Highlights

Thousands of dollars, except per share data

Years ended December 31	**1984**	1983	1982
Net sales	**$2,075,194**	$1,973,485	$1,851,776
Income before income taxes	**116,106**	101,212	76,431
Net income	**65,006**	55,412	42,931
Per common share:			
Net income—fully diluted	**2.80**	2.25	1.78
—primary	**2.84**	2.32	2.02
Cash dividends	**.76**	.60	.50
Book value	**17.94**	16.24	15.19
Average shares outstanding—fully diluted	**23,295,807**	24,739,788	24,527,846
—primary	**22,924,624**	23,819,619	20,903,326
Return on sales	**3.1%**	2.8%	2.3%
Return on common shareholders' equity	**17.6%**	16.6%	14.8%
Effective income tax rate	**44.0%**	45.3%	43.8%
Debt to capitalization	**29.5%**	32.1%	36.0%
Times interest earned	**8.0x**	6.8x	5.0x
Current ratio	**1.9 to 1**	2.0 to 1	2.2 to 1
R&D expenditures	**$11,077**	$10,136	$9,135
Advertising expenditures	**68,949**	61,358	51,764
Number of common shareholders of record	**9,777**	9,641	8,590
Number of employees	**19,437**	19,359	21,101

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To Our Shareholders:

In 1984, our earnings per common share increased to $2.84, primary, from $2.32 in 1983, and to $2.80, fully diluted, compared to $2.25. Net income increased 17 percent to $65,006,000, compared to $55,412,000 in the previous year. Net sales, at $2.08 billion, were up 5 percent compared to 1983's $1.97 billion. (Consolidated sales comparisons, excluding the November 1983 divestiture of our Container Division, were up 10 percent.) We came closer to our goal of 20 percent return on common shareholders' equity by earning 17.6 percent. This compares to 16.6 percent for 1983.

Overview of 1984

We improved our performance in 1984 despite operating problems in Gray Drug Fair and the Consumer Division. We are pleased with the Paint Stores Division's progress and the Automotive Aftermarket Division's performance. Both divisions improved sales and operating income through better marketing and operations, aided by a generally healthy economy.

The Paint Stores Division added 118 stores in 1984. To ensure these new stores and others to follow are equipped with adequate numbers of trained managers and sales professionals, the division established detailed hands-on training programs. Other division achievements included growth in both the wholesale and retail portions of their business and the smooth transfer of the Chemical Coatings Division's small and medium-sized business machine business to the Paint Stores Division's sales force to ensure paint service at local levels.

Gray Drug Fair's performance was disappointing. Operating income fell below last year's level as a result of their inability to maintain margins. As I said in last year's report, with their sales contributing as large a percentage of consolidated totals as they do—30 percent in 1984—operating income must be higher. Gray Drug Fair's record to date is not dissimilar to the Paint Stores Division's experience during the earlier stages of their turnaround.

In an effort to improve Gray's results, we appointed Mr. Carl A. Bellini to the position of president and general manager. He has demonstrated leadership in his previous position of group vice president for Gray Drug Fair and the Paint Stores Division, together with 28 years of experience in retailing. Another key appointment in the division was Mr. James P. Mastrian's promotion to vice president of marketing. Mr. Mastrian had been vice president and regional operations director of Gray's Atlantic Region.

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The Coatings Segment, with the exception of the Automotive Aftermarket Division, also fell short of expectations. The Consumer Division's performance was negatively impacted by the new transfer value arrangement with the Paint Stores Division. External sales did not meet expectations, except for Dutch Boy which outperformed the industry in gallonage. The division has begun an assessment of brands and product lines to determine operating and marketing strategies. A decision has been made to phase out the Baltimore line of architectural paint.

In May of 1984, we promoted Mr. Frank E Butler to the position of Consumer Division president and general manager. Mr. Butler, who joined the company in 1957, had been the division's vice president of operations. Mr. Richard D. Hardy, who has been with Sherwin-Williams for 20 years, became vice president of marketing.

Once again, the Automotive Aftermarket Division's operating profits were up compared to the previous year as the result of increased sales and cost efficiencies. We acquired the U.S. operations of Dupli-Color, a manufacturer and distributor of automotive coatings to the do-it-yourself customer.

The spirit and dedication of the Automotive Aftermarket Division was illustrated in November when the division's Richmond, Kentucky, plant presented a check to Len Ward, president and general manager. Mr. Ward accepted the check for $21,282.71 on behalf of the division. The contribution was accumulated from a fund created and shared by all employees when the plant exceeds productivity goals. Rather than keep the bonus, the plant employees contributed it as their "tangible appreciation for the opportunities given us. We want it added directly to the company profits."

Chemical Coatings Division strengthened its marketing function with the appointment of Mr. Richard E. Martin to vice president, marketing. Mr. Martin brings to the division extensive experience in industrial marketing. Chemical Coatings made improvements in sales and profits in 1984. The strength in the economy was of significant help. However, the restructuring of the marketing effort and introduction of new products helped external sales as well as sales through the Paint Stores Division.

The International Group experienced a fall-off in sales, primarily in the Caribbean. Devaluations in the region affected the group's operating profits. The Chemicals Division increased operating income even though sales were down slightly. This was accomplished through the curtailing of nonprofitable operations and increased physical volume. Chemicals Division remains for sale as we believe it will fare better under the management of a chemical manufacturer, and, also, we wish to redeploy the assets to our core businesses.

1985 and beyond

We believe the balance of the 1980's will be marked by economic uncertainty. Government budget deficits; high real interest rates; the strong dollar and its impact on the trade imbalance; and huge external debt for underdeveloped countries have not been resolved. We have positioned ourselves at Sherwin-Williams to grow in a more competitive, low-growth, low-inflation environment. Our products and services are targeted at basic consumer needs of shelter, transportation and health.

Ample opportunities for market share growth are available to our company. Cost-cutting, strong operating controls, increased manufacturing efficiency, aggressive advertising, and a strong relationship between quality of product and price will strengthen our effort to increase market penetration.

Population changes bode well for both Gray Drug Fair and the Paint Stores Division. By the year 2000, 9.5 million more people will enter the 65-years-and-older age segment, which should benefit our prescription business. Gray Drug Fair will continue to focus on its turnaround, growing sales through competitive promotion and improved merchandise mix.

Another demographic change is that "baby boomers" are now entering important consumer years. Ownership of property remains the cornerstone of free enterprise for this group of consumers, just as it was for their parents. We expect them to buy paint, wallcovering and associated products to refurbish and maintain their property. Our Paint Stores Division will expand aggressively with 150 new store openings per year for the next several years as the division pursues sales growth.

Acquisitions will be working-capital intensive, and we must have existing management expertise and familiarity with the potential acquisition.

In conclusion, we expect another year of strong competition and look forward to opportunities in coatings, home decorating products, and retail drug stores. We will continue to emphasize product quality, customer service, and improved distribution. We are confident that these efforts will result in continued profit improvement for our shareholders.

John G. Breen

John G. Breen, Chairman,
President, Chief Executive Officer
March 11, 1985

Sherwin-Williams at a glance by segment

		Principal Products	Major Markets
Paint Stores	Stores Division	Sherwin-Williams labeled architectural coatings and industrial finishes, wallcoverings, floorcoverings, window treatments, paint sundries, spray equipment.	Professional users (including painters, contractors, industrial maintenance and commercial accounts), do-it-yourselfers, small-to-medium-sized manufacturers of products requiring factory finish.
Drug Stores	Gray Drug Fair	Prescriptions, health and beauty aids, cosmetics, general merchandise.	General public.
Coatings	Consumer Division	Architectural finishes (under the Sherwin-Williams, Dutch Boy, Martin-Senour, Kem-Tone, and private brand labels), special purpose coatings, aerosol packaging, brushes, rollers, adhesives, labels, color cards.	Do-it-yourselfers, industrial and commercial maintenance accounts, painting contractors.
	Automotive Aftermarket Division	Automotive refinish products under Sherwin-Williams, Martin-Senour, Acme, Rogers, Aclose (factory-packed colors for Japanese cars) and *Dupli-Color* labels.	Automotive body shops, fleets, body builders.
	Chemical Coatings Division	Sherwin-Williams labeled industrial finishes for original equipment manufacturers.	Business machines, general products, forest products, transportation equipment, coil products, metal furniture, farm and off-road equipment manufacturers/finishers.
	International Group *Sherwin-Williams Canada* *Sherwin-Williams Mexico** *Sherwin-Williams Caribbean* *Sherwin-Williams Brazil** *(*unconsolidated)*	Architectural coatings, industrial and automotive repaint finishes, paint sundries and a variety of home decorative items.	Independent paint dealers, painting contractors, automotive body shops, commercial and industrial maintenance accounts, original equipment manufacturers and do-it-yourselfers.
Other	Chemicals Division	Organic intermediates, saccharin, antioxidants and corrosion inhibitors.	Plastics, rubber, food, pharmaceuticals and agricultural chemicals.

General business development—There were no material changes in the business conducted by the company during the latest fiscal year.

Raw materials and fuel supplies for all segments are generally available in sufficient quantities and from a variety of sources.

Environmental affairs—The company believes it is in substantial compliance with federal, state and local provisions regulating the discharge of materials into the environment. There are no material capital expenditures anticipated for environmental control facilities during the next year.

Customers and backlog—The loss of any single customer would not have a materially adverse effect on the business of the company or any segment. Backlog of orders is not significant in the business of any segment of the company.

Patents and licenses are not of material importance in the business of the company. However, a substantial part of the income of the International Group is derived from the license of technology, trademarks and trade names to other foreign companies.

Financial results of these segments are included on pages 8-9 of this report.

Number of employees is included on page 1 of this report.

Facilities are listed on page 31 of this report. The majority of the plants are owned by the company. The company believes that the various production facilities of the Coatings Segment are adequate to operate at a significantly higher volume than in 1984.

Research and development expenditures are described on page 20. Virtually all such activities were sponsored by the company rather than by customers.

Legal—The company is one of the named defendants in a civil suit filed in the Twelfth District Court by the State of Illinois involving a recycling operation, Cross Brothers, Pembroke, Illinois. The state is seeking various forms of relief under the Illinois Environmental Protection Act. The suit is in the initial stages of discovery.

The company, being one of 153 defendants in a civil suit filed by the United States against Seymour, Recycling Corporation et al, Seymour, Indiana, settled all claims made against the company in the amount of $184,000.

Distribution	Competition	Seasonality
Through 1,535 company-operated stores in 48 states.	Paint and wallpaper stores, mass marketers, home centers, independent hardware stores, hardware chains. Market is fragmented and highly price, quality and service competitive.	Seasonal with the major portion of sales occurring in the second and third quarters.
423 retail stores in Delaware, Florida, Indiana, Maryland, New York, Ohio, Pennsylvania, Virginia, West Virginia, and the District of Columbia.	Drug chains, food stores and mass marketers. Customers respond to merchandising, pricing and service.	Seasonal with approximately 29 percent of sales occurring in the fourth quarter.
The Stores Division, independent dealers, mass merchandisers, home centers.	More than 1,000 coatings manufacturers at regional and national level. Quality, service and price are main competitive factors.	Seasonal with the major portion of sales occurring in the second and third quarters.
70 Sherwin-Williams automotive branches, distributors and jobbers.	Division ranks among four major market leaders. Quality and service competitive.	Moderately seasonal.
Sherwin-Williams stores and direct sales.	Four major competitors with broad product offering and several small companies with niche products. Product technology, quality and service key competitive factors.	No significant seasonality.
Direct sales force, distributors and jobbers. Company-operated stores as follows: Mexico 75; Jamaica 12; Trinidad 5; Barbados 2; Puerto Rico 14.	Many competitors in each foreign market. Sherwin-Williams competitive position is significant only in Mexico and the West Indies. Price, service and quality sensitive.	No significant seasonality.
Direct sales representatives, distributors and warehouses.	Major chemical companies. Technology and price competitive.	No significant seasonality.

What your drugstore ought to be

Far more than an advertising slogan, "What your drugstore ought to be" is a simple way of telling customers that Gray Drug and Drugfair stores give them more of what they come to a drugstore for most often. More choice in the key categories of health and beauty aids with more kinds and sizes than our drugstore competition. More savings with low regular prices, special sales, and a thrifty private label product line of over 400 items. And a pharmacy dedicated to helpful service and programs that deliver the best in health care at a better cost. Finally, "What your drugstore ought to be" represents a goal and a commitment every employee of Gray Drug Fair seeks to live up to every day.

The proof is in the performance.

"The Proof is in the Performance" advertising program for Dutch Boy stresses product attributes such as exterior durability, interior washability, excellent hiding characteristics, and, most of all, consistent quality. The proof of Dutch Boy's performance lies in the experience of professional painters. They participate in this advertising program by sharing with the consumer their success stories in using Dutch Boy.

Ask Sherwin-Williams

The "Ask Sherwin-Williams" advertising and promotion program for our paint stores is targeted for homeowners, do-it-yourselfers, and the professional trade—including painting contractors, builders, plant owners, and architects. This comprehensive campaign emphasizes that Sherwin-Williams stores offer a product selection and knowledgeable service that both the professional and retail customer cannot find anywhere except Sherwin-Williams.

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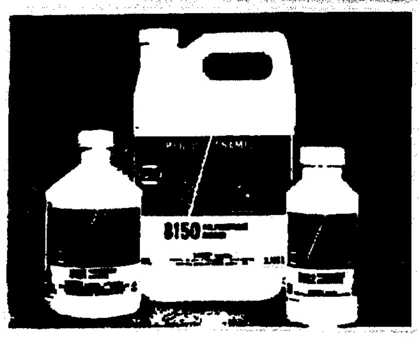
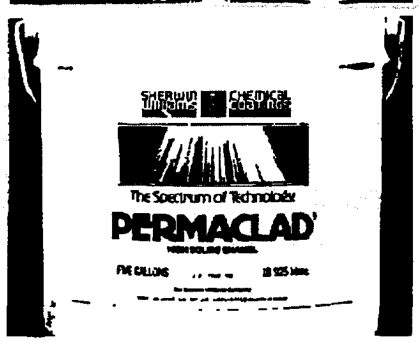




1984 Operating Review by Segment

Operating Highlights for 1984

Paint Stores

Stores Division

- Increased sales 17 percent and operating profits 94 percent. Accomplished this through more efficient advertising, expansion of store network, better trained sales force, and from a reduction in intersegment transfer value between this division and its largest internal supplier.
- Outpaced the industry in market share growth.
- Chemical coatings and industrial maintenance portions of the business had significant sales growth.
- Trained managers and sales representatives to prepare for rapid store network expansion.
- Remodeled 141 stores, opened 118, relocated 47, closed none.

Drug Stores

Gray Drug Fair

- Sales increased 8 percent but profits down due to inability to maintain margins.
- Expanded private label line.
- Began to expand merchandise assortment to emphasize higher-margin merchandise.
- Continued remerchandising or subletting remaining space from Drugfair's termination of apparel business.
- Remodeled 58 stores, opened 26, relocated 11, closed 5.

Coatings

Consumer Division

- Dutch Boy sales rose 13 percent. Operating profits less than management's goal due to a reduction in intersegment transfer value between Consumer and Paint Stores Divisions, backlog of inventory, and shortfall in external sales.
- Dropped unprofitable Baltimore line; began consolidating and reviewing thoroughly all product lines for market relevance and for operating and manufacturing efficiencies.

Automotive Aftermarket Division

- Expanded channels of distribution for four product lines—Sherwin-Williams, Martin-Senour, Acme, and Rogers.
- Successfully introduced improved passenger car refinish system and a new clear coat passenger car finish.
- Construction of resin manufacturing plant at Richmond, Kentucky site on schedule.
- Acquired the U.S. Dupli-Color operations.

Chemical Coatings Division

- Increased profits 10 percent. Sales up 4 percent.
- Restructured and strengthened marketing/sales functions and provided sales force with better training to become more marketing and service driven.

PRODUCTS
Left, top to bottom
Classic 99 latex matte flat interior provides a durable, high-hiding and washable protection.
Customers have more choice in the key categories of health and beauty aids with more kinds and sizes.
Recent nationwide consumer market research confirms that Dutch Boy has the highest total awareness and quality perception of all paint brands available to independent dealers.
Ureglo represents our newest technology for a premium polyurethane enamel specifically for overall passenger car refinishing.
Permaclad enables industrial finishers to comply with emission standards and cut costs in the process.

Developments for 1985

Paint Stores
Stores Division

- Spend more on advertising, emphasizing product quality and consistency, and promotional events
- Focus on shortening lead time for sales volume growth in new stores.
- Continue aggressive recruiting and training programs to ensure a consistent source of qualified personnel for aggressive store network expansion.
- Strengthen industrial maintenance and chemical coatings programs by adding markets and stressing distribution and knowledgeable service
- Remodel 140 stores, open 150, relocate 100, close none.

Drug Stores
Gray Drug Fair

- Grow sales through stronger, competitive promotion and improved merchandise mix: reduce SG&A costs as a percent of sales.
- Gain purchasing and distribution efficiencies through more opportunistic buying and customized distribution system.
- Place in-store pharmacy mini-computer in 100 stores
- Bring into operation new 150,000 square-foot warehouse in Florida
- Remodel 37 stores, open 45, relocate 7, close 5

Coatings
Consumer Division

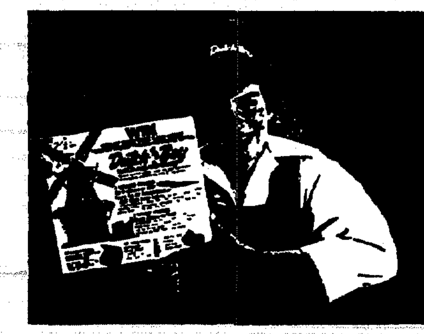
- Increase sales and operating profits by consolidating lines and pledging resources to fewer, key product lines, with Dutch Boy receiving particular support.
- Reemphasize formulation and manufacturing quality control standards.
- Expand private label business.
- Effect additional cost efficiencies in manufacturing and distribution through product line and facility changes.

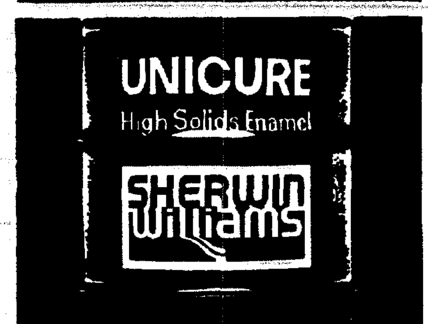
Automotive Aftermarket Division

- Greater sales to result from expanded distribution.
- Add to manufacturing/packaging capabilities.
- Expand Dupli-Color through new product introduction and aggressive distribution expansion

Chemical Coatings Division

- Gain market share in industrial finishing market through market segmentation program which focuses sales effort.
- Keep strong emphasis on training
- Remain responsive to Paint Stores Division's product quality and service needs.





PRODUCTS
Right, top to bottom
A-100 exterior flat latex house and trim offers a brighter whiteness and excellent hiding qualities.
We offer a wide variety of drugstore products at low regular prices and special sales.
He may not look it, but the Dutch Boy celebrated 75 years—as the symbol of quality—in 1984.
Our acrylic enamel basecoat/clearcoat system represents the most advanced automotive refinishing technology in the industry.
Unicure offers VOC compliance and cost-effectiveness. For metal coaters who want a textured finish, Unicure permits texturing without first baking the basecoat.

Business Segments

Thousands of dollars

Years ended December 31,		1984	1983	1982	1981	1980	1979	1978
Net External Sales	Paint Stores	**$ 850,051**	$ 724,374	$ 621,032	$ 615,434	$ 582,292	$ 585,312	$ 575,579
	Drug Stores	**623,317**	577,926	540,648	137,860			
	Coatings	**513,134**	484,503	490,894	554,378	465,740	414,300	385,932
	Other	**88,692**	186,682	199,202	229,135	215,689	196,731	170,839
	Segment totals	**$2,075,194**	$1,973,485	$1,851,776	$1,536,807	$1,263,721	$1,196,343	$1,132,350
Operating Income	Paint Stores	**$ 55,866**	$ 28,767	$ 13,842	$ 16,176	$ 7,805	$ 5,779	$ (14,076)
	Drug Stores	**82**	5,853	13,864	6,895			
	Coatings	**76,571**	89,067	77,728	56,597	45,059	39,066	40,046
	Other	**10,964**	10,479	11,354	7,822	23,562	16,247	21,879
	Segment totals	**143,483**	134,166	116,788	87,490	76,426	61,092	47,849
	Corporate expenses—net	**(10,843)**	(15,569)	(21,403)	(11,437)	(9,523)	(8,290)	(16,942)
	Interest expense	**(16,534)**	(17,385)	(18,954)	(18,332)	(18,552)	(19,366)	(21,318)
	Income before income taxes	**$ 116,106**	$ 101,212	$ 76,431	$ 57,721	$ 48,351	$ 33,436	$ 9,589
Identifiable Assets	Paint Stores	**$ 228,186**	$ 177,905	$ 143,665	$ 166,711	$ 159,342	$ 165,694	$ 179,390
	Drug Stores	**208,354**	203,347	175,859	172,734			
	Coatings	**304,986**	299,715	276,564	304,534	306,480	289,137	310,637
	Other	**43,041**	53,426	136,001	144,942	142,465	135,507	123,286
	Segment totals	**784,567**	734,393	732,089	788,921	608,287	590,338	613,313
	Corporate	**219,829**	205,450	156,178	75,517	160,305	121,396	40,486
	Consolidated totals	**$1,004,396**	$ 939,843	$ 888,267	$ 864,438	$ 768,592	$ 711,734	$ 653,799
Capital Expenditures	Paint Stores	**$ 16,401**	$ 7,163	$ 5,766	$ 9,889	$ 5,814	$ 1,388	$ 2,671
	Drug Stores	**13,140**	8,864	5,366	742			
	Coatings	**14,828**	11,742	8,947	9,949	6,194	3,267	9,804
	Other	**661**	1,487	6,413	19,781	10,107	5,959	3,764
	Segment totals	**45,030**	29,256	26,492	40,361	22,115	10,614	16,239
	Corporate	**2,348**	2,652	4,153	2,711	1,589	1,253	1,035
	Consolidated totals	**$ 47,378**	$ 31,908	$ 30,645	$ 43,072	$ 23,704	$ 11,867	$ 17,274
Depreciation	Paint Stores	**$ 6,927**	$ 5,716	$ 5,518	$ 5,853	$ 5,260	$ 5,226	$ 4,775
	Drug Stores	**3,348**	1,625	888	96			
	Coatings	**9,081**	8,204	8,093	8,331	8,463	8,171	8,268
	Other	**3,432**	6,699	6,589	6,099	5,483	5,230	4,883
	Segment totals	**22,788**	22,244	21,088	20,379	19,206	18,627	17,926
	Corporate	**2,131**	1,976	1,307	1,289	773	831	512
	Consolidated totals	**$ 24,919**	$ 24,220	$ 22,395	$ 21,668	$ 19,979	$ 19,458	$ 18,438
Operating Margin*	Paint Stores	**6.6%**	4.0%	2.2%	2.6%	1.3%	1.0%	(2.4%)
	Drug Stores	**—**	1.0%	2.6%	5.0%			
	Coatings	**9.6%**	11.8%	10.7%	6.9%	6.5%	6.2%	6.6%
	Other	**12.3%**	4.9%	5.0%	3.0%	9.4%	7.1%	11.0%
	Segment totals	**6.1%**	5.9%	5.5%	4.8%	5.0%	4.2%	3.5%

*The operating margin for each segment is based upon total external sales and intersegment transfers. Intersegment transfers are accounted for at values comparable to normal unaffiliated customer sales.

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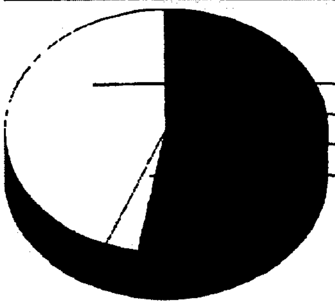
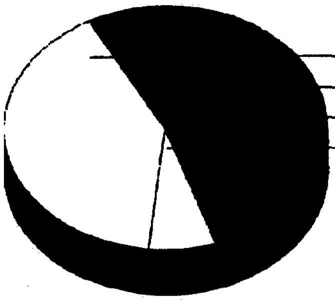
1984 Comparative Data



Net External Sales

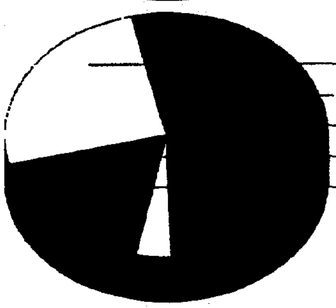
24 7

13



Operating Income

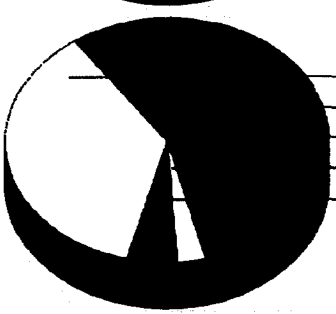
38 3



Identifiable Assets

30 4

21 9



Capital Expenditures

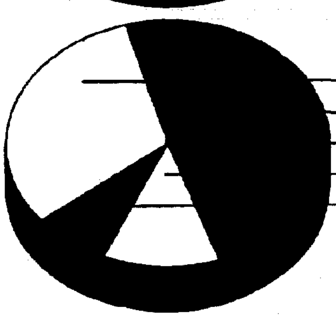
34 6%

27 7%

31 3%

1 4%

5 0%



Depreciation

27 8%

13 4%

36 4%

13 8%

8 6%

Notes to Segment Tables

The International Segment has been reclassified to the Coatings Segment. Additionally, part of the Coatings Segment, Sherwin-Williams Container Corporation, which was disposed of during November 1983 and the Chemicals Segment have been combined and retitled to represent the Other Segment designated in the segment table. These changes were made to facilitate a more accurate comparison of operations in the Paint Stores, Drug Stores and Coatings Segments which the company considers to be its three core businesses.

The Drug Stores Segment consists of the assets and operations of Gray Drug Stores, Inc., which was acquired during 1981, as well as additional drug stores purchased since that date.

In addition to capital expenditures, property, plant and equipment acquired by the Paint Stores, Drug Stores and Coatings Segments through acquisitions in 1984 totaled $9,605,000. Acquisitions for the Paint Stores and Drug Stores Segments during 1983 and 1982 totaled $1,733,000 and $2,960,000, respectively.

Operating income is total revenue, including realized profit on intersegment transfers, less operating costs and expenses. During 1984, a change in intersegment transfer values resulted in increased operating income for the Paint Stores Segment while the Coatings Segment operating income declined due to the effects of the reduced transfer values. Corporate expenses include significant provisions for disposition and termination of operations.

Identifiable assets by segment include both assets directly identified with those operations and an allocable share of jointly used assets. Corporate assets consist primarily of cash, investments, headquarters property, plant and equipment, and certain property under capital leases.

Export sales, sales of foreign subsidiaries and sales to any individual customer were each less than 10 percent of consolidated sales to unaffiliated customers during all years presented.

Effect of LIFO

Thousands of dollars	Year of Adoption	Decrease (Increase) in Operating Income 1984	1983	1982	1981	1980	1979
Paint Stores	1980	$(1,441)	$ 42	$1,707	$ 5,098	$ 8,720	–
Drug Stores	1981	4,547	5,163	4,149	3,620	–	–
Coatings	1980	4,247	(482)	1,626	12,825	12,110	–
Other	1979	(491)	(2,468)	(3,403)	1,882	5,373	$6 221
Segment totals		$ 6,862	$2,255	$3,978	$23,525	$26,203	$6,221

Intersegment Transfers

Thousands of dollars	Years ended December 31, 1984	1983	1982	1981	1980	1979	1978
Coatings	$286,950	$271,180	$232,450	$260,685	$228,569	$214,629	$218,107
All other segments	301	25,526	29,112	35 825	35,893	31,806	27 871
Segment totals	$287,251	$296,706	$261,562	$298,310	$264,462	$246,435	$245,978

Paint Stores

Drug Stores

Coatings

Other

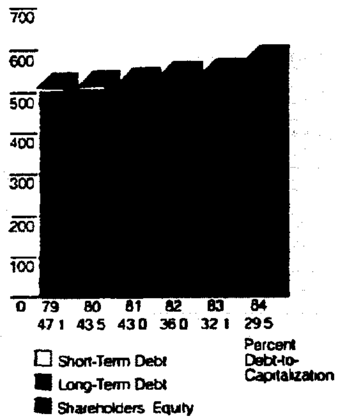
Corporate

Our business segments offer customers quality products such as those bearing the registered trademarks Dutch Boy®, Martin-Senour®, Kem-Tone®, Acme®, Rogers®, Glas-Clad®, Perma-Clad® and others. Other quality paint products are offered under the trademark SuperPaint™

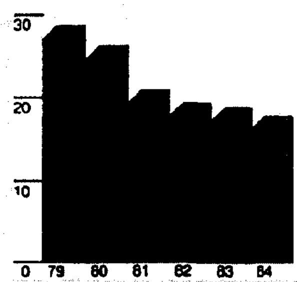
0007-SWP-035438

Management's Discussion and Analysis of Financial Condition and Results of Operations

Capitalization
Dollars in Millions



Working Capital as a % of Sales
Percent



Our Financial Objectives For The Future

Maintain a strong balance sheet for financial flexibility with a debt to total capitalization ratio (including capital leases) of 30 percent.

Utilize internally generated funds as our primary source of liquidity.

Achieve a return on common shareholders' equity of 20 percent.

Strive for a dividend payout ratio of 30 percent of trailing annual earnings.

1984

Cash Flow

- Our cash position has improved every year since 1979 with the exception of 1981—the year we acquired Gray Drug Fair.
- Cash increased by $5.8 million compared to 1983 even after we provided for a 48 percent increase in capital expenditures and the repurchase of 859,234 shares of common stock.
- Net cash flow provided by operations has enabled the company to fund its capital needs without external financing. However, in 1984 we did obtain $6.5 million of industrial revenue bond financing for the renovation of an existing facility into a research and development center.
- The company also uses external financing in Sherwin-Williams Development Corporation ("SWDC"), an unconsolidated real estate subsidiary, to purchase and develop properties to be leased to the Paint Stores Segment and others.

Working Capital

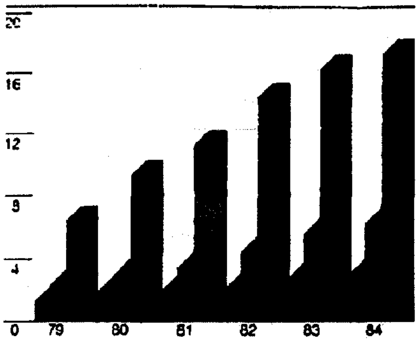
No Domestic Short-Term Borrowings Since 1979.

- The current ratio was 1.9 at the end of 1984; lower than 1983 primarily because of an increase in accounts payable.
- This ratio has been relatively stable since 1979.
- The current ratio on a FIFO basis would have been 2.1 in 1984, and 2.2 and 2.4 in 1983 and 1982, respectively.
- The company had no short-term borrowings during 1984 except for local currency borrowings of a foreign subsidiary for managing currency devaluation.
- The company's current cash position and anticipated future cash flow from operations should be sufficient to finance working capital needs.

Capital Expenditures/Acquisitions

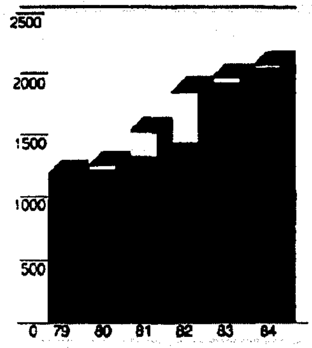
- Capital expenditures were $47.4 million in 1984 compared to $31.9 million in 1983, excluding fixed assets acquired through acquisitions of $9.6 million in 1984 and $1.7 million in 1983.
- This increase continues to be primarily attributable to the remodeling or adding to the number of paint and drug stores.
- Reported capital expenditures do not include SWDC expenditures, which were $11.8 million.
- SWDC has financed its real estate activities with revolving credit borrowings that are not guaranteed by the parent company.
- External financing is not anticipated for 1985 except for SWDC's real estate activities.

Return on Sales, Assets and Equity
Percent



■ Sales
■ Assets
■ Shareholders Equity

Internal/Acquisition Growth
Dollars in Millions



☐ Acquisitions Sales
■ Divestitures Sales
■ Internal Sales

Lines of Credit

- We have an unused line of credit with a group of eleven banks totaling $150 million. This credit agreement was entered into as of August 31, 1983, and expires August 31, 1988.
- No borrowings were outstanding under the credit agreement during the year.
- SWDC has a line of credit from a group of four banks for $50 million. The agreement was entered into as of December 22, 1983, and expires December 22, 1989. Borrowings under this agreement were $35 million at December 31, 1984, and $28 million at December 31, 1983.

Capital Structure

The Ratio Of Debt (Including Capital Leases) To Total Capitalization Was 29.5% At The End Of 1984 Compared To 32.1% At The End Of 1983. The Ratio Has Improved From 48.6% At December 31, 1978.

- Total debt (including capital leases) was $169.0 million at December 31, 1984, and $175.3 million at December 31, 1983. At December 31, 1978, total debt amounted to $253.1 million.
- The improvement in this ratio since 1978 resulted from improved profitability, debt repurchases, conversions of 6.25 percent debentures into common stock, and other reductions in long-term debt, offset to some extent by repurchases of our common stock.
- We repurchased 859,234 shares of common stock during 1984. Depending on our cash position and market conditions, we may repurchase additional shares of common stock in 1985 for general corporate purposes. In 1983, 1,123,074 shares were repurchased.

Interest/Fixed Charge Coverage

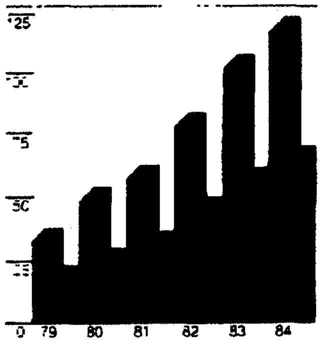
- We have improved our interest coverage to 8.0 times in 1984, from 6.8 times in 1983, and 5.0 times in 1982.
- Fixed charge coverage (coverage of rent expense and interest) has improved to 2.4 times, from 2.3 times in 1983, and 2.1 times in 1982 as a result of improved profitability and reduced interest costs.

Dividends

This Is The Sixth Consecutive Year We Have Increased The Dividend As A Result Of The Company's Improved Performance. The Dividend Has Increased At A Compounded Rate Of 35.3% Since 1979.

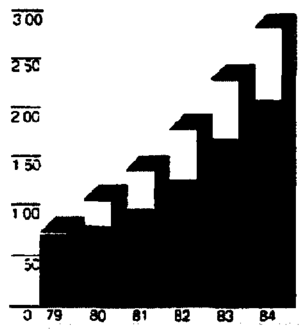
- The company's improved financial condition since 1978 allowed for the reinstatement of the dividend in 1979 at a quarterly rate of $.0375 per share and subsequent increases to a quarterly rate of $.19 per share during 1984.
- The board of directors, at a meeting held February 12, 1985, declared a dividend of $.23 per share, an increase of 21.1 percent from the 1984 level.

Pre-Tax Income/ After-Tax Income
Dollars in Millions



Pre-Tax
After-Tax

Earnings per Common Share
Dollars (Fully Diluted)



Dividends
Retained Earnings

Results of Operations

1984 vs. 1983

Net Sales

Net Sales Increased 5.2% In 1984. Excluding The Divested Container Corporation's 1983 Sales, The Increase Was 10.3%.

- Our sales increase represents volume gains while prices remained relatively stable. The increase resulted primarily from the Paint Stores Segment's sales increase of 17.3 percent compared to 1983. Increased promotional activities and additional store outlets created higher sales volume.
- The Drug Stores and Coatings Segments sales increased 7.9 percent and 5 9 percent, respectively.
- Sales gains were partially offset by a decline of 52.5 percent in sales of the Other Segment. This decline is principally due to the disposition of Sherwin-Williams Container Corporation in November 1983.

Gross Profit

- Gross profit margins increased to 34.8 percent in 1984 from 33.8 percent in 1983. Consolidated gross profit was $722.4 million in 1984 compared to $666.8 million in 1983, an increase of 8.3 percent.
- The improved gross profit is largely attributable to the Paint Stores Segment whose gross profit gains resulted from higher sales volume and related purchasing and distribution cost efficiencies. In addition, their gross profit was enhanced by a reduction in the transfer value on products supplied by the Coatings Segment.
- Gross profit gains recorded by the Paint Stores Segment were partially offset by declines in gross margin levels in the Drug Stores and Coatings Segments. The Drug Stores Segment gross margins have weakened because of the price effect of heavy promotions used to generate higher sales volume, distribution inefficiencies and increased inventory shrinkage. The Coatings Segment gross margin decline has resulted from costs associated with reducing inventories and the effect of reduced transfer values on products supplied to the Paint Stores Segment.

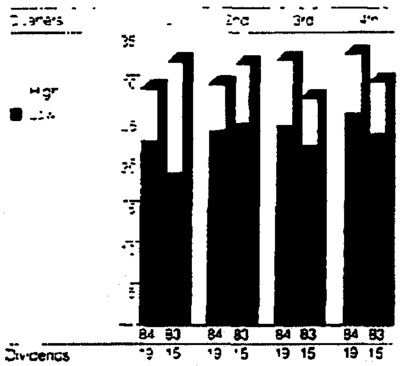
Selling, General and Administrative Expenses

- SG&A expenses increased $41.5 million compared to 1983 and increased as a percentage of sales to 28.9 percent from 28.3 percent in 1983.
- Increased SG&A expenditures were incurred by the Paint Stores Segment as a result of intensive promotional programs and the addition of new stores. The Drug Stores and Coatings Segments have also experienced higher operating costs and heavy advertising and promotion expenditures to support their sales gains.
- The increase in SG&A expense as a percentage of sales, compared to 1983, reflects the effects of the disposition of Sherwin-Williams Container Corporation whose selling, general and administrative expenses were a significantly lower percentage of sales.

Investment Income/Interest Expense

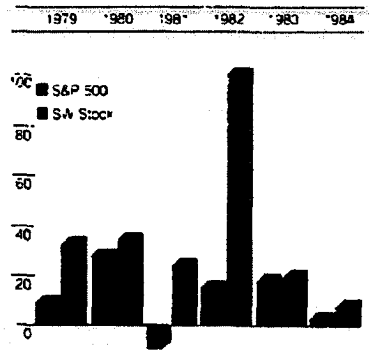
- Investment income increased from $10.4 million in 1983 to $12.4 million in 1984. Average investment levels were not significantly different from the prior year, but the average yield was higher.
- Interest expense declined $851 thousand to $16.5 million in 1984, reflecting the conversions of 6.25 percent debentures into common stock and other reductions in long-term debt.

Quarterly Common Stock Prices and Dividends



Sherwin-Williams Stock Performances Vs. S&P 500

Percent



Net Income

Net Income Increased 17.3% From 1983, And Fully Diluted Earnings Per Share Increased 24.4%.

- Net income for 1984 and 1983 includes provisions established for the disposition and termination of certain operations.
- The Paint Stores Segment was the main contributor to the profit increase, partially offset by reductions in the Coatings Segment's results due to the change in transfer value.
- The effective tax rate decreased to 44.0 percent from 45.3 percent in 1983, primarily as a result of increased investment tax credits and a reduction in state income taxes.

Effects of Inflation

- Supplementary information regarding the impact of inflation upon the company is presented on pages 26 and 27 of this report.

Results of Operations

1983 vs. 1982

Net Sales

- Consolidated net sales increased 6.6 percent during 1983 due primarily to improvements in the Paint Stores and Drug Stores Segments.
- Additional paint stores and drug stores resulting from new store openings and acquisitions contributed to the sales increases.
- Coatings Segment's lower sales reflect the deconsolidation of the company's Mexican subsidiary on January 1, 1983.
- The Other Segment's sales declines are primarily attributable to the disposition of a wholly-owned subsidiary during 1983.

Gross Profit

- Gross profit margins increased to 33.8 percent in 1983 from 31.9 percent in 1982.
- The Paint Stores Segment accounted for 54.1 percent of the increase in gross profit.
- The Drug Stores Segment's margins were lower than in 1982 due to distribution inefficiencies.
- The Coatings Segment improved its gross margins because of operating efficiencies and a more favorable product mix.

Selling, General and Administrative Expenses

- SG&A expenses increased as a percentage of sales to 28.3 percent from 27.4 percent in 1982. Higher advertising and promotional expenses in the Paint Stores Segment and higher operating costs in the Drug Stores Segment were the main contributors to the increase.
- Coatings Segment's expenses and other administrative costs increased only modestly because of continued emphasis on cost containment.

Investment Income/Interest Expense

- Although pre-tax interest and net investment income decreased modestly from $10.7 million in 1982 to $10.4 million in 1983, after-tax proceeds increased.
- Interest expense declined from $19.0 million in 1982 to $17.4 million in 1983 because of the 1982 exchange of debentures and continued conversions of 6.25 percent debentures for common stock.

Net Income

- Net income increased to $55.4 million, an increase of 29.1 percent from 1982.
- The Paint Stores and Coatings Segments made the major contributions to the profit increase due primarily to operating efficiencies resulting from higher sales volume.
- Net income for 1983 and 1982 includes provisions for disposition and termination of operations which, for 1982, were partially offset by the gain on exchange of debentures for common stock.

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Financial Summary

Millions of dollars, except per share data

Years ended December 31,	1984	1983	1982	1981	1980	1979	1978
Operations							
Net sales	**$ 2,075**	$ 1,973	$ 1,852	$ 1,537	$ 1,264	$ 1,196	$ 1,132
Cost of goods sold	**1,353**	1,307	1,261	1,070	868	829	795
Selling, general and administrative expenses	**599**	558	507	402	344	323	312
Interest expense	**17**	17	19	18	19	19	21
Income before income taxes	**116**	101	76	57	48	33	10
Income taxes	**51**	46	33	26	23	16	5
Net income	**65**	55	43	31	25	17	5
Net cash flow provided by operations	**74**	56	84	7	79	104	(9)
Financial Position							
Inventories	**$ 338**	$ 332	$ 299	$ 335	$ 237	$ 242	$ 244
Accounts receivable—net	**157**	141	133	132	131	126	135
Working capital	**344**	340	331	297	312	323	317
Property, plant and equipment—net	**221**	199	228	240	211	204	210
Total assets	**1,004**	940	888	864	769	712	654
Long-term debt	**169**	175	196	230	213	234	242
Common shareholders' equity	**404**	370	334	284	263	243	243
Total shareholders' equity	**404**	371	349	305	287	268	268
Per Common Share Data							
Average number of shares outstanding (thousands)	**22,925**	23,820	20,903	19,817	19,535	21,164	21,594
Book value per common share—fully diluted	**$ 17.77**	$ 15.92	$ 14.66	$ 13.80	$ 12.91	$ 12.31	$ 11.25
—primary	**17.94**	16.24	15.19	14.34	13.38	12.50	11.25
Net income per common share—fully diluted	**2.80**	2.25	1.78	1.36	1.06	.72	.18
—primary	**2.84**	2.32	2.02	1.53	1.22	.78	.18
Cash dividends declared per common share	**.76**	.60	.50	.40	.30	.0375	—
Financial Ratios							
Return on sales	**3.1%**	2.8%	2.3%	2.0%	2.0%	1.5%	.4%
Asset turnover	**2.1x**	2.2x	2.1x	1.9x	1.7x	1.8x	1.8x
Return on assets	**6.5%**	5.9%	4.8%	3.6%	3.2%	2.5%	.8%
Return on common shareholders' equity—fully diluted (A)	**17.3%**	15.4%	13.4%	10.2%	8.5%	6.1%	1.8%
—primary (A)	**17.6%**	16.6%	14.8%	11.6%	9.8%	6.8%	1.8%
Dividend payout ratio	**26.5%**	25.1%	25.0%	26.1%	24.6%	4.3%	—
Debt to capitalization	**29.5%**	32.1%	36.0%	43.0%	43.5%	47.1%	48.6%
Current ratio	**1.9 to 1**	2.0 to 1	2.2 to 1	2.0 to 1	2.3 to 1	2.9 to 1	3.8 to 1
Times interest earned (B)	**8.0x**	6.8x	5.0x	4.2x	3.6x	2.7x	1.5x
Working capital as a percentage of sales	**16.6%**	17.2%	17.9%	19.3%	24.7%	27.0%	28.0%
Effective income tax rate	**44.0%**	45.3%	43.8%	45.6%	48.6%	47.7%	47.8%
General							
Capital expenditures	**$ 47**	$ 32	$ 31	$ 43	$ 24	$ 12	$ 17
Research and development expenditures	**11**	10	9	10	9	7	7
Advertising expenditures	**69**	61	52	43	29	21	26
Provision for depreciation and amortization	**25**	24	22	22	20	19	18
Number of shareholders:							
Preferred	**—**	40	557	750	855	951	991
Common	**9,777**	9,641	8,590	8,858	8,688	9,796	10,611
Number of employees	**19,437**	19,359	21,101	23,507	16,808	16,872	18,015
Sales per employee	**$106,765**	$101,941	$87,758	$65,377	$75,186	$70,907	$62,856
Sales per dollar of assets	**2.07**	2.10	2.08	1.78	1.64	1.68	1.73

(A) Based on common shareholders' equity at beginning of year.
(B) Ratio of pre-tax income before interest expense to interest expense.
This summary should be read in conjunction with the financial statements and notes on pages 16-29 of this report.

0007-SWP-035443

Report of Management

Shareholders
The Sherwin-Williams Company

We have prepared the accompanying consolidated financial statements and related information included herein for the years ended December 31, 1984, 1983 and 1982. The opinion of Ernst & Whinney, the company's independent auditors, on those financial statements is included. The primary responsibility for the integrity of the financial information included in this annual report rests with management. This information is prepared in accordance with generally accepted accounting principles, based upon our best estimates and judgments and giving due consideration to materiality.

The company maintains accounting and control systems which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and which produce records adequate for preparation of financial information. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should not exceed the benefits to be derived. We believe our system provides this appropriate balance.

The board of directors pursues its responsibility for these financial statements through the Audit Committee, composed exclusively of outside directors. The committee meets periodically with management, internal auditors and our independent auditors to discuss the adequacy of financial controls, the quality of financial reporting and the nature, extent and results of the audit effort. Both the internal auditors and independent auditors have private and confidential access to the Audit Committee at all times.

J G Breen

J. G. Breen,
Chairman, President,
Chief Executive Officer

T A Commes

T. A. Commes,
Senior Vice President, Finance
Chief Financial Officer

J E Wallace

J. E. Wallace,
Vice President, Corporate Controller
Chief Accounting Officer

Report of Ernst & Whinney, Independent Auditors

Shareholders and Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We have examined the consolidated financial statements of The Sherwin-Williams Company and subsidiaries listed in Item 14(a) of the Index on page 33. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements listed in Item 14(a) of the Index present fairly the consolidated financial position of The Sherwin-Williams Company and subsidiaries at December 31, 1984, 1983 and 1982, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio
February 11, 1985

Ernst & Whinney

0007-SWP-035444

Statements of Consolidated Income

Thousands of dollars, except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31,	1984	1983	1982
Net sales	**$2,075,194**	$1,973,485	$1,851,776
Costs and expenses:			
Cost of goods sold	**1,352,800**	1,306,712	1,260,732
Selling, general and administrative expenses	**599,115**	557,643	507,188
Interest expense	**16,534**	17,385	18,954
Interest and net investment income	**(12,419)**	(10,361)	(10,664)
Gain on exchange/purchase of debentures	**—**	—	(5,091)
Other	**3,058**	894	4,226
	1,959,088	1,872,273	1,775,345
Income before income taxes	**116,106**	101,212	76,431
Income taxes	**51,100**	45,800	33,500
Net income	**$ 65,006**	$ 55,412	$ 42,931
Net income per common share:			
Fully diluted	**$ 2.80**	$ 2.25	$ 1.78
Primary	**$ 2.84**	$ 2.32	$ 2.02

See notes to consolidated financial statements.

0007-SWP-035445

Consolidated Balance Sheets

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

December 31,	1984	1983	1982
Assets			
Current assets			
Cash and short-term investments	**$ 166,233**	$160,407	$139,464
Accounts receivable, less allowance	**157,486**	141,356	133,260
Inventories:			
Finished goods	**301,795**	294,305	250,803
Work in process and raw materials	**35,978**	37,600	48,505
	337,773	331,905	299,308
Other current assets	**48,020**	42,866	45,596
Total current assets	**709,512**	676,534	617,628
Other assets	**73,739**	64,426	42,235
Property, plant and equipment			
Land	**9,558**	9,247	9,676
Buildings	**108,313**	112,579	126,183
Machinery and equipment	**309,065**	279,243	307,809
Construction in progress	**11,702**	7,362	5,058
	438,638	408,431	448,726
Less allowances for depreciation and amortization	**217,493**	209,548	220,322
	221,145	198,883	228,404
Total assets	**$1,004,396**	$939,843	$888,267
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	**$ 183,938**	$161,953	$138,443
Compensation and taxes withheld	**48,726**	50,913	46,346
Current portion of long-term debt	**11,760**	13,089	10,017
Other accruals	**97,098**	90,486	73,455
Accrued taxes	**23,737**	20,418	18,156
Total current liabilities	**365,259**	336,859	286,417
Long-term debt	**168,878**	175,307	196,220
Deferred income taxes	**29,489**	26,069	29,824
Other long-term liabilities	**36,630**	30,638	26,974
Shareholders' equity			
Capital stock:			
Serial preferred	**—**	386	5,521
Common	**25,852**	158,364	73,552
Other capital	**145,402**	6,220	12,728
Retained earnings	**305,175**	257,527	279,103
Cumulative foreign currency translation adjustment	**(12,530)**	(11,741)	(9,987)
	463,899	410,756	360,917
Treasury stock, at cost	**(59,759)**	(39,786)	(12,085)
Total shareholders' equity	**404,140**	370,970	348,832
Total liabilities and shareholders' equity	**$1,004,396**	$939,843	$888,267

See notes to consolidated financial statements.

Statements of Changes in Consolidated Financial Position

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

Years ended December 31,	1984	1983	1982
Cash provided by (used for) operations:			
Net income	**$ 65,006**	$ 55,412	$ 42,931
Non-cash charges (credits) to net income:			
Depreciation and amortization	**24,919**	24,220	22,395
Equity in losses of affiliates	**5,020**	—	—
Noncurrent deferred income taxes	**3,420**	(3,755)	34
Gain from exchange of common stock for debentures	**—**	—	(5,091)
Disposition of noncurrent assets	**4,125**	5,044	9,157
Amortization of intangible assets	**2,633**	2,325	1,860
Decrease in current items	**7,814**	17,036	36,512
Capital expenditures	**(47,378)**	(31,908)	(30,645)
Obligations under capital leases	**(2,248)**	(4,158)	(4,320)
Other	**11,017**	(8,528)	11,029
Net cash flow provided by operations	**74,328**	55,688	83,862
Cash invested, distributed and other:			
Increase in current items from business acquisitions	**(6,566)**	(4,557)	(8,646)
Noncurrent assets from business acquisitions	**(16,372)**	(6,190)	(6,911)
Cash dividends	**(17,211)**	(14,077)	(11,313)
Sales (repurchases) of treasury stock	**(20,669)**	(29,013)	2,262
Investment in Canadian joint venture	**(14,137)**	—	—
Net book value of noncurrent assets associated with disposal of subsidiary	**—**	17,336	—
Sales of property to unconsolidated subsidiary	**1,045**	—	10,070
Common stock issued in exchange for debentures	**—**	—	8,622
Debentures acquired from exchange of common stock, net of gain	**—**	—	(8,243)
Other	**5,408**	1,756	(7,769)
Cash invested, distributed and other	**(68,502)**	(34,745)	(21,928)
Net increase in cash and short-term investments	**5,826**	20,943	61,934
Cash and short-term investments:			
Beginning of the year	**160,407**	139,464	77,530
End of the year	**$166,233**	$160,407	$139,464
Decrease (increase) in current items:			
Accounts receivable	**$ (16,130)**	$ (8,096)	$ (1,086)
Inventories	**(5,868)**	(32,597)	35,582
Other current assets	**(5,154)**	2,730	(8,570)
Accounts payable	**21,985**	23,510	(15,539)
Compensation and taxes withheld	**(2,187)**	4,567	3,616
Current portion of long-term debt	**(1,329)**	3,072	4,428
Other accruals	**6,612**	17,031	(2,835)
Accrued taxes	**3,319**	2,262	12,270
Decrease in current items	**$ 1,248**	$ 12,479	$ 27,866

See notes to consolidated financial statements.

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Statements of Consolidated Shareholders' Equity

Thousands of dollars

	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance at January 1, 1982	$ 7,545	$ 69,806	$ 2,393	$247,485	$ (2,922)	$(19,287)
Treasury stock sold	–	–	582	–	–	1,401
Common stock issued	(2,024)	3,746	6,932	–	–	–
Net income	–	–	–	42,931	–	–
Cash dividends declared:						
Series A preferred stock–$4.00 per share	–	–	–	(249)	–	–
Series B preferred stock–$4.40 per share	–	–	–	(552)	–	–
Common stock–$.50 per share	–	–	–	(10,512)	–	–
Exchange of stock for debentures	–	–	2,821	–	–	5,801
Current year translation adjustment	–	–	–	–	(7,065)	–
Balance at December 31, 1982	5,521	73,552	12,728	279,103	(9,987)	(12,085)
Two-for-one stock split	–	74,782	(12,824)	(61,958)	–	–
Treasury stock acquired/retired	(78)	–	–	(30)	–	(28,905)
Common stock issued	(5,057)	10,030	6,316	(923)	–	1,204
Net income	–	–	–	55,412	–	–
Cash dividends declared:						
Series A preferred stock–$4.00 per share	–	–	–	(102)	–	–
Series B preferred stock–$1.10 per share	–	–	–	(107)	–	–
Common stock–$.60 per share	–	–	–	(13,868)	–	–
Current year translation adjustment	–	–	–	–	(1,754)	–
Balance at December 31, 1983	386	158,364	6,220	257,527	(11,741)	(39,786)
Treasury stock acquired/retired	(13)	–	–	(18)	–	(20,638)
Common stock issued	(373)	2,310	4,360	(129)	–	665
Net income	–	–	–	65,006	–	–
Cash dividends declared:						
Series A preferred stock–$1.00 per share	–	–	–	(11)	–	–
Common stock–$.76 per share	–	–	–	(17,200)	–	–
Reduction in par value of common stock	–	(134,822)	134,822	–	–	–
Current year translation adjustment	–	–	–	–	(789)	–
Balance at December 31, 1984	$ –	$ 25,852	$145,402	$305,175	$(12,530)	$(59,759)

See notes to consolidated financial statements.

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Years ended December 31, 1984, 1983 and 1982

Note 1—Significant Accounting Policies

Consolidation. The consolidated financial statements include all significant subsidiaries. Inter-company accounts and transactions have been eliminated.

Short-term investments. Short-term investments are stated at the lower of aggregate cost or market value.

Property, plant & equipment. Property, plant and equipment is stated on the basis of cost. Depreciation is provided principally by the straight-line method. The major classes of assets and ranges of depreciation rates are as follows:

Buildings	2% - 6⅔%
Machinery and Equipment	4% - 20%
Furniture and Fixtures	5% - 20%
Automobiles and Trucks	10% - 33⅓%

Intangibles. Intangible assets purchased in business acquisitions are amortized over the expected period of benefit.

Research and development costs. All research and development costs are charged to operations, and were $11,077,000, $10,136,000, and $9,135,000, for 1984, 1983 and 1982, respectively.

Net income per common share. Fully diluted net income per common share was computed based on the average number of shares outstanding assuming the conversion of the preferred stock and 6.25% Convertible Subordinated Debentures (after adding to net income interest on the debentures net of income taxes) and the exercise of dilutive stock options. Primary net income per common share was computed based on the average number of common shares and common share equivalents outstanding during the year after adjusting net income for dividend requirements of the preferred stock.

Foreign Currency Translation. The financial statements of foreign entities have been translated to U.S. dollars in accordance with Financial Accounting Standards Board (FASB) Statement No. 52, "Foreign Currency Translation." Under that statement, all balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of shareholders' equity.

Note 2—Acquisitions

The company has purchased the assets of various retail drug and paint stores consisting primarily of inventory and other assets. Additionally, during 1984, the company purchased, through a wholly-owned subsidiary, substantially all the assets of a paint manufacturer. Total cost of these acquisitions was approximately $22,938,000, $10,747,000, and $15,807,000 in 1984, 1983, and 1982, respectively. The results of operations of these businesses since the dates of acquisition were not material to consolidated results.

Note 3—Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on the last-in, first-out (LIFO) method which provides a better matching of current costs and revenues. The following presents the effect on inventories, net income and net income per common share had the company used the FIFO and average cost methods of inventory valuation adjusted for income taxes at the statutory rate and assuming no other adjustments. This information is presented to enable the reader to make comparisons with companies using the FIFO method of inventory valuation.

Thousands of dollars, except per share data	Years ended December 31, **1984**	1983	1982
Percentage of total inventories on LIFO	99%	99%	95%
Excess of FIFO and average cost over LIFO	$62,287	$55,425	$56,953
Reduction of net income due to LIFO	3,705	1,218	2,148
Reduction of net income per common share due to LIFO	.16	.05	.10

During each year certain inventories were reduced. These reductions resulted in liquidations of LIFO inventories carried at the lower costs of prior years, as compared with current year costs. The effect of these liquidations increased net income by approximately $838,000 ($.04 per common share), $2,208,000 ($.10 per common share), $3,144,000 ($.15 per common share) in 1984, 1983 and 1982, respectively. The disposal of a wholly-owned subsidiary reduced the excess of FIFO and average cost over LIFO in 1983.

Note 4—Disposition of Wholly-Owned Subsidiary

During November 1983 the company received for its wholly-owned subsidiary, Sherwin-Williams Container Corporation, cash and other securities approximating net book value. This subsidiary, whose operations have been included in the company's Other Segment, was engaged in the manufacture of round paint cans, as well as oblong and aerosol cans. A summary of the assets and liabilities transferred is as follows:

Thousands of dollars	
Current assets	$26,356
Property, plant and equipment—net	35,885
Current liabilities	(10,148)
Other assets and liabilities—net	(48)
	$52,045

The following data reflects the operating results of this subsidiary which have been included in the company's consolidated statements of income for 1983 and 1982:

Thousands of dollars	Eleven months ended November 30, 1983	Year ended December 31, 1982
Net sales	$ 92,809	$103,211
Operating income	1,828	3,086
Net income	1,000	1,734

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Note 5—Income Taxes

Thousands of dollars	Years ended December 31, **1984**	1983	1982
The components of income before income taxes consist of the following			
Domestic	$113,067	$ 96,798	$67,978
Foreign	3,039	4,414	8,453
Total income before income taxes	$116,106	$101,212	$76,431
The components of income tax expense are as follows			
Current			
Federal	$ 39,439	$ 41,024	$27,597
State and Local	6,100	7,200	4,600
Foreign	1,219	1,573	6,014
	46,758	49,797	38,211
Deferred:			
Federal	4,349	(3,973)	(4,471)
Foreign	(7)	(24)	(240)
	4,342	(3,997)	(4,711)
Total income tax expense	$ 51,100	$ 45,800	$33,500

The company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting, relating primarily to depreciation and other valuation allowances. It is the company's intention to reinvest undistributed earnings of foreign subsidiaries; accordingly, no deferred income taxes have been provided thereon. At December 31, 1984, such undistributed earnings amounted to approximately $1,500,000.

Investment tax credits (accounted for by the flow-through method) aggregated $2,655,000, $1,641,000, and $3,102,000, for 1984, 1983 and 1982, respectively.

The source and deferred tax effect of timing differences is as follows:

Thousands of dollars	Years ended December 31, **1984**	1983	1982
Depreciation	$ 5,047	$ 4,640	$ 3,921
Provision for disposition and termination of operations	(612)	(2,609)	(7,090)
Revenue recognized on installment sale basis	790	(4,063)	(72)
Other items (each less than 5% of the computed "expected" tax amount)	(883)	(1,965)	(1,470)
	$ 4,342	$(3,997)	$(4,711)

A reconciliation of the statutory federal income tax rate and the effective tax rate follows:

	Years ended December 31, **1984**	1983	1982
Statutory tax rate	46.0%	46.0%	46.0%
Effect of:			
State and local taxes	2.8	3.8	3.3
Investment tax credit	(2.3)	(1.6)	(4.1)
Foreign tax credit	—	(.1)	(3.2)
Foreign operations subject to varying income tax rates	(.3)	(.4)	5.5
Permanent differences where the tax bases of certain assets and liabilities differ from their bases for financial reporting purposes	(2.4)	(2.3)	(2.5)
Gain from the exchange of common stock for debentures	—	—	(3.1)
Other—net	.2	(.1)	1.9
Effective tax rate	44.0%	45.3%	43.8%

Note 6—Retirement Benefits

Substantially all employees of the company who meet certain requirements as to age and service participate in noncontributory pension plans. The company generally funds pension costs accrued.

Effective January 1, 1984, the company established a defined contribution pension plan for designated salaried employees hired on or after that date. Additionally, the company's salaried employees' retirement plan (a defined benefit pension plan) was amended to enable participating employees to make an irrevocable election to transfer into a defined contribution pension plan on July 1, 1984, and receive full credit for their respective accrued benefits in this defined benefit plan.

Pension expense for all company-sponsored plans, which for certain defined benefit pension plans includes normal cost, interest on unfunded prior service costs and amortization of unfunded prior service costs over a period of 10 to 30 years, was $2,615,000, $13,248,000, and $15,713,000 for 1984, 1983 and 1982, respectively. Pension expense declined by $14,133,000 during 1984 primarily as a result of amortizing, over a period of 10 years, the effects of the modification to the salaried employees' retirement plan, along with changes in that plan's actuarial assumptions relating to the actuarial method and rate of return on investments. This decline was partially offset by $3,500,000 of expense related to the newly established defined contribution pension plans. The reduction in pension expense during 1983 resulted primarily from favorable fund management experience and a reduction in the number of employees.

In addition, the company contributed approximately $912,000, $1,166,000, and $1,095,000 to various multi-employer union retirement plans in 1984, 1983 and 1982, respectively. The company is presently unable to determine its respective share of either the accumulated plan benefits or net assets available for benefits under the union plans.

Actuarial information for the company's defined benefit pension plans as of the latest valuation date is presented below:

Thousands of dollars	January 1, **1984**	1983	1982
Actuarial present value of accumulated plan benefits:			
Vested	$210,676	$214,912	$201,290
Non-Vested	9,570	13,169	11,965
	$220,246	$228,081	$213,255
Net assets available for benefits	$339,151	$300,070	$247,876
Weighted average assumed rate of return on accumulated plan benefits	8.5%	8.0%	8.0%

In addition to providing pension benefits, the company provides certain health care and life insurance benefits under company-sponsored plans for retired employees. Substantially all of the company's employees who are not members of a collective bargaining unit are eligible for these benefits upon retirement. The cost of these benefits for both active and retired employees is recognized as claims are incurred and amounted to $24,583,000 for the year ended December 31, 1984. As of December 31, 1984, there were 14,093 active employees and 3,915 retired employees entitled to receive benefits under these plans.

Note 7—Long-Term Debt

Thousands of dollars	Due Date	Sinking Fund/ Prepayments Amount	Sinking Fund/ Prepayments Commence	Amount in Treasury December 31, 1984	1983	1982	Amount Outstanding Net of Treasury December 31, 1984	1983	1982
5.45% Debentures	1992	$2,000	Payable currently	$ 9,896	$11,896	$13,896	$ 16,104	$ 16,104	$ 16,104
6.25% Convertible Subordinated Debentures (Convertible into common stock at $11.50 a share)	1995	2,000	Payable currently	11,521	13,521	15,521	3,334	5,265	13,325
9.45% Debentures	1999	2,000	Payable currently	6,665	8,665	10,665	33,335	33,335	33,335
9.375% Promissory Notes	1996	3,325	Payable currently	—	—	—	36,700	40,025	43,350
10% Promissory Notes	1998	2,997	Payable currently	—	—	—	39,006	42,003	45,000
5.25% to 11.875% Industrial Revenue Bonds	Through 2009	Varies	Payable currently	—	—	—	15,109	8,829	8,989
9.25% Promissory Notes, $6,500 principal amount less unamortized discount on imputed interest rate of 16.5%	1986	1,300	Payable currently	—	—	—	1,197	2,364	3,427
8.90% Promissory Notes, $12,000 principal amount less unamortized discount based on imputed interest rate of 16.5%	1992	1,200	Payable currently	—	—	—	6,732	7,597	8,478
8.125% Mortgage Note, $6,225 principal amount less unamortized discount based on imputed interest rate of 16%, monthly payments of $53	2002	—	—	—	—	—	4,143	4,281	4,350
Obligations under capital leases—less current portion of $2,482 in 1984, $3,726 in 1983 and $3,651 in 1982							13,218	15,704	19,862
				$28,082	$34,082	$40,082	$168,878	$175,307	$198,220

Certain covenants under the note agreements require the company to maintain specified levels of working capital, limit the incurrence of debt, lease obligations and investments and restrict the payment of dividends and other distributions on the company's stock. The company may, at any time, issue stock dividends or pay dividends on any outstanding shares of preferred stock under the terms of the note agreements. At December 31, 1984, approximately $107,681,000 was available for cash dividends on common stock.

During 1982 the company exchanged 766,450 common shares held in treasury for $13,334,000 principal amount of 5.45% and 9.45% debentures, resulting in a gain of approximately $5,091,000 ($.25 per common share).

The company has sufficient debentures in treasury to satisfy most sinking fund requirements on public debenture issues through 1988. Maturities of long-term debt, exclusive of capital lease obligations and after the above-mentioned reduction for sinking fund requirements to be satisfied from debentures on deposit with the trustee, are as follows for the next five years:

1985—$ 9,278,000
1986—$ 9,409,000
1987—$ 8,116,000
1988—$ 9,631,000
1989—$10,415,000

Interest expense on long-term debt amounted to $15,784,000, $16,812,000, and $18,274,000 for 1984, 1983 and 1982, respectively. There were no interest charges capitalized during the periods presented.

Under a credit agreement with a group of eleven banks, the company may borrow up to $150,000,000 until August 31, 1988. Amounts outstanding under the agreement may be converted into five-year term loans at any time. The credit agreement includes certain restrictive covenants regarding working capital levels and the working capital ratio. There are no compensating balance requirements. At December 31, 1984, there were no borrowings outstanding under this credit agreement.

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Note 8—Leases

The company leases stores, warehouses, office space and equipment. Renewal options are available on the majority of leases and, under certain conditions, options exist to purchase properties. In some instances, store leases require the payment of contingent rentals based on sales in excess of specified minimums. Certain properties are subleased with various expiration dates.

Property, plant, and equipment includes the following amounts for capital leases, which are amortized by the straight-line method over the lease term:

Thousands of dollars	1984	December 31, 1983	1982
Buildings	$ 9,745	$11,790	$15,703
Machinery and Equipment	11,241	12,371	12,662
	20,986	24,161	28,365
Less allowance for amortization	15,521	16,174	16,556
	$ 5,465	$ 7,987	$11,809

Rental expense for all operating leases was $72,813,000, $61,425,000, and $52,244,000 for 1984, 1983 and 1982, respectively. Contingent rentals included in rent expense were $11,899,000 in 1984, $10,975,000 in 1983, and $8,745,000 in 1982. Sublease rental income for all years presented was not significant.

Following is a schedule, by year and in the aggregate, of future minimum lease payments under capital leases and noncancelable operating leases having initial or remaining terms in excess of one year at December 31, 1984:

Thousands of dollars	Capital Leases	Operating Leases
1985	$ 5,588	$ 42,317
1986	3,635	37,394
1987	2,600	30,808
1988	2,379	25,106
1989	2,186	19,022
Later years	11,649	80,445
Total minimum lease payments	28,037	$235,092
Amount representing interest	(10,792)	
Executory costs	(1,545)	
Present value of net minimum lease payments	$15,700	

Note 9—Capital Stock

	Shares in Treasury: Cumulative Convertible Preferred Stock: $4.00 Series A	Shares in Treasury: Cumulative Convertible Preferred Stock: $4.40 Series B	Shares in Treasury: $1.00 Common Stock	Shares Outstanding Net of Treasury: Cumulative Convertible Preferred Stock: $4.00 Series A	Shares Outstanding Net of Treasury: Cumulative Convertible Preferred Stock: $4.40 Series B	Shares Outstanding Net of Treasury: $1.00 Common Stock
Balance at January 1, 1982	281	2,200	2,538,092	67,194	142,713	19,799,888
Stock issued upon:						
Exercise of stock options	—	—	—	—	—	218,160
Conversion of preferred stock	—		—	(9,444)	(47,532)	369,346
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	—	—	611,118
Treasury stock sold	—	—	(959,724)	—	—	959,724
Balance at December 31, 1982	281	2,200	1,578,368	57,750	95,181	21,958,236
Stock issued upon:						
Exercise of stock options	—	—	(143,000)	—	—	342,262
Redemption of preferred stock	—	—	—	—	(5,155)	—
Conversion of preferred stock	—	—	—	(47,157)	(90,026)	901,659
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	—	—	700,763
Treasury stock acquired/retired	90	(2,200)	1,123,074	(90)	—	(1,123,074)
Balance at December 31, 1983	371	—	2,558,442	10,503	—	22,779,846
Stock issued upon:						
Exercise of stock options	—	—	(37,000)	—	—	316,389
Redemption of preferred stock	—	—	—	(845)	—	—
Conversion of preferred stock	—	—	—	(9,658)	—	66,629
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	—	—	167,839
Contribution to PAYSOP	—	—	(49,976)	—	—	49,976
Treasury stock acquired/retired	(371)	—	859,234	—	—	(859,234)
Balance at December 31, 1984	—	—	3,330,700	—	—	22,521,445

The company called for redemption all outstanding shares of Series A preferred stock effective April 23, 1984; and Series B preferred stock effective April 15, 1983. The redemption prices were $100 per share plus accrued dividends. Substantially all outstanding shares were converted into common stock by the redemption dates. Shares of the Series A and Series B preferred stock were convertible at base conversion prices of $14.4827 and $15.625 per share of common stock, respectively, based on a value of $100 per share of preferred stock for this purpose.

An aggregate of 2,168,363, 2,125,157, and 4,103,678 shares of common stock at December 31, 1984, 1983 and 1982, respectively, were reserved for conversion of preferred stock and convertible subordinated debentures, and exercise and future grants of stock options. During April 1984 the shareholders approved an amendment to the Amended Articles of Incorporation reducing the par value of the common stock from $6.25 per share to $1.00 per share. Additionally, the authorized number of shares of common stock was increased from 50,000,000 shares to 100,000,000 shares, and the authorized number of shares of preferred stock was increased from 1,500,000 shares to 30,000,000 shares.

Note 10—Stock Purchase and Stock Option Plans
Currently 6,621 employees participate through regular payroll deductions in the company's Employee Stock Purchase and Savings Plan. The company's contribution charged to operations amounted to approximately $7,236,000, $5,921,000 and $4,720,000 for 1984, 1983 and 1982, respectively. Additionally, the company made contributions on behalf of participating employees, which represent salary reductions for income tax purposes, amounting to $3,898,000 in 1984, $2,990,000 in 1983 and $958,000 in 1982.

During 1983 the company established The Sherwin-Williams Company Payroll Based Stock Ownership Plan ("PAYSOP"). Under this PAYSOP, substantially all company employees not covered by a collective bargaining agreement are eligible to participate equally in the Plan. The company's contribution to the PAYSOP of approximately $1,310,000 for 1984 and $1,204,000 for 1983 resulted in corresponding reductions of applicable income tax liabilities.

At December 31, 1984, there were 3,892,597 shares of the company's common stock being held by these employee plans, representing approximately 17% of the total number of common shares outstanding. Shares of company stock credited to each member's account under these plans are voted by the trustee under confidential instructions from each individual plan member.

Non-qualified and incentive stock options have been granted to certain officers and key employees under the company's stock option plans, at prices not less than fair market value of the shares at date of grant. The options generally become exercisable to the extent of one-third of the optioned shares for each full year of employment following the date of grant and expire ten years after date of grant. Options granted to certain officers in 1979 under related employment contracts carry substantially the same terms as options granted under the stock option plans.

A stock appreciation rights plan and a plan providing for purchases of restricted stock by eligible employees were approved by the shareholders in 1984; however, no rights have been granted under these plans.

	1984		1983		1982	
	Shares	Aggregate Price	Shares	Aggregate Price	Shares	Aggregate Price
Stock Option Plans:						
Options outstanding beginning of year	916,452	$10,331,000	1,076,240	$ 9,031,000	1,103,200	$8,141,000
Granted	176,500	4,678,000	217,850	4,631,000	348,000	3,518,000
Exercised	(280,989)	(2,425,000)	(220,762)	(1,645,000)	(218,160)	(1,484,000)
Canceled	(81,206)	(1,334,000)	(156,876)	(1,686,000)	(156,800)	(1,144,000)
Options outstanding end of year	730,757	$11,250,000	916,452	$10,331,000	1,076,240	$9,031,000
Exercisable	244,747		223,198		154,640	
Reserved for future grants	1,110,564		605,858		666,832	
Employee contracts:						
Options outstanding beginning of year	72,500	$ 380,000	194,000	$ 1,012,000	194,000	$1,012,000
Exercised	(35,400)	(185,000)	(121,500)	(632,000)	–	–
Options outstanding end of year	37,100	$ 195,000	72,500	$ 380,000	194,000	$1,012,000

Note 11—Unconsolidated Real Estate Subsidiary
Sherwin-Williams Development Corporation ("SWDC") is a wholly-owned unconsolidated subsidiary carried on the equity basis. This subsidiary owns, develops and leases real estate for the company and others. The majority of the square footage owned by SWDC is leased to unrelated parties. Under a revolving credit agreement, the subsidiary may borrow up to $50,000,000 until December 22, 1989. Borrowings under this agreement may be converted to a six-year term loan at any time on or before December 22, 1989. The Sherwin-Williams Company has not guaranteed this debt; however, the company and SWDC have a maintenance agreement that requires the company to make payments to SWDC in amounts sufficient to maintain SWDC's fixed charge coverage at specified minimum levels.

Summarized financial data for SWDC is as follows:

Thousands of dollars	December 31, 1984	1983	1982
Property, plant and equipment—net	$46,976	$36,458	$17,247
Other assets	904	131	70
	$47,880	$36,589	$17,317
Long-term debt	$36,955	$29,932	$13,020
Other liabilities	9,534	4,917	2,553
Equity	1,391	1,740	1,744
	$47,880	$36,589	$17,317

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Note 12—Quarterly Data (Unaudited)

Quarterly Common Stock Prices and Dividends

1984	Quarter	High	Low	Dividend	1983	Quarter	High	Low	Dividend
	1st	$28½	$22¼	$.19		1st	$31¾	$18¼	$.15
	2nd	29	23⅝	19		2nd	31⅝	24¼	15
	3rd	32	24	19		3rd	27⅜	21¾	15
	4th	32⅝	25½	.19		4th	29⅛	23	.15

Summary of Quarterly Results of Operations

Thousands of dollars, except per share data					Per Common Share	
Year	Quarter	Net Sales	Gross Profit	Net Income	Fully Diluted	Primary
1984	1st	$463,917	$151,072	$ 4,995	$ .21	$ .22
	2nd	557,285	197,611	25,567	1.09	1.11
	3rd	552,472	194,254	25,343	1.10	1.11
	4th	501,520	179,457	9,101	.40	.40
1983	1st	438,656	129,743	2,219	.09	.09
	2nd	535,264	179,957	22,769	.91	.93
	3rd	530,172	183,521	23,114	.93	.95
	4th	469,393	173,552	7,310	.31	.31

1984

The actuarial valuations determining pension plan costs for the 1984 plan year were received during the third quarter of 1984. These valuations resulted in a reduction of the estimated pension expense used by the company in the first two quarters. The effect of this adjustment increased third quarter net income by $3,180,000 ($.14 per common share). This adjustment was substantially offset by provisions for the restructuring of certain operations in order to better establish sales and distribution efficiencies which resulted in a reduction in third quarter net income of $2,800,000 ($.12 per common share).

Fourth quarter adjustments increased net income by $6,482,000 ($.29 per common share). This increase was due primarily to year-end inventory adjustments of $7,290,000 ($.32 per common share) which were partially offset by net adjustments to other reserves and allowances.

1983

The actuarial valuations determining pension plan costs for the 1983 plan year were received during the third quarter of 1983. These valuations resulted in a reduction of the estimated pension expense used by the company in the first two quarters. The effect of this adjustment increased third quarter net income by $1,275,000 ($.05 per common share).

Fourth quarter adjustments increased net income by approximately $2,916,000 ($.12 per common share). The adjustments included a provision of $4,178,000 ($.18 per common share) for the disposition and termination of certain operations offset primarily by inventory adjustments and other adjustments related to higher-than-estimated gross margins.

Note 13—Stock Split

During February 1983 the company's board of directors authorized a two-for-one split of the common stock outstanding effected in the form of a 100% stock dividend payable during March 1983. The par value of the additional shares of common stock issued in connection with this stock split was credited to common stock and a like amount charged to other capital and retained earnings.

Note 14—Business Segments

Business segment information appears on pages 4, 5, 8 and 9 of this report.

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Note 15—Disposition and Termination of Operations
The company is continually reevaluating its operating facilities with regard to the long-term strategic goals established by management and the board of directors. Operations which are not expected to contribute to the company's future plans are discontinued.

Summarized below is the financial data related to the decision to close or sell certain plants and operating units. Inventory, property, plant and equipment, and other assets have been reduced to their net realizable values, while the related costs for severance pay, shutdown expenses and estimated future operating losses to disposal date are included in current liabilities. The company expects to complete the closing and sale of the facilities at various dates through 1986.

Thousands of dollars	**1984**	1983	1982
Beginning accrual—January 1	$31,539	$33,738	$19,773
Provision included in cost of goods sold	3,350	4,520	16,371
Provision included in costs and expenses—other	1,987	3,951	7,892
Total provision	5,337	8,471	24,263
Actual costs incurred and adjustments to prior accruals	(6,172)	(10,670)	(10,298)
Ending accrual—December 31	$30,704	$31,539	$33,738
Net after-tax provision	$ 2,882	$ 4,574	$13,102
Net after-tax provision per common share	$ .13	$ .19	$ .63

Note 16—Inflation Accounting (Unaudited)
In accordance with generally accepted accounting principles, financial statements have traditionally reported amounts reflecting historical costs which, especially during periods of high inflation, represent dollars of varying purchasing power and may not adequately reflect the effect of inflation on a business. Consistent with the requirements of FASB Statement No. 33, as amended, a supplemental statement of consolidated income based on current cost data is presented herein to reflect the effect of changing prices on our primary financial statements. Adjustments have been made to estimate the effect of changing prices of inventory, property, plant and equipment, and the related expenses of cost of goods sold, and depreciation expense.

The major impact of inflation on inventory is currently recognized in the primary financial statements through the use of the LIFO method of inventory valuation. Accordingly, only minor adjustments are required in the supplemental statements. However, historical depreciation expense based on the historical cost of assets understates the cost of replacing capital equipment at current prices. This higher cost is not presently reflected in the primary financial statements, and accounts for the majority of the supplemental statement adjustment. Because these additional costs are not currently deductible for income tax purposes, no adjustment of income tax expense has been made which results in a higher effective tax rate on a current cost basis. The supplemental statement also does not reflect the operating efficiencies expected to be generated from new assets which would at least partially offset the increased depreciation expense. In addition, the company would not necessarily replace the productive capacity which currently exists.

These calculations involve a substantial number of management judgments and estimating techniques which have been employed to maintain a reasonable cost of accumulating the data. We believe the results may be a reasonable approximation insofar as they express overall trends in costs and reduced purchasing power; however, the data is experimental and imprecise and is not indicative of the present or future economic condition of the company. In addition, because of varying assumptions and estimates used by each company, we believe comparisons with other companies and industries should be used with caution. This data is not currently used for internal management evaluations and decisions.

Current Cost Data
The current cost data represents the current cost of the assets of the company, reflecting specific price changes of the assets. The current cost of the majority of the company's plant and equipment was determined based upon externally generated indices, including the Consumer Price Index for all Urban Consumers (CPI-U), of the major classes of assets. Depreciation expense is based on the current cost of plant and equipment during the year, and assumes the same depreciation methods as those employed in the primary financial statements.

Purchasing Power Gain
The purchasing power gain on net monetary liabilities reflects the theoretical repayment of monetary liabilities in excess of monetary assets with dollars having a lesser value than at the beginning of the year. This amount represents an unrealized gain which benefits the company in terms of purchasing power by maintaining the net monetary liabilities position.

0007-SWP-035455

Supplemental Statement of Consolidated Income

For the year ended December 31, 1984, in average 1984 dollars *Thousands of dollars, except per share data*	Conventional Historical Cost 1984	Current Cost Data 1984
Net sales	$2,075,194	$2,075,194
Cost and expenses		
Cost of goods sold	1,352,800	1,363,733
Selling, general and administrative expenses	599,115	605,907
Interest expense	16,534	16,534
Interest and net investment income	(12,419)	(12,419)
Other	3,058	3,058
Income before income taxes	116,106	98,381
Income taxes	51,100	51,100
Net income	$ 65,006	$ 47,281
Net income per common share	$ 2.84	$ 2.06
Gain from decline in purchasing power of net amounts owed		$ 6,132
Increase in specific prices of inventories and property, plant and equipment held during the year		$ 27,993
Effect of increase in general price level		(14,866)
Increase in specific prices over increase in the general price level		$ 13,127

Depreciation and amortization expense of $41,092,000 on a current cost basis has been allocated between cost of goods sold and selling, general and administrative expenses, consistent with the presentation in the primary financial statements.

Cost of goods sold has been adjusted for changes in inventory costs in addition to depreciation and amortization expense. Selling, general and administrative expenses have been adjusted only for depreciation expense. The current cost of net inventory and net property, plant and equipment at December 31, 1984, was approximately $405,719,000 and $331,256,000, respectively. The current cost of inventory exceeded the LIFO cost of inventory at December 31, 1984, by $67,946,000.

Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices

Average 1984 dollars, except historical data *Thousands of dollars, except per share data*	Years ended December 31, 1984	1983	1982	1981	1980
Net sales:					
Historical cost	$2,075,194	$1,973,485	$1,851,776	$1,536,807	$1,263,721
Constant dollar	2,075,194	2,057,555	1,992,829	1,755,250	1,593,063
Dividends declared per common share:					
Historical cost	.76	.60	.50	.40	.30
Constant dollar	.76	.63	.54	.46	.38
Market price per common share at year-end:					
Historical cost	28.00	26.25	22.00	11.00	8.88
Constant dollar	27.61	26.91	23.41	12.16	10.70
Average consumer price index	311.1	298.4	289.1	272.4	246.8
Net income:					
Historical cost	$65,006	$55,412	$42,931	$31,385	$24,864
Current cost	47,281	38,253	19,404	9,879	6,726
Net income per common share:					
Historical cost	2.84	2.32	2.02	1.53	1.22
Current cost	2.06	1.60	.90	.44	.28
Total net assets:					
Historical cost	404,140	370,970	348,832	305,020	286,876
Current cost	574,036	561,896	599,975	586,574	579,205
Increase in the general price level over (under) increase in specific prices	(13,127)	11,639	4,850	8,079	(3,228)
Gain from decline in purchasing power of net amounts owed	6,132	6,641	10,166	17,811	24,711

Constant dollar data reflects historical costs adjusted for the effect of general inflation based on the CPI-U.

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Note 17—Financial Schedules

Marketable Securities (10-K, Schedule I)

The marketable securities at December 31, 1984 consist of:

Thousands of dollars	
Repurchase agreements	$ 80,940
Municipal securities	33,190
Mutual funds	19,680
Other securities	32,423
Total	$166,233

Amounts Receivable From Related Parties (10-K, Schedule II)

Included in other assets were the following notes receivable from certain officers of the company:

Thousands of dollars

Debtor	Beginning Balance	Additions	Deductions	Ending Balance
1984				
J. G. Breen	$ 560	$ —	$ —	$ 560
T. A. Commes	160	—	—	160
C. A. Bellini	160	—	—	160
	$ 880	$ —	$ —	$ 880
1983				
J. G. Breen	$ —	$ 560	$ —	$ 560
T. A. Commes	—	160	$ —	160
C. A. Bellini	—	160	$ —	160
	$ —	$ 880	$ —	$ 880

Each of these outstanding amounts represent 5.0% Promissory Notes, due July 28, 1988, with interest payable annually. There were no amounts reportable under this Rule for 1982.

Property, Plant and Equipment (10-K, Schedule V and VI)

Property, plant and equipment classifications are disclosed in the balance sheet. Additions and retirements of property, plant and equipment were as follows:

Thousands of dollars	Years ended December 31, **1984**	1983	1982
Balance—beginning of year	$408,431	$448,726	$436,929
Total additions at cost	47,378	31,908	30,645
Assets acquired through acquisitions	9,605	1,733	2,960
Total retirements at cost	(14,276)	(9,326)	(5,873)
Sales to unconsolidated subsidiary	(1,689)	—	(10,439)
Disposal of wholly-owned subsidiary		(59,909)	—
Other changes	(10,811)	(4,701)	(5,496)
Balance—end of year	$438,638	$408,431	$448,726

The above changes in property, plant and equipment, except for total additions and the disposal of a wholly-owned subsidiary, each constitute less than 10 percent of the ending balance of the period.

Other changes for all years presented consist primarily of capitalized leases, the translation of foreign assets to U.S. dollars, and the sale of property to various Canadian companies.

Total accumulated depreciation and amortization of property, plant and equipment were as follows:

Thousands of dollars	Years ended December 31, **1984**	1983	1982
Balance—beginning of year	$209,548	$220,322	$196,661
Total charged to expense	24,919	24,220	22,395
Sales to unconsolidated subsidiary	(407)	—	(369)
Retirements	(9,900)	(6,590)	(4,442)
Disposal of wholly-owned subsidiary	—	(24,024)	—
Other changes	(6,667)	(4,380)	6,077
Balance—end of year	$217,493	$209,548	$220,322

Other changes for all years presented consist primarily of capitalized leases, reserves for the disposition and termination of operations and the sale of property to various Canadian companies.

Valuation and Qualifying Accounts and Reserves (10-K, Schedule VIII)

Changes in the allowance for doubtful accounts are as follows:

Thousands of dollars	Years ended December 31, **1984**	1983	1982
Beginning balance	$ 3,350	$ 2,556	$ 2,422
Bad debt expense	10,321	4,900	3,658
Net uncollectible accounts written off	(9,912)	(4,106)	(3,524)
Ending balance	$ 3,759	$ 3,350	$ 2,556

Activity related to other long-term liabilities:

Thousands of dollars	Years ended December 31, **1984**	1983	1982
Beginning balance	$30,638	$26,974	$15,050
Charged to expense	(901)	7,508	12,155
Reserve additions (deductions)	6,893	(3,844)	(231)
Ending balance	$36,630	$30,638	$26,974

Charges to other long-term liabilities consist primarily of adjustments to the estimated year-end liability for pensions, deferred compensation, and other items. Reserve additions and deductions consist primarily of balance sheet reclassifications.

Short-Term Borrowings (10-K, Schedule IX)

Thousands of dollars	Years ended December 31, **1984**	1983	1982
Notes payable to banks at December 31	$ 149	—	$ 168
Weighted average interest rate at December 31	22.5%	—	51.0%
Maximum amount outstanding at any month-end	$ 758	—	$ 1,996
Average amount outstanding during the period	$ 422	—	$ 248
Weighted average interest rate during the period	22.0%	—	20.0%

Short-term borrowings are included in accounts payable on the balance sheet and pertain solely to foreign subsidiaries.

The average amount outstanding is the total of month-end outstanding balances divided by twelve months.

The weighted average interest rate is the actual interest on short-term debt divided by average short-term debt outstanding.

Supplementary Income Statement Information (10-K, Schedule X)

Thousands of dollars	Years ended December 31, 1984	1983	1982
Maintenance and repairs	$24,103	$29,593	$28,000
Advertising costs	68,949	61,358	51,764

Amounts for depreciation and amortization of intangible assets, preoperating costs and similar deferrals, taxes other than payroll and income taxes, and royalties are not presented because such amounts are each less than 1% of total net sales.

Exhibit Index

Computation of Net Income Per Common Share (Exhibit 11, Form 10-K)

Thousands of dollars, except per share data

	December 31, 1984	1983	1982
Fully Diluted			
Average shares outstanding	22,631,886	23,121,202	20,903,326
Options—treasury stock method	298,730	710,000	792,628
Assumed conversion of:			
Series A preferred stock	18,018	153,493	425,598
Series B preferred stock	—	127,622	780,390
6.25% Convertible Subordinated Debentures	347,173	627,471	1,625,904
Average fully diluted shares	23,295,807	24,739,788	24,527,846
Net income	$65,006	$55,412	$42,931
Less preferred dividend requirements	(A)	(A)	(A)
Add 6.25% Convertible Subordinated Debentures interest net of tax	165	292	619
Net income applicable to fully diluted shares	$65,171	$55,704	$43,550
Net income per common share	$2.80	$2.25	$1.78
Primary			
Average shares outstanding	22,831,886	23,121,202	20,903,326
Options—treasury stock method	292,938	698,417	(B)
Average shares and equivalents	22,924,824	23,819,619	20,903,326
Net income	$65,006	$55,412	$42,931
Less preferred dividend requirements	11	209	801
Net income applicable to common shares	$64,995	$55,203	$42,130
Net income per common share	$2.84	$2.32	$2.02

(A) Assumed conversion of preferred into common shares.

(B) Inclusion would not cause significant dilution.

0007-SWP-035458

Board of Directors

James A. Attwood, 57
Chairman and Chief Executive Officer
Mutual Life Insurance Company

Keith S. Benson, 66
Retired, formerly Executive Vice President, Finance and Administration
Ogelbay Norton Company

John G. Breen, 50
Chairman, President and Chief Executive Officer
The Sherwin-Williams Company

D. Wayne Calloway, 49
President and Chief Operating Officer
PepsiCo, Incorporated

Thomas A. Commes, 42
Senior Vice President, Finance
The Sherwin-Williams Company

William J. De Lancey, 68
Retired, formerly Chairman and Chief Executive Officer
Republic Steel Corporation
(LTV Steel Company)

Robert C. Doban, 60
Senior Vice President, Science and Technology
Owens-Corning Fiberglas Corporation

Allen C. Holmes, 64
National Managing Partner
Jones, Day, Reavis & Pogue, attorneys

J. Robert Kilpack, 62
President
National City Corporation

William G. Mitchell, 54
President
Centel Corporation

Ralph E. Schey, 60
Chairman and Chief Executive Officer,
The Scott & Fetzer Company

Executive Officers

John G. Breen, 50
Chairman, President and Chief Executive Officer

Thomas A. Commes, 42
Senior Vice President, Finance

F. Thomas Krotine, 43
Senior Vice President, Corporate Research and Development

William B. Eldredge, 56
Group Vice President

Alan D. Childs, 54
Vice President and General Counsel and Corporate Secretary

Conway G. Ivy, 43
Vice President, Corporate Planning and Development

Arthur D. Maine, 45
Vice President, Human Resources

Robert A. Tschannen, 62
Vice President, Facilities and Administrative Services

James E. Wallace, 51
Vice President, Corporate Controller

Thomas R. Miklich, 37
Treasurer

Francis C. Piccirillo, 35
Assistant Secretary and Corporate Director of Taxes

Division Managers

Carl A. Bellini, 51
President & General Manager, Gray Drug Fair

Frank E. Butler, 48
President & General Manager, Consumer Division

Joseph M. DeVittorio, 50
President & General Manager, Chemical Coatings Division

Maximiliano Duarte, 51
Vice President
International Group

David I. Fuente, 39
President & General Manager, Stores Division

Ashok K. Nanda, 42
President & General Manager, Chemicals Division

Leonard A. Ward, 58
President & General Manager, Automotive Aftermarket Division

Shareholder Information

Annual Meeting
The annual meeting of shareholders will be held at 10:00 a.m., April 24, 1985, at Bond Court Hotel, Cleveland, Ohio.

Headquarters
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115
(216) 566-2000

Stock Trading
Sherwin-Williams Common Stock—Symbol, SHW—is traded on the New York Stock Exchange.

Trustees
5.45% Debentures
9.45% Debentures
AmeriTrust Company N.A.
Cleveland, Ohio

6.25% Convertible Subordinated Debentures
Central National Bank of Cleveland
Cleveland, Ohio

Transfer Agent & Registrar
AmeriTrust Company N.A.
Cleveland, Ohio

Independent Auditors
Ernst & Whinney
Cleveland, Ohio

Investor Relations
Dianne McCormick
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115

Dividend Reinvestment Program
A dividend reinvestment program is available to shareholders of common stock. For information, contact Investor Relations office as described above.

The Sherwin-Williams Company seeks and employs the best qualified people available—without regard to the race, religion, color, creed, sex, national origin, handicap, or age of any person.

COMMON STOCK TRADING STATISTICS

	1984	1983	1982	1981	1980
High	$32⅝	$31¼	$24⅞	$11⅞	$10⅛
Low	22⅛	18¼	9⅛	8⅛	5⅞
Close 12/31	28	26¼	22	11	8⅞
Shares traded	11,808,400	14,633,300	12,016,400	7,042,400	10,728,000
% of average outstanding shares	52%	64%	57%	38%	55%
Number of common shareholders of record	9,777	9,641	8,590	8,858	8,688

Directory of Operations

Subsidiaries

Brazil—Sherwin-Williams do Brasil Industria e Comercio Ltda., São Paulo*
Canada—Sherwin-Williams Canada Inc., Montreal
Rubberset Company Canada (1980) Inc., Toronto
Mexico—Compañia Sherwin-Williams, S.A. de C.V., Mexico City*
Caribbean—Sherwin-Williams Cayman Islands Ltd., Grand Cayman*
—The Sherwin-Williams Co. Resources Limited, Kingston, Jamaica
—Sherwin-Williams (Caribbean) N.V., Curaçao
—Sherwin-Williams (West Indies) Ltd., Kingston, Jamaica
—Sherwin-Williams (Barbados) Ltd., Bridgetown, Barbados

USA—Sherwin-Williams Development Corporation*
—Contract Transportation Systems Co.
—Gray Drug Fair, Inc.
—The Marshall Drug Company
—Gray Drug Stores, Inc.
—GDF, Inc.
—Drug Way Stores, Inc.
—Drug Fair, Inc.
—Drug Fair of Pa., Inc.
—CTS Brokerage, Inc.
—Calumet Paint Company

*Unconsolidated

Joint Ventures

Canada—BAPCO, Toronto
Ecuador—Sherwin-Williams del Ecuador Fabrica National de Pinturas, S.A., Guayaquil
Ireland—F.S.W. Coatings Limited, Dublin
F.S.W. Paints Ltd., Dublin
Japan—Nippon Sherwin-Williams Chemicals Co., Ltd., Osaka
Panama—Sherwin-Williams de Panama S.A., Panama City
Saudi Arabia—Sherwin-Williams Saudi Arabia Ltd., Jeddah

Licensees

Argentina—Sherwin-Williams Argentina Industrial y Commercial, S.A.
—National Lead, S.A.
Bolivia—Fábrica Nacional de Pinturas "Espintbol," S.A.
Chile—Pinturas Andina, S.A.
Colombia—Fábrica Nacional de Pinturas, S.A.
Costa Rica—Sherwin-Williams de Costa Rica, S.A.
Dominican Republic—Acabados Automotrices, S.A.
El Salvador—Sherwin-Williams de Centro America, S.A. de C.V.
France—Astral, S.A.
—Corsain, S.A.
Haiti—Peintures Idéales, S.A.
Honduras—Sherwin-Williams de Honduras, S.A. de C.V.
India—Garware Paints, Ltd.
Italy—Vercolac, S.p.A.
Japan—Atom Chemical Paint, Ltd.
—Nippon Paint Company, Ltd.
—Dai Nippon Toryo Co., Ltd.

Lebanon—Amer Paints Trading Establishments
—Universal Paint and Chemical Industries S.A.R.L. "CHEMIPAINT"
Netherlands—Sikkens Groep, N.V.
Peru—Sherwin-Williams Peruana, S.A.
Philippines—Sherwin-Williams, Philippines, Inc.
Puerto Rico—Enco Manufacturing Corporation
South Africa—Advanced Coatings PTY, Ltd.
Spain—Industrias Quimicas Procolor, S.A.
—Coatings Caribbean, S.A.
—Barnices Valentine, S.A.
Switzerland—Kurt Vogelsang, A.G.
Taiwan (R.O.C.)—Eastern Paint Co., Ltd.
Thailand—Bangkok China Paint Mfg. Co. Ltd.
United Kingdom—Macpherson Industrial Coatings, Ltd.
Venezuela—C.A. Quimica Integrada
—C.A. Venezolana de Pigmentos
—C.A. Venezolana de Pinturas
West Germany—Deutsche Akzo Coatings GmbH

Plants

COATINGS			CHEMICALS	INTERNATIONAL
Anaheim, CA	Deshler, OH	Morrow, GA	Chicago, IL	Guayaquil, Ecuador
Baltimore, MD	Elk Grove, IL	Newark, NJ	Cincinnati, OH	Jeddah, Saudi Arabia
Bedford Heights, OH	Garland, TX	North Olmsted, OH	Coffeyville, KS	Kingston, Jamaica
Chicago, IL	Gravenhurst, Canada	Oakland, CA	Fords, NJ	Mexico City, Mexico
Crisfield, MD	Greensboro, NC	Richmond, KY		Montreal, Canada
				Panama City, Panama
				São Paulo, Brazil
				Toronto, Canada
				Virginia, Ireland

Paint Stores

Eastern	331
Mid-Central	405
Southeastern	380
South Central	276
Western	143
	1,535

Gray Drug Fair

Atlantic	189
Northern	168
Southern	66
	423

0007-SWP-035460

0007-SWP-000116882

Consent of Independent Auditors

Shareholders and Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We consent to the incorporation by reference in Post-Effective Amendment Number 1 dated May 8, 1984, to Registration Statement No. 2-80510 and Registration Statement Number 2-91401 on Form S-8 dated May 25, 1984 of our report on the consolidated financial statements included in the annual report on Form 10-K of The Sherwin-Williams Company for the year ended December 31, 1984.

Ernst + Whinney

Cleveland, Ohio
March 11, 1985

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Cleveland, and State of Ohio, on the 11th day of March, 1985.

THE SHERWIN-WILLIAMS COMPANY

by A. D. CHILDS
A. D. Childs, Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated on March 11, 1985.

Officers and Directors of The Sherwin-Williams Company:

J. G. BREEN J. G. Breen	*Chairman of the Board* *President and Chief Executive Officer,* *Director*
T. A. COMMES T. A. Commes	*Senior Vice President, Finance* *Chief Financial Officer,* *Director*
J. E. WALLACE J. E. Wallace	*Vice President,* *Corporate Controller,* *Chief Accounting Officer*
K. S. BENSON K. S. Benson	*Director*
D. W. CALLOWAY D. W. Calloway	*Director*
W. J. DE LANCEY W. J. De Lancey	*Director*
R. C. DOBAN R. C. Doban	*Director*
A. C. HOLMES A. C. Holmes	*Director*
J. R. KILLPACK J. R. Killpack	*Director*
W. G. MITCHELL W. G. Mitchell	*Director*

The undersigned, by signing his name hereto, does sign this report on behalf of the designated Officers and Directors of The Sherwin-Williams Company pursuant to Powers of Attorney executed on behalf of each such Officer and Director.

by A. D. CHILDS
A. D. Childs, Attorney-in-fact

March 11, 1985

0007-SWP-035461

Form 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Year Ended December 31, 1984
Commission File Number 1-4851
Securities and Exchange Commission
Washington, D.C. 20549

THE SHERWIN-WILLIAMS COMPANY
AN OHIO CORPORATION
IRS EMPLOYER IDENTIFICATION NO. 34-0526850
101 Prospect Avenue, N.W.
Cleveland, Ohio 44115
Telephone (216) 566-2000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
9.45% Debentures Due 1999	New York Stock Exchange
6.25% Convertible Subordinated Debentures Due 1995	New York Stock Exchange
5.45% Debentures Due 1992	New York Stock Exchange
Common Stock, Par Value $1.00	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Form 10-K
Portions of this report are not required by the Form 10-K and are not "filed" as part of the company's 10-K. Only the sections referenced in the index below are incorporated in the 10-K.

The Securities and Exchange Commission has not approved or disapproved this report or passed upon its accuracy or adequacy.

The Registrant 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 and has been subject to such filing requirements for the past 90 days.

The Registrant had 22,595,734 shares of common stock, par value $1.00, outstanding at January 31, 1985. These shares were held by 9,816 holders of record on this date.

The aggregate market value of the common stock at January 31, 1985, is $755,966,824, excluding the voting stock held by certain executive officers.

Index—Form 10-K Report

Items Number 10, 11, 12 and 13 are incorporated by reference from the definitive Proxy Statement dated March 11, 1985, filed with the Securities and Exchange Commission pursuant to Regulation 14A.

Items Number 4 and 9 and all other schedules (Nos. III, IV, VII, XI, XII, XIII, XIV) for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

0007-SWP-035462