FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1998-08-12** | Period of Report: **1998-06-30**
SEC Accession No. 0000277135-98-000011

(HTML Version on secdatabase.com)

FILER

GRAINGER W W INC

CIK:**277135**| IRS No.: **361150280** | State of Incorp.:**IL** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-05684** | Film No.: **98683207**
SIC: **5000** Durable goods

Business Address
455 KNIGHTSBRIDGE PARKWAY
LINCOLNSHIRE IL 60069-3620
7089829000

23 Pages Complete

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

FORM 10-Q

[x] Quarterly Report Pursuant to Section 13
or 15(d) of the Securities Exchange Act
of 1934
For the period ended June 30, 1998

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

I.R.S. Employer Identification Number 36-1150280

W.W. Grainger, Inc.
(An Illinois Corporation)
455 Knightsbridge Parkway
Lincolnshire, Illinois 60069-3620
Telephone: (847)793-9030

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

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date: 97,702,187 shares of the Company's Common Stock were outstanding as of July 31, 1998.

The Exhibit Index appears on page 15 in the sequential numbering system.

<TABLE>
Part I - FINANCIAL INFORMATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997

<S>	<C>	<C>	<C>	<C>
Net sales	$ 1,118,970	$ 1,051,206	$ 2,176,077	$ 2,036,762
Cost of merchandise sold	717,011	680,177	1,388,963	1,312,453
Gross profit	401,959	371,029	787,114	724,309
Warehousing, marketing, and administrative expenses	301,193	273,044	588,757	534,349
Operating earnings	100,766	97,985	198,357	189,960
Other income or (deductions)				
Interest income	142	512	480	1,902
Interest expense	(1,614)	(1,428)	(3,297)	(2,576)
Unclassified-net	286	(332)	127	(769)
	(1,186)	(1,248)	(2,690)	(1,443)
Earnings before income taxes	99,580	96,737	195,667	188,517
Income taxes	40,330	39,178	79,245	76,349
Net earnings	$ 59,250	$ 57,559	$ 116,422	$ 112,168
Earnings per share:				
Basic	$ 0.61	$ 0.57	$ 1.20	$ 1.09
Diluted	$ 0.60	$ 0.56	$ 1.18	$ 1.08
Average number of shares outstanding:				
Basic	97,246,552	100,887,998	97,235,431	102,642,671
Diluted	99,061,632	102,287,338	99,021,684	104,082,082
Cash dividends paid per share	$ 0.15	$ 0.135	$ 0.285	$ 0.26

<FN>
The accompanying notes are an integral part of these financial statements.
</FN>
</TABLE>

<TABLE>

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

<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>

Net Earnings	$ 59,250	$ 57,559	$ 116,422	$ 112,168
Other comprehensive earnings:				
Foreign currency translation adjustments	(5,179)	713	(4,002)	(1,557)
Comprehensive earnings	$ 54,071	$ 58,272	$ 112,420	$ 110,611

<FN>
The accompanying notes are an integral part of these financial statements.
</FN>
</TABLE>

<TABLE>

W.W. Grainger, Inc., and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)
(Unaudited)

<CAPTION>

ASSETS	June 30, 1998	Dec. 31, 1997
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	$ 48,989	$ 46,929
Accounts receivable, less allowance for doubtful accounts of $17,542 for 1998 and $15,803 for 1997	515,760	455,457
Inventories	584,051	612,132
Prepaid expenses	15,564	9,122
Deferred income tax benefits	59,934	59,348
Total current assets	1,224,298	1,182,988
PROPERTY, BUILDINGS, AND EQUIPMENT	1,141,657	1,087,158
Less accumulated depreciation and amortization	524,840	494,245
Property, buildings, and equipment-net	616,817	592,913
OTHER ASSETS	230,493	221,920
TOTAL ASSETS	$ 2,071,608	$ 1,997,821
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt	$ 6,024	$ 2,960
Current maturities of long-term debt	22,834	23,834
Trade accounts payable	282,867	261,802
Accrued liabilities	196,846	210,383
Income taxes	26,582	34,902
Total current liabilities	535,153	533,881
LONG-TERM DEBT (less current maturities)	127,955	131,201
DEFERRED INCOME TAXES	746	2,871
ACCRUED EMPLOYMENT RELATED BENEFITS COSTS	38,128	35,207
SHAREHOLDERS' EQUITY		

Cumulative Preferred Stock - $5 par value - authorized, 12,000,000 shares, issued and outstanding, none	--	--
Common Stock - $0.50 par value - authorized, 300,000,000 shares; issued, 107,201,960 shares, 1998, and 106,971,524 shares, 1997	53,601	53,486
Additional contributed capital	246,426	242,289
Treasury stock, at cost - 9,500,172 shares, 1998, and 9,249,572 shares, 1997	(391,552)	(378,899)
Unearned restricted stock compensation	(17,737)	(16,528)
Cumulative translation adjustments	(13,212)	(9,210)
Retained earnings	1,492,100	1,403,523
Total shareholders' equity	1,369,626	1,294,661
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,071,608	$ 1,997,821

<FN>
The accompanying notes are an integral part of these financial statements.
</FN>
</TABLE>

<TABLE>

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

<CAPTION>

<S>	Six Months Ended June 30, 1998 <C>	1997 <C>
Cash flows from operating activities:		
Net earnings	$ 116,422	$ 112,168
Provision for losses on accounts receivable	6,482	6,033
Depreciation and amortization:		
Property, buildings, and equipment	31,365	32,608
Intangibles and goodwill	8,052	8,259
Capitalized software	4,773	585
Change in operating assets and liabilities:		
(Increase) in accounts receivable	(66,785)	(70,278)
Decrease in inventories	28,081	99,503
(Increase) in prepaid expenses	(6,442)	(5,849)
(Increase) decrease in deferred income taxes	(2,711)	699
Increase in trade accounts payable	21,065	2,337
(Decrease) in other current liabilities	(13,537)	(23,338)
(Decrease) in current income taxes payable	(8,320)	(442)
Increase in accrued employment related benefits costs	2,921	2,443
Other - net	904	1,391
Net cash provided by operating activities	122,270	166,119
Cash flows from investing activities:		
Additions to property, buildings, and equipment - net of dispositions	(55,269)	(43,134)
Expenditures for capitalized software	(25,378)	(122)
Other - net	(3,170)	763

Net cash (used in) investing activities	(83,817)	(42,493)
Cash flows from financing activities:		
Net increase in short-term debt	3,064	73,853
Long-term debt payments	(1,032)	(982)
Stock incentive plan	2,031	1,169
Purchase of treasury stock - net	(12,611)	(265,748)
Cash dividends paid	(27,845)	(27,161)
Net cash (used in) financing activities	(36,393)	(218,869)
Net increase (decrease) in cash and cash equivalents	2,060	(95,243)
Cash and cash equivalents at beginning of year	46,929	126,935
Cash and cash equivalents at end of period	$ 48,989	$ 31,692

<FN>

The accompanying notes are an integral part of these financial statements.
</FN>
</TABLE>

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

1. BASIS OF STATEMENT PRESENTATION

The financial statements and the related notes are condensed and should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 1997, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

The consolidated financial statements have been retroactively restated to reflect the 2-for-1 stock split announced on April 29, 1998 effective at the close of business on May 11, 1998, unless indicated otherwise. Computations of basic and diluted earnings per share, average number of shares outstanding, and cash dividends paid per share reflect this stock split.

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," effective January 1, 1998. As of June 30, 1998, there was no recorded tax effect associated with the foreign currency translation adjustments as reported in the Consolidated Statements of Comprehensive Earnings.

Inventories are valued at the lower of cost or market. Cost is determined primarily by the last-in, first-out (LIFO) method.

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

Checks outstanding of $42,194,000 and $54,218,000 were included in trade accounts payable at June 30, 1998 and December 31, 1997, respectively.

2. DIVIDEND

On July 29, 1998, the Board of Directors declared a quarterly dividend of 15 cents per share, payable September 1, 1998 to shareholders of record on August 10, 1998.

3. SHARE REPURCHASE

On April 29, 1998, the Company's Board of Directors restored an existing share repurchase authorization to its original level of ten million shares. Prior to this authorization, less than four million shares remained available for repurchase. The number of shares have been adjusted for the May 1998 2-for-1 stock split announced on April 29, 1998, and will automatically be adjusted for any subsequent stock splits. Repurchases are expected to be made from time to time in open market and privately negotiated transactions. The repurchased shares will be retained in the Company's treasury and be available for general corporate purposes.

4. EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS (SFAS No. 132)

Statement of Financial Accounting Standards (SFAS) No. 132, "Employers' disclosure about Pensions and Other Postretirement Benefits", is effective for fiscal years beginning after December 15, 1997. SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans by standardizing certain disclosure requirements. In accordance with the release, the Company plans to adopt SFAS No. 132 for the year ended December 31, 1998.

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1998 COMPARED WITH THE THREE MONTHS ENDED JUNE 30, 1997:

Net Sales

Net sales of $1,118,970,000 for the 1998 second quarter increased 6.4% from net sales of $1,051,206,000 for the comparable 1997 period. There were 64 sales days in both the 1998 and 1997 second quarters. The year 1998 will have the same number of sales days as did the year 1997 (255).

The sales increase of 6.4% for the 1998 second quarter, as compared with the 1997 second quarter, was principally volume related. This increase primarily represented the effects of the Company's market initiatives which included new product additions, and the National Accounts, Integrated Supply, and Direct Marketing programs.

Sales of seasonal products for the Company increased approximately 12% in the 1998 second quarter as compared with the same 1997 period. Many regions of the country experienced warmer weather during the second quarter of 1998 versus the comparable 1997 period. Sales of all other products for the Company increased approximately 6% in the 1998 second quarter as compared with the same 1997 period.

The Company's growth in daily sales for the 1998 second quarter versus the same 1997 period was constrained by the following factors:

1. The overall effect that the General Motors Corp. strike had on the U.S. economy during June 1998.

2. A decline in sales at Acklands - Grainger, Inc. (AGI), the Company's Canadian subsidiary, which resulted from a slowdown in sales to customers in the oil and other natural resources industries. An unfavorable change in the Canadian exchange rate also contributed to this decline.

The Company's Grainger branch-based business experienced selling price increases of about 0.7% when comparing the second quarters of 1998 and 1997. Daily sales to National Account customers within the branch-based business increased an estimated 9%, on a comparable basis, over the 1997 second quarter.

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

RESULTS OF OPERATIONS

Net Earnings

Net earnings of $59,250,000 in the 1998 second quarter increased 2.9% when compared to net earnings of $57,559,000 for the comparable 1997 period. The net earnings increase was lower than the net sales increase due to operating expenses (warehousing, marketing, and administration) increasing at a faster rate than net sales, lower interest income, and higher interest expense, partially offset by higher gross profit margins.

The Company's gross profit margin increased by 0.62 percentage point when comparing the second quarters of 1998 and 1997. Of note are the following favorable factors affecting the Company's gross profit margin:

1. Selling price increases exceeded the level of cost increases.

2. The net change in product mix was favorable. The sales of Lab Safety Supply (generally higher than average gross profit margins) increased as a percent of total sales. The sales of AGI (generally lower than average gross profit margins) decreased as a percent of total sales. These favorable changes in product mix were partially offset by the sales of seasonal products (generally lower than average gross profit margins) which increased as a percent of total sales.

Partially offsetting the above factors was an unfavorable change in selling price category mix which was primarily related to sales promotions.

Operating expenses (warehousing, marketing, and administrative) for the Company increased 10.3% for the 1998 second quarter as compared with the same 1997 period. This rate of increase was greater than the rate of increase in net sales. The following factors contributed to this higher rate of increase:

1. Operating expenses were higher as a result of the following initiatives:

   a. Continued expansion of the Company's integrated supply business;

   b. Continued development of the Company's full service marketing capabilities on the Internet;

   c. Increased advertising expenses supporting the Company's marketing initiatives; and

   d. Expansion of the Company's telesales capability.

Net Earnings (continued)

2. Operating expenses related to data processing were higher by an estimated $6,000,000 compared with 1997, as adjusted for 1998 volume increases. This was primarily due to incurring expenses related to Year 2000 compliance and the ongoing installation of the new business enterprise system.

   As disclosed in the Company's 1997 Form 10-K, due to the above two projects, 1998 annual data processing expenses are estimated to be a net $20,000,000 to $25,000,000 higher than 1997 annual data processing expenses, as adjusted for volume related changes.

   The estimated expenses for these projects are based on management's current assessment and were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved or that all components of Year 2000 compliance will be addressed as planned. Uncertainties include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and the sources and timeliness of various systems replacements.

   For a more detailed discussion of the Year 2000 issue, see "Item 7: Management's Discussion and Analysis of Financial Condition and the Results of Operations" included in the Company's 1997 Form 10-K filed with the Securities and Exchange Commission.

Interest income decreased $370,000 for the second quarter of 1998 as compared with the same period in 1997. This decrease resulted from lower average daily invested balances and lower average interest rates earned.

Interest expense increased $186,000 for the second quarter of 1998 as compared with the same period in 1997. This increase resulted from higher average interest rates paid on all outstanding debt and lower capitalized interest. The increase was partially offset by lower average borrowings.

The Company's effective income tax rate was 40.5% for the second quarters of both 1998 and 1997.

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

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1998 COMPARED WITH THE SIX MONTHS ENDED JUNE 30, 1997:

Net Sales

Net sales of $2,176,077,000 for the first six months of 1998 increased 6.8% from net sales of $2,036,762,000 for the comparable 1997 period. There were 127 sales days in both the first six months of 1998 and 1997. The year 1998 will have the same number of sales days as did the year 1997 (255).

The sales increase of 6.8% for the first six months of 1998, as compared with the same 1997 period, was principally volume related. This increase primarily represented the effects of the Company's market initiatives which included new product additions, and the National Accounts, Integrated Supply, and Direct Marketing programs.

Sales of seasonal products for the Company increased approximately 4% in the first six months of 1998 as compared with the same 1997 period. Sales of all other products for the Company increased approximately 7% in the first six months of 1998 as compared with the same 1997 period.

The Company's growth in daily sales for the first six months of 1998 versus the same 1997 period was constrained by a decline in sales for AGI as discussed for the second quarter of 1998. (See the Second Quarter Net Sales discussion.)

The Company's Grainger branch-based business experienced selling price increases of about 1.0% when comparing the first six months of 1998 and 1997. Daily sales to National Account customers within the branch-based business increased an estimated 11%, on a comparable basis, over the same 1997 period.

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

RESULTS OF OPERATIONS

Net Earnings

Net earnings of $116,422,000 for the first six months of 1998 increased 3.8% when compared to net earnings of $112,168,000 for the comparable 1997 period. The net earnings increase was lower than the sales increase primarily due to operating expenses (warehousing, marketing, and administrative) increasing at a faster rate than net sales, lower interest income, and higher interest expense, partially offset by higher gross profit margins.

The Company's gross profit margin increased by 0.61 percentage point when comparing the first six months of 1998 and 1997. Of note are the following favorable factors affecting the Company's gross profit margins:

1. Selling price increases exceeded the level of cost increases.

2. The change in product mix was favorable. The sales of Lab Safety Supply (generally higher than average gross profit margins) increased as a percent of total sales. The sales of AGI (generally lower than average gross profit margins) decreased as a percent of total sales. The sales of seasonal products (generally lower than average gross profit margins) decreased as a percent of total sales.

Partially offsetting the above factors were the following:

1. Sales of sourced products (generally lower than average gross profit margins) increased as a percent of total sales.

2. The change in selling price category mix was unfavorable which primarily related to sales promotions.

Operating expenses (warehousing, marketing, and administrative) for the Company increased 10.2% for the first six months of 1998 as compared with the same 1997 period. This rate of increase was greater than the rate of increase in net sales. The following factors contributed to this higher rate of increase:

1. Operating expenses were higher as a result of the following initiatives:

   a. Continued expansion of the Company's integrated supply business;

   b. Continued development of the Company's full service marketing capabilities on the Internet;

   c. Increased advertising expenses supporting the Company's marketing initiatives; and

   d. Expansion of the Company's telesales capability.

Net Earnings (continued)

2. Operating expenses related to data processing were higher by an estimated $15,000,000 compared with 1997, as adjusted for 1998 volume increases. This was primarily due to incurring expenses related to Year 2000 compliance and the ongoing installation of the new business enterprise system.

   As disclosed in the Company's 1997 Form 10-K, due to the above two projects, 1998 annual data processing expenses are estimated to be a net $20,000,000 to $25,000,000 higher than 1997 annual data processing expenses, as adjusted for volume related changes.

   The estimated expenses for these projects are based on management's current assessment and were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved or that all components of Year 2000 compliance will be addressed as planned. Uncertainties include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and the sources and timeliness of various systems replacements.

   For a more detailed discussion of the Year 2000 issue, see "Item 7: Management's Discussion and Analysis of Financial Condition and the Results of Operations" included in the Company's 1997 Form 10-K filed with the Securities and Exchange Commission.

Interest income decreased $1,422,000 for the first six months of 1998 as compared with the same period in 1997. This decrease primarily resulted from lower average daily invested balances. Interest income was affected by the purchase of approximately 8,400,000 shares of the Company's common stock, on a split adjusted basis, during the year 1997. These purchases contributed to lower average daily invested balances. The decrease in interest income was partially offset by higher average interest rates earned.

Interest expense increased $721,000 for the first six months of 1998 as compared with the same period in 1997. The increase can be explained primarily by the same factors discussed for the second quarter of 1998. (See the Second Quarter Net Earnings discussion.)

The Company's effective income tax rate was 40.5% for the first six months of both 1998 and 1997.

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

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 1998, working capital increased by $40,038,000. The ratio of current assets to current liabilities was 2.3 at June 30, 1998 and 2.2 at December 31, 1997. The Consolidated Statements of Cash Flows, included in this report, detail the sources and uses of cash and cash equivalents.

The Company continues to maintain a low debt ratio and strong liquidity position, which provides flexibility in funding working capital needs and long-term cash requirements. In addition to internally generated funds, the Company has various sources of financing available, including commercial paper sales and bank borrowings under lines of credit and otherwise. Total debt, as a percent of Shareholders' Equity, was 11.4% at June 30, 1998 and 12.2% at December 31, 1997. For the first six months of 1998, $39,277,000 were expended for land, buildings, and facilities improvements; $15,964,000 were expended for data processing, office, and other equipment; and $25,378,000 were expended for capitalized software, for a total of $80,619,000.

<TABLE>

W.W. Grainger, Inc., and Subsidiaries
PART II - OTHER INFORMATION

Items 1,2,3,4, and 5 not applicable.

<CAPTION>

	EXHIBIT INDEX
<S>	<C>
Item 6 Exhibits (numbered in accordance with Item 601 of regulation S-K) and Reports on Form 8-K.	
(a) Exhibits	

(3)(i)	Restated Articles of Incorporation filed May 26, 1998.	19 - 23
(11)	Computation of Earnings Per Share.	17 - 18
(27)	Financial Data Schedule.	

(b) Reports on Form 8-K - None.

</TABLE>

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: August 12, 1998 By: /s/ J.D. Fluno

J.D. Fluno, Vice Chairman

Date: August 12, 1998 By: /s/ P.O. Loux

P.O. Loux, Senior Vice President, Finance and Chief Financial Officer

Date: August 12, 1998 By: /s/ R.D. Pappano

R.D. Pappano, Vice President, Financial Reporting and Investor Relations

<TABLE>

Exhibit 11.1

W.W. Grainger, Inc., and Subsidiaries
COMPUTATION OF EARNINGS PER SHARE

<CAPTION>

	Six Months Ended June 30,	
Basic:	1998	1997
<S>	<C>	<C>
Average number of shares outstanding during the period	97,235,431	102,642,671
Net Earnings	$ 116,422,000	$ 112,168,000
Earnings per share	$ 1.20	$ 1.09
Diluted:		
Average number of shares outstanding during the period (basic)	97,235,431	102,642,671
Common equivalents		
Shares issuable under outstanding options	3,435,210	3,190,238
Shares which could have been purchased based on the average market value for the period	2,192,246	2,267,596
	1,242,964	922,642
Dilutive effect of exercised options prior to being exercised	39,956	25,769
Shares for the portion of the period that the options were outstanding	1,282,920	948,411
Contingently issuable shares	503,333	491,000
	1,786,253	1,439,411
Average number of shares outstanding during the period	99,021,684	104,082,082
Net earnings	$ 116,422,000	$ 112,168,000

Earnings per share	$ 1.18	$ 1.08
	==============	==============

</TABLE>

<TABLE>

Exhibit 11.2

W.W. Grainger, Inc., and Subsidiaries
COMPUTATION OF EARNINGS PER SHARE

<CAPTION>

Basic:	1998	1997
<S>	<C>	<C>
Three months ended June 30:		
Six months ended June 30, as reported in Exhibit 11.1	$ 1.20	$ 1.09
Three months ended March 31, as previously reported	0.59	0.52
Earnings per share for the three months ended June 30	$ 0.61	$ 0.57
	==========	==========
Diluted:		
Three months ended June 30:		
Six months ended June 30, as reported in Exhibit 11.1	$ 1.18	$ 1.08
Three months ended March 31, as previously reported	0.58	0.52
Earnings per share for the three months ended June 30	$ 0.60	$ 0.56
	==========	==========

</TABLE>

Exhibit (3)(i)

RESTATED ARTICLES OF INCORPORATION

OF

W.W. GRAINGER, INC.

The Articles of Incorporation, as amended, of W.W. GRAINGER, INC. are restated to read as follows:

ARTICLE ONE

The name of the corporation is:

W.W. GRAINGER, INC.

The corporation has not adopted any amendments changing the corporation's name since its initial incorporation.

The date of incorporation is December 27, 1928.

ARTICLE TWO

The name of its registered agent in the State of Illinois is CT Corporation System and the address of its registered office in the State of Illinois is c/o CT Corporation System, 208 South La Salle Street, Chicago, Illinois 60604.

ARTICLE THREE

The duration of the corporation is perpetual.

ARTICLE FOUR

The purpose or purposes for which the corporation is organized are:

> To transact any and all lawful businesses for which a corporation may be incorporated under the Business Corporation Act, including, without limitation, to acquire, own, lease, use, develop, improve, manage, mortgage, convey and otherwise dispose of and deal in real property, improvements thereon or appurtenant thereto, or any interest therein.

ARTICLE FIVE

Paragraph 1: The aggregate number of shares which the corporation is authorized to issue is 312,000,000 divided into two classes. The designations of each class, the number of shares of each class and the par value, if any, of the shares of each class, or a statement that the shares of any class are without par value, are as follows:

<TABLE>
<CAPTION>

Class	Series (if any)	No. of Shares	Par value per share or statement that shares are without par value
<S>	<C>	<C>	<C>
Common	None	300,000,000	$0.50
Preferred	As determined by Board of Directors	12,000,000	$5.00

</TABLE>

Paragraph 2: The preferences, qualifications, limitations, restrictions and the special or relative rights in respect of the shares of each class are:

PREFERRED STOCK

(1) Authority is hereby vested in the Board of Directors (by adoption of a resolution and filing and recording of a statement in accordance with the laws of the State of Illinois) to divide any or all of the authorized 12,000,000 shares of Preferred Stock into series and, within the limitations provided by law, to fix and determine:

(a) The rate per annum at which the holders of shares of any such series shall be entitled to receive dividends out of any funds of the corporation at that time legally available for such purpose and as declared by the Board of Directors;

(b) The price or prices and other terms and conditions on which shares of any such series of Preferred Stock shall be redeemable;

(c) The amount or amounts per share to which holders of shares of any such series of Preferred Stock shall be entitled in the event of any voluntary or involuntary dissolution, liquidation or winding up of the corporation;

(d) Sinking fund provisions for the redemption or purchase of shares of any such series;

(e) The terms and conditions on which shares of any such series may be converted into shares of another class, if the shares of any such series are issued with the privilege of conversion; and

(f) The limitation or denial of voting rights, or the grant of special voting rights for any such series.

(2) Any shares of Preferred Stock which are converted or redeemed shall not be reissued but shall be canceled, and the corporation shall take appropriate action to reduce the authorized number of shares accordingly.

COMMON STOCK

(1) The holders of shares of Common Stock of the corporation are entitled to receive dividends when and as declared by the Board of Directors, and after provision for all dividends on the Preferred Stock as hereinabove set forth, provided no dividend shall be declared or paid hereunder unless it is declared and paid at the same time and in the same manner on all outstanding shares of the Common Stock.

(2) None of the shares of Common Stock of the corporation shall be subject to mandatory redemption.

PREEMPTIVE RIGHTS

Except for the conversion of shares of Preferred Stock as may be determined by the Board of Directors, no holder of shares of any class of the corporation shall have any preemptive right to subscribe for or acquire additional shares of the corporation of the same or any other class, or any other securities convertible into or evidencing or accompanied by any right to subscribe for, purchase or acquire shares of stock of any class of the corporation, whether such shares be hereby or hereafter authorized; all such additional shares may be sold for such consideration, at such time, and to such person or persons as the Board of Directors may from time to time determine, subject to the limitations hereinabove set forth.

ARTICLE SIX

The corporation has issued 107,183,542 shares of common stock $0.50 par value and its paid-in capital is $298,269,212.

ARTICLE SEVEN

Any action of the shareholders of the corporation shall be taken only at an annual or special meeting of the shareholders of the corporation.

ARTICLE EIGHT

Any amendment or restatement of the Articles of Incorporation of the corporation which must be approved by the shareholders of the corporation pursuant to the Business Corporation Act, and any plan of merger of the corporation into a wholly-owned subsidiary (provided that the articles of incorporation of the surviving corporation in such merger require at least the minimum voting requirements set forth in this Article Eight) which must be approved by the shareholders of the corporation pursuant to the Business Corporation Act, shall be adopted in the following manner:

(1) The Board of Directors shall adopt a resolution setting forth the proposed amendment or plan of merger and directing that it be submitted to a vote at a meeting of shareholders, which may be either an annual or a special meeting;

(2) Written notice setting forth the proposed amendment, or plan of merger or a summary thereof shall be given to each shareholder of record within the time and in the manner provided in the Business Corporation Act for the giving of notice of meetings of shareholders;

(3) At such meeting a vote of the shareholders entitled to vote on the proposed amendment or plan of merger shall be taken. The proposed amendment or plan of merger shall be adopted upon receiving the affirmative vote of at least a majority of the outstanding shares entitled to vote on such amendment or plan of merger, unless any class of shares is entitled to vote as a class in respect thereof, in which event the proposed amendment or plan of merger shall be adopted upon receiving the affirmative vote of the holders of at least a majority of the outstanding shares of each class of shares entitled to vote as a class in respect thereof and of the total outstanding shares entitled to vote on such amendment or plan of merger.

(4) Any number of amendments may be submitted to the shareholders, and voted upon by them, at one meeting.

Anything herein to the contrary notwithstanding, this Article shall not affect the vote required by the Business Corporation Act, for the approval of any (i) merger other than a merger with a wholly-owned subsidiary; (ii) consolidation; (iii) share exchange as described in present Section 11.10 of the Business Corporation Act; (iv) dissolution; or (v) sale, lease or exchange of all or substantially all of the assets of the corporation. Any amendment of the corporation's Articles of Incorporation effecting any decrease in the voting requirements for approval of the actions set forth in clauses (i) through (v) of this paragraph shall be approved upon the affirmative vote of that percentage of shareholders required for approval of the action itself.

ARTICLE NINE

A director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its shareholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 8.65 of the Business Corporation Act or any successor provision thereto, or (iv) for any transaction from which the director derived an improper personal benefit. If the Business Corporation Act is hereafter amended to permit further elimination or limitation of the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Business Corporation Act as so amended. Any repeal or modification of this Article by the shareholders of the corporation or otherwise shall not apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

The undersigned corporation has caused these Restated Articles of Incorporation to be signed by its duly authorized officers, each of whom affirms, under penalties of perjury, that the facts stated herein are true and that these Restated Articles of Incorporation were adopted by a majority of the Board of Directors, in accordance with Section 10.15 of the Business Corporation Act, shares having been issued but shareholder action not being required for adoption.

Dated: May 12, 1998. W.W. GRAINGER, INC.

Attested by /s/K. S. Kirsner	by /s/J. D. Fluno
K. S. Kirsner Assistant Secretary	J. D. Fluno Vice Chairman*

*Authorized to sign this document.

<TABLE> <S> <C>

<ARTICLE>	5
<MULTIPLIER>	1,000

<S>	<C>
<PERIOD-TYPE>	6-mos
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-END>	JUN-30-1998
<CASH>	48,989
<SECURITIES>	0
<RECEIVABLES>	533,302
<ALLOWANCES>	17,542
<INVENTORY>	584,051
<CURRENT-ASSETS>	1,224,298
<PP&E>	1,141,657
<DEPRECIATION>	524,840
<TOTAL-ASSETS>	2,071,608
<CURRENT-LIABILITIES>	535,153
<BONDS>	127,955
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	53,601
<OTHER-SE>	1,316,025
<TOTAL-LIABILITY-AND-EQUITY>	2,071,608
<SALES>	2,176,077
<TOTAL-REVENUES>	2,176,077
<CGS>	1,388,963
<TOTAL-COSTS>	1,388,963
<OTHER-EXPENSES>	588,757
<LOSS-PROVISION>	6,482
<INTEREST-EXPENSE>	3,297
<INCOME-PRETAX>	195,667
<INCOME-TAX>	79,245
<INCOME-CONTINUING>	116,422
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	116,422
<EPS-PRIMARY>	1.20
<EPS-DILUTED>	1.18

</TABLE>