 2010, the Company issued \$200 million of commercial paper and proceeds were used to make a partial prepayment of the bank term loan. The commercial paper had been classified as long-term debt on the Condensed Consolidated Balance Sheet at December 31, 2010 as the Company had the intent and the ability to maintain it on a long-term basis. In September 2011, the Company paid down \$50 million of its \$200 million commercial paper balance and accordingly, the Company reclassified the remaining \$150 million from long-term debt to short-term debt at September 30, 2011. The commercial paper carried a weighted average interest rate of approximately 0.15% during 2011 and varying maturity dates no later than 90 days from the issue date.

In August 2011, the Company entered into a 120 million, unsecured five-year euro denominated bank term loan in connection with the acquisition of the Fabry Group, maturing in August 2016. The Company, at its option, may prepay this term loan in whole or in part. The initial 1-month interest rate paid on this term loan was 2.10%.

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

7. DERIVATIVE INSTRUMENTS

The Company uses foreign currency forward contracts to minimize the foreign exchange rate effect on its net investment in its Canadian subsidiary. These forward contracts are designated and qualify as a hedge of a net investment in a foreign subsidiary. The Company uses the forward method of assessing hedge effectiveness for derivatives designated as hedging instruments of a net investment in a foreign subsidiary. All changes in fair value of the derivatives are reported as a component of other comprehensive earnings (losses), net of tax effects, as long as specific hedge accounting criteria are met. The Company from time to time also enters into cash flow hedging instruments. The Company does not enter into derivative financial instruments for trading or speculative purposes.

During the fourth quarter of 2010, the Company entered into multiple foreign currency forward contracts with a total notional value of Canadian \$160 million maturing in September 2014. At September 30, 2011 and December 31, 2010, the fair value of these contracts (Level 2 input) included in Deferred income taxes, tax uncertainties and derivative instruments was a liability of \$ 0.6 million and \$5.8 million, respectively.

8. EMPLOYEE BENEFITS

Postretirement Benefits

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service cost	\$ 3,941	\$ 3,573	\$ 11,822	\$ 10,719
Interest cost	3,338	3,213	10,014	9,639
Expected return on assets	(1,448)	(1,109)	(4,343)	(3,326)
Amortization of transition asset	(36)	(36)	(107)	(107)
Amortization of unrecognized losses	817	913	2,452	2,737
Amortization of prior service credits	(123)	(124)	(371)	(371)
Net periodic benefit costs	<u>\$ 6,489</u>	<u>\$ 6,430</u>	<u>\$ 19,467</u>	<u>\$ 19,291</u>

The Company has established a Group Benefit Trust to fund the plan and process benefit payments. The funding of the trust is an estimated amount which is intended to allow the maximum deductible contribution under the Internal Revenue Code of 1986 (IRC), as amended. There are no minimum funding requirements and the Company intends to follow its practice of funding the maximum deductible contribution under the IRC. During the three and nine months ended September 30, 2011, the Company contributed \$1.1 million and \$3.3 million, respectively, to the trust.

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

9. SEGMENT INFORMATION

The Company has two reportable segments: the United States and Canada. The United States operating segment reflects the results of Grainger's U.S. business. The Canada operating segment reflects the results for Acklands – Grainger Inc., the Company's Canadian business. Other businesses include the following operating segments which are not material individually and in the aggregate: BMFGH Holdings BV (Fabory Group), MonotaRO Co., Ltd. (Japan), Grainger, S.A. de C.V. (Mexico), Grainger Industrial Supply India Private Limited (India), Grainger Caribe Inc. (Puerto Rico), Grainger China LLC (China), Grainger Colombia SAS (Colombia) and Grainger Panama S.A. (Panama). Operating segments generate revenue almost exclusively through the distribution of maintenance, repair and operating supplies as service revenues account for less than 1% of total revenues for each operating segment. Following is a summary of segment results (in thousands of dollars):

Three Months Ended September 30, 2011

	United States	Canada	Other Businesses	Total
Total net sales	\$ 1,715,120	\$ 248,398	\$ 168,251	\$ 2,131,769
Intersegment net sales	(16,853)	(44)	(225)	(17,122)
Net sales to external customers	\$ 1,698,267	\$ 248,354	\$ 168,026	\$ 2,114,647
Segment operating earnings	\$ 302,858	\$ 25,016	\$ 10,551	\$ 338,425

Three Months Ended September 30, 2010

	United States	Canada	Other Businesses	Total
Total net sales	\$ 1,608,058	\$ 202,162	\$ 101,603	\$ 1,911,823
Intersegment net sales	(12,286)	(33)	(92)	(12,411)
Net sales to external customers	\$ 1,595,772	\$ 202,129	\$ 101,511	\$ 1,899,412
Segment operating earnings	\$ 262,803	\$ 14,522	\$ 4,412	\$ 281,737

Nine Months Ended September 30, 2011

	United States	Canada	Other Businesses	Total
Total net sales	\$ 4,878,582	\$ 747,683	\$ 420,768	\$ 6,047,033
Intersegment net sales	(45,096)	(125)	(531)	(45,752)
Net sales to external customers	\$ 4,833,486	\$ 747,558	\$ 420,237	\$ 6,001,281
Segment operating earnings	\$ 829,866	\$ 78,194	\$ 25,576	\$ 933,636

Nine Months Ended September 30, 2010

	United States	Canada	Other Businesses	Total
Total net sales	\$ 4,513,623	\$ 604,153	\$ 273,342	\$ 5,391,118
Intersegment net sales	(35,256)	(87)	(313)	(35,656)
Net sales to external customers	\$ 4,478,367	\$ 604,066	\$ 273,029	\$ 5,355,462
Segment operating earnings	\$ 695,445	\$ 33,534	\$ 6,264	\$ 735,243

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

	United States	Canada	Other Businesses	Total
<u>Segment assets:</u>				
September 30, 2011	\$ 2,506,399	\$ 640,791	\$ 942,553	\$ 4,089,743
December 31, 2010	\$ 2,365,532	\$ 605,023	\$ 446,216	\$ 3,416,771

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<u>Operating earnings:</u>				
Total operating earnings for operating segments	\$ 338,425	\$ 281,737	\$ 933,636	\$ 735,243
Unallocated expenses and eliminations	(35,385)	(30,464)	(102,700)	(86,170)
Total consolidated operating earnings	\$ 303,040	\$ 251,273	\$ 830,936	\$ 649,073

	September 30, 2011	December 31, 2010
<u>Assets:</u>		
Total assets for operating segments	\$ 4,089,743	\$ 3,416,771
Unallocated assets	460,902	487,606
Total consolidated assets	\$ 4,550,645	\$ 3,904,377

Unallocated expenses and unallocated assets primarily relate to the Company headquarters' support services, which are not part of any business segment. Unallocated expenses include payroll and benefits, depreciation and other costs associated with headquarters-related support services. Unallocated expenses increased \$ 16.5 million for the nine months of 2011 compared to the nine months of 2010, primarily due to higher payroll and professional services expense. Unallocated assets primarily include non-operating cash equivalents, certain prepaid expenses, deferred income taxes and non-operating property, buildings and equipment.

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

10. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net earnings attributable to W.W. Grainger, Inc. as reported	\$ 182,121	\$ 150,405	\$ 509,939	\$ 378,655
Distributed earnings available to participating securities	(754)	(849)	(2,395)	(2,238)
Undistributed earnings available to participating securities	(2,582)	(2,643)	(7,716)	(6,160)
Numerator for basic earnings per share – Undistributed and distributed earnings available to common shareholders	178,785	146,913	499,828	370,257
Undistributed earnings allocated to participating securities	2,582	2,643	7,716	6,160
Undistributed earnings reallocated to participating securities	(2,531)	(2,598)	(7,558)	(6,056)
Numerator for diluted earnings per share – Undistributed and distributed earnings available to common shareholders	\$ 178,836	\$ 146,958	\$ 499,986	\$ 370,361
Denominator for basic earnings per share – weighted average shares	69,846,233	69,923,864	69,621,649	71,384,301
Effect of dilutive securities	1,434,172	1,244,417	1,483,694	1,253,765
Denominator for diluted earnings per share – weighted average shares adjusted for dilutive securities	71,280,405	71,168,281	71,105,343	72,638,066
Earnings per share two-class method				
Basic	\$ 2.56	\$ 2.10	\$ 7.18	\$ 5.19
Diluted	\$ 2.51	\$ 2.06	\$ 7.03	\$ 5.10

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

11. CONTINGENCIES AND LEGAL MATTERS

As previously reported, in December 2007, the Company received a letter from the Commercial Litigation Branch of the Civil Division of the Department of Justice (the DOJ) regarding the Company's contract with the United States General Services Administration (the GSA). The letter suggested that the Company had not complied with its disclosure obligations and the contract's pricing provisions, and had potentially overcharged government customers under the contract.

Discussions with the DOJ relating to the Company's compliance with its disclosure obligations and the contract's pricing provisions are ongoing. The timing and outcome of these discussions are uncertain and could include settlement or civil litigation by the DOJ to recover, among other amounts, treble damages and penalties under the False Claims Act. Due to uncertainties surrounding this matter, an estimate of possible loss cannot be determined. While this matter is not expected to have a material adverse effect on the Company's financial position, an unfavorable resolution could result in significant payments by the Company. The Company continues to believe that it has complied with the GSA contract in all material respects.

As previously reported, the Company received a subpoena dated August 29, 2008 from the United States Postal Service (USPS) Office of Inspector General seeking information about the Company's pricing compliance under the Company's contract with the USPS covering the sale of certain Maintenance Repair and Operating Supplies (the MRO Contract).

As previously reported, the Company received a subpoena dated June 30, 2009 from the USPS Office of Inspector General seeking information about the Company's pricing practices and compliance under the Company's contract with the USPS covering the sale of certain janitorial and custodial items (the Custodial Contract).

Discussions with the USPS and DOJ relating to the Company's pricing practices and compliance with the pricing provisions of the MRO Contract and the Custodial Contract are ongoing. The timing and outcome of the USPS and DOJ investigations are uncertain and could include settlement or civil litigation by the USPS and DOJ to recover, among other amounts, treble damages and penalties under the False Claims Act. Due to uncertainties surrounding these matters, an estimate of possible loss cannot be determined. While these matters are not expected to have a material adverse effect on the Company's financial position, an unfavorable resolution could result in significant payments by the Company. The Company continues to believe that it has complied with each of the MRO Contract and the Custodial Contract in all material respects.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Item 2.

General

W.W. Grainger, Inc. is a broad-line distributor of maintenance, repair and operating supplies, and other related products and services used by businesses and institutions. W.W. Grainger, Inc.'s operations are primarily in the United States and Canada, with an expanding presence in Europe, Asia and Latin America.

Grainger uses a multichannel business model to provide customers with a range of options for finding and purchasing products utilizing sales representatives, catalogs and direct marketing materials. Grainger serves approximately 2.0 million customers worldwide through a network of highly integrated branches, distribution centers, multiple websites and export services.

Grainger's two reportable segments are the United States and Canada. The United States segment reflects the results of Grainger's U.S. business. The Canada segment reflects the results for Acklands – Grainger Inc., Grainger's Canadian business. Other businesses include the following: BMFGH Holdings BV (Fabory Group), MonotaRO Co., Ltd. (Japan), Grainger, S.A. de C.V. (Mexico), Grainger Industrial Supply India Private Limited (India), Grainger Caribe Inc. (Puerto Rico), Grainger China LLC (China), Grainger Colombia SAS (Colombia) and Grainger Panama S.A. (Panama).

Business Environment

Several economic factors and industry trends tend to shape Grainger's business environment. The overall economy and leading economic indicators provide insight into anticipated Company performance for the near term and help in forming the development of projections for the rest of the year. Historically, Grainger's sales trends have tended to correlate with industrial production and non-farm payrolls. According to the Federal Reserve, overall industrial production increased 3.2% from September 2010 to September 2011. This improvement has positively affected Grainger's sales growth for the nine months of 2011.

In October 2011, *Consensus Forecasts-USA* projected 2011 Industrial Production and GDP growth for the United States of 3.8% and 1.7%, respectively. In October 2011, *Consensus Forecasts-USA* projected GDP growth of 2.3% for Canada.

The light and heavy manufacturing customer end-markets have historically correlated with manufacturing employment levels and manufacturing output. According to the United States Department of Labor, manufacturing output increased 1.7% from September 2010 to September 2011 while manufacturing employment levels increased 1.2%. Grainger's heavy and light manufacturing customer end-markets outperformed these indicators as sales to these customer end-markets increased in the high teens and high single digits, respectively, for both the third quarter and nine months ended September 30, 2011.

Outlook

On October 18, 2011, Grainger raised the 2011 sales growth guidance from a range of 9 to 10 percent to a range of 11 to 12 percent, primarily to reflect the acquisition of the Fabory Group. Grainger also raised earnings per share guidance from a range of \$8.40 to \$8.70 to a range of \$8.80 to \$9.00 as a result of a strong organic operating performance.

Grainger continues to gain market share and invest in proven growth initiatives. Grainger's growth drivers include product line expansion, increasing the sales force, enhanced eCommerce capabilities, growth in inventory management services and investment in the existing international operations. Grainger will incur incremental operating expenses in the 2011 fourth quarter related to these initiatives as well as a national advertising campaign and the opening of a new distribution center in northern California.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Matters Affecting Comparability

Grainger completed several acquisitions throughout 2011 and 2010, all of which were immaterial individually and in the aggregate. Grainger's operating results have included the results of each business acquired since the respective acquisition dates.

Results of Operations – Three Months Ended September 30, 2011

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

	Three Months Ended September 30,		
	As a Percent of Net Sales		
	2011	2010	Percent Increase
Net sales	100.0 %	100.0 %	11.3%
Cost of merchandise sold	56.8	58.4	8.3
Gross profit	43.2	41.6	15.6
Operating expenses	28.9	28.4	13.3
Operating earnings	14.3	13.2	20.6
Other income (expense)	(0.1)	(0.1)	80.4
Income taxes	5.5	5.2	18.1
Noncontrolling interest	0.1	0.0	115.9
Net earnings attributable to W.W. Grainger, Inc.	8.6 %	7.9 %	21.1%

Grainger's net sales of \$2,114.6 million for the third quarter of 2011 increased 11% compared with sales of \$1,899.4 million for the comparable 2010 quarter. For the quarter, approximately 8 percentage points of the sales growth came from an increase in volume. Approximately 3 percentage points came from price, 2 percentage points from business acquisitions and 1 percentage point from foreign exchange, partially offset by a 3 percentage points decrease related to 2010 sales of products used to assist with the oil spill clean up in the Gulf of Mexico. The increase in net sales was led by growth in sales to heavy manufacturing customers, followed by diversified commercial services and contractor customers. The agriculture and mining customer end-market declined due to the difficult comparison from the oil spill in the prior year. Refer to the Segment Analysis below for further details.

Gross profit of \$913.0 million for the third quarter of 2011 increased 16%. The gross profit margin during the third quarter of 2011 increased 1.6 percentage points when compared to the same period in 2010, primarily driven by price increases exceeding product cost increases as well as lower sales of sourced products which generally carry lower margins.

Operating expenses of \$610.0 million for the third quarter of 2011 increased 13%, primarily driven by higher payroll and benefits expenses due to increased headcount and higher healthcare costs. In addition, the 2010 third quarter benefitted by \$8.3 million from a paid time off policy change. Excluding this benefit, operating expenses increased 12% in the third quarter of 2011.

Operating earnings for the third quarter of 2011 were \$303.0 million, an increase of 21% compared to the third quarter of 2010. The increase in operating earnings was primarily due to higher sales volume and gross profit margin, partially offset by operating expenses growing faster than sales.

Net earnings attributed to W.W. Grainger, Inc. for the third quarter of 2011 increased by 21%, to \$182.1 million from \$150.4 million in the third quarter of 2010. The increase in net earnings for the quarter primarily resulted from an increase in operating earnings and a lower effective tax rate. Diluted earnings per share of \$2.51 in the third quarter of 2011 were 22% higher than the \$2.06 for the third quarter of 2010 due to increased net earnings. The third quarter of 2010 included one unusual non-cash item, a \$0.07 per share benefit from a paid time off policy change. Excluding the impact of this item, earnings per share increased 26% in 2011 versus the 2010 third quarter.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Segment Analysis

The following comments at the segment and business unit level include external and intersegment net sales and operating earnings. See Note 9 to the Condensed Consolidated Financial Statements.

United States

Net sales were \$1,715.1 million for the third quarter of 2011, an increase of \$107.0 million, or 7%, when compared with net sales of \$1,608.1 million for the same period in 2010. For the quarter, approximately 7 percentage points of the sales growth came from an increase in volume and approximately 3 percentage points was due to price, partially offset by a 3 percentage point decrease related to 2010 sales of products used to assist with the oil spill clean up in the Gulf of Mexico. Sales to all except one customer end-market increased for the third quarter of 2011. The increase in net sales was led by heavy manufacturing customers, followed by diversified commercial services customers. The agriculture and mining customer end-market declined due to the difficult comparison from the oil spill in the prior year.

The gross profit margin increased 1.8 percentage points in the third quarter of 2011 over the comparable quarter of 2010, primarily driven by price increases exceeding product cost increases as well as lower sales of sourced products which generally carry lower margins.

Operating expenses were up 9% in the third quarter of 2011 versus the third quarter of 2010, driven by volume-related costs and spending on growth initiatives such as sales force expansion, eCommerce, advertising and the start up of a new distribution center in northern California. In addition, the 2010 third quarter benefitted by \$7.3 million from a paid time off policy change. Excluding this benefit, operating expenses increased 7% in the third quarter of 2011.

Operating earnings of \$302.9 million for the third quarter of 2011 increased 15% from \$262.8 million for the third quarter of 2010. The increase in operating earnings for the quarter was primarily due to higher sales and an improved gross profit margin.

Canada

Net sales were \$248.4 million for the third quarter of 2011, an increase of \$46.2 million, or 23%, when compared with \$202.2 million for the same period in 2010. Daily sales were up 16% in local currency for the quarter driven by 14 percentage points from volume and 2 percentage points from acquisitions. The increase in net sales was led by growth in the oil and gas, heavy manufacturing, agriculture and mining, contractors, and retail and wholesale customer end-markets.

The gross profit margin increased 0.3 percentage point in the third quarter of 2011 versus the third quarter of 2010, primarily driven by product cost deflation for products sourced from the United States due to the strength of the Canadian dollar.

Operating expenses were up 12% in the third quarter of 2011 versus the third quarter of 2010. In local currency, operating expenses increased 6%, primarily due to higher payroll, occupancy and advertising and selling costs, partly offset by lower professional services and other expenses.

Operating earnings of \$25.0 million for the third quarter of 2011 were up \$10.5 million, or 72%, over the third quarter of 2010. In local currency, operating earnings increased 63% in the third quarter of 2011 over the same period in 2010. The increase in earnings was due to higher sales, an improved gross profit margin and operating expenses increasing at a slower rate than sales.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Other Businesses

Net sales for other businesses, which include Japan, Mexico, India, Puerto Rico, China, Colombia, Panama and the Fabory Group increased 66% for the third quarter of 2011 when compared to the same period in 2010. The sales increase was due primarily to the Fabory Group, acquired on August 31, 2011, and strong growth from Japan and Mexico. Operating earnings were \$10.6 million in the third quarter of 2011, compared to \$4.4 million in the third quarter of 2010. The increase was primarily driven by strong earnings growth in Japan and Mexico along with lower operating losses in China. Operating earnings from the Fabory Group also contributed to the growth for other businesses in the quarter.

Other Income and Expense

Other income and expense was expense of \$2.6 million in the third quarter of 2011, an increase of \$1.2 million compared to \$1.4 million of expense in the third quarter of 2010, primarily attributable to interest expense on the euro denominated bank term loan used to finance part of the Fabory Group acquisition.

Income Taxes

Grainger's effective income tax rates were 38.7% and 39.4% for the third quarter of 2011 and 2010, respectively. The 2011 effective rate is lower than the prior year's rate primarily due to higher earnings forecasted in foreign jurisdictions with lower tax rates.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Matters Affecting Comparability

There were 192 and 191 sales days in the nine months of 2011 and 2010, respectively. Grainger completed several acquisitions throughout 2011 and 2010, all of which were immaterial individually and in the aggregate. Grainger's operating results have included the results of each business acquired since the respective acquisition dates.

Results of Operations – Nine Months Ended September 30, 2011

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

	Nine Months Ended September 30,		
	As a Percent of Net Sales		
	2011	2010	Percent Increase
Net sales	100.0 %	100.0 %	12.1%
Cost of merchandise sold	56.6	58.1	9.1
Gross profit	43.4	41.9	16.2
Operating expenses	29.6	29.8	11.3
Operating earnings	13.8	12.1	28.0
Other income (expense)	(0.1)	(0.1)	0.8
Income taxes	5.2	4.9	18.0
Noncontrolling interest	0.1	0.0	176.1
Net earnings attributable to W.W. Grainger, Inc.	8.4 %	7.1 %	34.7%

Grainger's net sales of \$6,001.3 million for the nine months of 2011 increased 12% compared with sales of \$5,355.5 million for the comparable 2010 period. Sales were up 11% on a daily basis. For the nine months, approximately 8 percentage points of the sales growth came from an increase in volume, approximately 2 percentage points from price and approximately 1 percentage point from each of business acquisitions and foreign exchange, partially offset by a 1 percentage point decrease related to 2010 sales of products used to assist with the oil spill clean up in the Gulf of Mexico. Sales to all customer end-markets increased for the nine months of 2011. The increase in net sales was led by growth in sales to heavy manufacturing customers, followed by light manufacturing, diversified commercial services and contractor customers. Refer to the Segment Analysis below for further details.

Gross profit of \$2,605.0 million during the nine months of 2011 increased 16%. The gross profit margin during the nine months of 2011 increased 1.5 percentage points when compared to the same period in 2010, primarily driven by price increases exceeding product cost increases as well as lower sales of sourced products which generally carry lower margins.

Operating expenses of \$1,774.1 million during the nine months of 2011 increased 11%, primarily driven by higher payroll and benefits expenses due to increased headcount and higher profit sharing expense tied to Company performance. In addition, the nine months of 2010 benefitted by \$28.9 million from a paid time off policy change. Excluding this benefit, operating expenses increased 9% in the nine months of 2011.

Operating earnings during the nine months of 2011 were \$830.9 million, an increase of 28% compared to the same period in 2010. The increase in operating earnings was due to higher sales, improved gross profit margin and operating expenses increasing at a slower rate than sales.

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Net earnings for the nine months of 2011 increased by 35% to \$509.9 million from \$378.7 million in the nine months of 2010. The increase in net earnings for the nine months primarily resulted from an increase in operating earnings and a lower effective tax rate. Diluted earnings per share of \$7.03 in the nine months of 2011 were 38% higher than the \$5.10 in the nine months of 2010 due to increased net earnings and fewer shares outstanding. The nine months of 2011 included a \$0.12 per share benefit primarily from the settlement of tax examinations related to 2007 and 2008. In 2010, there were two unusual non-cash items: a \$0.24 per share benefit from a paid time off policy change and a \$0.15 per share expense related to the tax treatment of retiree healthcare benefits following the passage of the Patient Protection and Affordable Care Act. These two items resulted in a net benefit of \$0.09 per share. Excluding unusual items in both years, earnings per share for the nine months of 2011 increased 38% versus 2010.

Segment Analysis

The following comments at the segment and business unit level include external and intersegment net sales and operating earnings. See Note 9 to the Condensed Consolidated Financial Statements.

United States

Net sales were \$4,878.6 million for the nine months of 2011, an increase of \$365.0 million, or 8%, when compared with net sales of \$4,513.6 million for the same period in 2010. Approximately 6 percentage points of the daily sales growth came from an increase in volume and approximately 3 percentage points was due to price, partially offset by a 1 percentage point decrease related to 2010 sales of products used to assist with the oil spill clean up in the Gulf of Mexico. Sales to all except one customer end-markets increased during the nine months of 2011. The increase in net sales was led by heavy manufacturing customers, followed by light manufacturing and diversified commercial customers. The agriculture and mining customer end-market declined due to the difficult comparison from the oil spill in the prior year.

The gross profit margin increased 1.6 percentage points in the nine months of 2011 over the comparable period of 2010, primarily driven by price increases exceeding product cost increases as well as lower sales of sourced products which generally carry lower margins.

Operating expenses were up 8% in the nine months of 2011 versus the nine months of 2010, primarily driven by higher payroll and benefits expenses due to increased headcount and higher profit sharing expense tied to Company performance. In addition, the nine months of 2010 benefitted by \$25.9 million from a paid time off policy change. Excluding this benefit, operating expenses increased 6% in the nine months of 2011.

Operating earnings of \$829.9 million for the nine months of 2011 increased 19% from \$695.4 million for the nine months of 2010. The increase in operating earnings for the nine months was due to higher sales and an improved gross profit margin.

Canada

Net sales were \$747.7 million for the nine months of 2011, an increase of \$143.5 million, or 24%, when compared with \$604.2 million for the same period in 2010. Daily sales were up 23% or 16% in local currency for the nine months driven by 12 percentage points from volume, 3 percentage points from acquisitions and 1 percentage point from price. The increase in net sales was led by growth in the oil and gas, heavy manufacturing, agriculture and mining, and retail and wholesale customer end-markets.

The gross profit margin increased 2.2 percentage points in the nine months of 2011 versus the nine months of 2010, primarily driven by price increases and product cost deflation for products sourced from the United States due to the strength of the Canadian dollar.

Operating expenses were up 13% in the nine months of 2011 versus the nine months of 2010. In local currency, operating expenses increased 7%, primarily due to higher payroll, bonus, occupancy and warehouse expenses, partially offset by lower professional services and employee relocation expenses.

Operating earnings of \$78.2 million for the nine months of 2011 were up \$44.7 million, or 133%, over the nine months of 2010. In local currency, operating earnings increased 120% in the nine months of 2011 over the same period in 2010. The increase in earnings was primarily due to higher sales, an improved gross profit margin and operating expenses increasing at a slower rate than sales.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Other Businesses

Net sales for other businesses, which include Japan, Mexico, India, Puerto Rico, China, Colombia, Panama and the Fabory Group increased 54% for the nine months of 2011 when compared to the same period in 2010. The sales increase was due to strong growth from Japan, Mexico and China along with incremental sales from businesses in Colombia, acquired in June 2010 and the Fabory Group acquired on August 31, 2011. Operating earnings were \$25.6 million for the nine months of 2011, compared to \$6.3 million for the nine months of 2010. The increase was primarily driven by strong earnings growth in Japan and Mexico along with lower operating losses in China. Operating earnings from the Fabory Group also contributed to the growth for other businesses for the nine months of 2011.

Other Income and Expense

Other income and expense was expense of \$ 5.5 million in the nine months of 2011, flat compared with the nine months of 2010.

Income Taxes

Grainger's effective income tax rates were 37.6% and 40.9% for the nine months of 2011 and 2010, respectively. The 2011 effective rate benefited primarily from the settlement of tax examinations related to 2007 and 2008. Excluding the effect of this one-time benefit, the effective tax rate is now expected to be 38.7% for the full year of 2011. This lower effective tax rate is primarily due to higher earnings forecasted in foreign jurisdictions with lower tax rates. The effective tax rate for the nine months of 2010, excluding the impact from the healthcare legislation in the first quarter of 2010, was 39.3%.

W.W. Grainger, Inc. and Subsidiaries
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Financial Condition

Cash Flow

Cash from operating activities continues to serve as Grainger's primary source of liquidity. Net cash provided by operating activities was \$560.0 million and \$492.0 million for the nine months ended September 30, 2011 and 2010, respectively. The primary contribution to cash flows from operations was net earnings in the nine months ended September 30, 2011 of \$514.7 million compared to \$380.4 million in 2010. Offsetting these amounts were changes in operating assets and liabilities, which resulted in a net use of cash of \$98.0 million in the nine months of 2011 compared to \$10.0 million in the nine months of 2010. The net use of cash in 2011 was primarily attributable to higher inventory purchases in response to the growth in sales volume, coupled with a smaller increase in accounts payable and other liabilities.

Net cash used in investing activities was \$472.1 million and \$116.5 million for the nine months ended September 30, 2011 and 2010, respectively. The increase in cash used in investing activities was primarily due to the Fabory Group acquisition. Net cash expended for additions to property, buildings, equipment and capitalized software was \$123.8 million in the nine months ended September 30, 2011. The primary capital expenditures in 2011 included funding of infrastructure improvement projects for distribution centers in the United States and Canada.

Net cash used in financing activities was \$32.2 million and \$549.6 million for the nine months ended September 30, 2011 and 2010, respectively. The \$517.4 million reduction in cash used in financing activities for the nine months ended September 30, 2011 was due primarily to lower treasury share repurchases. Cash paid for treasury stock purchases was \$101.4 million for the nine months ended September 30, 2011 versus \$504.4 million for the nine months ended September 30, 2010.

Working Capital

Working capital at September 30, 2011, was \$1,203.1 million, a decrease of \$165.7 million when compared to \$1,368.8 million at December 31, 2010. The ratio of current assets to current liabilities decreased to 1.9 at September 30, 2011 from 2.6 at December 31, 2010. The decrease was primarily due to an increase in current maturities of long-term debt as the balance of the bank term loan incurred in 2008 is due within one year. In addition, \$150 million of commercial paper outstanding was reclassified from long-term to short-term debt as management no longer intends to refinance this debt on a long-term basis.

Debt

Grainger maintains a debt ratio and liquidity position that provides flexibility in funding working capital needs and long-term cash requirements. In addition to internally generated funds, Grainger has various sources of financing available, including bank borrowings under lines of credit. Total debt as a percent of total capitalization was 18.8% at September 30, 2011 and 17.8% at December 31, 2010.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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New Accounting Standards

For a discussion of accounting standards updates, see Note 2 of the Condensed Consolidated Financial Statements included under Part I, Item 1.

Critical Accounting Policies and Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable. If actual amounts are ultimately different from these estimates, the revisions are included in Grainger's results of operations for the period in which the actual amounts become known.

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimates are made and when there are different estimates that management reasonably could have made, which would have a material impact on the presentation of Grainger's financial condition, changes in financial condition or results of operations. For a description of Grainger's critical accounting policies see Grainger's Annual Report on Form 10-K for the year ended December 31, 2010.

Forward-Looking Statements

This Form 10-Q contains statements that are not historical in nature but concern future results and business plans, strategies and objectives and other matters that may be deemed to be "forward-looking statements" under the federal securities laws. Grainger has generally identified such forward-looking statements by using words such as "anticipated, believes, continued, continues, continues to believe it complies, could, earnings per share guidance, estimate, estimated, expected, forecasted, growth initiatives, guidance, had potentially, intended, intends, historically correlated, may, not expected to have a material adverse effect, possible, projected, projections, range, reasonably likely, sales growth guidance, should, slight price erosion, tended, timing and outcome are uncertain, trends, unanticipated, uncertainties, and will" or similar expressions.

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

Factors that could cause actual results to differ materially from those presented or implied in a forward-looking statement include, without limitation: higher product costs or other expenses; a major loss of customers; loss or disruption of source of supply; increased competitive pricing pressures; failure to develop or implement new technologies or business strategies; the outcome of pending and future litigation or governmental or regulatory proceedings; investigations, inquiries, audits and changes in laws and regulations; disruption of information technology or data security systems; general industry or market conditions; general global economic conditions; currency exchange rate fluctuations; market volatility; commodity price volatility; labor shortages; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; natural and other catastrophes and unanticipated weather conditions.

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

W.W. Grainger, Inc. and Subsidiaries

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see "Item 7A: Quantitative and Qualitative Disclosures About Market Risk" in Grainger's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Grainger carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of Grainger's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that Grainger's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

Items 1A, 3 and 5 not applicable.

Item 1. Legal Proceedings

As previously reported, in December 2007, Grainger received a letter from the Commercial Litigation Branch of the Civil Division of the Department of Justice (the DOJ) regarding Grainger's contract with the United States General Services Administration (the GSA). The letter suggested that Grainger had not complied with its disclosure obligations and the contract's pricing provisions, and had potentially overcharged government customers under the contract.

Discussions with the DOJ relating to Grainger's compliance with its disclosure obligations and the contract's pricing provisions are ongoing. The timing and outcome of these discussions are uncertain and could include settlement or civil litigation by the DOJ to recover, among other amounts, treble damages and penalties under the False Claims Act. Due to uncertainties surrounding this matter, an estimate of possible loss cannot be determined. While this matter is not expected to have a material adverse effect on Grainger's financial position, an unfavorable resolution could result in significant payments by Grainger. Grainger continues to believe that it has complied with the GSA contract in all material respects.

As previously reported, Grainger received a subpoena dated August 29, 2008 from the United States Postal Service (USPS) Office of Inspector General seeking information about Grainger's pricing compliance under Grainger's contract with the USPS covering the sale of certain Maintenance Repair and Operating Supplies (the MRO Contract).

As previously reported, Grainger received a subpoena dated June 30, 2009 from the USPS Office of Inspector General seeking information about Grainger's pricing practices and compliance under Grainger's contract with the USPS covering the sale of certain janitorial and custodial items (the Custodial Contract).

Discussions with the USPS and DOJ relating to Grainger's pricing practices and compliance with the pricing provisions of the MRO Contract and the Custodial Contract are ongoing. The timing and outcome of the USPS and DOJ investigations are uncertain and could include settlement or civil litigation by the USPS and DOJ to recover, among other amounts, treble damages and penalties under the False Claims Act. Due to uncertainties surrounding these matters, an estimate of possible loss cannot be determined. While these matters are not expected to have a material adverse effect on Grainger's financial position, an unfavorable resolution could result in significant payments by Grainger. Grainger continues to believe that it has complied with each of the MRO Contract and the Custodial Contract in all material respects.

W.W. Grainger, Inc. and Subsidiaries

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

Issuer Purchases of Equity Securities – Third Quarter

Period	Total Number of Shares Purchased (A)	Average Price Paid per Share (B)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (C)	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
July 1 – July 31	—	—	—	7,705,641 shares
Aug. 1 – Aug. 31	360,300	\$140.47	360,300	7,345,341 shares
Sept. 1 – Sept. 30	—	—	—	7,345,341 shares
Total	360,300	\$140.47	360,300	

- (A) There were no shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock awards.
- (B) Average price paid per share includes any commissions paid and includes only those amounts related to purchases as part of publicly announced plans or programs.
- (C) Purchases were made pursuant to a share repurchase program approved by Grainger's Board of Directors on July 28, 2010. The program has no specified expiration date. Activity is reported on a trade date basis.

Item 6. Exhibits

- (a) Exhibits (numbered in accordance with Item 601 of Regulation S-K)
- (31) Rule 13a – 14(a)/15d – 14(a) Certifications
- (a) Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (b) Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32) Section 1350 Certifications
- (a) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

W.W. Grainger, Inc.

(Registrant)

Date: October 27, 2011

By: _____ /s/ R. L. Jadin

R. L. Jadin, Senior Vice President
and Chief Financial Officer

Date: October 27, 2011

By: _____ /s/ G. S. Irving

G. S. Irving, Vice President
and Controller

CERTIFICATION

Exhibit 31(a)

I, J. T. Ryan, certify that:

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

Date: October 27, 2011

By: /s/ J. T. Ryan
Name: J. T. Ryan
Title: Chairman, President and Chief Executive Officer

CERTIFICATION

Exhibit 31(b)

I, R. L. Jadin, certify that:

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

Date: October 27, 2011

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

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

In connection with the Quarterly Report on Form 10-Q of W.W. Grainger, Inc. ("Grainger") for the quarterly period ended September 30, 2011, (the "Report"), J. T. Ryan, as Chairman, President and Chief Executive Officer of Grainger, and R. L. Jadin, as Senior Vice President and Chief Financial Officer of Grainger, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ J. T. Ryan

J. T. Ryan

Chairman, President and Chief
Executive Officer

October 27, 2011

/s/ R. L. Jadin

R. L. Jadin

Senior Vice President and Chief
Financial Officer

October 27, 2011