NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010, 2009 and 2008

NOTE 1 – BACKGROUND AND BASIS OF PRESENTATION

INDUSTRY INFORMATION

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. In this report, the words "Company" or "Grainger" mean W.W. Grainger, Inc. and its subsidiaries.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions are eliminated from the consolidated financial statements.

INVESTMENTS IN UNCONSOLIDATED ENTITIES

For investments in which the Company owns or controls from 20% to 50% of the voting shares, the equity method of accounting is used. Changes in interest arising from the issuance of stock by an investee are accounted for as additional contributed capital. See Note 6 to the Consolidated Financial Statements.

MANAGEMENT ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Net exchange gains or losses resulting from the translation of financial statements of foreign operations and related long-term debt are recorded as a separate component of other comprehensive earnings. See Notes 2 and 15 to the Consolidated Financial Statements.

RECLASSIFICATIONS

Certain amounts in the 2009 and 2008 financial statements, as previously reported, have been reclassified to conform to the 2010 presentation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenues recognized include product sales, billings for freight and handling charges and fees earned for services provided. The Company recognizes product sales and billings for freight and handling charges primarily on the date products are shipped to, or picked up by, the customer. The Company's standard shipping terms are FOB shipping point. On occasion, the Company will negotiate FOB destination terms. These sales are recognized upon delivery to the customer. Fee revenues, which account for less than 1% of total revenues, are recognized after services are completed.

COST OF MERCHANDISE SOLD

Cost of merchandise sold includes product and product-related costs, vendor consideration, freight-out and handling costs. The Company defines handling costs as those costs incurred to fulfill a shipped sales order.

VENDOR CONSIDERATION

The Company receives rebates and allowances from its vendors to promote their products. The Company utilizes numerous advertising programs to promote its vendors' products, including catalogs and other printed media, Internet and other marketing programs. Most of these programs relate to multiple vendors, which makes supporting the specific, identifiable and incremental criteria difficult, and would require numerous assumptions and judgments. Based on the inexact nature of trying to track reimbursements to the exact advertising expenditure for each vendor, the Company treats most vendor advertising allowances as a reduction of Cost of merchandise sold rather than a reduction of operating (advertising) expenses. Rebates earned from vendors that are based on product purchases are capitalized into inventory as part of product purchase price. These rebates are credited to Cost of merchandise sold based on sales. Vendor rebates that are earned based on products sold are credited directly to Cost of merchandise sold.

ADVERTISING

Advertising costs are expensed in the year the related advertisement is first presented. Advertising expense was $122.5 million, $114.6 million and $120.7 million for 2010, 2009 and 2008, respectively. Most vendor-provided allowances are classified as an offset to Cost of merchandise sold. For additional information see VENDOR CONSIDERATION above.

Catalog expense is amortized equally over the life of the catalog, beginning in the month of its distribution. Advertising costs for catalogs that have not been distributed by year-end are capitalized as Prepaid expenses. Amounts included in Prepaid expenses at December 31, 2010, 2009 and 2008 were $45.1 million, $48.1 million and $39.5 million, respectively.

WAREHOUSING, MARKETING AND ADMINISTRATIVE EXPENSES

Included in this category are purchasing, branch operations, information services, and marketing and selling expenses, as well as other types of general and administrative costs.

STOCK INCENTIVE PLANS

The Company measures all share-based payments using fair-value-based methods and records compensation expense related to these payments over the vesting period. See Note 13 to the Consolidated Financial Statements.

INCOME TAXES

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between financial and tax reporting. The Company recognizes in the financial statements a provision for tax uncertainties, resulting from application of complex tax regulations in multiple tax jurisdictions. See Note 17 to the Consolidated Financial Statements.

OTHER COMPREHENSIVE EARNINGS (LOSSES)

The Company's Other comprehensive earnings (losses) include foreign currency translation adjustments, changes in fair value of derivatives designated as hedges and unrecognized gains (losses) on postretirement and other employment-related benefit plans. See Note 15 to the Consolidated Financial Statements.

CASH AND MARKETABLE SECURITIES

The Company considers investments in highly liquid debt instruments, purchased with an original maturity of ninety days or less, to be cash equivalents.

CONCENTRATION OF CREDIT RISK

The Company places temporary cash investments with institutions of high credit quality and, by policy, limits the amount of credit exposure to any one institution.

The Company has a broad customer base representing many diverse industries doing business in all regions of the United States, Canada, Mexico, Panama, India, Japan, China and Colombia. Consequently, no significant concentration of credit risk is considered to exist.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company establishes reserves for customer accounts that are potentially uncollectible. The method used to estimate the allowances is based on several factors, including the age of the receivables and the historical ratio of actual write-offs to the age of the receivables. These analyses also take into consideration economic conditions that may have an impact on a specific industry, group of customers or a specific customer.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined primarily by the last-in, first-out (LIFO) method, which accounts for approximately 69% of total inventory. For the remaining inventory, cost is determined by the first-in, first-out (FIFO) method.

PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment are valued at cost. For financial statement purposes, depreciation and amortization are provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on the declining-balance and sum-of-the-years-digits depreciation methods. The principal estimated useful lives for determining depreciation are as follows:

Buildings, structures and improvements	10 to 30 years
Furniture, fixtures, machinery and equipment	3 to 10 years

Improvements to leased property are amortized over the initial terms of the respective leases or the estimated service lives of the improvements, whichever is shorter.

The Company capitalized interest costs of $0.5 million, $0.5 million and $1.3 million in 2010, 2009 and 2008, respectively.

LONG-LIVED ASSETS

The carrying value of long-lived assets is evaluated whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired. An impairment loss is recognized when estimated undiscounted future cash flows resulting from use of the asset, including disposition, are less than the carrying value of the asset. Impairment is measured as the amount by which the carrying amount exceeds the fair value.

The Company recognized impairment charges of $4.0 million and $9.0 million in 2010 and 2009, respectively, included in Warehousing, marketing and administrative expenses, to reduce the carrying value of certain long-lived assets to their estimated fair value pursuant to impairment indicators for property currently held for sale, lease terminations, idle assets, and branch closures.

GOODWILL AND OTHER INTANGIBLES

Goodwill is recognized as the excess cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather tested for impairment on an annual basis and more often if circumstances require. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value.

The Company recognizes an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or whenever it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Such intangibles are amortized over their estimated useful lives unless the estimated useful life is determined to be indefinite. Amortizable intangible assets are being amortized over useful lives of one to 20 years. Impairment losses are recognized if the carrying amount of an intangible, subject to amortization, is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

The Company also maintains intangible assets with indefinite lives, which are not amortized. These intangibles are tested for impairment on an annual basis and more often if circumstances require. Impairment losses are recognized whenever the implied fair value of these assets is less than their carrying value. Included in Other assets and intangibles – net were intangibles of $145.3 million, $127.7 million and $20.8 million as of December 31, 2010, 2009 and 2008, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value due to the short-term nature of these financial instruments. The carrying value of long-term debt also approximates fair value due to the variable interest rates. The fair value of the Company's qualifying derivative instruments is recorded in the Consolidated Balance Sheets and is discussed in more detail in Note 10.

DERIVATIVE INSTRUMENTS AND HEDGING

The Company recognizes its derivative instruments as either assets or liabilities in the balance sheet at their fair value. Changes in the fair value of derivatives are recognized in net earnings or other comprehensive earnings (losses) depending on whether the derivative is designated as part of a qualifying hedging relationship. The ineffective portion of a qualifying hedging derivative and derivatives not designated as a hedge are recognized immediately in earnings.

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 and 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. See Notes 10 and 15 to the Consolidated Financial Statements for additional information on the Company's derivative activities.

INSURANCE RESERVES

The Company purchases insurance for catastrophic exposures and those risks required to be insured by law. It also retains a significant portion of the risk of certain losses related to workers' compensation, general liability and property losses through the utilization of high deductibles and self-insured retentions. Reserves for these potential losses are based on an external analysis of the Company's historical claims results and other actuarial assumptions.

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 expenses. For warranty expenses not covered by the manufacturer, the Company provides a reserve for future costs based primarily on historical experience.

The reserve activity was as follows (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Beginning balance	$ 3,238	$ 3,218	$ 3,442
Returns	(10,692)	(11,727)	(12,917)
Provisions	10,625	11,747	12,693
Ending balance	$ 3,171	$ 3,238	$ 3,218

NOTE 3 – BUSINESS ACQUISITIONS

During 2010, the Company acquired four companies and obtained a majority ownership in one joint venture for approximately $62 million, less cash acquired. The total cost of the acquisitions has been allocated to the assets acquired and the liabilities assumed based upon their estimated fair values at the respective dates of acquisition. The estimated purchase price allocations are preliminary and subject to revisions based on additional valuation work related to intangibles. Purchased identifiable intangible assets totalled approximately $22 million and will be amortized on a straight-line basis over a weighted average life of 11 years (lives ranging from 1 to 15 years). Acquired intangibles primarily consist of customer relationships, non-compete agreements and proprietary software. The Company recorded approximately $46 million of goodwill and other intangibles associated with these acquisitions. The goodwill is partially deductible for tax purposes.

During 2009, the Company acquired three companies and obtained majority ownership in two joint ventures for approximately $123 million, net of cash acquired. See Note 6 to the Consolidated Financial Statements for additional information.

During 2008, the Company acquired two companies for approximately $34 million.

The results of these acquisitions are included in the Company's consolidated results from the respective dates of acquisition. Due to the immaterial nature of these transactions, both individually and in the aggregate, disclosures of amounts assigned to the acquired assets and assumed liabilities and pro forma results of operations were not considered necessary.

NOTE 4 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table shows the activity in the allowance for doubtful accounts (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Balance at beginning of period	$ 25,850	$ 26,481	$ 25,830
Provision for uncollectible accounts	6,718	10,748	12,924
Write-off of uncollectible accounts, net of recoveries	(8,302)	(12,254)	(11,501)
Foreign currency translation impact	286	875	(772)
Balance at end of period	$ 24,552	$ 25,850	$ 26,481

NOTE 5 – INVENTORIES

Inventories primarily consist of merchandise purchased for resale. Inventories would have been $336.8 million, $333.3 million and $317.0 million higher than reported at December 31, 2010, 2009 and 2008, respectively, if the FIFO method of inventory accounting had been used for all Company inventories. Net earnings would have increased by $2.1 million, $10.0 million and $18.1 million for the years ended December 31, 2010, 2009 and 2008, respectively, using the FIFO method of accounting. Inventory values using the FIFO method of accounting approximate replacement cost. The Company provides reserves for excess and obsolete inventory. The reserve balances were $112.6 million, $92.7 million and $74.2 million as of December 31, 2010, 2009 and 2008, respectively. The increases are due to higher excess inventory quantities primarily as a result of adding more stocked product to the Company's inventory offering.

NOTE 6 – INVESTMENTS IN UNCONSOLIDATED ENTITIES

The table below summarizes the activity in the investments in unconsolidated entities (in thousands of dollars):

	MonotaRO Co., Ltd.	MRO Korea Co., Ltd.	Grainger Industrial Supply India Private Ltd.	Total
Balance at January 1, 2008	$ 10,513	$ 4,246	$ —	$ 14,759
Cash investments	—	—	6,487	6,487
Equity earnings (losses)	4,303	(205)	(456)	3,642
Write-off	—	—	(6,031)	(6,031)
Foreign currency gain (loss)	3,008	(1,035)	—	1,973
Balance at December 31, 2008	17,824	3,006	—	20,830
Cash investments	4,013	—	1,194	5,207
Equity earnings	1,249	248	—	1,497
Dividends	(878)	—	—	(878)
Foreign currency (loss) gain	(468)	254	—	(214)
Gain (loss) on previously held equity interest	44,275	—	(77)	44,198
Investment eliminated in consolidation	(66,015)	—	(1,117)	(67,132)
Balance at December 31, 2009	—	3,508	—	3,508
Equity (losses)	—	(182)	—	(182)
Foreign currency gain	—	135	—	135
Balance at December 31, 2010	$ —	$ 3,461	$ —	$ 3,461

At December 31, 2010, the Company's ownership investment in MRO Korea Co., Ltd. was 49%. The Company accounts for this investment under the equity method.

In September 2009, the Company acquired 380,000 common shares of MonotaRO Co., Ltd. (MonotaRO) for approximately $4 million, increasing its interest from 48% to 53%. The results of MonotaRO are now included in the Company's consolidated results from the date of obtaining a controlling voting interest. The Company previously accounted for its 48% interest in MonotaRO as an equity method investment. Upon obtaining the controlling interest, the previously held equity interest was remeasured to fair value, resulting in a pretax gain of $47 million ($28 million after-tax) reported in the Company's consolidated statement of earnings. The gain includes $3 million reclassified from Accumulated other comprehensive earnings.

In July 2008, the Company acquired a 49.9% interest in Grainger Industrial Supply India Private Limited (Grainger India), formerly known as Asia Pacific Brands India Private Limited, from its sole shareholder for $5.4 million. In addition, the Company and the joint venture partner each made a $1.1 million capital infusion intended to help grow the business. In the fourth quarter of 2008, the Company wrote off its investment due to the economic slowdown in India and the loss of a major supplier that accounted for approximately 25% of the joint venture's annual revenue. These conditions severely affected Grainger India's ability to secure additional financing to meet its current obligations and continue as a going concern. The Company accounted for this investment using the equity method until it was written off. During 2009, Grainger India's business improved. It was able to streamline its operations, strengthen its management and enhance its supplier base. As a result, the Company acquired the remaining 50.1% of this joint venture in June 2009 for $1.2 million. The results of Grainger India are now included in the Company's consolidated results from the date of acquisition.

NOTE 7 – CAPITALIZED SOFTWARE

Amortization of capitalized software is on a straight-line basis over three and five years. Amortization begins when the software is available for its intended use. Amortization expense was $23.6 million, $22.7 million and $22.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. The Company reviews the amounts capitalized for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

NOTE 8 – SHORT-TERM DEBT

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

	As of December 31,		
	2010	2009	2008
Lines of Credit			
Outstanding at December 31	$ 42,769	$ 34,780	$ 19,960
Maximum month-end balance during the year	$ 42,769	$ 35,371	$ 19,960
Average amount outstanding during the year	$ 38,369	$ 33,554	$ 13,022
Weighted average interest rate during the year	4.97%	5.22%	6.23%
Weighted average interest rate at December 31	5.26%	5.06%	4.86%

The Company had $112.3 million, $83.7 million and $29.2 million of uncommitted lines of credit denominated in foreign currencies at December 31, 2010, 2009 and 2008, respectively. At December 31, 2010, there was $42.8 million outstanding under these lines of credit relating to borrowings of foreign subsidiaries. The foreign subsidiaries utilize the lines of credit to meet business growth and operating needs.

The Company had $27.0 million, $19.1 million and $18.8 million of letters of credit at December 31, 2010, 2009 and 2008, respectively, primarily related to the Company's insurance program. Letters of credit were also issued to facilitate the purchase of products. Issued amounts were $4.5 million, $5.6 million and $6.0 million at December 31, 2010, 2009 and 2008, respectively.

NOTE 9 – LONG-TERM DEBT

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

	As of December 31,		
	2010	2009	2008
Bank term loan	$248,311	$483,333	$500,000
Commercial paper	200,000	—	—
Other	3,194	7,295	9,485
Less current maturities	(31,059)	(53,128)	(21,257)
	$420,446	$437,500	$488,228

In May 2008, the Company entered into a $500 million, unsecured four-year bank term loan. The Company, at its option, may prepay the term loan in whole or in part. On July 30, 2010, the Company issued $200 million of commercial paper and proceeds were used to make a partial prepayment of the term loan. The commercial paper carried a weighted average interest rate of approximately 0.26% and varying maturity dates no later than 90 days from the issue date. The weighted average interest rate paid on the term loan during 2010 was 1.03%. The commercial paper has been classified as long-term debt on the Consolidated Balance Sheet at December 31, 2010, as the Company currently has the intent and the ability to maintain this commercial paper on a long-term basis.

The Company had committed lines of credit of $400.0 million in 2010 and $250.0 million in 2009 and 2008 for which the Company paid a commitment fee of 0.10% in 2010, and 0.04% in 2009 and 2008. These lines of credit support the issuance of commercial paper. The current line is due to expire in July 2014. There were no borrowings under the committed lines of credit.

Other consists primarily of industrial development revenue and private activity bonds. These include various issues that bear interest at variable rates capped at 15%. The issues come due in various amounts from 2011 through 2021. The weighted average interest rate paid on the bonds during the year was 1.11%. Interest rates on some of the issues are subject to change at certain dates in the future. The bondholders may require the Company to redeem certain bonds concurrent with a change in interest rates and certain other bonds annually. In addition, these bonds had an unsecured liquidity facility available at December 31, 2010, for which the Company compensated a bank through a commitment fee of 0.07%. There were no borrowings related to this facility at December 31, 2010. The Company classified $1.5 million, $2.4 million and $4.6 million of bonds currently subject to redemption options in current maturities of long-term debt at December 31, 2010, 2009 and 2008, respectively.

The scheduled aggregate principal payments are due as follows (in thousands of dollars):

Year	Payment Amount
2011	$ 31,059
2012	220,039
2013	99
2014	200,033
2015	22
Thereafter	253

The Company's debt instruments include only standard affirmative and negative covenants for debt instruments of similar amounts and structure. The Company's debt instruments do not contain financial or performance covenants restrictive to the business of the Company, reflecting its strong financial position. The Company is in compliance with all debt covenants for the year ended December 31, 2010.

NOTE 10 – DERIVATIVE INSTRUMENTS

During the fourth quarter of 2010, the Company entered into multiple foreign currency forward contracts with a total notional value of Canadian Dollar (CAD) $160 million maturing in September 2014. At December 31, 2010, the fair value of these contracts included in Deferred income taxes, tax uncertainties and derivative instruments was $5.8 million. The fair value is based on quoted market forward rates (Level 2 input) and reflects the present value of the amount that the Company would pay for contracts involving the same notional amounts and maturity dates. See Note 2 to the Consolidated Financial Statements for a description of the Company's accounting policy regarding derivative instruments. Forward contracts entered into by the Company's Mexico subsidiary to hedge forecasted U.S. dollar-denominated lease obligations are not material.

NOTE 11 – EMPLOYEE BENEFITS

Retirement Plans

A majority of the Company's employees are covered by a noncontributory profit sharing plan. This plan provides for annual employer contributions based upon a formula related primarily to earnings before federal income taxes, limited to a percentage of the total eligible compensation paid to eligible employees. The annual contribution is limited to a minimum of 8% and a maximum of 18% of total eligible compensation paid to eligible employees. The Company also sponsors additional defined contribution plans, which cover most of the other employees. Provisions under all plans were $151.3 million, $128.1 million and $145.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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 Company's accumulated postretirement benefit obligation (APBO) and net periodic benefit costs include the effect of the federal subsidy provided by the "Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Medicare Act). The Medicare Act provides a federal subsidy to retiree healthcare benefit plan sponsors that provide a prescription drug benefit that is at least actuarially equivalent to that provided by Medicare. As a result of the subsidy, the APBO has been reduced by $52.3 million, $43.0 million and $45.4 million as of December 31, 2010, 2009 and 2008, respectively. The subsidy has reduced net periodic benefits costs by approximately $6.3 million, $4.7 million and $5.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The net periodic benefits costs charged to operating expenses, which were valued with a measurement date of January 1 for each year, consisted of the following components (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Service cost	$ 14,293	$ 12,305	$ 9,699
Interest cost	12,852	10,730	9,490
Expected return on assets	(4,434)	(3,402)	(4,466)
Amortization of prior service credit	(495)	(1,215)	(1,215)
Amortization of transition asset	(143)	(143)	(143)
Amortization of unrecognized losses	3,649	4,135	1,312
Net periodic benefits costs	$ 25,722	$ 22,410	$ 14,677

The Company has elected to amortize the amount of net unrecognized losses over a period equal to the average remaining service period for active plan participants expected to retire and receive benefits of approximately 16.6 years for 2010.

Reconciliations of the beginning and ending balances of the APBO, which is calculated using a December 31 measurement date, the fair value of plan assets available for benefits and the funded status of the benefit obligation follow (in thousands of dollars):

	2010	2009	2008
Benefit obligation at beginning of year	$222,117	$188,639	$150,910
Service cost	14,293	12,305	9,699
Interest cost	12,852	10,730	9,490
Plan participants' contributions	1,862	1,797	1,751
Amendments	—	8,715	—
Actuarial loss	12,288	4,892	21,443
Benefits paid	(5,729)	(5,277)	(4,924)
Medicare Part D Subsidy received	295	316	270
Benefit obligation at end of year	257,978	222,117	188,639
Plan assets available for benefits at beginning of year	73,919	56,703	74,432
Actual returns (losses) on plan assets	9,017	11,695	(23,963)
Employer's contributions	17,438	9,001	9,407
Plan participants' contributions	1,862	1,797	1,751
Benefits paid	(5,729)	(5,277)	(4,924)
Plan assets available for benefits at end of year	96,507	73,919	56,703
Noncurrent postretirement benefit obligation	$161,471	$148,198	$131,936

The amounts recognized in Accumulated other comprehensive earnings (AOCE) consisted of the following components (in thousands of dollars):

	As of December 31,		
	2010	2009	2008
Prior service credit (cost)	$ (1,047)	$ (552)	$ 9,377
Transition asset	571	714	857
Unrecognized losses	(70,487)	(66,430)	(73,966)
Deferred tax asset	27,605	25,784	24,800
Net losses	$ (43,358)	$ (40,484)	$ (38,932)

The components of AOCE related to the postretirement benefit costs that will be amortized into net periodic postretirement benefit costs in 2011 are estimated as follows (in thousands of dollars):

	2011
Amortization of prior service credit	$ (494)
Amortization of transition asset	(143)
Amortization of unrecognized losses	4,246
Estimated amount to be amortized from AOCE into net periodic postretirement benefit costs	$ 3,609

The benefit obligation was determined by applying the terms of the plan and actuarial models. These models include various actuarial assumptions, including discount rates, assumed rates of return on plan assets and healthcare cost trend rates. The actuarial assumptions also anticipate future cost-sharing changes to retiree contributions that will maintain the current cost-sharing ratio between the Company and the retirees. The Company evaluates its actuarial assumptions on an annual basis and considers changes in these long-term factors based upon market conditions and historical experience.

Effective January 1, 2010 (reflected in the 2009 valuation above), the plan was amended to extend its benefits to an additional group of employees and also include an in-network deductible, and increased out-of-pocket maximums and hospital co-payments.

The following assumptions were used to determine net periodic benefit costs at January 1:

	For the Years Ended December 31,		
	2010	2009	2008
Discount rate	6.00%	5.90%	6.50%
Expected long-term rate of return on plan assets, net of tax at 40%	6.00%	6.00%	6.00%
Initial healthcare cost trend rate	9.50%	10.00%	10.00%
Ultimate healthcare cost trend rate	5.00%	5.00%	5.00%
Year ultimate healthcare cost trend rate reached	2019	2019	2018

The following assumptions were used to determine benefit obligations at December 31:

	2010	2009	2008
Discount rate	5.60%	6.00%	5.90%
Expected long-term rate of return on plan assets, net of tax at 40%	6.00%	6.00%	6.00%
Initial healthcare cost trend rate	9.00%	9.50%	10.00%
Ultimate healthcare cost trend rate	5.00%	5.00%	5.00%
Year ultimate healthcare cost trend rate reached	2019	2019	2019

The discount rate assumptions reflect the rates available on high-quality fixed income debt instruments. These rates have been selected due to their similarity to the projected cash flows of the postretirement healthcare benefit plan.

The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1 percentage point change in assumed healthcare cost trend rates would have the following effects on 2010 results (in thousands of dollars):

	1 Percentage Point	
	Increase	(Decrease)
Effect on total service and interest cost	$ 6,638	$ (5,071)
Effect on APBO	54,257	(42,320)

The Company has established a Group Benefit Trust (Trust) to fund the plan obligations and process benefit payments. In December 2010, the Company began to transition the target allocation of the Trust assets from 100% U.S. equities to 50% U.S. equities and 50% non-U.S. equities. This investment strategy reflects the long-term nature of the plan obligation and seeks to take advantage of the earnings potential of equity securities in the global markets. As of December 31, 2010, the assets of the Trust are invested in funds designed to track to either the Standard & Poor's 500 Index (S&P 500) or the Total International Composite Index. The Total International Composite Index tracks non-U.S. stocks within developed and emerging market economies. The plan's assets are stated at fair value which represents the net asset value of shares held by the plan in the registered investment companies at the quoted market prices (Level 1 input) as of December 31, 2010 (in thousands of dollars):

	2010	2009	2008
Fair value of invested assets (Level 1)			
Registered investment companies			
Fidelity Spartan U.S. Equity Index Fund	$43,260	$37,624	$30,597
Vanguard 500 Index Fund	43,363	37,691	31,194
Vanguard Total International Stock	13,215	—	—
Total Assets	$99,838	$75,315	$61,791

The Company uses the long-term historical return on the plan assets and the historical performance of the S&P 500 and, beginning in 2010, the Total International Composite Index to develop its expected return on plan assets. The required use of an expected long-term rate of return on plan assets may result in recognition of income that is greater or less than the actual return on plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and, therefore, result in a pattern of income recognition that more closely matches the pattern of the services provided by the employees.

The Company's investment policies include periodic reviews by management and trustees at least annually concerning: (1) the allocation of assets among various asset classes (e.g., domestic stocks, international stocks, short-term bonds, long-term bonds, etc.); (2) the investment performance of the assets, including performance comparisons with appropriate benchmarks; (3) investment guidelines and other matters of investment policy; and (4) the hiring, dismissal, or retention of investment managers.

The funding of the trust is an estimated amount that is intended to allow the maximum deductible contribution under the Internal Revenue Code of 1986 (IRC), as amended, and was $17.4 million, $9.0 million and $9.4 million for the years ended December 31, 2010, 2009 and 2008, respectively. There are no minimum funding requirements and the Company intends to follow its practice of funding the maximum deductible contribution under the IRC.

The Company forecasts the following benefit payments (which include a projection for expected future employee service) and subsidy receipts for the next ten years (in thousands of dollars):

	Estimated gross benefit payments	Estimated Medicare subsidy receipts
2011	$ 4,795	$ (393)
2012	5,522	(474)
2013	6,468	(563)
2014	7,591	(668)
2015	8,835	(796)
2016 – 2020	68,111	(6,749)

Executive Death Benefit Plan

The Executive Death Benefit Plan provides one of three potential benefits: a supplemental income benefit (SIB), an executive death benefit (EDB) or a postretirement payment. The SIB provides income continuation at 50% of total compensation, payable for ten years to the beneficiary of a participant if that participant dies while employed by the Company. Alternatively, the EDB provides an after-tax lump sum payment of one times final total compensation to the beneficiary of a participant who dies after retirement. In addition, a participant may elect to receive a reduced postretirement payment instead of the EDB. In 2008, new participants to the plan were not eligible for the reduced postretirement payment option. Effective January 1, 2010, there will be no new participants added to the plan. There are no plan assets and benefits are paid as they come due from the general assets of the Company.

The net periodic benefits costs charged to operating expenses, which were valued with a measurement date of January 1 for each year, consisted of the following components (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Service cost	$ 204	$ 234	$ 247
Interest cost	893	965	880
Amortization of unrecognized gains	(35)	(24)	(153)
Net periodic benefits costs	$ 1,062	$ 1,175	$ 974

Reconciliations of the beginning and ending balances of the projected benefit obligation, which are calculated using a December 31 measurement date, follow (in thousands of dollars):

	2010	2009	2008
Benefit obligation at beginning of year	$ 17,185	$ 16,088	$ 14,115
Service cost	204	234	247
Interest cost	893	965	880
Actuarial (gains) losses	(109)	(102)	1,425
Benefits paid	(2,530)	—	(579)
Benefit obligation at end of year	$ 15,643	$ 17,185	$ 16,088

The amounts recognized as the current and long-term portions of the benefit obligation follow (in thousands of dollars):

	As of December 31,		
	2010	2009	2008
Current liabilities	$ 896	$ 3,081	$ 552
Noncurrent liabilities	14,747	14,104	15,536
Total amounts recognized	$ 15,643	$ 17,185	$ 16,088

Net gains recognized in AOCE were $0.4 million, $0.4 million and $0.3 million as of December 31, 2010, 2009 and 2008, respectively.

The benefit obligation was determined by applying the terms of the plan and actuarial models. These models include various actuarial assumptions, including discount rates, mortality and salary progression. The Company evaluates its actuarial assumptions on an annual basis and considers changes in these long-term factors based upon market conditions and historical experience.

The following assumptions were used to determine benefit obligations at December 31:

	2010	2009	2008
Discount rate used to determine net periodic benefit cost (January 1 valuation)	5.70%	6.10%	6.40%
Discount rate used to determine benefit obligation (December 31 valuation)	5.10%	5.70%	6.10%
Compensation increase used to determine obligation and cost	4.00%	4.00%	4.00%

The discount rate assumptions reflect the rates available on high-quality fixed income debt instruments. These rates have been selected due to their similarity to the projected cash flows of the Executive Death Benefit Plan.

Actuarially projected future benefit payments for the next ten years are as follows (in thousands of dollars):

	Benefit Payments
2011	$ 896
2012	682
2013	1,655
2014	1,064
2015	921
2016 – 2020	4,539

Other Employment-Related Benefit Plans

Certain of the Company's non-U.S. subsidiaries provide limited non-pension benefits to retirees in addition to government-mandated programs. The cost of these programs is not significant to the Company. Most retirees outside the United States are covered by government-sponsored and administered programs.

NOTE 12 – LEASES

The Company leases certain land, buildings and equipment under noncancellable operating leases that expire at various dates through 2036. The Company capitalizes all significant leases that qualify for capitalization. Many of the building leases obligate the Company to pay real estate taxes, insurance and certain maintenance costs, and contain multiple renewal provisions, exercisable at the Company's option. Leases that contain predetermined fixed escalations of the minimum rentals are recognized in rental expense on a straight-line basis over the lease term. Cash or rent abatements received upon entering into certain operating leases are also recognized on a straight-line basis over the lease term.

At December 31, 2010, the approximate future minimum lease payments for all operating leases were as follows (in thousands of dollars):

	Future Minimum Lease Payments
2011	$ 45,461
2012	39,341
2013	33,446
2014	26,510
2015	21,961
Thereafter	34,844
Total minimum payments required	201,563
Less amounts representing sublease income	(731)
	$200,832

Rent expense, including items under lease and items rented on a month-to-month basis, was $53.4 million, $45.3 million and $44.8 million for 2010, 2009 and 2008, respectively. These amounts are net of sublease income of $0.9 million, $0.7 million and $0.6 million for 2010, 2009 and 2008, respectively.

NOTE 13 – STOCK INCENTIVE PLANS

The Company maintains stock incentive plans under which the Company may grant a variety of incentive awards to employees and directors. Shares of common stock were authorized for issuance under the plans in connection with awards of non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. As of December 31, 2010, restricted stock units, performance shares, stock units and non-qualified stock options have been granted.

In 2010, the shareholders of the Company approved the 2010 Incentive Plan (Plan), which replaced all prior active plans (Prior Plans). Awards previously granted under Prior Plans will remain outstanding in accordance with their terms. A total of 5.9 million shares of common stock have been reserved for issuance under the Plan. As of December 31, 2010, there were 4,468,959 shares available for grant under the Plan.

Pretax stock-based compensation expense was $47.4 million, $40.7 million and $46.1 million in 2010, 2009 and 2008, respectively. Related income tax benefits recognized in earnings were $16.9 million, $14.1 million and $18.2 million in 2010, 2009 and 2008, respectively.

Options

In 2010, 2009 and 2008, the Company issued stock option grants to employees as part of their incentive compensation. Stock option grants were 689,450, 763,370 and 721,600 shares for the years 2010, 2009 and 2008, respectively.

In 2010, 2009 and 2008, the Company provided broad-based stock option grants covering 256,000, 181,100 and 161,400 shares, respectively, to those employees who reached major service milestones and were not participants in other stock option programs.

Option awards are granted with an exercise price equal to the closing market price of the Company's stock on the last trading day preceding the date of grant. The options generally vest over three years, although accelerated vesting is provided in certain circumstances. Awards generally expire ten years from the grant date.

Transactions involving stock options are summarized as follows:

	Shares Subject to Option	Weighted Average Price Per Share	Options Exercisable
Outstanding at January 1, 2008	6,527,986	$ 58.19	3,447,856
Granted	883,000	$ 84.58	
Exercised	(953,199)	$ 50.07	
Canceled or expired	(103,920)	$ 73.14	
Outstanding at December 31, 2008	6,353,867	$ 62.95	3,633,612
Granted	944,470	$ 79.69	
Exercised	(1,689,581)	$ 57.18	
Canceled or expired	(134,160)	$ 78.98	
Outstanding at December 31, 2009	5,474,596	$ 68.07	3,141,996
Granted	945,450	$106.70	
Exercised	(1,444,898)	$ 64.39	
Canceled or expired	(93,900)	$ 84.02	
Outstanding at December 31, 2010	4,881,248	$ 77.61	2,486,478

At December 31, 2010, there was $16.6 million of total unrecognized compensation expense related to nonvested option awards, which the Company expects to recognize over a weighted average period of 1.7 years.

The following table summarizes information about stock options exercised (in thousands of dollars):

	For the Years Ended December 31, 2010	2009	2008
Fair value of options exercised	$ 22,665	$ 24,442	$ 12,752
Total intrinsic value of options exercised	75,204	57,702	35,095
Fair value of options vested	17,974	23,303	15,510
Settlements of options exercised	87,024	92,213	47,016

Information about stock options outstanding and exercisable as of December 31, 2010, is as follows:

	Options Outstanding				Options Exercisable			
		Weighted Average				Weighted Average		
Range of Exercise Prices	Number	Remaining Contractual Life	Exercise Price	Intrinsic Value (000's)	Number	Remaining Contractual Life	Exercise Price	Intrinsic Value (000's)
$37.50 – $44.05	97,051	0.38 Years	$40.59	$ 9,465	97,051	0.38 Years	$40.59	$ 9,465
$45.50 – $54.85	1,179,265	3.02 Years	$50.98	102,753	1,179,265	3.02 Years	$50.98	102,753
$56.03 – $70.67	51,522	4.13 Years	$61.71	3,936	51,522	4.13 Years	$61.71	3,936
$71.21 – $124.93	3,553,410	7.66 Years	$87.70	179,141	1,158,640	6.09 Years	$80.11	67,197
	4,881,248	6.35 Years	$77.61	$295,295	2,486,478	4.37 Years	$64.37	$183,351

The Company uses a binomial lattice option pricing model for the valuation of stock options. The weighted average fair value of options granted in 2010, 2009 and 2008 was $24.53, $19.32 and $20.82, respectively. The fair value of each option granted in 2010, 2009 and 2008 used the following assumptions:

	For the Years Ended December 31, 2010	2009	2008
Risk-free interest rate	2.9%	2.4%	3.2%
Expected life	6 years	6 years	6 years
Expected volatility	24.7%	28.8%	25.2%
Expected dividend yield	2.0%	2.3%	1.8%

The risk-free interest rate is selected based on yields from U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected term of the options being valued. The expected life selected for options granted during each year presented represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behavior. Expected volatility is based upon implied and historical volatility of the closing price of the Company's stock over a period equal to the expected life of each option grant. Historical company information is also the primary basis for selection of expected dividend yield assumptions.

Performance Shares

The Company awarded performance-based shares to certain executives. Receipt of Company stock is contingent upon the Company meeting sales growth and return on invested capital (ROIC) performance goals. Each participant is granted a base number of shares. At the end of the performance period, the number of shares granted will be increased, decreased or remain the same based upon actual Company-wide sales growth versus target sales growth. The shares, as determined at the end of the performance year, are issued at the end of the third year if the Company's average target ROIC is achieved during the vesting period.

Performance share value is based upon closing market prices on the last trading day preceding the date of award less the net present value of the dividends throughout the vesting period and is charged to earnings on a straight-line basis over the three year period. Holders of the 2008 performance share awards are entitled to receive cash payments equivalent to cash dividends after the end of the first year performance period, whereas holders of the 2009, 2010, and subsequent performance share awards are not entitled to receive cash payments equivalent to cash dividends. If the performance shares vest, they will be settled by the issuance of Company common stock in exchange for the performance shares on a one-for-one basis.

The following table summarizes the transactions involving performance-based share awards:

	2010		2009		2008	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested shares outstanding	72,362	$80.01	117,896	$75.13	116,796	$69.49
Issued	140,400	$87.29	36,720	$73.17	38,360	$86.00
Cancelled	(1,069)	$86.00	(3,319)	$83.40	—	$ —
Vested	(34,573)	$86.00	(78,935)	$68.64	(37,260)	$71.23
Ending nonvested shares outstanding	177,120	$84.74	72,362	$80.01	117,896	$75.13

At December 31, 2010, the unearned compensation related to performance-based share awards outstanding was $7.9 million, which the Company expects to recognize over a weighted average period of 1.8 years.

Restricted Stock

The plans authorize the granting of restricted stock, which is held by the Company pursuant to the terms and conditions related to the applicable grants. Except for the right of disposal, holders of restricted stock have full shareholders' rights during the period of restriction, including voting rights and the right to receive dividends. Restricted stock grants have original vesting periods of six to ten years.

Compensation expense related to restricted stock awards is based upon the closing market price on the last trading day preceding the date of grant and is charged to earnings on a straight-line basis over the vesting period. The following table summarizes the transactions involving restricted stock granted to employees:

	2010		2009		2008	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested shares outstanding	10,000	$47.81	50,000	$53.50	65,000	$52.37
Vested	(10,000)	$47.81	(40,000)	$54.12	(15,000)	$48.15
Ending nonvested shares outstanding	—	$ 0.00	10,000	$47.81	50,000	$53.50
Fair value of shares vested	$0.5 million		$2.1 million		$0.7 million	

Restricted Stock Units (RSUs)

Awards of RSUs are provided for under the stock compensation plans. RSUs granted vest over periods from two to seven years from issuance, although accelerated vesting is provided in certain instances. Holders of RSUs are entitled to receive cash payments equivalent to cash dividends and other distributions paid with respect to common stock. At various times after vesting, RSUs will be settled by the issuance of stock evidencing the conversion of the RSUs into shares of the Company common stock on a one-for-one basis. Compensation expense related to RSUs is based upon the closing market price on the last trading day preceding the date of award and is charged to earnings on a straight-line basis over the vesting period.

The following table summarizes RSUs activity:

	2010		2009		2008	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested units	1,241,364	$ 80.96	1,237,246	$77.88	982,568	$ 72.91
Issued	274,740	$109.63	284,825	$83.10	460,423	$ 84.35
Cancelled	(61,745)	$ 82.59	(81,572)	$78.47	(33,490)	$ 78.72
Vested	(248,572)	$ 77.37	(199,135)	$63.57	(172,255)	$ 64.37
Ending nonvested units	1,205,787	$ 88.65	1,241,364	$80.96	1,237,246	$ 77.88
Fair value of shares vested	$19.2 million		$12.4 million		$11.1 million	

At December 31, 2010, there was $50.2 million of total unrecognized compensation expense related to nonvested RSUs that the Company expects to recognize over a weighted average period of 2.5 years.

Director Stock Awards

The Company provides members of the Board of Directors with deferred stock unit grants. A stock unit is the economic equivalent of a share of common stock. Beginning in April 2010, the number of units covered by each grant is equal to $100,000 divided by the 200-day average stock price as of January 31st in the year of the grant. Prior to 2010, the number of units covered by each grant was equal to $100,000 divided by the fair market value of a share of common stock at the time of the grant. The Company also awards stock units in connection with elective deferrals of director fees and dividend equivalents on existing stock units. Deferred fees and dividend equivalents on existing stock units are converted into stock units on the basis of the market value of the stock at the relevant times. Payment of the value of stock units is scheduled to be made after termination of service as a director. As of December 31, 2010, 2009 and 2008, there were eleven nonemployee directors who held stock units. As of December 31, 2010, there was also one former nonemployee director who held stock units.

The Company recognizes (income) expense for the (depreciation) appreciation in value of equivalent stock units based on the market price of the Company's common stock as of the balance sheet date. The following table summarizes activity for stock units related to deferred director fees (dollars in thousands):

	2010		2009		2008	
	Units	Dollars	Units	Dollars	Units	Dollars
Beginning balance	113,509	$ 10,991	93,221	$ 7,350	74,522	$ 6,522
Dividends	2,416	261	2,338	192	1,692	137
Deferred fees	14,452	1,563	17,950	1,463	17,007	1,460
Unit appreciation (depreciation)	—	5,191	—	1,986	—	(769)
Ending balance	130,377	$ 18,006	113,509	$ 10,991	93,221	$ 7,350

NOTE 14 – CAPITAL STOCK

The Company had no shares of preferred stock outstanding as of December 31, 2010, 2009 and 2008. The activity related to outstanding common stock and common stock held in treasury was as follows:

	2010		2009		2008	
	Outstanding Common Stock	Treasury Stock	Outstanding Common Stock	Treasury Stock	Outstanding Common Stock	Treasury Stock
Balance at beginning of period	72,276,516	37,382,703	74,781,029	34,878,190	79,459,415	30,199,804
Exercise of stock options, net of 2,608, 17,050 and 2,725 shares swapped in stock-for-stock exchange, respectively	1,442,290	(1,442,290)	1,672,531	(1,672,531)	950,474	(950,474)
Cancellation of shares related to tax withholdings on restricted stock vesting	(3,014)	3,014	(12,531)	12,531	(4,874)	4,874
Settlement of restricted stock units, net of 85,205, 67,382 and 48,488 shares retained, respectively	163,367	(163,367)	131,753	(131,753)	101,962	(101,962)
Settlement of performance share units, net of 26,077 and 12,172 shares retained, respectively	52,858	(52,858)	25,088	(25,088)	—	—
Purchase of treasury shares	(4,554,215)	4,554,215	(4,321,354)	4,321,354	(5,725,948)	5,725,948
Balance at end of period	69,377,802	40,281,417	72,276,516	37,382,703	74,781,029	34,878,190

NOTE 15 – ACCUMULATED OTHER COMPREHENSIVE EARNINGS

The following table sets forth the components of Accumulated other comprehensive earnings (losses) (in thousands of dollars):

	As of December 31,		
	2010	2009	2008
Foreign currency translation adjustments	$113,151	$ 63,304	$ 3,943
Derivative instruments	(5,816)	—	—
Postretirement benefit plan	(70,963)	(66,268)	(63,732)
Other employment-related benefit plans	(1,619)	(827)	(68)
Deferred tax asset	15,453	14,708	21,332
Total accumulated other comprehensive earnings (losses)	50,206	10,917	(38,525)
Less: Foreign currency translation adjustments attributable to noncontrolling interest	7,255	(1,457)	—
Total accumulated other comprehensive earnings (losses) attributable to W.W. Grainger, Inc.	$ 42,951	$ 12,374	$(38,525)

Foreign currency translation adjustments result from the translation of assets and liabilities of foreign subsidiaries. The increase in foreign currency translation adjustments in 2010 and 2009 was primarily due to the weakening of the U.S. dollar versus the Canadian dollar, Japanese yen and Mexican peso.

NOTE 16 – NONCONTROLLING INTEREST

The Company's ownership interest in MonotaRO Co., Ltd. was approximately 53% as of December 31, 2010 and 2009. There were no changes to the Company's 80% ownership interest of Grainger Colombia S.A.S. from the date of acquisition through December 31, 2010. The following table sets forth the effect on W.W. Grainger, Inc.'s equity resulting from changes in the Company's ownership interest in MonotaRO Co., Ltd. (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Net earnings attributable to W.W. Grainger, Inc.	$510,865	$430,466	$475,355
Transfers from the noncontrolling interest:			
Increase in W.W. Grainger, Inc. additional contributed capital for MonotaRO Co., Ltd. stock option exercises	86	34	—
Decrease in W.W. Grainger, Inc. additional contributed capital for MonotaRO Co., Ltd. treasury share purchases	(484)	—	—
Change from net earnings attributable to W.W. Grainger, Inc. and transfer from noncontrolling interest	$510,467	$430,500	$475,355

NOTE 17 – INCOME TAXES

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Income tax expense consisted of the following (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Current provision:			
Federal	$283,481	$203,375	$246,731
State	48,241	36,078	39,673
Foreign	21,235	15,860	18,044
Total current	352,957	255,313	304,448
Deferred tax provision (benefit):			
Federal	(7,875)	16,446	(5,968)
State	(1,384)	2,894	(1,049)
Foreign	(3,502)	1,912	432
Total deferred	(12,761)	21,252	(6,585)
Total provision	$340,196	$276,565	$297,863

Net earnings before income taxes by geographical area consisted of the following (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
United States	$802,135	$679,648	$731,315
Foreign	51,643	27,689	41,903
	$853,778	$707,337	$773,218

The income tax effects of temporary differences that gave rise to the net deferred tax asset were (in thousands of dollars):

	As of December 31,		
	2010	2009	2008
Deferred tax assets:			
Inventory	$ 32,438	$ 11,554	$ 22,674
Accrued expenses	31,116	29,262	29,966
Accrued employment-related benefits	145,440	163,333	144,125
Foreign operating loss carryforwards	13,117	12,547	10,833
Property, buildings and equipment	2,072	—	921
Other	19,274	13,947	11,352
Deferred tax assets	243,457	230,643	219,871
Less valuation allowance	(20,087)	(20,810)	(15,977)
Deferred tax assets, net of valuation allowance	$223,370	$209,833	$203,894
Deferred tax liabilities:			
Purchased tax benefits	$ (4,570)	$ (5,178)	$ (5,812)
Property, buildings and equipment	—	(7,318)	—
Intangibles	(80,055)	(67,821)	(17,083)
Software	(4,419)	(8,835)	(12,774)
Prepaids	(28,897)	(22,889)	(21,893)
Other	(13,590)	(10,020)	(2,206)
Deferred tax liabilities	(131,531)	(122,061)	(59,768)
Net deferred tax asset	$ 91,839	$ 87,772	$144,126
The net deferred tax asset is classified as follows:			
Current assets	$ 44,627	$ 42,023	$ 52,556
Noncurrent assets	87,244	79,472	97,442
Noncurrent liabilities (foreign)	(40,032)	(33,723)	(5,872)
Net deferred tax asset	$ 91,839	$ 87,772	$144,126

At December 31, 2010, the Company had $54.6 million of operating loss carryforwards related primarily to foreign operations, some of which will expire at various dates through 2020. The valuation allowance represents a provision for uncertainty as to the realization of the tax benefits of these carryforwards. In addition, the Company recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized.

The changes in the valuation allowance were as follows (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Beginning balance	$ 20,810	$ 15,977	$ 13,551
(Decrease) increase related to foreign net operating loss carryforwards	(723)	4,833	86
Increase related to capital losses and other	—	—	2,340
Ending balance	$ 20,087	$ 20,810	$ 15,977

A reconciliation of income tax expense with federal income taxes at the statutory rate follows (in thousands of dollars):

	For the Years Ended December 31,		
	2010	2009	2008
Federal income tax at the 35% statutory rate	$298,822	$247,568	$270,626
State income taxes, net of federal income tax benefit	30,457	25,332	25,105
Other – net	10,917	3,665	2,132
Income tax expense	$340,196	$276,565	$297,863
Effective tax rate	39.8%	39.1%	38.5%

Included in other – net is the impact of a one-time tax expense related to the U.S. healthcare legislation passed in the first quarter of 2010.

Undistributed earnings of foreign subsidiaries at December 31, 2010, amounted to $83.3 million. No provision for deferred U.S. income taxes has been made for these subsidiaries because the Company intends to permanently reinvest such earnings in those foreign operations.

The changes in the liability for tax uncertainties, excluding interest, are as follows (in thousands of dollars):

	2010	2009	2008
Balance at beginning of year	$26,540	$24,364	$13,568
Additions based on tax positions related to the current year	8,304	6,743	13,016
Additions for tax positions of prior years	3,815	362	735
Reductions for tax positions of prior years	(2,062)	(2,856)	(2,900)
Reductions due to statute lapse	(2,413)	(1,961)	—
Settlements (audit payments) refunds – net	(124)	(112)	(55)
Balance at end of year	$34,060	$26,540	$24,364

The Company classifies the liability for tax uncertainties in Deferred income taxes, tax uncertainties and derivative instruments. Included in this amount are $11.9 million, $8.1 million and $7.4 million at December 31, 2010, 2009 and 2008, respectively, of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Any changes in the timing of deductibility of these items would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authorities to an earlier period.

The Company regularly undergoes examination of its federal income tax returns by the Internal Revenue Service (IRS). The Company's federal tax returns for 2007 and 2008 are currently under the IRS audit, and tax years 2009 and 2010 are open. The Company is also subject to state, local and foreign jurisdiction tax audits. The Company's tax years 2002 – 2010 remain subject to state and local audits and tax years 2006 – 2010 remain open to foreign audits. Two of the Company's foreign subsidiaries are currently under audits in their respective jurisdictions. The estimated amount of liability associated with the Company's uncertain tax positions may change within the next twelve months due to the pending audit activity, expiring statutes or tax payments.

The Company recognizes interest expense in the provision for income taxes. During 2010 and 2008, the Company recognized an expense of $0.5 million and $0.8 million, respectively. During 2009, the Company recognized a net benefit of $0.5 million primarily due to a statute lapse. As of December 31, 2010, 2009 and 2008, the Company accrued $1.9 million, $1.4 million and $1.9 million for interest, respectively.

NOTE 18 – EARNINGS PER SHARE

In June 2008, the FASB issued authoritative guidance which states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method.

Effective January 1, 2009, the Company adopted the authoritative guidance. The Company's unvested share-based payment awards, such as certain Performance Shares, Restricted Stock and Restricted Stock Units that contain nonforfeitable rights to dividends, meet the criteria of a participating security. The adoption changed the methodology of computing the Company's earnings per share to the two-class method from the treasury stock method. As a result, the Company restated previously reported earnings per share. This change did not affect previously reported consolidated net earnings or net cash flows from operations. Under the two-class method, earnings are allocated between common stock and participating securities. The presentation of basic and diluted earnings per share is required only for each class of common stock and not for participating securities. As such, the Company presents basic and diluted earnings per share for its one class of common stock.

The two-class method includes an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. The Company's reported net earnings is reduced by the amount allocated to participating securities to arrive at the earnings allocated to common stock shareholders for purposes of calculating earnings per share.

The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock or the two-class method. The Company has determined the two-class method to be the more dilutive. As such, the earnings allocated to common stock shareholders in the basic earnings per share calculation is adjusted for the reallocation of undistributed earnings to participating securities to arrive at the earnings allocated to common stock shareholders for calculating the diluted earnings per share.

The Company had additional outstanding stock options of 2.6 million for the year ended December 31, 2008, that were excluded from the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common stock.

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):

	For the Years Ended December 31,		
	2010	2009	2008
Net earnings attributable to W.W. Grainger, Inc. as reported	$510,865	$430,466	$475,355
Less: Distributed earnings available to participating securities	(3,086)	(2,990)	(2,560)
Less: Undistributed earnings available to participating securities	(8,355)	(7,059)	(7,935)
Numerator for basic earnings per share – Undistributed and distributed earnings available to common shareholders	499,424	420,417	464,860
Add: Undistributed earnings allocated to participating securities	8,355	7,059	7,935
Less: Undistributed earnings reallocated to participating securities	(8,208)	(6,957)	(7,804)
Numerator for diluted earnings per share – Undistributed and distributed earnings available to common shareholders	$499,571	$420,519	$464,991
Denominator for basic earnings per share – weighted average shares	70,836,945	73,786,346	76,579,856
Effect of dilutive securities	1,301,913	1,105,506	1,307,764
Denominator for diluted earnings per share – weighted average shares adjusted for dilutive securities	72,138,858	74,891,852	77,887,620
Earnings per share two-class method			
Basic	$ 7.05	$ 5.70	$ 6.07
Diluted	$ 6.93	$ 5.62	$ 5.97

NOTE 19 – SEGMENT INFORMATION

The Company has two reportable segments: the United States and Canada. The United States segment reflects the results of Grainger's U.S. operating segment. The Canada segment reflects the results for Acklands – Grainger Inc., the Company's Canadian operating segment. Other Businesses include the following operating segments which are not material individually and in the aggregate: 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.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment transfer prices are established at external selling prices, less costs not incurred due to a related party sale. The segment results include certain centrally incurred costs for shared services that are charged to the segments based upon the relative level of service used by each operating segment.

Following is a summary of segment results (in thousands of dollars):

	2010			
	United States	Canada	Other Businesses	Total
Total net sales	$6,020,069	$820,941	$389,621	$7,230,631
Intersegment net sales	(47,913)	(137)	(423)	(48,473)
Net sales to external customers	5,972,156	820,804	389,198	7,182,158
Segment operating earnings (losses)	920,222	46,836	11,661	978,719
Segment assets	2,365,532	605,023	446,216	3,416,771
Depreciation and amortization	105,478	12,407	7,809	125,694
Additions to long-lived assets	$ 100,194	$ 20,745	$ 5,660	$ 126,599

	2009			
	United States	Canada	Other Businesses	Total
Total net sales	$5,445,390	$651,166	$165,051	$6,261,607
Intersegment net sales	(39,057)	(154)	(405)	(39,616)
Net sales to external customers	5,406,333	651,012	164,646	6,221,991
Segment operating earnings (losses)	735,586	43,742	(11,634)	767,694
Segment assets	2,281,731	545,866	333,955	3,161,552
Depreciation and amortization	111,922	10,718	5,991	128,631
Additions to long-lived assets	$ 111,816	$ 14,828	$ 10,690	$ 137,334

	2008			
	United States	Canada	Other Businesses	Total
Total net sales	$6,057,828	$727,989	$111,732	$6,897,549
Intersegment net sales	(46,992)	(127)	(398)	(47,517)
Net sales to external customers	6,010,836	727,862	111,334	6,850,032
Segment operating earnings (losses)	840,408	54,263	(11,827)	882,844
Segment assets	2,310,484	448,660	133,111	2,892,255
Depreciation and amortization	107,709	10,488	4,574	122,771
Additions to long-lived assets	$ 136,338	$ 19,833	$ 32,469	$ 188,640

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

	2010	2009	2008
Operating earnings:			
Total operating earnings for reportable segments	$ 978,719	$ 767,694	$ 882,844
Unallocated expenses	(118,244)	(102,470)	(100,172)
Total consolidated operating earnings	$ 860,475	$ 665,224	$ 782,672
Assets:			
Total assets for reportable segments	$3,416,771	$3,161,552	$2,892,255
Unallocated assets	487,606	564,780	623,162
Total consolidated assets	$3,904,377	$3,726,332	$3,515,417

	2010		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 125,694	$ 12,099	$ 137,793
Additions to long-lived assets	$ 126,599	$ 4,941	$ 131,540

	Revenues	Long-Lived Assets
Geographic information:		
United States	$5,922,668	$ 845,008
Canada	823,220	87,325
Other foreign countries	436,270	64,900
	$7,182,158	$ 997,233

	2009		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 128,631	$ 12,343	$ 140,974
Additions to long-lived assets	$ 137,334	$ 2,618	$ 139,952

	Revenues	Long-Lived Assets
Geographic information:		
United States	$5,362,729	$ 864,586
Canada	653,984	74,515
Other foreign countries	205,278	53,543
	$6,221,991	$ 992,644

	2008		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 122,771	$ 12,366	$ 135,137
Additions to long-lived assets	$ 188,640	$ 7,508	$ 196,148

	Revenues	Long-Lived Assets
Geographic information:		
United States	$5,953,205	$ 878,624
Canada	731,131	60,755
Other foreign countries	165,696	42,481
	$6,850,032	$ 981,860

Long-lived assets consist of property, buildings, equipment and capitalized software.

Revenues are attributed to countries based on the ship-to location of the customer.

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

The change in the carrying amount of goodwill by segment from January 1, 2008 to December 31, 2010, is as follows (in thousands of dollars):

	United States	Canada	Other Businesses	Total
Balance at January 1, 2008	$ 91,696	$141,332	$ —	$233,028
Acquisitions	2,372	4,381	—	6,753
Translation	—	(26,622)	—	(26,622)
Balance at December 31, 2008	94,068	119,091	—	213,159
Acquisitions	62,361	67	58,191	120,619
Translation	—	18,748	(1,344)	17,404
Balance at December 31, 2009	156,429	137,906	56,847	351,182
Acquisitions	1,012	8,592	14,531	24,135
Purchase price adjustments	(6,221)	—	2,286	(3,935)
Translation	—	7,424	8,426	15,850
Balance at December 31, 2010	$151,220	$153,922	$82,090	$387,232

NOTE 20 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected quarterly information for 2010 and 2009 is as follows (in thousands of dollars, except for per share amounts):

	2010 Quarter Ended				
	March 31	June 30	September 30	December 31	Total
Net sales	$1,672,354	$1,783,696	$1,899,412	$1,826,696	$7,182,158
Cost of merchandise sold	966,612	1,036,610	1,109,688	1,063,564	4,176,474
Gross profit	705,742	747,086	789,724	763,132	3,005,684
Warehousing, marketing and administrative expenses	522,857	532,171	538,451	551,730	2,145,209
Operating earnings	182,885	214,915	251,273	211,402	860,475
Net earnings attributable to W.W. Grainger, Inc.	99,173	129,077	150,405	132,210	510,865
Earnings per share – basic	1.34	1.76	2.10	1.87	7.05
Earnings per share – diluted	$ 1.31	$ 1.73	$ 2.06	$ 1.83	$ 6.93

	2009 Quarter Ended				
	March 31	June 30	September 30	December 31	Total
Net sales	$1,465,248	$1,533,263	$1,589,665	$1,633,815	$6,221,991
Cost of merchandise sold	835,833	908,295	929,720	949,617	3,623,465
Gross profit	629,415	624,968	659,945	684,198	2,598,526
Warehousing, marketing and administrative expenses	470,201	471,039	473,225	518,837	1,933,302
Operating earnings	159,214	153,929	186,720	165,361	665,224
Net earnings attributable to W.W. Grainger, Inc.	96,378	92,466	144,564	97,058	430,466
Earnings per share – basic	1.27	1.23	1.91	1.29	5.70
Earnings per share – diluted	$ 1.25	$ 1.21	$ 1.88	$ 1.27	$ 5.62

NOTE 21 – CONTINGENCIES AND LEGAL MATTERS

Grainger has been named, along with numerous other nonaffiliated companies, as a defendant in litigation in various states involving asbestos and/or silica. These lawsuits typically assert claims of personal injury arising from alleged exposure to asbestos and/or silica as a consequence of products purportedly distributed by Grainger. In 2010, Grainger was named in lawsuits relating to asbestos and/or silica involving approximately 190 new plaintiffs, and lawsuits relating to asbestos and/or silica involving approximately 150 plaintiffs were dismissed with respect to Grainger, typically based on the lack of product identification.

As of January 24, 2011, Grainger is named in cases filed on behalf of approximately 1,900 plaintiffs in which there is an allegation of exposure to asbestos and/or silica. Grainger has denied, or intends to deny, the allegations in all of the above-described lawsuits. If a specific product distributed by Grainger is identified in any of these lawsuits, Grainger would attempt to exercise indemnification remedies against the product manufacturer. In addition, Grainger believes that a substantial number of these claims are covered by insurance. Grainger has entered into agreements with its major insurance carriers relating to the scope, coverage and costs of defense of lawsuits involving claims of exposure to asbestos. While Grainger is unable to predict the outcome of these lawsuits, it believes that the ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on Grainger's consolidated financial position or results of operations.

Grainger is a party to a contract with the United States General Services Administration (the GSA) first entered into in 1999 and subsequently extended in 2004. The GSA contract had been the subject of an audit performed by the GSA's Office of the Inspector General. 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 GSA contract. 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 relating to the Company's compliance with its disclosure obligations and the contract's pricing provisions are ongoing; the Company last met with the DOJ in December 2010. 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 the 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.

Grainger is a party to a contract with the United States Postal Service (the USPS) entered into in 2003 covering the sale of certain Maintenance Repair and Operating Supplies (the MRO Contract). The Company received a subpoena dated August 29, 2008, from the USPS Office of Inspector General seeking information about the Company's pricing compliance under the MRO Contract. The Company has provided responsive information to the USPS and to the DOJ. The Company last met with the DOJ in December 2010.

Grainger is also a party to a contract with the USPS entered into in 2001 covering the sale of certain janitorial and custodial items (the Custodial Contract). 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 Custodial Contract. The Company has provided responsive information to the USPS and to the DOJ. The Company last met with the DOJ in December 2010.

The timing and outcome of the USPS investigations of the MRO Contract and the Custodial Contract are uncertain and could include settlement or civil litigation by the USPS to recover, among other amounts, treble damages and penalties under the False Claims Act. Due to the 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.

In addition to the foregoing, from time to time Grainger is involved in various other legal and administrative proceedings that are incidental to its business, including claims relating to product liability, premises liability, general negligence, environmental issues, employment, intellectual property and other matters. As a government contractor selling to federal, state and local governmental entities, Grainger is also subject to governmental or regulatory inquiries or audits or other proceedings, including those related to pricing compliance. It is not expected that the ultimate resolution of any of these matters will have, either individually or in the aggregate, a material adverse effect on Grainger's consolidated financial position or results of operations.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Grainger has duly issued this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: February 25, 2011

W.W. GRAINGER, INC.

By: James T. Ryan

James T. Ryan
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of Grainger on February 25, 2011, in the capacities indicated.

James T. Ryan

James T. Ryan
Chairman, President and
Chief Executive Officer
(Principal Executive Officer and Director)

Ronald L. Jadin

Ronald L. Jadin
Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

Gregory S. Irving

Gregory S. Irving
Vice President and Controller
(Principal Accounting Officer)

Brian P. Anderson

Brian P. Anderson
Director

Wilbur H. Gantz

Wilbur H. Gantz
Director

V. Ann Hailey

V. Ann Hailey
Director

William K. Hall

William K. Hall
Director

Stuart L. Levenick

Stuart L. Levenick
Director

John W. McCarter, Jr.

John W. McCarter, Jr.
Director

Neil S. Novich

Neil S. Novich
Director

Michael J. Roberts

Michael J. Roberts
Director

Gary L. Rogers

Gary L. Rogers
Director

E. Scott Santi

E. Scott Santi
Director

James D. Slavik

James D. Slavik
Director

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 No.'s 33-43902, 333-24215, 333-61980, 333-105185, 333-124356, 333-166345 and Form S-4 No. 33-32091) of W.W. Grainger, Inc. and in the related prospectuses of our reports dated February 25, 2011, with respect to the consolidated financial statements of W.W. Grainger, Inc. and the effectiveness of internal control over financial reporting of W.W. Grainger, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2010.

ERNST & YOUNG LLP

Chicago, Illinois

February 25, 2011

CERTIFICATION EXHIBIT 31(a)

I, J. T. Ryan, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 25, 2011

By: J. T. Ryan

Name: J. T. Ryan

Title: Chairman, President and Chief Executive Officer

CERTIFICATION

I, R. L. Jadin, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 25, 2011

By: R. L. Jadin

Name: R. L. Jadin

Title: Senior Vice President and Chief Financial Officer

EXHIBIT 32(a)

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

I, J. T. Ryan, Chairman, President and Chief Executive Officer of W.W. Grainger, Inc. (“Grainger”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K of Grainger for the annual period ended December 31, 2010, (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.

J. T. Ryan

J. T. Ryan
Chairman, President and
Chief Executive Officer

February 25, 2011

EXHIBIT 32(b)

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

I, R. L. Jadin, Senior Vice President and Chief Financial Officer of W.W. Grainger, Inc. (“Grainger”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K of Grainger for the annual period ended December 31, 2010, (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.

R. L. Jadin

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

February 25, 2011