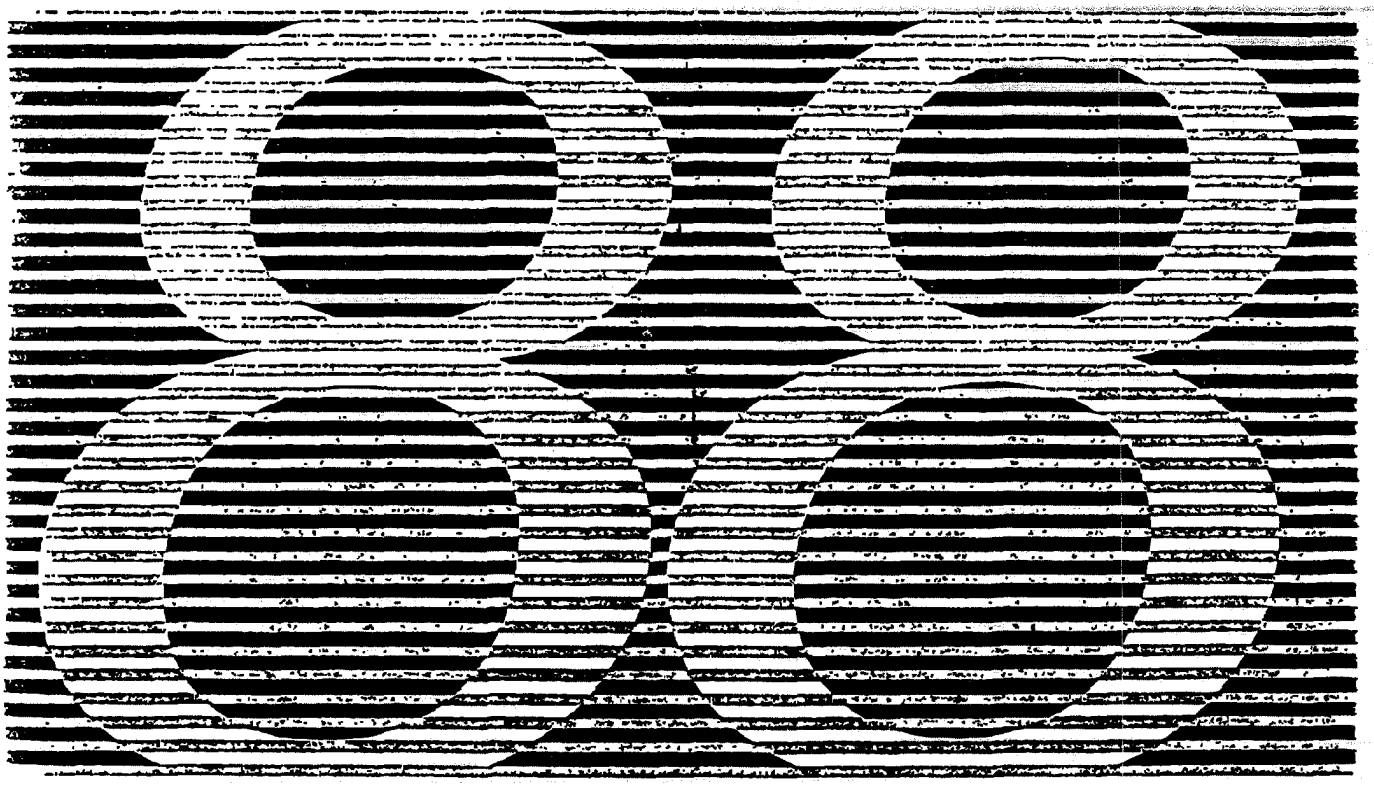
The Sherwin-Williams Company 1988 Annual Report and 10-K



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Annual Meeting
The annual meeting of shareholders will be held at 10.00 a.m., April 26, 1989, at Stouffer's Tower City Plaza Hotel, Cleveland, Ohio.

Headquarters
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115-1075
(216) 566-2000

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

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

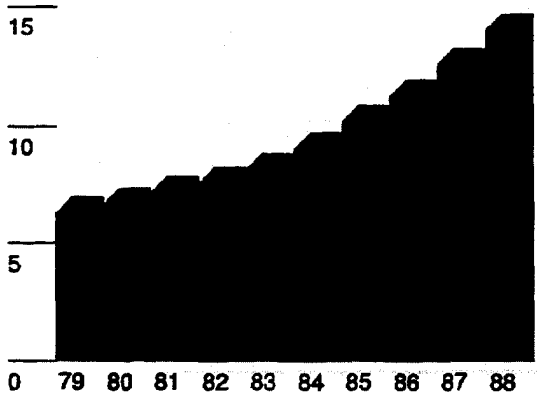
Independent Auditors
Ernst & Whinney
Cleveland, Ohio

Investor Relations
Conway G. Ivy
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115-1075

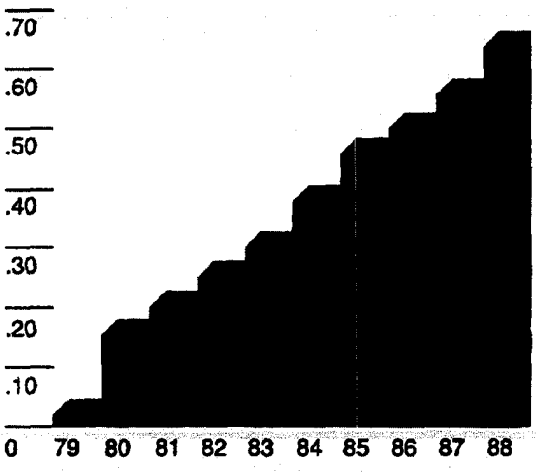
Dividend Reinvestment Program
A dividend reinvestment program is available to shareholders of common stock. For information, contact Investor Relations office.

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

Book Value per Common Share
Dollars



Dividends Per Common Share
Dollars



Common Stock Trading Statistics

	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
High	$31¾	$38½	$32¼	$23½	$16¾	$15⅞	$12⅝	$ 5⅞	$ 5¼	$ 3¼
Low	24	20⅛	21¼	13⅜	11⅛	9⅛	4½	4⅛	2⅞	2⅜
Close December 31	25⅝	24⅜	27⅝	22¼	14	13⅛	11	5½	4⅜	3¼
Shares traded (thousands)	22,741	27,430	28,896	19,910	23,613	29,267	24,033	14,085	21,456	19,724
% of average outstanding shares	52%	62%	64%	43%	52%	64%	57%	36%	55%	47%
Shareholders of record	12,606	12,327	11,936	11,384	9,777	9,841	8,590	8,858	8,688	9,796

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Sherwin-Williams

No Postage Necessary If Mailed In the United States

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FIRST CLASS MAIL PERMIT NO. 669 CLEVELAND OHIO

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CLEVELAND OH 44197-9853

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The Sherwin-Williams Company

NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders of THE SHERWIN-WILLIAMS COMPANY will be held at Stouffer Tower City Plaza Hotel, 24 Public Square, Cleveland, Ohio on Wednesday, April 26, 1989 at 10:00 A.M., Local Time, for the following purposes:

1. To fix the number of Directors of the Company at eleven and to elect eleven Directors to hold office until the next Annual Meeting of Shareholders or until their successors are elected;
2. To amend the Company's 1984 Stock Plan to increase the number of shares of Common Stock of the Company which may be issued under the plan by 2,000,000 shares;
3. To transact such other business as may properly come before the meeting.

Holders of Common Stock of record at the close of business on February 27, 1989 are the only shareholders entitled to notice of and to vote at the meeting.

L. J. PITORAK
Secretary

Midland Building
Cleveland, Ohio 44115-1075
March 10, 1989

You can help avoid the necessity and expense of sending a follow-up letter by the prompt completion and return of the enclosed proxy whether or not you expect to attend the meeting. For your convenience, there is enclosed a self-addressed envelope requiring no postage if mailed in the United States.

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THE SHERWIN-WILLIAMS COMPANY

Midland Building

Cleveland, Ohio 44115-1075

PROXY STATEMENT

March 10, 1989

PRELIMINARY

The enclosed proxy is requested by the Board of Directors in connection with the Annual Meeting of Shareholders to be held April 26, 1989 for the purpose of considering and acting upon the matters specified in the foregoing Notice of Annual Meeting. The mailing date of this Proxy Statement is on or about March 10, 1989.

The Board of Directors is not aware of matters other than those specified in the foregoing Notice that will be brought before the meeting for action. However, if any such matters should be brought before the meeting, it is intended that the persons appointed as proxies may vote or act thereon according to their judgment.

ANNUAL REPORT

The Company's Annual Report to Shareholders for the year which ended December 31, 1988 is enclosed with this Proxy Statement. In addition, financial and other reports may be submitted to the meeting, but it is not intended that any action will be taken with respect thereto.

ELECTION OF DIRECTORS

It is intended that proxies which contain no instructions to the contrary will be voted in favor of fixing the number of directors at eleven and for the election of the nominees listed on the proxy. The candidates receiving the most votes will be elected.

Should any nominee decline or be unable to accept such nomination or be unable to serve as a director, an event which the management does not now expect, the Board of Directors reserves the right to substitute such

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other person as a nominee, or to reduce the number of nominees to such extent, as they shall deem advisable.

Each of the nominees has been previously elected as a director by the shareholders. The following, based upon information received in part from the respective persons and in part from the records of the Company, sets forth information regarding each nominee and the ownership of the Company's Common Stock by each nominee:

JAMES A. ATTWOOD has been Chairman and Chief Executive Officer of The Mutual Life Insurance Company of New York (individual and group life insurance) since August, 1983, except for the period from August, 1986 to September, 1988 during which he was Chairman, President and Chief Executive Officer. Mr. Attwood is 61 years old and has served as a Director of the Company since 1978. He owns 667 (.0015%) shares of Common Stock.

JAMES M. BIGGAR has been Chairman and Chief Executive Officer of Nestle Enterprises, Inc. (food products, restaurants, hotels) since December, 1983. Mr. Biggar is 60 years old and was appointed a Director of the Company in July, 1987. Mr. Biggar is a Director of the Grocery Manufacturers of America, National City Bank and Coemair, and is a Trustee of the Cleveland Clinic Foundation, Playhouse Square Foundation (Cleveland) and University Schools. He is also an Executive Vice President of Cleveland Development Advisors, Inc., Chairman of Cleveland Tomorrow, on the Board of Governors of the National Women's Economic Alliance and a member of the Board of Overseers of the Executive Council on Foreign Diplomats. He owns indirectly 200 (.0005%) shares of Common Stock.

JOHN G. BREEN was elected Chairman and Chief Executive Officer of the Company in June, 1986. From April, 1980 to June, 1986 he was Chairman, President and Chief Executive Officer of the Company. Mr. Breen is 54 years old and has served as a Director of the Company since 1979. Mr. Breen is a Director of National City Corporation, Mead Corporation and Parker-Hannifin Corporation. He owns directly 165,658 (.3849%) shares of Common Stock, indirectly 79,097 (.1838%) shares of Common Stock and holds options for 74,858 (.1739%) shares of Common Stock.

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D WAYNE CALLOWAY has been Chairman and Chief Executive Officer of PepsiCo. Inc. (beverages, food products and food services) since May, 1986 prior to which he was President and Chief Operating Officer commencing January, 1985, and Executive Vice President and Chief Financial Officer commencing June, 1983. Mr. Calloway is 53 years old and has served as a Director of the Company since 1980. Mr. Calloway is a Director of PepsiCo. Inc., Citicorp and Exxon Corporation. He owns 800 (.0019%) shares of Common Stock.

LEIGH CARTER has been President and Chief Operating Officer of B. F. Goodrich Company (diversified manufacturing) since April, 1986 prior to which he was Vice Chairman commencing July, 1984. From April, 1982 to July, 1984 Mr. Carter was Executive Vice President of B.F. Goodrich Company. Mr. Carter is 63 years old and has served as a Director of the Company since October, 1985. Mr. Carter is a Director of B. F. Goodrich Company, Adams Express Co., First Union Real Estate Investments Co. and Centerior Energy Corp. He owns 820 (.0019%) shares of Common Stock.

THOMAS A. COMMES was elected President and Chief Operating Officer of the Company in June, 1986 prior to which he was Senior Vice President — Finance and Chief Financial Officer of the Company commencing March, 1979. Mr. Commes is 46 years old and has served as a Director of the Company since April, 1980. Mr. Commes is a Director of Society National Bank and Centerior Energy Corp., and is a Trustee of Vocational Guidance Services (VGS) and the Greater Cleveland Domed Stadium Corp. He owns directly 29,760 (.0691%) shares of Common Stock, indirectly 37,256 (.0866%) shares of Common Stock and holds options for 33,334 (.0774%) shares of Common Stock.

DR. ROBERT C. DOBAN, prior to his retirement in December, 1988, was Senior Vice President, Science and Technology of Owens-Corning Fiberglas Corporation (glass fiber business and related activities) commencing in 1977. Dr. Doban is 66 years old and has served as a Director of the Company since 1980. He owns 1,020 (.0024%) shares of Common Stock.

ALLEN C. HOLMES, prior to his retirement in July, 1986, was Senior Partner of Jones, Day, Reavis & Pogue (attorneys) commencing March, 1985

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prior to which he was National Managing Partner commencing in 1975. Mr. Holmes is 68 years old and has served as a Director of the Company since 1968. Mr. Holmes is a Director of Maxus Energy Corporation and the Greater Cleveland Growth Association. He is a Trustee and past Chairman of the Board of Trustees and Executive Committee of Case Western Reserve University, Trustee and Vice Chairman of the Board of Cleveland Institute of Art, Trustee and Chairman of the Board of WVIZ-TV 25 (educational TV in Cleveland), Trustee and member of the Executive Committee of University Circle, Inc., Trustee of the Musical Arts Association, Trustee and former Chairman of the Cleveland Institute of Music and President and Member of the Board of the Kulas Foundation. He owns directly 23,200 (.0539%) shares of Common Stock and indirectly 1,000 (.0023%) shares of Common Stock.

J. Robert Killpack, prior to his retirement in September, 1987, was Chairman and Chief Executive Officer of National City Corporation commencing May, 1986 prior to which he was President of National City Corporation commencing in 1981. Mr. Killpack is 66 years old and has served as a Director of the Company since 1979. Mr. Killpack is a Director of National City Corporation, LDI Corporation, National City Bank and Weatherhead Industries, Inc. He owns 8,250 (.0192%) shares of Common Stock.

William G. Mitchell, prior to his retirement in May, 1987, was Vice Chairman of Centel Corporation (independent telephone and electric properties) commencing May, 1986 prior to which he was President commencing 1977. Mr. Mitchell is 58 years old and has served as a Director of the Company since 1979. Mr. Mitchell is a Director of Interlake Corporation, The Northern Trust Corporation and Peoples Energy Corporation, and is Trustee of Knox College. He owns 1,941 (.0045%) shares of Common Stock.

Ralph E. Schey has been Chairman and Chief Executive Officer of The Scott Fetzer Company (a diversified manufacturing company) since September, 1974. Mr. Schey is 64 years old and has served as a Director of the Company since 1984. Mr. Schey is a Director of McDonald & Co. and Sunar Hauserman, and is a Trustee of Ohio University and the Cleveland Clinic Foundation. He owns 2,400 (.0056%) shares of Common Stock.

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DIRECTORS' FEES

Each Director who is not an employee of the Company receives an annual retainer of $18,000. In addition, each such Director receives $850 for each meeting of the Board or Committee of the Board that he attends, or $1,100 for each meeting of a Committee of the Board which he chairs. No fees or other remuneration, as such, are paid to employees of the Company for services as a member of the Board or any Committee thereof.

EXECUTIVE OFFICERS OF THE COMPANY

Unless otherwise indicated, the following table shows the names and ages of the Executive Officers, the positions and offices with the Company held by them at February 28, 1989, and the date when each was first elected or appointed an Executive Officer of the Company:

Name	Age	Present Position	Date When First Elected or Appointed
John G. Breen	54	Chairman and Chief Executive Officer, Director	January 1979
Thomas A. Commes	46	President and Chief Operating Officer, Director	March 1979
Thomas R. Miklich	41	Senior Vice President — Finance and Chief Financial Officer	December 1974
John L. Ault	43	Vice President—Corporate Controller	January 1987
Conway G. Ivy	47	Vice President and Treasurer	March 1979
Thomas Kroeger	40	Vice President, Human Resources	October 1987
Larry J. Pitorak	42	Vice President, General Counsel and Secretary	June 1978
Leonard A. Ward	62	Vice President — Administration	August 1987
Francis C. Piccirillo	39	Assistant Secretary and Corporate Director of Taxes	October 1983

Following is a brief account of the business experience of each Executive Officer during the last five-year period:

Mr. Breen was elected Chairman and Chief Executive Officer of the Company in June, 1986 prior to which he was Chairman, President and Chief Executive Officer commencing April, 1980. Mr. Breen was elected a

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Director of the Company in April, 1979 and is presently serving in such capacity.

Mr. Commes was elected President and Chief Operating Officer of the Company in June, 1986 prior to which he was Senior Vice President — Finance and Chief Financial Officer commencing March, 1979. He was elected a Director of the Company in April, 1980 and is presently serving in such capacity.

Mr. Miklich was named Senior Vice President — Finance and Chief Financial Officer in January, 1989 prior to which he was Senior Vice President — Finance, Treasurer and Chief Financial Officer commencing February, 1988. From June, 1986 to February, 1988 he was Senior Vice President — Finance and Chief Financial Officer prior to which he was Treasurer of the Company commencing May, 1979.

Mr. Ault was named Vice President — Corporate Controller in January, 1987. From November, 1981 to January, 1987 he held the position of Assistant Corporate Controller — Accounting.

Mr. Ivy was named Vice President and Treasurer in January, 1989 prior to which he was elected Vice President, Corporate Planning and Development commencing March, 1979.

Mr. Kroeger was elected Vice President, Human Resources in October, 1987 prior to which he was Director of Personnel, Paint Stores Group commencing March, 1980.

Mr. Pitorak was named Vice President, General Counsel and Secretary in February, 1988. From August, 1986 to February, 1988 he was Vice President, Secretary-Treasurer and General Counsel prior to which he was Vice President and Treasurer commencing June, 1986. From October, 1983 to June, 1986 Mr. Pitorak was Controller of the Stores Division.

Mr. Ward was elected Vice President — Administration in August, 1987 prior to which he served as President and General Manager — Automotive Aftermarket Division commencing March, 1979.

Mr. Piccirillo was named Assistant Secretary and Corporate Director of Taxes in October, 1989.

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There are no family relationships between any of the persons named.

OPERATING MANAGERS OF THE COMPANY

Unless otherwise indicated, the following table shows the names and ages of the Operating Managers, the positions and offices with the Company held by them at February 28, 1989, and the date when each was first appointed an Officer.

Name	Age	Present Position	Date When First Appointed an Officer
Frank E. Butler	53	President & General Manager, Consumer Division	November 1981
Christopher M. Connor	32	President & General Manager, Western Division, Paint Stores Group	June 1986
William B. Eldredge	60	President, International Group	June 1977
Robert E. Kinney	53	President & General Manager, Transportation Services Division	July 1987
Rolan D. Kjoser	52	President & General Manager, Chemical Coatings Division	February 1988
James W. Krause	44	President & General Manager, Automotive Division	August 1987
Theodore R. Kreuser	42	President & General Manager, Mid-Central Division, Paint Stores Group	February 1988
John C. Macatee	37	President & General Manager, South Central Division, Paint Stores Group	June 1986
James E. Renshaw	41	President & General Manager, Eastern Division, Paint Stores Group	June 1986
Joseph M. Scamiance	38	President & General Manager, Sprayon Division	May 1986
Robert B. Venick	41	President, Paint Stores Group	January 1988
Richard M. Wilson	38	President & General Manager, Southeastern Division, Paint Stores Group	June 1987

Following is a brief account of the business experience of each Operating Manager during the last five-year period:

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Mr. Butler, was named President & General Manager, Consumer Division in May, 1984 prior to which he was Vice President Operations, Consumer Division commencing September, 1983.

Mr. Connor was named President & General Manager, Western Division, Paint Stores Group in June, 1986 prior to which he was Region Director, Western Region, Stores Division commencing December, 1985. From December, 1983 to December, 1985 he was Vice President — Merchandising, Stores Division.

Mr. Eldredge was named President, International Group in June, 1986 prior to which he was Group Vice President of the Company commencing October, 1983.

Mr. Kinney was named President & General Manager, Transportation Services Division in July, 1987 prior to which he was Senior Vice President and Director of Operations for the Consumer Division commencing July, 1986. From October, 1983 to July, 1986 Mr. Kinney was Vice President and Director of Materials Management for the Consumer Division.

Mr. Kjosen was named President & General Manager, Chemical Coatings Division in February, 1988 prior to which he was Vice President and Director of Marketing of the Chemical Coatings Division commencing March, 1987. From October, 1986 to March, 1987 Mr. Kjosen served as Vice President, Industrial for The Chemical Coatings Division. Commencing October, 1984 Mr. Kjosen was Business Unit Manager, Chemical Coatings Division. Prior to joining the Company, Mr. Kjosen was employed by Reliance Universal as Vice President and General Manager from June, 1976 to October, 1984.

Mr. Krause was named President & General Manager, Automotive Division in August, 1987 prior to which he was Vice President and Director of Marketing, Automotive Aftermarket Division commencing June, 1986. From October, 1982 to June, 1986 Mr. Krause was Vice President and Director, Sales and Marketing, Stores Division.

Mr. Kreuzer was named President & General Manager, Mid-Central Division, Paint Stores Group in January, 1988 prior to which he was Vice President of Marketing and Merchandising, Southeastern Division, Paint Stores Group commencing May, 1987. From July, 1986 to May, 1987 he was

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Director of Marketing and Merchandising, Mid-Central Division, Paint Stores Group. Commencing December, 1983 Mr. Kreuzer served as Region Director of Sales, Paint Stores Group.

Mr. Macatee was named President & General Manager, South Central Division, Paint Stores Group in June, 1986. From July, 1983 to June, 1986 he served as Region Director, South Central Region, Stores Division.

Mr. Renshaw was named President & General Manager, Eastern Division, Paint Stores Group in June, 1986 prior to which he was Region Director, Eastern Region, Stores Division commencing January, 1986. From January, 1984 to January, 1986 he was Director of Sales, Eastern Region, Stores Division.

Mr. Scaminace was named President & General Manager, Sprayon Division in September, 1985 and was Vice President, Operations of that Division from April, 1985 to September, 1985. From April, 1983 to April, 1985 he was Plant Manager at the Company's facility in Morrow, Georgia.

Mr. Venick was named President, Paint Stores Group in January, 1988 prior to which he was President and General Manager, Mid-Central Division, Paint Stores Group commencing June, 1986. He served as Region Director, Mid-Central Region, Stores Division, from December, 1984 to June, 1986 and from December, 1982 to November, 1984 Mr. Venick served as Director — Sales for the Automotive Aftermarket Division of the Company.

Mr. Wilson was named President & General Manager, Southeastern Division, Paint Stores Group in June, 1987 prior to which he was Director of Marketing and Merchandising, Southeastern Division, Paint Stores Group commencing November, 1986. From August, 1984 to November, 1986 Mr. Wilson served as Regional Director of Sales, Mid-Central Region, Stores Division. From October, 1983 to August, 1984 Mr. Wilson was District Manager Sales, Southeastern Region, Stores Division.

There are no family relationships between any of the persons named.

COMPENSATION

The following table sets forth cash compensation for the fiscal years ended December 31, 1988, December 31, 1987 and December 31, 1986 for

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the five highest paid Executive Officers whose cash compensation from the Company and its subsidiaries for the calendar year 1988 exceeded $60,000 and for all Executive Officers as a group.

CASH COMPENSATION TABLE

Name of Individual or Number in Group	All Capacities in Which Served in 1988	Cash Compensation 1988	1987	1986
J. G. Breen	Chairman and Chief Executive Officer	$ 745,896	$ 872,738	$ 833,577
T. A. Commes	President and Chief Operating Officer	$ 422,540	$ 474,981	$ 422,977
T. R. Miklich	Senior Vice President — Finance, Treasurer and Chief Financial Officer	$ 264,404	$ 275,014	$ 188,824
L. J. Pitorak	Vice President, General Counsel and Secretary	$ 193,484	$ 206,716	$ 171,624
C. G. Ivy	Vice President, Corporate Planning and Development	$ 193,014	$ 221,088	$ 206,842
All Current Executive Officers as a group (10 persons)		$2,668,300	$2,973,771	$2,680,971

EMPLOYMENT CONTRACTS

Messrs. Breen, Commes and Ivy have employment contracts with the Company. In addition to their basic compensation, incentive compensation, participation in the employee benefit plans and the stock plan, each is entitled to receive, at the time of his termination of employment, except in the event termination is the result of a change in control of the Company, an amount equal to one and one-half times his total compensation for the last preceding year. In the event the termination of employment is the result of a change in control of the Company, Mr. Breen is entitled to receive at the time of his termination of employment an amount equal to two times his compensation and Mr. Commes and Ivy are entitled to an amount equal to their annual compensation. Compensation received due to a termination of employment resulting from a change in control of the Company shall be an

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offset against the amounts payable under the severance pay agreement as described herein.

SEVERANCE PAY AGREEMENT

To ensure continuity and the continued dedication of key executives during any period of uncertainty caused by the possible threat of a take-over, the Company has entered into contracts with certain key executives. In the event there is a change in control (as that term is defined in the contract) and the employment of a contracting key executive terminates for any reason other than by reason of death or willful misconduct on the part of that executive, the executive will receive an agreed upon amount of severance pay.

The severance pay agreements are not employment contracts and in the event the employee has an employment contract with the Company providing for payment at the time of termination of employment, the amounts payable under such employment contract shall be offset against amounts payable under the severance pay agreement.

The severance pay is for a compensation period equal to the period of time which starts on the executive's termination date and ends on the earlier of the second (or third, depending on the executive's position at the time of execution of the agreement) anniversary of such termination date or the executive's normal retirement date (as defined in the Company's retirement plans). The Company has entered into severance pay agreements with all of the Executive Officers of the Company.

The severance pay upon termination includes: (a) an amount equal to the compensation period times the highest annual compensation in effect within the period preceding termination equal to the maximum possible compensation period; (b) the continuation of participation in employee benefit plans and other benefit arrangements during the compensation period; and (c) special retirement benefits so that the individual's total retirement benefit will equal the retirement benefits he would have received had he continued in the employment of the Company during the compensation period.

The salary and other benefits provided by the severance pay agreements will be payable either from an escrow fund established by the

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Company with a national banking institution or from the general assets of the Company. The Company has agreed to indemnify the executives for any legal expense incurred in the enforcement of their rights under the severance pay agreements.

MANAGEMENT INCENTIVE PLAN

The Company's Management Incentive Plan provides for the awarding of bonuses in amounts determined by the application of criteria set forth in the plan for the measurement of performance goals approved by the Chief Executive Officer and, in the case of elected officers, by the Compensation and Management Development Committee of the Board of Directors. Individual awards are computed using a percentage of the individual's salary. All of the Executive Officers of the Company participate in the plan. The amounts paid to named individuals and Executive Officers as a group for the last three fiscal years are reflected in the amounts shown in the Cash Compensation Table. The amounts paid to all employees as a group were $2,017,000, $3,616,280 and $2,626,000 for 1988, 1987 and 1986, respectively.

SUPPLEMENTAL BENEFIT AGREEMENTS

The Company has entered into supplemental benefit agreements with certain key employees to provide for retirement, death and disability benefits. The agreements provide for a death benefit payable to a named beneficiary in the amount (after tax) not to exceed $200,000 based upon the employee's salary and age at the time of death, or an amount ranging from $400,000 to $769,800, depending upon the payment period selected by the employee which may be a period of up to 25 years. The agreements also provide for a retirement benefit payable after age 65 of $2,000 a month for 120 months and a disability benefit payable in the event of disability prior to age 65 based upon the retirement benefit costs. The Company has entered into such agreements with all of the Executive Officers of the Company.

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PAYROLL BASED STOCK OWNERSHIP PLAN

The Company's Payroll Based Stock Ownership Plan was terminated in 1988 and the accounts of the participants distributed to such participants. No contributions were made to the Plan in 1988. For contributions made with respect to years prior to 1987 the Company was permitted by the Federal tax laws to take a tax credit of up to .5% of the annual payroll of participating employees when it contributed an amount equivalent to such tax credit to the trustee of the plan. Such contributions were made in the form of shares of the Common Stock of the Company, and were allocated in equal amounts to all eligible employees who were employed with the Company as of the end of the plan year and had been credited with at least 1,000 or more hours of service during the year. With the exception of certain unit bargaining employees and those employed outside the United States, all employees of the Company were eligible to participate in the plan.

EMPLOYEE STOCK PURCHASE AND SAVINGS PLAN

The Company's Employee Stock Purchase and Savings Plan, which was approved by the shareholders, is intended to encourage eligible employees to save and to acquire shares of Common Stock of the Company. All salaried employees (including officers of the Company) who have attained the age of 21 years are eligible to participate after the completion of one year of employment. Participating employees may contribute a maximum of 9-11% of their earnings through a combination of payroll deduction and deferral of their salary. The variation in the maximum percentage a participant can contribute to the plan is a result of the manner in which the contributions are made, i.e. payroll deduction (after tax contributions) or salary deferral (pre-tax contributions commonly referred to as 401(k) contributions). Subject to the maximum limitations imposed by ERISA and the Internal Revenue Code, the Company may make a contribution ("Company Contribution") of an amount up to 125% of the amount of the participant's contribution up to the first 7% of the participant's salary contributed or deferred. The amount of the Company Contribution depends upon the Company's earnings and the after-tax return on invested capital. The participant may direct that a portion of his contribution be invested in a

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government securities fund with the balance invested in Common Stock of the Company. The entire Company Contribution is invested in Common Stock of the Company. After a participant has attained the age of 55 and has 10 years of service under the plan, the participant may diversify, over a five year period, a percentage of the amounts invested in Company Stock to other investments available under the plan for this purpose (i.e. the government securities fund, a guaranteed investment contract or a mutual equity fund). The amounts which may be so diversified in accordance with the terms of the plan are limited to 25% (with respect to the first 4 years following attainment of age 55 and 10 years of service under the plan) and 50% (with respect to the fifth year) of the participant's account balances invested in Company Stock acquired by the plan after December 31, 1986 (including amounts previously diversified). No further diversification is permitted after the fifth year following attainment of age 55 and 10 years of service under the plan. A participant may elect prior to the beginning of each year to have dividends paid on the Company's Common Stock held in the participant's accounts paid to the participant in cash or reinvested in the plan.

During the past year, the plan was amended and restated to conform to the requirements of changes in the law resulting from the Tax Reform Act of 1986 and various other laws affecting such types of plans, to qualify the plan as an Employee Stock Ownership Plan ("ESOP") within the meaning of ERISA and the Code, and to institute various other changes. Most notable were changes in the plan (i) allowing the plan to borrow money in order to acquire Company Stock, (ii) allowing for the current distribution of dividends on the Common Stock held by the plan, (iii) requiring the attainment of age 21 and 1 year of service for participation in the plan, (iv) allowing a participant who has attained the age of 55 and has 10 years of service under the plan to diversify amounts invested in Company Stock to other investments offered by the plan, and (v) providing for full and immediate vesting for participants in the event the participant's employment is terminated (in specified situations) after a Change in Control of the Company (as defined in the plan).

The participant's right to the value of the Company Contribution made on behalf of such participant is vested at the rate of 50% after three years of service under the plan, 75% after four years of service under the plan,

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and 100% after five years of service under the plan. A participant may also become 100% vested in the event the participant's employment is terminated (in specified situations) after a Change in Control of the Company (as defined in the plan). The vested portion of the participant's account balances under the plan may be paid to the participant upon separation from service, retirement or such other events as are enumerated in the plan. All of the Executive Officers participate in this plan. The Company Contributions for 1988 were $9,257, $10,328, $10,824; $8,035 and $8,531 for Messrs. Breen, Commes, Miklich, Pitorak and Ivy, respectively, $79,946 for all Executive Officers as a group, and $11,365,221 for all employees participating in the plan.

EMPLOYEE STOCK PURCHASE AND SAVINGS PLAN EQUALIZATION PROGRAM

Effective January 1, 1984, the Company established an Employee Stock Purchase and Savings Plan Equalization Program to provide certain participating employees with the annual Company Contribution they would have received under the Employee Stock Purchase and Savings Plan but for the maximum limitations imposed by ERISA and the Internal Revenue Code provided the participating employee defers salary or bonus under the Deferred Compensation Plan to merit a Company Contribution equal to the amount the Company would have contributed under the Employee Stock Purchase and Savings Plan but for the limitations imposed by ERISA and the Internal Revenue Code. The program authorizes the Company at its discretion to enter into appropriate arrangements with employees who are, or may become, eligible to participate in the program. The benefits under this program will be paid from the Company's general fund. Messrs. Breen, Commes, Miklich, Ivy and one other Executive Officer participate in this program.

For 1988, the Company accrued $50,167, $25,240, $11,190 and $9,279 for Messrs. Breen, Commes, Miklich, and Ivy, respectively, $109,302 for all Executive Officers as a group, and $138,114 for all employees participating in the program.

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DEFERRED COMPENSATION PLAN

A portion of a participant's incentive bonus payment or salary may be deferred under the Company's Key Management Deferred Compensation Plan. Officers and other key management personnel as are designated by the Board of Directors, or a committee thereof, are the only employees eligible to participate in this plan. The amounts so deferred are retained by the Company and, at the direction of the employee, held as either accounts bearing interest determined by the current prime interest rate, interest being paid on Individual Retirement Accounts at a local bank or an account value tied to the market value of the Company's Common Stock and dividends thereon. Messrs. Breen, Commes, Miklich and Ivy and one other Executive Officer participate in this plan. The amounts deferred under this Plan for the Executive Officers for the last three fiscal years are reflected in the amounts shown in the Cash Compensation Table. During the past fiscal year, the Company accrued losses of $9,179, $2,589, $96 and $111 for the accounts of Messrs. Breen, Commes, Miklich and Ivy, and a loss of $12,667 for all Executive Officers as a group as the result of changes in the market value of the Company's Common Stock, dividends and interest during the year, which amounts are in addition to the amounts shown on the Cash Compensation Table. The amount deferred or otherwise accrued under this plan for 1988 for all employees as a group was $53,116.

PENSION PLAN

The Sherwin-Williams Company Salaried Employees Retirement Plan ("Pension Plan") provides pension benefits for salaried employees hired on or before December 31, 1983, including officers of the Company. Pensions are based upon average annual earnings (salary and bonuses) for the highest five consecutive years out of the last ten years of employment with the Company. This is substantially the same as the compensation shown in the salary and other direct cash compensation column in the Cash Compensation Table. Normal monthly pensions equal one-twelfth ($1/12$) of 1% of the Average Annual Earnings (as defined in the Pension Plan) times the number of years of credit service, up to a maximum of 40%, less an offset of $42.50 (or such lesser amount as may be required under the social security integration rules of the Code). The pension may be adjusted for a surviving

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spouse's pension or other options under the Pension Plan. The Pension Plan requires 5 years of service for a participant to become fully vested with respect to a participant who has at least one hour of service on or after January 1, 1989 and 10 years of service for all other participants. A participant may also become 100% vested in the event the participant's employment is terminated (in specified situations) after a Change in Control of the Company (as defined in the plan).

The Pension Plan was amended in 1988 to conform to the requirements of the changes in the law resulting from the Tax Reform Act of 1986 and other laws effecting such types of plans, and was also amended to provide for full and immediate vesting for participants in the event the participant's employment is terminated (in specified situations) after a Change in Control of the Company (as defined in the plan). The following table shows the estimated aggregate annual regular benefits payable under the Pension Plan and the Retirement Equalization Program commencing at age 65 in the form of a single life annuity:

Average Annual Earnings During 5 Year Base Period	Estimated Annual Pension Benefits for Years of Service Shown				
	5 Years	10 Years	20 Years	30 Years	or More
$100,000	$ 4,490	$ 9,490	$ 19,490	$ 29,490	$ 39,490
150,000	6,990	14,490	29,490	44,490	59,490
200,000	9,490	19,490	39,490	59,490	79,490
250,000	11,990	24,490	49,490	74,490	99,490
300,000	14,490	29,490	59,490	89,490	119,490
500,000	24,490	49,490	99,490	149,490	199,490
700,000	34,490	69,490	139,490	209,490	279,490
800,000	39,490	79,490	159,490	239,490	319,490
900,000	44,490	89,490	179,490	269,490	359,490

As of December 31, 1988, the maximum annual benefit under the provisions of the Pension Plan is $94,023 due to limitations imposed by ERISA and the Internal Revenue Code. Mr. Breen was credited with 10 years of service under the Plan as of December 31, 1988. One other Executive Officer participates in this plan.

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RETIREMENT EQUALIZATION PROGRAM

The Company has established a Retirement Equalization Program to provide eligible employees with the benefits they would have received under the Pension Plan but for the maximum limitations imposed by ERISA and the Internal Revenue Code. The program authorizes the Company at its discretion to enter into appropriate agreements with employees who are, or may become, eligible to participate in the program. See "Pension Plan" for the table setting forth the estimated annual retirement benefits and the indicated years of credited service. The benefits under this program will be paid from the Company's general funds. Mr. Breen and one other Executive Officer participate in this program.

PENSION INVESTMENT PLAN

Effective January 1, 1989 the Company merged its Employees' Pension Investment Plan I ("PIP I") and its Employees' Pension Investment Plan II ("PIP II") into a single plan, The Sherwin-Williams Company Salaried Employees' Revised Pension Investment Plan ("Plan"), in order to facilitate the administration of the plans. The combined Plan incorporates changes in the law resulting from the Tax Reform Act of 1986 and other laws effecting such types of plans, and was also amended to provide for full and immediate vesting for participants in the event the participant's employment is terminated (in specified situations) after a Change in Control of the Company (as defined in the plan). The Plan provides for retirement benefits for salaried employees who were hired on or after January 1, 1984 and, with respect to salaried employees hired prior to January 1, 1984, such employees, including officers of the Company, who elected to transfer the "present value" of their accrued benefits under the Pension Plan to PIP II (prior to its merger into the Plan) and to terminate their participation in Pension Plan in favor of participation in PIP II.

Subject to the maximum limitations imposed by ERISA and the Internal Revenue Code, the Company is required to make annual contributions to the account of each eligible participant in the Plan in an amount equal to 5% of the participant's annual earnings. All Company contributions are paid to a trustee. Participants are not permitted to make contributions to the Plan. Funds held in a participant's account are invested by the trustee in accor-

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dance with each participant's individual instructions. There are three investment funds to choose from: (i) 90 Day Treasury Bills; (ii) Guaranteed Investment Contracts; and (iii) Mutual Equity Funds. In addition to the Company's contribution, any income, gains or losses that those funds incur through investment become part of the participant's total account.

An employee will receive one year of service for each calendar year in which he is employed by the Company for 1,000 hours or more. After five (5) years of service (or ten (10) years of service with respect to an employee who does not have at least one hour of service on or after January 1, 1989), he will be 100% vested. Employees who transferred from the Pension Plan have a 100% vested interest in the amounts transferred regardless of years of vesting service. A participant may also become 100% vested in the event the participant's employment is terminated (in specified situations) after a Change in Control of the Company (as defined in the plan).

Generally, participants' account balances will be distributed to them when they retire at ages 55 to 59 with 20 years of service, or at ages 60 to 64 with age plus years of service equaling 75, or at age 65 regardless of years of service. Messrs. Commes, Miklich, Pitorak, and Ivy and four other Executive Officers participate in the Plan.

The Company contributions for 1988 were $3,951, $4,031, $8,019 and $6,415 for Messrs. Commes, Miklich, Pitorak and Ivy, $47,545 for all Executive Officers as a group, and $10,540,123 for all employees participating in the Plan.

PENSION INVESTMENT PLANS EQUALIZATION PROGRAM

Effective January 1, 1984, the Company established a Pension Investment Plans Equalization Program to provide certain participating employees with the annual contribution they would have received under the Pension Investment Plan(s) but for the maximum limitations imposed by ERISA and the Internal Revenue Code. The program authorizes the Company at its discretion to enter into appropriate arrangements with employees who are, or may become, eligible to participate in the program. The benefits under this program will be paid from the Company's general fund.

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Messrs. Commes, Miklich, Pitorak and Ivy and one other Executive Officer participate in this program.

For 1988, the Company accrued $22,929, $8,962, $1,788 and $7,248 for Messrs. Commes, Miklich, Pitorak and Ivy, $64,512 for all Executive Officers as a group, and $76,063 for all employees participating in the program.

STOCK PLAN

The Company's 1984 Stock Plan, which was approved by the stockholders, is designed to attract and retain key executive, managerial, technical and professional personnel for the Company and to provide such personnel incentives and rewards for superior performance. The plan provides that only such employees as are selected by the Board of Directors of the Company are eligible to participate in the plan. As of January 31, 1989, this consisted of 649 employees, including all of the Executive Officers of the Company. Under the plan, the Board of Directors, which administers the plan either directly or through a Committee of the Board of Directors, may award a participant stock options ("Options"), stock appreciation rights (SARs") or restricted stock ("Restricted Stock") relating to the Common Stock of the Company.

Options. The Options available under the plan may be either non-qualified stock options or incentive stock options intended to qualify for special tax treatment in accordance with Section 422A of the Internal Revenue Code ("Code"). The number of Options and any period of employment required before the Options may be exercised with respect to any participant is determined by the Board of Directors at the time of the grant; provided, however, that no Option may be exercised more than 10 years after the date of the grant and in the event of a change in control of the Company, all options become immediately exercisable by the participants. The exercise price for the Options is equal to the fair market value of the Common Stock of the Company to which the Options relate as determined on the date of the grant. The Options are not transferable except by will or the laws of descent and distribution.

SARs. SARs may be granted with respect to any options which were granted pursuant to the plan or any other agreement with the Company.

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The SARs may be exercised with respect to the same time period as the options to which they relate by surrendering the option, unexercised, to the Company. At the time of the exercise of the SAR, the participant will be entitled to the positive difference between the fair market value of the Common Stock of the Company on the date of exercise and the exercise price of the options being surrendered. The transferability of the SARs are subject to the same restrictions as the Options.

Restricted Stock. Upon the grant of Restricted Stock to a participant, the participant is entitled to the dividends, voting rights and other rights of ownership of the Common Stock subject, however, to a substantial risk of forfeiture and restrictions. The number of shares of Restricted Stock, the consideration to be paid to the Company, if any, for the Restricted Stock, and the conditions which comprise the substantial risk of forfeiture and restrictions, including, but not limited to, a stated number of years of service in a specific position and performance criteria for the Company and/or the individual, are determined by the Board of Directors at the date of the grant. Upon lapse of the substantial risk of forfeiture and restrictions the Common Stock represented by the grant, or a percentage thereof as determined by the terms of the grant, is transferred to the participant free of any restrictions, other than such restrictions as may apply to the Common Stock of the Company generally or as are required by Federal and state law. During the existence of the substantial risk of forfeiture the transferability of the Restricted Stock may be prohibited or restricted in a manner and to the extent prescribed by the Board of Directors.

The Plan will terminate by its terms on February 15, 1994. Any grants of Options, SARs or Restricted Stock will continue to be effective in accordance with the terms of the grant. The Board of Directors may adjust the number and exercise price of any Options, SARs or Restricted Stock as it determines is equitably required to prevent dilution or enlargement of the rights with respect thereto resulting from any stock split, stock dividend, combination of shares, recapitalization, other change in capital structure, merger, consolidation, separation, reorganization, liquidation or any other corporate transaction having an effect similar to the foregoing.

The following table shows, as to the Executive Officers named in the Cash Compensation Table and as to all Executive Officers as a group, (i) the

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amount of options to purchase Common Stock granted during the period from January 1, 1988 through December 31, 1988; (ii) the average per share option exercise price; and (iii) the net value (market price less exercise price) of shares of Common Stock acquired during that period through the exercise of options granted prior to 1988:

	J. G. Breen	T. A. Commins	T. R. Millrick	L. J. Piterak	C. G. Ivy	Executive Officers as a Group	All Employees as a Group
(i) Number of shares granted in 1988	—0—	—0—	—0—	—0—	—0—	—0—	176,200
(ii) Average per share option price of shares granted in 1988	N/A	N/A	N/A	N/A	N/A	N/A	$ 26.82
(iii) Net value of options exercised during 1988	—0—	—0—	$ 85,125	—0—	—0—	$903,064	

AMENDMENT TO 1984 STOCK PLAN

The Board of Directors has unanimously approved, and recommends to the shareholders for adoption, an amendment to the Company's 1984 Stock Plan to increase the number of shares of Common Stock of the Company which may be issued under the plan by 2,000,000 shares. As of February 16, 1989, there were 284,166 shares still available for issuance under the plan. The fair market value of Common Stock of the Company as of January 31, 1989 was $26.00. See "Stock Plan" on page 20 of this Proxy Statement for a description of the material features and operation of the plan.

Federal Income Tax Consequences

Incentive Stock Options. Under present Federal income tax regulations, generally, there will be no Federal income tax consequences to either the Company or a participant when an "Incentive Stock Option" (ISO) is

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granted or timely exercised, but only when the stock received under the option is sold or otherwise disposed. If the participant retains the shares acquired through an ISO for the requisite holding periods prescribed by the Code, any gain or loss realized upon a subsequent disposition will constitute long-term capital gain or loss to the participant. The gain or loss is measured by the difference between the option price and the proceeds of the sale. The requisite holding periods are two years after the ISO is granted and one year after the shares subject to the ISO are transferred to the participant. In general, if a participant disposes of the shares prior to the expiration of the requisite holding periods, ordinary income will be realized equal to the excess of the fair market value at the time of exercise, over the option price. In certain circumstances the amount of ordinary income realized on a sale or exchange prior to the expiration of the requisite holding periods is limited to the excess of the lesser of (a) the fair market value at the time of exercise or (b) the amount realized upon such sale or exchange, over the option price. Any gain in excess of such amount realized on a subsequent sale or disposition would be taxed as capital gain. In general, if a disposition occurs prior to the expiration of the holding period, the Company will be entitled to a deduction equal to the ordinary income realized by the participant.

Although a participant will not realize ordinary income upon the exercise of an ISO, the excess of the fair market value of the shares acquired at the time of exercise over the option price is included as an adjustment in computing "alternative minimum taxable income" under Section 56 of the Code and, thus, may result in the imposition of the "alternative minimum tax" pursuant to Section 55 of the Code for the participant.

Non-qualified Options. Under present Federal income tax regulations, generally, the granting of a "non-qualified" stock option will not result in Federal income tax consequences to either the Company or the participant. However, upon exercise of such option, the participant will realize ordinary income measured by the excess of the then fair market value of the shares acquired upon exercise of the non-qualified option over the option price. The Company will be entitled to a deduction for a corresponding amount if and to the extent that the amount is an ordinary and necessary expense and satisfies the test of reasonable compensation. If the participant retains the

shares for the requisite holding period prescribed by the Code, the gain or loss upon a subsequent sale or exchange will be long-term capital gain or loss. For purposes of determining gain or loss realized upon a subsequent sale or exchange of such shares, the participant's tax basis will be the sum of the option price paid and the amount of ordinary income, if any, recognized by the participant on the date of exercise.

Notwithstanding the preceding paragraph, Section 83 of the Code provides for deferral of taxation to the participant and deduction by the Company so long as the participant's rights are subject to a substantial risk of forfeiture and are not transferable. For this purpose, shares held by a participant subject to Section 16(b) of the Securities Exchange Act of 1934 are treated as shares subject to a substantial risk of forfeiture and are not transferable. This deferral can be avoided, and the tax consequences described above with respect to non-qualified stock options made applicable, if the participant, within 30 days after the transfer of the stock to him, makes an election to have such stock valued at the date of transfer.

Restricted Stock. During the period that shares of restricted stock are subject to a "substantial risk of forfeiture," no taxable income will be recognized by a participant with respect thereto. However, the participant has the right to elect under Section 83 of the Code, within a 30-day period from the date of transfer, to include in his taxable income for that year an amount equal to the excess of the fair market value of such shares (determined without regard to the restrictions) at the time of transfer to him, over the amount, if any, paid for such shares. In general, if the participant does not make this election timely, he will realize ordinary taxable income for the year in which the restrictions terminate or otherwise cease to impose a substantial risk of forfeiture to any holder, in an amount equal to the excess of the fair market value of the shares held by him on the day the restrictions expire or are removed over the amount, if any, paid for such shares, and the Company ordinarily will be entitled to a corresponding deduction.

Stock Appreciation Rights. Under present Federal income tax regulations, there will be no Federal income tax consequences to either the Company or the participant upon the grant of stock appreciation rights. Upon exercise of such appreciation rights by a participant, the amount of

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any cash received and the fair market value of any shares of Common Stock received will be taxable to the participant as ordinary income, and the Company ordinarily will be entitled to a corresponding deduction. The tax basis of any Common Stock received will be its fair market value on the exercise date.

Withholding Taxes. The Company shall have the right to deduct from any transfer of shares or other payment under the plan an amount equal to the Federal, state and local income and employment taxes required to be withheld by it with respect to such transfer or payment and, if the cash portion of any such payment is less than the amount of taxes required to be withheld, to require the participant or other person receiving such transfers or payment, to pay to the Company the balance of such taxes so required to be withheld. The participant may elect to satisfy the obligation, in whole or in part, by electing to have withheld, from the shares required to be delivered to the participant, shares of Common Stock having a value equal to the amount required to be withheld (except in the case of Restricted Stock where an election under Section 83(b) of the Code has been made), or by delivering to the Company other shares of Common Stock held by participant. The shares used for tax withholding settlement will be valued at an amount equal to the fair market value of such Common Stock on the day the tax is determinable (the "Tax Date"). Election by a participant to have shares withheld or to deliver other shares of Common Stock for this purpose will be subject to the following restrictions: (1) it must be made prior to the Tax Date, (2) it will be irrevocable, (3) it will be subject to the disapproval of the Board of Directors, (4) if the participant is an officer of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 ("Section 16") no election shall be effective for a Tax Date which occurs within six months of the grant (except that this limitation will not apply in the event the death or disability of the participant occurs prior to the expiration of the six (6) month period), and (5) if a participant is an officer of the Company within the meaning of Section 16, such election must be made either six (6) months or more prior to the Tax Date, or during the period beginning on the third business day following the date of the release for publication of quarterly or annual reports of the Company containing summary statements of sales and earnings and ending on the 12th business day following such date.

Compensation Plan Information

Information concerning grants under the 1984 Stock Plan, and payments and contributions under the other compensation plans described herein for 1988 is given under the descriptions for such plans. The following tables set forth such information for 1987 and 1986 which is not otherwise disclosed herein.

	Payroll Based Stock Ownership Plan	
	1987	1986
J. G. Breen	$ 115.34	$ 111.43
T. A. Commes	$ 115.34	$ 111.43
T. R. Miklich	$ 115.34	$ 111.43
L. J. Pitorak	$ 115.34	$ 111.43
C. G. Ivy	$ 115.34	$ 111.43
All Current Executive Officers as a Group	$ 1,153.40	$ 1,114.30
All Employees as a Group	$1,549,136	$1,403,582

	Employee Stock Purchase and Savings Plan	
	1987	1986
J. G. Breen	$ 24,374	$ 28,842
T. A. Commes	$ 23,373	$ 26,814
T. R. Miklich	$ 8,376	$ 5,624
L. J. Pitorak	$ 12,657	$ 7,751
C. G. Ivy	$ 16,269	$ 15,250
All Current Executive Officers as a Group	$ 142,720	$ 137,449
All Employees as a Group	$15,005,788	$9,882,523

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	Employee Stock Purchase and Savings Plan Equalization Program	
	1997	1996
J. G. Breen	$22,891	$13,094
T. A. Commes	$ 7,067	$ 342
T. R. Miklich	$ 310	N/A
L. J. Pitorak	N/A	N/A
C. G. Ivy	$ 289	N/A
All Current Executive Officers as a Group	$31,923	$13,609
All Employees as a Group	$36,373	$13,739

	Deferred Compensation Plan	
	1997	1996
J. G. Breen	$ 8,652	$ 29
T. A. Commes	$ 1,225	N/A
T. R. Miklich	$ 53	N/A
L. J. Pitorak	N/A	N/A
C. G. Ivy	$ 49	N/A
All Current Executive Officers as a Group	$ 10,296	$ 29
All Employees as a Group	$148,869	$151,738

	Pension Investment Plans	
	1997	1996
J. G. Breen	N/A	N/A
T. A. Commes	$ 236	$ 888
T. R. Miklich	$ 8,442	$ 7,073
L. J. Pitorak	$ 6,881	$ 6,763
C. G. Ivy	$ 39	$ 1,471
All Current Executive Officers as a Group	$ 33,941	$ 34,262
All Employees as a Group	$8,397,189	$7,365,521

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	Pension Investment Plans Equalization Program	
	1987	1986
J. G. Breen	N/A	N/A
T. A. Commes	$22,147	$18,273
T. R. Miklich	N/A	N/A
L. J. Pitorak	N/A	N/A
C. G. Ivy	$10,058	$ 8,561
All Current Executive Officers as a Group	$45,232	$39,684
All Employees as a Group	$58,934	$45,593

Stock Plan

	J. G. Breen	T. A. Commes	T. R. Miklich	L. J. Pitorak	C. G. Ivy	Current Executive Officers as a Group	All Employees as a Group
Number of shares granted:							
1987	—0—	—0—	—0—	—0—	—0—	10,200	289,200
1986	90,000	20,000	27,200	14,400	15,000	215,800	1,352,800
Average per share option price of shares granted							
1987	—0—	—0—	—0—	—0—	—0—	$31.38	$33.06
1986	$21.88	$28.75	$26.93	$23.83	$21.88	$23.28	$22.51
Net value of options exercised							
1987	$831,366	—0—	$68,200	—0—	$289,802	$1,299,483	
1986	$481,017	$106,784	$75,606	—0—	$392,244	$1,249,321	

The affirmative vote of the holders and shares entitling them to exercise a majority of the voting power of the Company is required to approve the Amendment to the 1984 Stock Plan.

The Board of Directors recommends a vote FOR the Amendment to the 1984 Stock Plan.

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INDEPENDENT ACCOUNTANTS

The Board of Directors has appointed Ernst & Whinney to examine the consolidated financial statements and other records of the Company for the fiscal year ending December 31, 1989. Representatives of Ernst & Whinney are expected to be present at the annual meeting and will have an opportunity to make a statement if they wish and to respond to appropriate shareholders' questions.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors held five regular meetings during the fiscal year ended December 31, 1988. Except for Messrs. Attwood, Biggar, and Carter, all the Directors attended 100% of the meetings of the Board and any Committees thereof on which they served during the year. Mr. Attwood attended 71% and Messrs. Biggar and Carter attended 57% of the meetings of the Board and the Committees on which they served.

The Board of Directors has established an Audit Committee, a Board Composition Committee and a Compensation and Management Development Committee. The functions and members of these Committees are as follows:

Audit. The Audit Committee has the responsibility to recommend to the Board independent public accountants to audit the books, records and accounts of the Company for the ensuing fiscal year. The Committee reviews all reports and recommendations of the independent public accountants with respect to matters within their area of responsibility and reports to the Board on the scope and depth of the audit. The Committee also makes inquiries into the Company's internal audit functions and procedures.

The Audit Committee met twice during 1988 and is currently composed of five outside directors: J. M. Biggar, L. Carter, J. R. Killpack, W. G. Mitchell and R. C. Doban.

Board Composition. The Board Composition Committee develops plans for the composition and size of the Board of Directors. Matters considered by this Committee include the ratio of inside to outside directors, as well as the skills and disciplines desired as represented by individual directors. The

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Committee also is charged with the responsibility to conduct searches for individual members, interview prospective candidates and make selections and recommendations to the Board. The Committee has not undertaken to consider nominees recommended by shareholders but has and will continue to employ professional search firms to assist it in identifying potential Board members with the desired skills and disciplines.

The Board Composition Committee did not meet in 1988 and is currently composed of five outside directors: J. M. Biggar, A. C. Holmes, J. A. Attwood and W. G. Mitchell.

Compensation and Management Development. The Compensation and Management Development Committee establishes general policies on an annual basis for changes in compensation for all key employees of the Company. In addition, the Committee sets the compensation for certain key employees and recommends to the Board for approval the compensation of all elected officers.

The Committee administers the Company's 1984 Stock Plan and Key Management Deferred Compensation Plan, and recommends to the Board for approval other types of incentive compensation and similar plans.

The Compensation and Management Development Committee held two meetings in 1988 and is currently composed of five outside directors: J. A. Attwood, D. W. Calloway, A. C. Holmes, W. G. Mitchell and R. E. Schey.

Stock Outstanding

At the close of business on the record date, February 27, 1989, there were outstanding 42,885,375 shares of Common Stock. Each share is entitled to one vote upon all matters presented at the meeting. Shares represented by properly executed proxies will be voted at the meeting in accordance with the instructions thereon and, unless authority to do so is withheld, it is the intention that shares represented by proxies will be voted in favor of the proposals referred to in the Notice of the meeting.

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Stock Ownership

The Company has been advised that at January 31, 1989, Ameritrust Company National Association held 6,783,626 shares (15.76%) of Common Stock as Trustee of The Sherwin-Williams Company Employee Stock Purchase and Savings Plan.

As of January 31, 1989, all Executive Officers and Directors, as a group, beneficially owned directly 526,916 (1.224%) shares of Common Stock including shares which may be acquired within 60 days, and owned indirectly 213,036 (.4949%) shares of Common Stock. Shares indirectly owned are primarily those credited to the accounts of such individuals as members of The Sherwin-Williams Company Employee Stock Purchase and Savings Plan.

As of January 31, 1989, Cooke & Bieler, Inc., 1435 Walnut Street, Philadelphia, PA 19102 beneficially owned 3,092,777 (7.185%) shares of Common Stock of the Company, 1,909,920 (4.437%) of which it has sole power to vote or direct the vote and 3,001,377 (6.973%) of which it has sole power to dispose or direct the disposition.

Expense and Method of Proxy Solicitation

The enclosed proxy is solicited by the Board of Directors and the entire cost of solicitation will be paid by the Company. In addition to the solicitation of proxies by use of the mails, officers and regular employees of the Company may solicit the return of proxies and Kissel-Blake, New York, N.Y., has been retained to aid in the solicitation of proxies, for which services it will receive a fee estimated at $12,500. Proxies will be solicited by personal interview, mail, telephone and telegraph.

Revocability of Proxy

A proxy may be revoked at any time before a vote is taken or the authority granted is otherwise exercised. Revocation may be accomplished by the execution of a later proxy with regard to the same shares, or by giving notice to the Company in writing or in open meeting.

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Report of Balloting at 1988 Shareholders' Meeting

There were outstanding and entitled to vote at the April 27, 1988 Annual Meeting of Shareholders of the Company, 43,819,028 shares of Common Stock. There were present in person or by proxy and voting or withholding the authority to vote in the election of directors, holders of a total of 38,815,887 shares, representing 88.58% of the voting power of the Company.

The Resolution to establish the number of Directors at eleven and to elect eleven Directors was passed with the eleven nominees receiving a favorable vote of at least 96.44% but not greater than 96.49% of the shares present in person or by proxy.

The proposed amendment to the Amended Articles of Incorporation of the Company to eliminate cumulative voting received a 88.19% favorable vote of the shares voting on the amendment. The proposed amendment to the Regulations of the Company to increase the vote needed to call special shareholders' meetings received a 84.45% favorable vote of the shares voting on the amendment.

Date for Receipt of Shareholder Proposals

Shareholder proposals must be received at the Company's headquarters, 101 Prospect Ave., N.W., Cleveland, Ohio 44115-1075, on or before November 6, 1989 in order to be included in the proxy material relating to the 1990 Annual Meeting of Shareholders of the Company. In order to remove any question as to the date on which a proposal was received by the Board of Directors, it is suggested that proposals be submitted by Certified Mail-Return Receipt Requested.

0007-SWP-035607

0007-SWP-000117029

Highlights

Thousands of dollars, except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31,	1988	1987	1986
Net sales**	**$1,950,474**	$1,800,580	$1,558,099
Income from continuing operations	**101,080**	93,805	76,366*
Income per share:			
From continuing operations	**2.30**	2.09	1.66*
From discontinued operations	**—**	.06	.22
Net income	**2.30**	2.15	1.88*
Cash dividends per share	**.64**	.56	.50
Book value per share	**13.97**	12.57	11.15
Average shares outstanding (thousands)	**43,915**	44,838	45,785
Return on sales**	**5.2%**	5.2%	4.9%*
Return on shareholders' equity:			
From continuing operations	**18.4%**	19.1%	16.4%*
From total operations	**18.4%**	19.6%	18.6%*
Effective income tax rate**	**38.0%**	41.8%	45.5%*
Debt to capitalization	**18.6%**	22.2%	27.6%
Times interest earned**	**12.4x**	10.1x	8.5x*
Current ratio	**2.0**	2.0	1.7
Total technical expenditures	**$32,000**	$27,500	$26,200
Advertising expenditures**	**84,382**	73,275	62,300
Shareholders of record	**12,606**	12,327	11,936
Number of employees**	**16,607**	15,901	13,706

* Excludes unusual items
** Based on continuing operations only

Who We Are

Sherwin-Williams celebrated 122 years of doing business in 1988. The company's core business is the manufacture, distribution and sale of coatings and related products.

We sell Sherwin-Williams labeled architectural coatings, industrial finishes and associated supplies through 1,865 company-operated paint and wallcovering stores in 48 states. We also manufacture and sell coatings such as Dutch Boy, Martin-Senour, Kem-Tone, plus private label brands to independent dealers, mass merchandisers and home improvement centers. We produce coatings for original equipment manufacturers in a number of industries and special purpose coatings for the automotive aftermarket, industrial maintenance and traffic paint markets.

0007-SWP-035608

0007-SWP-000117030

To Our Shareholders:

In 1988 we again increased market share and, for the tenth consecutive year, reported higher earnings per share. However, our operating income declined due to significant raw material cost increases and shortages experienced during the year. Earnings per share from continuing operations in 1988 increased to $2.30 per share, a 10.0 percent increase from last year's $2.09 per share. Earnings per share from total operations increased 7.0 percent as the Drug Stores Segment (divested June 28, 1987), earned $.06 per share in 1987. Income from continuing operations increased 7.8 percent to $101,080,000 from $93,805,000 in 1987. Net sales were up 8.3 percent to $1,950,474,000.

During 1988, we operated in an environment where most of our raw materials were increasing in cost and in short supply, particularly titanium dioxide. The cost increases were much higher than we anticipated. While we initiated selling price increases for the first time in many years, the timing of the increases and the competitive environment limited our ability to protect our profit margins. We also made the decision not to lessen the impact of these raw material cost increases by lowering the quality of our products. We believe strongly that, in the long run, the strength of the Company lies in its name, the quality of its products, and the determination of its people to provide outstanding service.

The Paint Stores Group had an excellent year in sales to painting contractors, industrial maintenance, and chemical coatings customers. Retail sales, however, were weak throughout the year finishing about flat with 1987 levels. Overall, sales increased 8.0 percent with a good comparable store increase of 7.3 percent. This increase was substantially higher than the rate of growth for the architectural paint industry in 1988, indicating further market share gains for the Company. Actions were taken in 1988 that adversely affected the Paint Stores' operating profits but were important steps to prepare for improved results in 1989 and beyond. Four Floor World stores in Cleveland were closed, as were 31 other unprofitable stores. In 1988 we opened 71 stores, resulting in 36 net new stores after the closings, bringing our store count to 1,865. Net additions to the store base in 1989 will be higher than in 1988 as we are not planning further significant store closings. Our challenge will be to improve the profitability of the stores we have opened in recent years.



The Coatings Segment improved operating profits due to the sale of BAPCO, our joint venture with C-I-L, Inc. in Canada, that resulted in a significant gain for the Company. The sale requires that we refrain from competing in Canada in decorative paints for a period of two years. However, the Company can compete and is presently doing business in Canada with Automotive, Chemical Coatings and Industrial Maintenance products. It is our intention to re-enter Canada with decorative paint products at the end of the two year non-compete agreement. We will begin developing plans as to how most effectively to approach the Canadian decorative paints market in light of our country's new trade agreement with Canada.

The Coatings Segment operating profits declined excluding the BAPCO gain. Raw material shortages and cost increases caused margins to decline in all Divisions comprising that segment. Selling price increases are scheduled to be implemented again in 1989 by all

the Divisions to help cover these continuing cost increases We are hopeful that the rate of increase in our raw material costs will slow in 1989.

The Consumer Division is the Company's largest user of titanium dioxide and was most affected by the cost increases and shortages. Although its operating profits declined due to the margin squeeze, external paint gallonage exceeded industry performance, primarily in the Dutch Boy and Kem-Tone brands and private label accounts. In spite of the problems obtaining certain raw materials, the Consumer Division continued to make quality improvements in all major interior and exterior products.

The Automotive Division operating profits improved from the depressed level of 1987 caused by the fire at our Dayton, Ohio distribution center. The Division completed the construction of three distribution centers that all became operational during 1988. We acquired Western Automotive Finishes' assets in 1988 which gives us entry to the production shop segment. We opened or acquired 23 new Sherwin-Williams branches and opened two new training centers. This effort, together with the strength of our Martin-Senour brand to NAPA and the Acme and Rogers brands, has significantly strengthened our distribution to the North American refinish market.

The Chemical Coatings Division continued to develop and expand its line of environmentally compliant coatings. The Division is committed to providing coatings that meet or exceed Federal and State regulatory requirements. We are very optimistic about the progress made in marketing our products direct to external customers as well as through our Paint Stores Group.

The Sprayon Division also improved operating profits slightly from 1987 levels doing an excellent job of revitalizing the applicator business. Early in 1989, Sprayon will market a new premium brush and roller line, the "Contractor Series", that we believe will contribute to further profit improvements in this line of business. The "Contractor Series" product line meets the needs of the professional painter.

Traffic rates improved in the Transportation Services Division during the year but not enough to contribute significantly to the margins of the Division. Additional terminals were added to improve service levels. This limited expansion will continue into 1989 to reduce the amount of inventories carried in the stores by increasing the frequency of delivery.

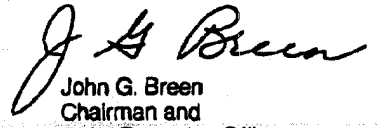
The International Group had a very successful year, as it turned in substantially improved operating profits. The results achieved by our unconsolidated Mexican subsidiary, Sherwin-Williams de Mexico, S.A., were outstanding given the difficult economic conditions in that country.

During the year we restructured our Research and Development function to move the Central Laboratory activities into our business units. These changes were made to improve the productivity of our R & D efforts and to move the product development function closer to the unit marketing activity. The R & D effort must be focused on providing high quality, unique products at reasonable prices to maintain our product integrity over competition. This is particularly true during periods of raw material shortages and cost escalation.

To strengthen our financial structure and achieve financial flexibility, we filed a shelf registration for unsecured debt securities during 1988. The shelf registration with the Securities and Exchange Commission covers $200 million principal amount which may be sold from time to time by the Company through its underwriters, dealers, or agents. The net proceeds received from any such sale of securities would be used for general corporate purposes.

In January 1989, the Board of Directors approved a shareholders rights plan designed to protect our shareholders from coercive and unfair takeover tactics. In approving the plan, the Directors believed it to be in the best interest of the shareholders to discourage any effort to acquire the Company in ways or on terms that are not fair to all shareholders. The plan was not approved in response to any known effort to acquire control of the Company and the plan does not preclude the Directors from considering an offer to acquire all or part of the Company if the offer is in the best interest of the shareholders. Under the plan, shareholders of record on February 6, 1989 received a dividend of one right for each share of common stock.

Our 1988 performance was respectable given the inflationary environment, but was disappointing in that it fell short of our operating plans. We believe that in 1989 we will again be operating in an inflationary environment for our businesses. Depending on the response by the Federal Reserve to the inflation, we may see a slowing of the economy. The Company is well-positioned, however, within its industry and is prepared to meet the challenges that will be presented. To meet our objectives in 1989, all of our people have strengthened their resolve to raise their standard of performance. With this commitment, we are confident that we will again improve our performance.



John G. Breen
Chairman and
Chief Executive Officer



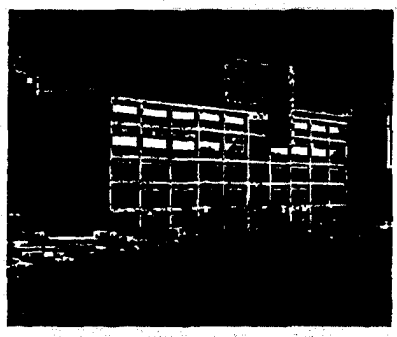
Thomas A. Commes
President and
Chief Operating Officer

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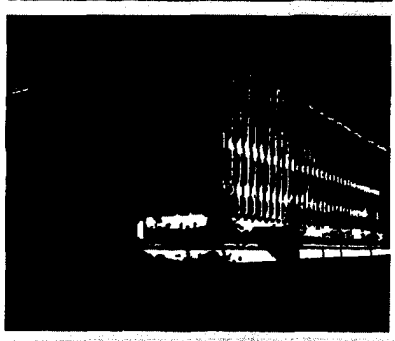
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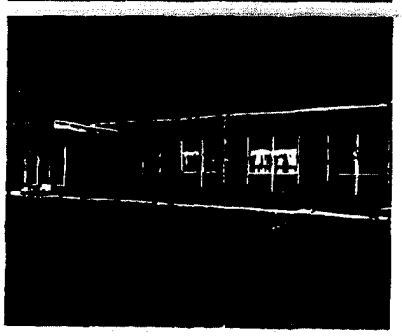
Operating Review by Segment











Highlights for 1988

Paint Stores

Stores Group

- Gained market share on the strength in the professional painter market. Paint products recorded double-digit sales gains despite soft retail sales.
- Added 74 sales personnel, opened 71 stores, relocated 47, closed 35.

Coatings

Consumer Division

- External brands' gallonage outperformed the industry lead by Dutch Boy and private label.
- Improved all major interior and exterior product offerings in terms of color, integrity, product consistency and application characteristics.

Automotive Division

- Acquired assets of Western Automotive Finishes, Inc. to expand market share in the production shop segment of the industry.
- Added 23 net new Sherwin-Williams branches, three distribution centers, a manufacturing facility, and two training centers.

Chemical Coatings Division

- Sales outperformed industry data. Areas of strength included automotive original equipment manufacturers, office products, coil and general industrial coatings for plastics.
- Expanded the number of environmentally compliant coatings.

Sprayon Division

- Accomplished total functional integration of applicator business.
- Achieved dramatic improvements in the quality of paint applicators.

Transportation Services Division

- Expanded terminal coverage by opening four northeast terminals.
- External sales increased 7 percent in 1988.

Other

Real Estate Group

- Consolidated real estate activities for the first time since inception.
- Occupancy rate at 87 percent for external space.

FACILITIES
Left, top to bottom

Sherwin-Williams markets paint, wallcoverings, floorcoverings, window treatments, spray equipment and associated products to DIY'ers, professional, commercial and OEM accounts.

Architectural product research center places emphasis on polymer development, color matching, product analysis and characterization.

Automotive branches distribute Sherwin-Williams labeled products direct to body shops, car dealers, fleets, OEM accounts and through jobbers.

The A. W. Steudel Technical Center is equipped with state-of-the-art laboratory and applications equipment for developing and testing industrial and automotive refinish coatings.

At this aerosol filling plant in Bedford Heights, Ohio, most aerosol products are produced on high speed automated lines to ensure prompt customer service.

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Developments for 1989

Paint Stores

Stores Group

- By year-end, 1,200 stores will be using the new point-of-sale system.
- Open 52 stores, relocate 52, close 4.

Coatings

Consumer Division

- Expand "THE LOOK" campaign through increased advertising expenditures on Dutch Boy.
- Implement programs to further improve customer service and product availability.

Automotive Division

- Introduce non-isocyanate clearcoat and acrylic urethane single-stage technology.
- Introduce computerized accu-mix scale, complete computer software package, shop layout and design services, and hazardous waste disposal system.

Chemical Coatings Division

- Implement plastic in-mold coatings and abrasion resistant coatings programs in the automotive and general products business units.
- Introduce Continuous Quality and Productivity Improvement Process team concept across all functional units.

Sprayon Division

- Launch "Contractor Series" applicators, the highest quality professional brush and roller line available.
- Emphasize Dupli-Color automotive scratch-fix line and offer customers better touch-up coverage.

Transportation Services Division

- Expand terminal coverage through the addition of six terminals.
- Increase market share by adding more national accounts.

Other

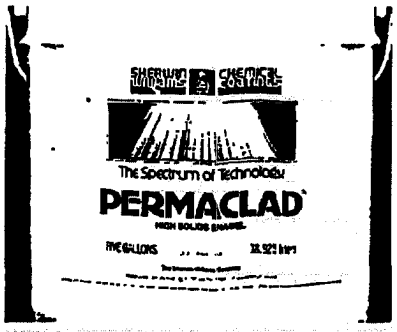
Real Estate Group

- Dispose of remaining unprofitable non-retail properties.
- Increase occupancy rate at remaining sites.











0007-SWP-035612

PRODUCTS
Right, top to bottom

A-100 Exterior Flat Latex & Trim Paint. Our best selling exterior latex offers superior hiding, long-term durability, excellent washability and scrubbability.

Dutch Boy SUPER one coat exterior latex satin paint is specially formulated for maximum protection and durability.

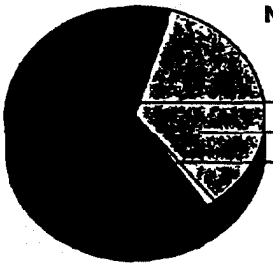
UltraBase 7™, a premium quality acrylic urethane basecoat/clearcoat system, offers painters a durable, fast system with high quality color matches.

Permaclad, a high solids, baking enamel, complies with EPA emission regulations and meets the performance specifications of quality-conscious metal finishers.

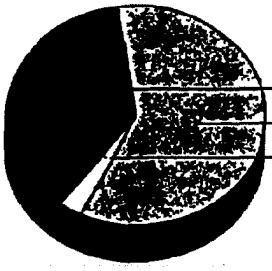
SuperAcrylic CONTROLS RUST Spray Enamel is a full line of aerosol acrylic paints with fast dry, excellent durability and superior corrosion resistance.

Business Segments

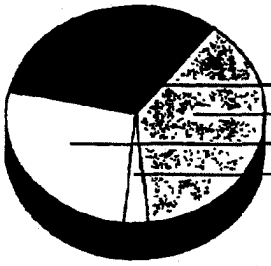
Net External Sales



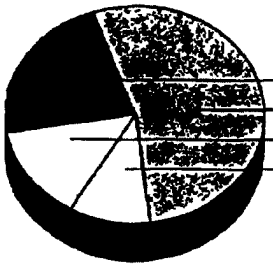
Operating Profits



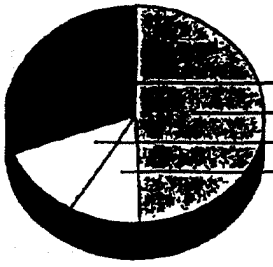
Identifiable Assets



Capital Expenditures



Depreciation



Millions of dollars

Years ended December 31,	1988	1987	1986
Net External Sales			
Paint Stores	$1,250	$1,158	$1,009
Coatings	687	635	544
Other	13	8	5
Segment totals	$1,950	$1,801	$1,558
Operating Profits			
Paint Stores	$ 70	$ 82	$ 91*
Coatings	118	104	129*
Other	6	5	—
Segment totals	194	191	220
Corporate expenses—net	(31)	(30)	(46)*
Income from continuing operations before income taxes	$ 163	$ 161	$ 174*
Identifiable Assets			
Paint Stores	$ 426	$ 367	$ 303
Coatings	457	401	351
Other	47	43	46
Segment totals	930	811	700
Corporate	329	399	257
Discontinued Operations	—	—	250
Consolidated totals	$1,259	$1,210	$1,207
Capital Expenditures			
Paint Stores	$ 15	$ 15	$ 12
Coatings	39	29	21
Other	8	6	13
Segment totals	62	50	46
Corporate	10	5	4
Discontinued Operations	—	2	14
Consolidated totals	$ 72	$ 57	$ 64
Depreciation			
Paint Stores	$ 11	$ 10	$ 9
Coatings	18	16	12
Other	4	3	2
Segment totals	33	29	23
Corporate	4	3	4
Continuing operations totals	$ 37	$ 32	$ 27
Operating Margins			
Paint Stores	5.6%	7.1%	9.0%
Coatings	10.8%	10.4%	14.8%
Other	25.5%	33.9%	(2.4%)
Segment totals	8.2%	8.8%	11.6%

*Includes net credits of $21,179,000 for Paint Stores and $30,023,000 for Coatings and a charge of ($17,417,000) for Corporate from unusual items.

Paint Stores
Coatings
Other
Corporate

Intersegment Transfers

	Years ended December 31,									
	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Coatings	$401	$368	$331	$314	$287	$271	$233	$261	$229	$214
All other segments	12	7	6	5	4	29	30	35	36	32
Segment totals	$413	$375	$337	$319	$291	$300	$263	$296	$265	$246

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1985	1984	1983	1982	1981	1980	1979
$ 931	$ 850	$ 724	$ 621	$ 616	$ 582	$ 585
556	513	485	491	554	466	414
39	91	188	200	229	216	197
$1,526	$1,454	$1,397	$1,312	$1,399	$1,264	$1,196
$ 64	$ 56	$ 29	$ 14	$ 16	$ 8	$ 6
94	77	89	78	57	45	39
3	10	10	11	8	23	16
161	143	128	103	81	76	61
(37)	(25)	(29)	(37)	(29)	(28)	(28)
$ 124	$ 118	$ 99	$ 66	$ 52	$ 48	$ 33
$ 283	$ 249	$ 197	$ 152	$ 167	$ 159	$ 166
331	305	300	277	304	307	289
38	63	67	142	145	142	135
652	617	564	571	616	608	590
224	217	203	155	75	161	122
232	209	203	176	173	—	—
$1,108	$1,043	$ 970	$ 902	$ 864	$ 769	$ 712
$ 16	$ 16	$ 7	$ 6	$ 10	$ 6	$ 2
24	15	12	9	10	6	3
16	13	22	24	20	10	6
56	44	41	39	40	22	11
8	2	2	4	2	2	1
11	13	9	5	1	—	—
$ 75	$ 59	$ 52	$ 48	$ 43	$ 24	$ 12
$ 8	$ 7	$ 6	$ 5	$ 6	$ 5	$ 5
11	9	8	8	8	9	8
3	5	8	7	6	5	6
22	21	22	20	20	19	19
2	2	1	2	2	1	—
$ 24	$ 23	$ 23	$ 22	$ 22	$ 20	$ 19
6.9%	6.6%	4.0%	2.2%	2.6%	1.3%	1.0%
10.8%	9.6%	11.8%	10.7%	6.9%	6.5%	6.2%
5.9%	10.7%	4.8%	5.0%	3.0%	9.4%	7.1%
8.7%	8.2%	7.6%	6.5%	4.8%	5.0%	4.2%

Notes to Segment Tables

The Other Segment consists of real estate leasing activities which began in 1982, the Chemicals Division which was disposed of in June 1985, and the Sherwin-Williams Container Corporation which was disposed of during November 1983.

Operating profit is total revenue, including realized profit on intersegment transfers, less operating costs and expenses. During 1988, management decided to close the unprofitable Floor World carpeting and tile stores in Ohio and ten unprofitable retail paint stores in southern California. Substantial costs were incurred and future costs through the disposal date were accrued in 1988, accounting for the majority of the decline in operating profits of the Paint Stores Segment. Also during 1988, the sale of the company's interest in its Canadian joint venture, BAPCO, net of provisions for the disposition and termination of certain operations, accounted for the increase in operating profits of the Coatings Segment. During 1984, a change in intersegment transfer values resulted in increased operating profit for the Paint Stores Segment while the Coatings Segment's operating profit declined due to the effects of the reduced transfer values. Corporate expenses include interest which is unrelated to real estate leasing activities and certain provisions for disposition and termination of operations and adjustments which are not directly associated with or allocable to any operating segment.

Identifiable assets are those directly identified with each segment's operations. Corporate assets consist primarily of cash, investments, headquarters property, plant and equipment, and certain property under capital leases.

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.

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

Effect of LIFO

	Year of Adoption	(Increase) Decrease in Income From Continuing Operations 1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Paint Stores	1980	$ 4	$(2)	$(1)	—	$(1)	—	$ 2	$ 5	$ 9	—
Coatings	1980	14	3	(5)	$ 1	4	$(1)	1	13	12	—
Other	1979	—	—	—	—	(1)	(2)	(3)	2	5	$ 6
Segment totals		$18	$ 1	$(6)	$ 1	$ 2	$(3)	$—	$20	$26	$ 6

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®, Dupli-Color®, ProMar® 200, Dutch Boy SUPER®, Dutch Boy DIRT FIGHTER®, and others. Other quality paint products are offered under the trademark SuperPaint™.

Sherwin-Williams at a glance by segment

	Properties*		Principal Products	Major Markets
Paint Stores Stores Group	Eastern Division	368	Sherwin-Williams branded architectural coatings and industrial maintenance products, wallcoverings, floorcoverings, window treatments, spray equipment and other associated products and tools.	Professional painters, painting contractors, industrial maintenance accounts, home builders, property managers, architects, do-it-yourselfers, and manufacturers of products requiring a factory finish.
	Mid Central Division	494		
	South Central Division	369		
	Southeastern Division	455		
	Western Division	179		
	Total	1,865		
Coatings Consumer Division	Baltimore, MD Chicago, IL Coffeyville, KS Emeryville, CA Fountain Inn, SC Garland, TX Morrow, GA Newark, NJ		Architectural finishes under Sherwin-Williams, Dutch Boy, Martin-Senour, Kem-Tone and private label brands, industrial maintenance products, labels, adhesives, and color cards.	Retail do-it-yourselfers, industrial and commercial maintenance accounts, and painting contractors.
Automotive Division	Grand Prairie, TX Greencastle, IN Lagrange, GA Mississauga, ONT Reno, NV Richmond, KY York, PA		Motor vehicle finish and refinish products marketed under the Sherwin-Williams, Martin-Senour, Western Automotive Paint, Acme and Rogers labels.	Independent automotive body shops, dealerships, fleet refinishers, body builders, truck original equipment manufacturers, and marine aftermarket accounts.
Chemical Coatings Division	Chicago, IL Greensboro, NC		Sherwin-Williams labeled industrial finishes for original equipment manufacturers of metal, plastic and wood products.	Automotive, coil-coated building products, communications equipment, construction and farm machinery, metal and wood furniture and fixtures, and off-road equipment.
Sprayon Division	Anaheim, CA Bedford Hts., OH Crisfield, MD Deshler, OH Elk Grove, IL Gravenhurst, ONT Scarborough, ONT		Custom and industrial aerosols. Paint applicators for consumers, painters, and contractors. Dupli-Color branded touch-up paints. Products primarily for motor vehicles.	Retail and wholesale paint, automotive, institutional, sanitary supply, insecticides and industrial markets.
Transportation Services Division	Buford, GA Effingham, IL Garland, TX Hunt Valley, MD Sparks, NV		Distribution and warehousing, truckload and less-than-truckload transportation, pool assembly and consolidation service.	All divisions of the company and approximately 1,800 external manufacturers, distributors, and retailers.
International Group	Kingston Port of Spain		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, and do-it-yourselfers.
Other Real Estate Group	Retail Properties	172	Acquiring, developing, leasing and managing properties for the company and others.	All divisions of the company, retailers, and distributors.
	Non-retail Properties	14		
	Total	186		

*Includes principal manufacturing and distribution facilities. Production capacity at existing manufacturing facilities is sufficient to fulfill our expected production needs in 1989.

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Distribution	Competition	Seasonality
Through 1,865 company-operated stores in 48 states.	Paint and wallpaper stores, mass merchandisers, home centers, independent hardware stores, hardware chains and manufacturer operated outlets. Market is highly fragmented and service, price and product quality competitive.	Majority of sales occur in the second and third quarters.
The Paint Stores Group, mass merchandisers, independent dealers, distributors, and home centers.	More than 1,000 coatings manufacturers at the regional and national level. Brand recognition, quality, price, product innovation, distribution and service are main competitive factors.	Majority of sales occur in the second and third quarters.
Through 139 company-operated automotive branches, and through jobbers and wholesale distribution centers.	Numerous competitors with broad product offerings and several small companies with niche products. Distribution, product quality, technology and service are key competitive factors.	Moderately seasonal.
The Paint Stores Group and original equipment manufacturers.	Many major competitors both national and regional. Key competitive factors include technical capability for custom formulation, service, technical support, product innovation and price.	No significant seasonality.
Mass merchandisers, automotive chains, sanitary supply marketers, electrical construction and general maintenance distribution channels.	Various primary competitors. Technical know-how, quality, service and price are main competitive factors.	No significant seasonality.
Direct sales force, five distribution service centers, 39 trucking terminals, 726 road tractors and 2,074 trailers.	Many competitors in both the truckload and less-than-truckload business segments. Price and service are the competitive factors.	Majority of sales occur in the second and third quarters.
Direct sales force, distributors and jobbers. Through company-operated stores in Jamaica (15), Trinidad (8), Puerto Rico (13).	Many competitors in each foreign market. Price, service and quality sensitive.	No significant seasonality.
Not applicable.	Retail property owners, developers and managers in certain states. Availability and price are main competitive factors.	No significant seasonality.

General Development of Business. The Company, which was first incorporated under the laws of the State of Ohio in 1884, and its predecessors have been doing business since 1866. During 1988 the Company continued the expansion of its domestic operations through the development and acquisition of commercial and retail outlets and manufacturing facilities. As of December 31, 1988 the Company had 16,607 employees

Effective July 30, 1988, the Company, through wholly-owned subsidiaries, purchased substantially all of the assets of Western Automotive Finishes, Inc., a Texas corporation involved in the manufacture and sale of automotive coatings, and an automotive paint manufacturing facility located in Grand Prairie, Texas. Also, effective November 30, 1988, the Company sold its 50% partnership interest in BAPCO, a Canadian partnership.

Source Availability of Raw Materials. Raw materials and fuel supplies are generally available from various sources in sufficient quantities for all divisions. While shortages and cost increases have occurred with respect to some raw materials, e.g titanium dioxide and isocyanates, the Company does not anticipate any significant sourcing problems with respect to any of its divisions at this time.

Environmental Compliance. Various governmental regulations concerning the protection of the environment have application generally to certain of the Company's operations e.g. rules governing labeling, packaging, formulation and the use of under ground storage tanks. However, the Company monitors the requirements in these areas and works conscientiously to assure compliance with such rules and regulations, and does not anticipate that future compliance will have a material effect on the Company's capital expenditures, earnings or competitive position.

Customers and Backlog Orders. The loss of any single customer or group of customers would not have a significant materially adverse effect on the business of the Company or any segment. Backlog orders are not significant in the business of any segment of the Company.

Research and Development. The expenditures for research and development are listed on Page 20 under Note 1 - Significant Accounting Policies to the Notes to Consolidated Financial Statements. Virtually all research and development is sponsored by the Company.

Patent, Trademarks and Licenses. Patents and licenses are not of material importance to the business of the Company as a whole. However, the International Group derives a substantial part of its income from the license of technology, trademarks and tradenames to foreign companies. The Company employs a variety of tradenames and trademarks in marketing its products, such as Sherwin-Williams, Dutch Boy, Acme, Dupli-Color, Kem-Tone and Martin-Senour. Customer recognition of the Company's tradenames and trademarks contributes significantly to the sales of the segments of the Company.

Legal Proceedings. Other than ordinary routine litigation incident to its business, the Company is not a party to any legal proceedings material to its business-financial conditions. However, the Company is presently involved in several proceedings involving potential liability for the clean up of environmental waste sites which may be required to be disclosed in accordance with SEC regulations. The Company continues to assess its potential liability with respect to these sites. Based upon the number of parties involved with respect to any given site, the nature of the wastes involved, the time over which any costs which are finally determined to be the responsibility of the Company may be incurred and the volumetric contribution which may be attributed to the Company, among other factors, the Company does not believe that any potential liability ultimately determined to be attributable to the Company will have a material adverse effect on the Company's financial position. The following is a brief description of each such proceeding:

The Company is involved in three proceedings with the New Jersey Department of Environmental Protection. The first involves a lawsuit with respect to a hazardous waste site in Gloucester Township, N.J. The suit involves over 50 defendants and seeks to compel the defendants to commence an investigation of the potential waste problems at the site and to take remedial action with respect thereto. The second involves an Administrative Order with respect to a property located in Gibbsboro, N.J. The order seeks to compel the Company and the present owner of the property to commence the investigation of and remedial action with respect to the property. The third proceeding involves an Administrative Consent Order which the Company has entered into with respect to the environmental clean up of a previously owned manufacturing facility in Fords, N.J. The Company is presently working with the State in taking steps to address clean up issues at the site.

The State of Ohio filed a lawsuit against the Company and 10 other defendants with respect to a landfill in Montville Township, Ohio. The action seeks to establish the liability of the defendants for alleged hazardous waste disposal at the site and to compel remedial action with respect thereto.

The Kansas Department of Health and Environment and the Company entered into an Administrative Consent Order with respect to a property located in Coffeyville, Kansas. The Company has taken remedial action with respect to waste clean up at the site pursuant to the order and has filed an appeal of the post closure permit issued by the State and the U.S. Environmental Protection Agency for the site.

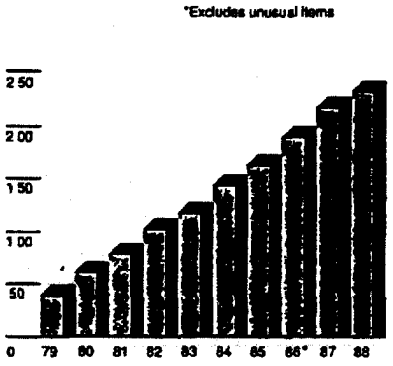
The United States Environmental Protection Agency ("US EPA") and the Company have entered into two Administrative Consent Orders. The first involves over 50 parties with respect to an order issued with respect to a site in Carlstadt, N.J. The second involves over 100 parties with respect to a site in Griffith, Indiana. Both of the orders involve a remedial investigation of the sites and a determination of the remedial action to be taken with respect thereto. The US EPA has also issued an Administrative Order involving the Company and approximately 100 other parties with respect to a property located in Gary, Indiana. The order seeks to compel an investigation of and remedial action with respect to alleged waste disposal at the site.

The Company has been named as a potentially responsible party ("PRP") at several hazardous waste disposal sites by the Federal and various state environmental protection agencies. The Company is presently assessing its involvement and potential liability, if any, with respect to such sites.

Significant Events

During 1988, acquisitions, construction of warehouses, and store openings had an impact on the consolidated financial statements of the company. In addition, wholly-owned real estate subsidiaries were consolidated for the first time and all prior years' information restated. However, the most significant impacts on the consolidated financial statements resulted from escalating costs of raw materials and non-operating events. During the fourth quarter, gains were realized on the sale of the company's interest in its Canadian joint venture, BAPCO, and on the realization of full value of long-term assets whose book value had been previously reduced. The assets consisted of a note receivable and other investment securities in a previously disposed of subsidiary whose financial condition had deteriorated and, therefore, the values had been reduced. Offsetting these gains were provisions for environmental protection and control at operating sites which resulted from an internal program started two years ago that identified amounts needed to be spent to operate our facilities within new, constantly changing regulations. Also, provisions for the disposition and termination of operations, particularly for the unprofitable Floor World carpeting and tile stores in Ohio and ten unprofitable retail paint stores in southern California, offset the above gains. The net effect of the non-operating items is generally included in other costs and expenses. On the balance sheet, the provisions for disposition and termination of operations primarily increased current liabilities.

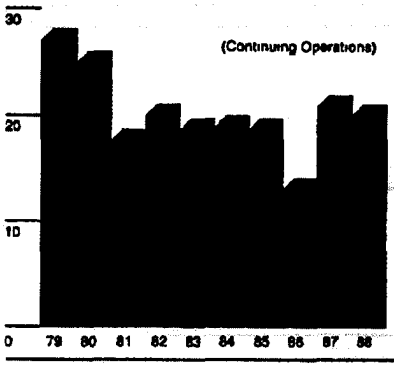
Earnings Per Common Share
Dollars



Financial Condition - 1988

Our current ratio of 2.0 to 1 is in line with prior years. A net increase of $9.5 million in current assets resulted from increases in accounts receivable ($20.0 million) and inventories ($41.6 million) due primarily to normal operations, additional stores and warehouses, and acquisitions. Short-term investments decreased $53.8 million from 1987 as a result of capital expenditures ($71.6 million), purchases of stock for treasury ($25.6 million), the contribution to an employee benefit fund ($18.0 million), reductions in long-term debt ($13.9 million), and normal operating needs for increased levels of inventories and receivables. Partially offsetting these expenditures was the cash generated by operations and the proceeds from the sale of our interest in BAPCO ($50.0 million) and from the recovery of long-term investment assets ($14.5 million).

Working Capital as a % of Sales
Percent



We fully expect that our current cash and investment levels, along with the anticipated future cash flow from operations, will be sufficient to finance our working capital needs. The decrease in accrued taxes is due to a recent change by the federal government which requires companies to pay their estimated tax liability for current earnings on an accelerated schedule.

Noncurrent assets and liabilities were affected in 1988 by the significant non-operating events that occurred. Other assets declined due to the sale of our investment in BAPCO and for the reclassification of certain items to current. Other liabilities increased as a result of provisions established for the costs of extended programs related to environmental protection and control. Property, plant and equipment increased in cost from 1987 primarily from capital expenditures of $71.6 million and acquisitions of $15.7 million. Our principal acquisition in 1988 was the assets of Western Automotive Finishes, Inc., an automotive paint manufacturer and distributor. Capital expenditures represent principally the cost of opening or remodeling paint stores and constructing three warehouses to replace the warehouse destroyed by fire during May, 1987 in Dayton, Ohio. During 1987, the primary reason for the change in property, plant and equipment from 1986 was capital expenditures of $56.8 million and the acquisition of Lyons Group, Inc., representing capital assets of $12.9 million, partially offset by the sale of the Drug Stores Segment, representing capital assets of $39.2 million. During 1987 and 1986, capital expenditures were made primarily for the store expansion and remodeling program. We do not anticipate the need for any additional external financing to

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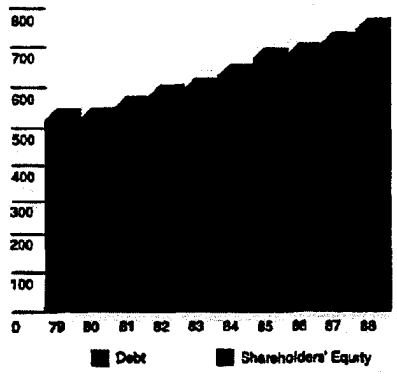
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support our capital programs with the possible exception of development activities of the real estate subsidiaries.

We continued to improve our debt to capitalization ratio to 18.6 percent at the end of 1988 compared to 22.2 percent in 1987. The ratios for both years include the debt of the real estate subsidiaries. Our debt to capitalization ratio has steadily improved since 1978 primarily as a result of continued increasing profitability, planned debt reductions, and the conversion of debentures into common stock. This ratio is affected by the purchase of 974,210 shares of our own stock during 1988. We acquire our own stock for general corporate purposes and, depending on our cash position and market conditions, we may purchase additional shares of stock in the future.

While the company continues to reduce its debt outstanding, it has also strengthened its future ability to acquire financing. During 1988, a shelf registration was filed which permits the company to issue up to $200 million of unsecured debt securities. In addition, we established a

Capitalization
Dollars in Millions



commercial paper program providing for the sale of up to $100 million of unsecured short term notes. These new financing arrangements, combined with the $280 million revolving credit agreement and the $65 million credit agreement with The Sherwin-Williams Company Salaried Employees' Retirement Trust, provide the company with significant financing flexibility. We did not borrow against these financing arrangements during 1988.

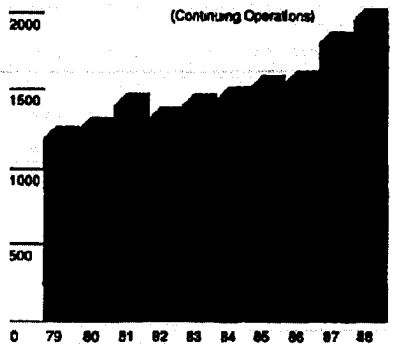
Our dividend increased for the tenth consecutive year on February 15, 1989 when the board of directors declared a 1989 quarterly dividend of $.175 per share. This dividend represents a compounded rate of increase of 44 percent since the dividend was reinstated in 1979. The 1988 quarterly dividend of $.16 per share marked the ninth consecutive year that the dividend approximated our payout target of 30 percent of trailing annual earnings after recognizing operating cash needs.

On January 25, 1989 the board of directors approved a shareholders rights plan designed to protect our shareholders should the company become the target of coercive and unfair takeover tactics. The rights were not adopted in response to any known effort to acquire control of the company.

Results of Operations - 1988 vs 1987

Consolidated sales increased 8.3 percent in 1988 as all segments improved sales during the year. We improved our market share again in 1988 as gallons sold increased at a faster pace than the architectural paint industry in general. Most of the sales increase in 1988 was due to volume gains although prices were increased during the year. The Paint Stores Segment had a good comparable store sales

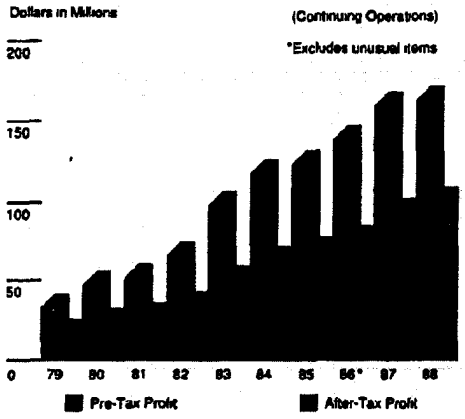
Sales
Dollars in Millions



increase during 1988 of 7.3 percent on the strength of a double-digit wholesale sales increase. The overall sales improvement for the Paint Stores Segment was 8.0 percent due to weak retail sales which were basically at the same level as 1987. The Coatings Segment had an 8.2 percent sales improvement as all divisions comprising that segment posted volume gains. The Other Segment contributed to the consolidated sales improvement due to increased rental income from additional real estate properties.

Shortages and escalating costs of certain raw materials during 1988, especially titanium dioxide which is a significant ingredient used in the manufacture of paint, were mainly responsible for the decline in consolidated operating profits. Consolidated gross profit dollars increased 4.1 percent during the year primarily as a result of the volume gains achieved. However, the selling price increases initiated during the year were not enough to offset the raw material cost increases, resulting in lower consolidated gross margins. Gross margins decreased to 39.2 percent in 1988 from 40.8 percent in 1987. This decrease occurred mainly in the Coatings Segment due to the significantly increased costs of raw materials as gross margins of the Paint Stores Segment were flat for the year before taking into account the effect of certain provisions for the disposition and termination of operations.

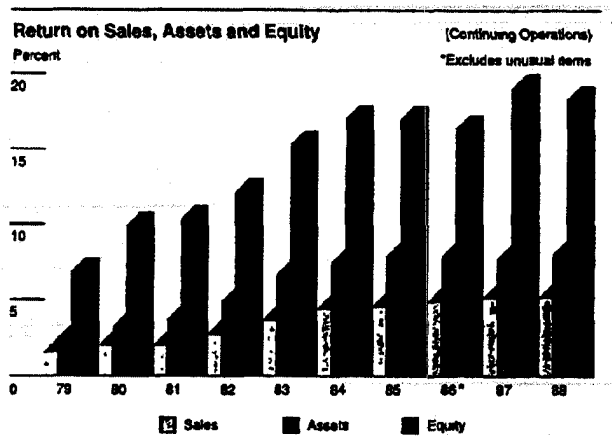
Consolidated selling, general and administrative expenses increased in dollars during 1988 but remained flat with 1987 at 32.2 percent of sales. The increase in expenses is mainly the result of the store expansion program and additional sales representatives. Consolidated rent expense increased to $79.2 million in 1988 from $72.0 million for 1987 primarily in the Paint Stores Segment. The costs incurred in opening stores and adding sales representatives require more than one year to achieve sufficient sales volume to offset these costs. As a result, selling, general and administrative expenses for the Paint Stores Segment increased as a percent of sales in 1988. The Coatings Segment's expenses increased slightly for the year in dollars while they improved as a percent of sales.



Significant items affecting profits in 1988, included in other costs and expenses on the consolidated income statement, were non-operating charges and credits. The Paint Stores Segment's operating profits included the provisions established for closing certain unprofitable stores. The operating profits of the Coatings Segment improved due to the gain realized on the sale of BAPCO which was partially offset by provisions for the costs of closing certain facilities. The gain from the recovery of full value of long-term assets and provisions for the disposition and termination of operations, which are not directly associated with or allocable to any operating segment, are included in Corporate expenses.

Interest expense, including the expense of our real estate subsidiaries, decreased 19.7 percent during 1988 because of the continued reduction in debt outstanding. Interest coverage improved to 12.4 times in 1988 compared to 10.1 times in 1987. Our fixed charge coverage, which is calculated using interest and rent expense, was 2.7 times in 1988. Rent expense increases offset the effects of the 1988 increased profitability resulting in a slightly lower fixed charge coverage from 1987's level of 2.8 times.

Interest and net investment income remained at $12.8 million in 1988 as higher income yields offset lower investment levels when compared to 1987.



The 1988 reduction in operating profits was more than offset by the increases in other income, the reduction in interest expense, and a reduced income tax rate. Income from continuing operations increased 7.8 percent to $101.1 million and earnings per share from continuing operations increased 10.0 percent to $2.30. While we expect raw material costs to increase again in 1989, we are hopeful that the rate of increase will be slower than in 1988. Price increases are planned for 1989 in an attempt to cover these costs and improve operating margins. We believe we are positioned to improve our results in 1989. Our financial position and results of operations may be affected beginning in 1990 by Financial Accounting Standards Board Statement No. 96, Accounting for Income Taxes, because of the lower rates adopted in the Tax Reform Act of 1986. The company has not yet completed all the complex analyses required to estimate the impact of the new Statement. Based on information currently available, it appears that the Statement will have a favorable effect on the company's tax expense by reducing the rate at which deferred taxes are recognized.

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Results of Operations - 1987 vs 1986

Consolidated sales of continuing operations improved 15.6 percent in 1987. Excluding the January 1987 acquisition of Lyons Group, Inc., a less-than-truckload common carrier, this increase was 11.7 percent and was attributable to improved sales performance from each business segment. Despite strong competition, our Paint Stores Segment continued to gain market share. Aggressive promotional activity contributed to paint gallonage increases and sales increased 13.0 percent for stores in operation during both 1987 and 1986. We expanded distribution by opening stores, which contributed to the overall increase of 14.7 percent in sales. Excluding Lyons, Coatings Segment sales surpassed 1986 by 5.6 percent in spite of a fire at the Dayton Distribution Center which destroyed over two-thirds of the Automotive Division's finished goods inventory. Distribution was immediately reestablished at other divisions' sites and temporary locations which minimized the loss of sales. The Other Segment contributed to the consolidated sales improvement due primarily to the addition of real estate properties.

The 1987 increase in consolidated gross profits of $97.4 million, or 15.3 percent, was due to sales gains as consolidated gross margins remained flat at 40.8 percent. Price cutting in the trucking industry and the fire at Dayton contributed to a decline of 2.3 percent in Coatings Segment's gross margins which offset slight improvements in Paint Stores' margins. Costs of products sold increased only minimally in 1987.

Consolidated selling, general and administrative expenses increased to $579.1 million and as a percentage of sales to 32.2 percent from 31.3 percent in 1986. The increase was primarily due to the store expansion program and additional sales representatives. The purchase of Lyons and the addition of stores contributed significantly to a 29.0 percent increase in consolidated rent expense. Increased promotional activities in the Paint Stores Segment lead to an increase of 17.6 percent in consolidated advertising expenditures. Higher net pension costs, resulting from the settlement of a defined benefit pension plan obligation in 1986 which reduced the net pension credit in 1987, also contributed to higher consolidated selling, general and administrative expenses.

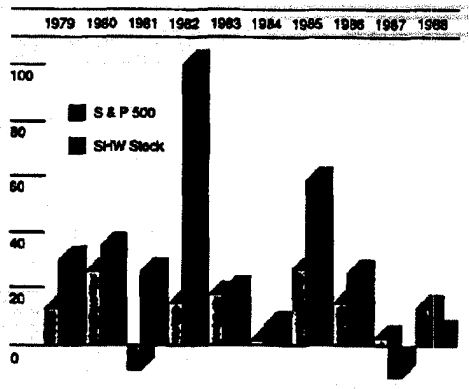
During 1986, net unusual items of $33.8 million were recorded as a result of a $91.0 million gain on the settlement of the pension obligation partially offset by a provision for the termination of contracts, a reduction in the value of assets, provisions for environmental protection and control, and other nonrecurring items. Excluding the effects of these items, operating profits for 1987 increased $12.3 million (17.6 percent) in the Paint Stores Segment, $5.1 million (5.1 percent) in the Coatings Segment and $5.3 million in the Other Segment. Consolidated operating profits were affected in 1987 by lower provisions for the disposition and termination of operations directly associated with operating segments due to the number, type, and size of facilities involved.

Total interest expense, including the expense of our real estate subsidiaries, declined 4.8 percent during 1987 due to a continuing reduction in debt outstanding. Interest coverage improved to 10.1 times in 1987 compared to 8.5 times in 1986, excluding the effects of unusual items. Our fixed charge coverage decreased to 2.8 times in 1987 from 2.9 times in 1986 as rent expense increases offset increased profitability.

Interest and net investment income increased to $12.8 million from $9.8 million in 1986 as higher investment levels in 1987 more than offset the effects of lower income yields.

The 1987 increase of $17.4 million in income from continuing operations, excluding the effects of the 1986 unusual items, was also partially due to gains realized by the Other Segment on disposals of certain warehouses (included in other costs and expenses) and a lower income tax rate resulting from the Tax Reform Act of 1986.

Sherwin-Williams Stock Performance Vs. S & P 500



Financial Summary

Millions of dollars, except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31,	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Operations										
Net sales	$ 1,950	$ 1,801	$ 1,558	$ 1,526	$ 1,454	$ 1,397	$ 1,312	$ 1,399	$ 1,264	$ 1,196
Cost of goods sold	1,187	1,067	922	916	900	897	881	976	868	829
Selling and administrative expenses	629	579	488	464	425	391	356	365	344	323
Interest expense	14	18	19	18	18	16	16	17	19	19
Income from continuing operations before income taxes	163	161	140*	124	118	98	66	52	48	33
Income taxes	62	67	64*	55	55	47	31	24	23	16
Income from continuing operations	101	94	76*	69	63	51	35	28	25	17
Net income	101	97	86*	75	65	55	43	31	25	17
Net cash flow provided by operations	40	85	95	102	126	100	124	51	103	76
Financial Position										
Inventories	$ 323	$ 281	$ 410	$ 367	$ 338	$ 332	$ 299	$ 335	$ 237	$ 242
Accounts receivable — net	196	176	158	155	149	137	131	132	131	126
Working capital	388	373	301	358	336	335	329	297	312	323
Property, plant and equipment — net	333	289	318	291	268	235	246	240	211	204
Total assets	1,259	1,210	1,207	1,108	1,043	970	902	864	769	712
Long-term debt	130	141	178	191	206	205	209	230	213	234
Common shareholders' equity	601	550	492	465	404	370	334	284	263	243
Total shareholders' equity	601	550	492	465	404	371	349	305	287	268
Per Common Share Data										
Average shares and equivalents (thousands)	43,915	44,838	45,785	46,222	45,850	47,639	41,807	39,635	39,070	42,327
Book value	$ 13.97	$ 12.57	$ 11.15	$ 10 10	$ 8.97	$ 8.12	$ 7.59	$ 7.17	$ 6.69	$ 6.25
Income from continuing operations	2.30	2.09	1.66*	1.48	1.37	1.08	.83	.68	.61	.39
Net income	2.30	2.15	1.88*	1.61	1.42	1.16	1.01	.77	.61	.39
Cash dividends	.64	.56	.50	.46	.38	.30	.25	.20	.15	.02
Financial Ratios										
Return on sales**	5.2%	5.2%	4.9%*	4.5%	4.3%	3.7%	2.7%	2.0%	2.0%	1.5%
Asset turnover**	1.6x	1.7x	1.7x	1.8x	1.8x	1.9x	1.8x	1.8x	1.7x	1.8x
Return on assets**	8.0%	7.8%	7.9%*	7.9%	7.5%	6.7%	4.9%	3.7%	3.2%	2.5%
Return on equity (A):										
From continuing operations	18.4%	19.1%	16.4%*	17.0%	16.9%	15.3%	12.1%	10.3%	9.8%	6.8%
From total operations	18.4%	19.6%	18.6%*	18.5%	17.6%	16.6%	14.8%	11.6%	9.8%	6.8%
Dividend payout ratio	27.7%	25.7%	26.2%*	28.2%	26.5%	25.1%	25.0%	26.1%	24.6%	4.3%
Debt to capitalization	18.6%	22.2%	27.6%	30.5%	35.0%	37.1%	38.6%	43.6%	43.9%	47.4%
Current ratio	2.0	2.0	1.7	1.9	1.9	2.0	2.1	2.0	2.3	2.9
Times interest earned (B)**	12.4x	10.1x	8.5x *	7.9x	7.6x	7.0x	5.2x	4.1x	3.6x	2.7x
Working capital to sales**	19.9%	20.7%	13.0%	18.5%	18.7%	18.5%	19.9%	17.4%	24.7%	27.0%
Effective income tax rate**	38.0%	41.8%	45.5%*	44.5%	46.9%	47.9%	46.5%	46.5%	48.6%	47.7%
General										
Capital expenditures	$ 72	$ 57	$ 64	$ 75	$ 59	$ 52	$ 48	$ 43	$ 24	$ 12
Total technical expenditures	32	28	26	23	26	23	24	25	23	20
Advertising**	84	73	62	62	57	51	42	40	29	21
Depreciation and amortization**	37	32	27	24	23	23	22	22	20	19
Shareholders of record:										
Preferred	—	—	—	—	—	40	557	750	855	951
Common	12,606	12,327	11,936	11,384	9,777	9,641	8,590	8,858	8,688	9,796
Number of employees**	16,607	15,901	13,706	12,970	13,092	13,172	14,297	15,879	16,808	16,872
Sales per employee** (thousands)	$ 117	$ 113	$ 114	$ 118	$ 111	$ 106	$ 92	$ 88	$ 75	$ 71
Sales per dollar of assets**	1.55	1.49	1.61	1.74	1.74	1.83	1.82	1.87	1.64	1.68

* Excludes unusual items which increased income from continuing operations and net income by $19,595,000 ($.43 per share).

** Based on continuing operations only.

(A) Based on common shareholders' equity at beginning of year.

(B) Ratio of pre-tax income from continuing operations before interest expense to interest expense.

This summary should be read in conjunction with the financial statements and notes on pages 16-28 of this report.

Statements of Consolidated Income

Thousands of dollars, except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31,	1988	1987	1986
Net sales	**$1,950,474**	$1,800,580	$1,558,099
Costs and expenses:			
Cost of goods sold	**1,186,646**	1,066,735	921,619
Selling, general and administrative expenses	**628,574**	579,067	488,340
Interest expense	**14,253**	17,757	18,653
Interest and net investment income	**(12,752)**	(12,803)	(9,779)
Other	**(29,487)**	(11,388)	(34,604)
	1,787,434	1,639,368	1,384,229
Income from continuing operations before income taxes	**163,040**	161,212	173,870
Income taxes	**61,960**	67,407	77,909
Income from continuing operations	**101,080**	93,805	95,961
Income from discontinued operations — net of tax	**—**	2,772	9,991
Net income	**$ 101,080**	$ 96,577	$ 105,952
Income per share:			
From continuing operations	**$ 2.30**	$ 2.09	$ 2.09
From discontinued operations	**—**	.06	.22
Net income	**$ 2.30**	$ 2.15	$ 2.31

See notes to consolidated financial statements.

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Consolidated Balance Sheets

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

December 31,	1988	1987	1986
Assets			
Current assets:			
Cash and cash equivalents	$ 69,838	$ 70,280	$ 70,588
Short-term investments	84,403	138,250	31,152
Accounts receivable, less allowance	195,726	175,676	158,024
Inventories:			
Finished goods	271,978	238,717	374,843
Work in process and raw materials	51,018	42,689	35,035
	322,997	281,406	409,878
Other current assets	93,174	90,992	62,009
Total current assets	766,138	756,604	731,651
Deferred pension assets	135,621	121,906	104,853
Other assets	24,152	42,153	52,661
Property, plant and equipment:			
Land	35,206	32,069	30,409
Buildings	186,721	159,478	154,362
Machinery and equipment	365,834	324,498	347,966
Construction in progress	11,757	11,663	15,594
	599,518	527,708	548,331
Less allowances for depreciation and amortization	266,920	238,846	230,596
	332,598	288,862	317,735
Total assets	$1,258,709	$1,209,525	$1,206,900
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	$ 160,844	$ 153,494	$ 204,043
Compensation and taxes withheld	49,055	48,756	50,201
Other accruals	149,774	154,275	149,970
Accrued taxes	18,316	26,851	26,392
Total current liabilities	377,989	383,376	430,606
Long-term debt	129,604	141,387	177,507
Deferred income taxes	92,242	92,595	82,009
Other long-term liabilities	57,623	42,482	25,209
Shareholders' equity:			
Common stock — $1.00 par value: 43,040,752, 43,723,060, and 44,079,828 shares outstanding at December 31, 1988, 1987, and 1986, respectively	47,939	47,603	47,131
Other capital	132,621	127,164	118,042
Retained earnings	552,764	479,640	407,873
Cumulative foreign currency translation adjustment	(13,218)	(12,689)	(12,808)
Treasury stock, at cost	(118,855)	(92,033)	(68,669)
Total shareholders' equity	601,251	549,685	491,569
Total liabilities and shareholders' equity	$1,258,709	$1,209,525	$1,206,900

See notes to consolidated financial statements.

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Statements of Consolidated Cash Flows

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

Years ended December 31,	1988	1987	1986
Operations			
Net income	$101,080	$ 96,577	$105,952
Non-cash adjustments:			
Depreciation and amortization	36,865	34,510	32,253
Deferred income tax expense	2,751	6,649	23,142
Provisions for dispositions of operations	23,316	13,740	21,568
Funded employee benefits incurred	6,707	—	—
Amortization of intangible assets	2,199	6,500	2,729
Increase in deferred pension asset	(13,872)	(14,356)	(18,492)
Other	(2,065)	2,980	5,367
Unusual items—net	—	—	(33,785)
Change in current items—net:			
Increase in accounts receivable	(15,293)	(21,366)	(2,723)
Increase in inventories	(36,577)	(14,483)	(40,503)
Increase (decrease) in accounts payable	2,019	(14,742)	6,413
(Decrease) increase in accrued taxes	(8,535)	459	(2,734)
Other current items	(8,409)	5,287	9,892
Gains on disposals of assets	(42,358)	(15,941)	—
Costs incurred for dispositions of operations	(12,423)	(11,594)	(8,551)
Other	4,527	11,012	(5,914)
Net operating cash	39,932	85,232	94,614
Investing			
Capital expenditures	(71,551)	(56,779)	(64,176)
Short-term investments	53,847	(107,098)	91,912
Acquisition of assets	(18,162)	(13,340)	(8,510)
Proceeds from disposals of assets	55,453	193,654	—
Contribution to employee benefit fund	—	(33,339)	—
Other	3,032	8,940	2,266
Net investing cash	22,619	(7,962)	21,492
Financing			
Payments of long-term debt	(13,926)	(38,688)	(62,619)
Sale of debentures	—	—	50,000
Payments of cash dividends	(27,956)	(24,810)	(22,594)
Purchases of stock for treasury	(25,618)	(24,910)	(63,136)
Other	4,507	10,830	5,870
Net financing cash	(62,993)	(77,578)	(92,479)
Net (decrease) increase in cash and cash equivalents	(442)	(308)	23,627
Cash and cash equivalents at beginning of year	70,280	70,588	46,961
Cash and cash equivalents at end of year	$ 69,838	$ 70,280	$ 70,588
Taxes paid on income	$ 62,578	$ 53,067	$ 51,156
Interest paid on debt	14,471	20,095	20,504

See notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

	Common Stock	Other Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance at January 1, 1986	$26,372	$153,281	$358,749	$(12,552)	$ (60,483)
Two-for-one stock split	23,433	(23,433)	—	—	—
Treasury stock acquired/retired	(3,000)	(17,328)	(34,234)	—	(8,574)
Stock issued	326	5,522	—	—	388
Net income	—	—	105,952	—	—
Cash dividends — $.50 per share	—	—	(22,594)	—	—
Current year translation adjustment	—	—	—	(256)	—
Balance at December 31, 1986	47,131	118,042	407,873	(12,808)	(68,669)
Treasury stock acquired	—	—	—	—	(24,910)
Stock issued	472	9,122	—	—	1,546
Net income	—	—	96,577	—	—
Cash dividends — $.56 per share	—	—	(24,810)	—	—
Current year translation adjustment	—	—	—	119	—
Balance at December 31, 1987	47,603	127,164	479,640	(12,689)	(92,033)
Treasury stock acquired	—	—	—	—	(25,618)
Stock issued	336	5,457	—	—	(1,204)
Net income	—	—	101,080	—	—
Cash dividends — $.64 per share	—	—	(27,956)	—	—
Current year translation adjustment	—	—	—	(529)	—
Balance at December 31, 1988	$47,939	$132,621	$552,764	$(13,218)	$(118,855)

See notes to consolidated financial statements.

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Years ended December 31, 1988, 1987 and 1986

Note 1 — Significant Accounting Policies

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

Accounting Change. During 1988, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 94, Consolidation of All Majority-owned Subsidiaries. Accordingly, Sherwin-Williams Development Corporation ("SWDC"), a wholly-owned subsidiary of the Company, and its wholly-owned affiliates have been consolidated in the accompanying financial statements and schedules. All periods affected have been restated. SWDC, carried on the equity basis since being established, is the only previously unconsolidated subsidiary of the company required to be consolidated by Statement No. 94.

Cash Flows. During 1988, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 95, Statement of Cash Flows, and restated previously reported statements of changes in financial position for 1987 and 1986. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Short-term investments are stated at cost, which approximates 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 are amortized over the expected period of benefit.

Research and development costs. All research and development costs are charged to continuing operations. Research and development costs were $16,705,000, $13,398,000 and $12,290,000 for 1988, 1987 and 1986, respectively.

Net income per share. Net income per share was computed based on the average number of shares and share equivalents outstanding during the year.

Reclassification. Unusual items of $33,785,000, shown separately in 1986, have been reclassified to other costs and expenses (see Note 5) and certain other amounts in the 1987 and 1986 financial statements have been reclassified to conform with the 1988 presentation.

Note 2 — Business Segments

Business segment information appears on pages 6, 7, 8, 9 and 10 of this report.

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 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, 1988	1987	1986
Percentage of total inventories on LIFO	96%	96%	98%
Excess of FIFO and average cost over LIFO	$56,138	$38,012	$64,423
Increase (decrease) in net income due to LIFO:			
From continuing operations	(11,180)	(703)	3,042
From discontinued operations	—	1,583	(2,682)
Increase (decrease) in net income per share due to LIFO:			
From continuing operations	(.25)	(.02)	.07
From discontinued operations	—	.04	(.06)

During 1986 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, which increased income from continuing operations, was immaterial. The 1987 reduction in the excess of FIFO and average cost over LIFO is primarily due to the sale of the Drug Stores Segment.

Note 4 — Real Estate Subsidiary

SWDC and its wholly-owned affiliates have been consolidated in 1988. Financial Accounting Standards Board Statement No. 94 requires that summarized financial information about SWDC continue to be disclosed.

SWDC and its wholly-owned affiliates acquire, develop, lease, and manage properties for the company and others. Total revenue includes intersegment revenue of $9,575,000, $7,040,000 and $5,945,000 in 1988, 1987 and 1986, respectively, which is eliminated in consolidation with the parent. Summarized financial data for SWDC and its affiliates is as follows:

Thousands of dollars	December 31, 1988	1987	1986
Property, plant and equipment — net	$88,871	$75,666	$82,796
Current assets	1,053	1,536	1,881
Other noncurrent assets	817	918	1,159
Long-term debt	53,615	52,160	57,791
Current liabilities	3,125	13,196	1,563
Other noncurrent liabilities	4,781	4,173	3,146
Due to parent	19,916	2,169	22,875
Total revenue	$15,414	$14,884	$11,113
Interest expense	5,156	6,293	6,272
Total expenses — net	11,191	9,837	11,381
Net income (loss)	2,883	5,561	(64)

Note 5 — Other Costs And Expenses

A summary of significant items included in other costs and expenses is as follows:

Thousands of dollars	Years ended December 31, 1988	1987	1986
Gain on settlement of pension obligation			$(90,956)*
Termination of contracts			20,950*
Reduction (realization) of full value of assets	$(14,176)		16,371*
Provisions for environmental protection and control	12,000		10,600*
Other nonrecurring items			9,250*
Dividend and royalty income	(7,128)	$ (8,049)	(10,675)
Equity income	(3,263)	(1,617)	(142)
Gain on disposal of assets	(30,179)	(9,138)	3,792
Provisions for disposition and termination of operations (see Note 6)	13,716	7,751	3,981
Miscellaneous	(457)	(335)	2,225
	$(29,487)	$(11,388)	$(34,604)

*Previously included in unusual items amounting to $33,785,000

During the fourth quarter of 1988, the Company recognized a gain of $14,176, 000 ($.21 per share) from the realization of certain long-term assets whose net book value had been reduced by a 1986 provision. Partially offsetting this gain was a fourth quarter increase of $12,000,000 ($.18 per share) in the provision for the costs of certain programs to ensure that operating facilities are within guidelines established for environmental protection and control. Recent new regulations have accounted for most of the need for increased provisions while the results of initial internal programs have indicated additional costs are necessary. Effective November 30, 1988, the Company sold its interest in BAPCO, a partnership doing business in Canada, which had been accounted for on the equity method. The sale resulted in a gain of approximately $30,043,000 ($.45 per share).

During the fourth quarter of 1986, the Company recognized a gain from the settlement of obligations for one of its defined benefit pension plans (see Note 9). Also in 1986, provisions were made for the anticipated costs of terminating certain long-term contracts and the expenses of positioning certain manufacturing processes and other items to enhance future growth.

Note 6—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. Operating facilities which are not expected to contribute to the company's future plans are discontinued.

During 1988, management decided to close the unprofitable Floor World carpeting and tile stores in Ohio and ten unprofitable retail paint stores in southern California. In addition to the provisions for plants and warehouses, the provisions for 1988 include approximately $10,000,000 for the reduction of assets and closing costs of these stores.

At the time of the decision to close or sell certain plants, warehouses, stores or other operating units, provisions to reduce property, plant and equipment to their estimated net realizable values are included in other costs and expenses. Similarly, provisions to reduce all other assets to their estimated net realizable values and for the estimated related costs for severance pay, shutdown expenses and future operating losses to disposal date are included in cost of goods sold. Adjustments to such accruals as disposition occurs are included in other costs and expenses. A summary of the financial data related to the closing or sale of the facilities, expected to be completed by 1990, is as follows:

Thousands of dollars	1988	1987	1986
Beginning accrual — January 1	$44,358	$42,212	$29,195
Provisions included in cost of goods sold	9,600	5,989	17,587
Provisions and adjustments to prior accruals included in costs and expenses — other	13,716	7,751	3,981
Total provision	23,316	13,740	21,568
Actual costs incurred	(12,423)	(11,594)	(8,551)
Ending accrual — December 31	$55,251	$44,358	$42,212
Net after-tax provision from continuing operations	$15,388	$ 8,244	$11,647
Net after-tax provision per share from continuing operations	$ .35	$ .18	$ 25

Note 7 — Discontinued Operations

During 1987, the Company sold for cash the Drug Stores Segment at approximately net book value. Assets and liabilities of the discontinued operations which are included in the consolidated balance sheets are summarized as follows:

Thousands of dollars	December 31, 1988
Inventories	$158,126
Other current assets	17,443
Current liabilities	(76,851)
	98,718
Property, plant and equipment — net	43,848
Long-term debt	(9,180)
Other assets and liabilities — net	12,274
Net assets of discontinued operations	$145,660

Summarized operating results for the discontinued operations, excluding a gain of $2,129,000 on the sale of the Drug Stores Segment, are as follows:

Thousands of dollars	Twenty-six weeks ended June 27, 1987	Year ended December 31, 1986
Net sales	$302,020	$700,258
Operating profit	469	10,072
(Loss) income before income tax benefit	(1,062)	8,448
Income tax benefit	1,725	1,543
Income from operations — net of tax	$ 643	$ 9,991

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Note 8 — Acquisitions

During 1988, a wholly-owned subsidiary of the company acquired the assets of Western Automotive Finishes, Inc. The assets acquired consisted primarily of inventory and accounts receivable.

During 1987, a wholly-owned subsidiary of the company purchased Lyons Group, Inc., a less-than-truckload common carrier. The assets acquired consisted primarily of land, buildings, and machinery and equipment. The results of operations for Lyons Group, Inc. have been included in the company's consolidated operations since the date of acquisition.

Note 9 — Employee Benefits

Substantially all employees of the company participate in noncontributory defined benefit or defined contribution pension plans. Defined benefit plans covering salaried employees provide pension benefits that are based primarily on years of service and employees' compensation. Defined benefit plans covering hourly employees generally provide benefits of stated amounts for each year of service. Multiemployer plans are primarily defined benefit plans which provide benefits of stated amounts for union employees. The company's funding policy for defined benefit plans is to fund at least the minimum annual contribution required by applicable regulations.

Based on the latest actuarial information available, the following table sets forth the funded status and amounts recognized in the company's consolidated balance sheets for the defined benefit pension plans:

Thousands of dollars	December 31, 1988	1987	1986
Actuarial present value of benefit obligations			
Vested benefit obligation	$ (63,191)	$ (58,428)	$ (67,771)
Accumulated benefit obligation	$ (66,005)	$ (61,276)	$ (70,665)
Projected benefit obligation	$ (87,175)	$ (83,378)	$ (99,004)
Plan assets at fair value	219,267	211,831	218,970
Plan assets in excess of projected benefit obligation	132,092	128,453	119,966
Unrecognized net asset at January 1, 1986, net of amortization	(30,317)	(33,238)	(37,625)
Unrecognized prior service cost	195	101	—
Unrecognized net loss	32,901	25,376	21,036
Net pension assets	134,871	120,692	103,377
Pension liability included in current liabilities	950	1,214	1,476
Deferred pension assets	$ 135,821	$ 121,906	$ 104,853
Assumptions used in determining actuarial present value of plan benefit obligations:			
Discount rate	9.25%	9.25%	8.0%
Weighted-average rate of increase in future compensation levels	7.0%	7.0%	7.0%
Assumed long-term rate of return on plan assets	10.0%	10.5%	10.0%

Plan assets consist primarily of cash, equity and fixed income securities.

The pension credit for defined benefit plans of continuing operations was $12,922,000, $12,338,000 and $16,890,000 for 1988, 1987 and 1986, respectively. The components of net pension credit for the defined benefit plans were as follows:

Thousands of dollars	Years ended December 31, 1988	1987	1986
Service cost	$ 2,972	$ 3,999	$ 3,348
Interest cost	7,409	7,117	15,970
Actual return on plan assets	(14,362)	(1,189)	(36,159)
Net amortization and deferral	(8,941)	(22,265)	(49)
Net pension credit	$(12,922)	$(12,338)	$(16,890)

The company's annual contribution for its defined contribution pension plans, which is based on a level percentage of compensation for covered employees, offset the pension credit for defined benefit plans by $11,650,000 for 1988, $9,000,000 for 1987, and $8,550,000 for 1986.

The cost of multiemployer and foreign plans charged to income from continuing operations was immaterial for the three years ended December 31, 1988.

During December 1986, the company effected a settlement of $169,000,000 of the accumulated benefit obligation for one of its defined benefit pension plans by purchasing annuity contracts. As a result, a settlement gain of $90,956,000 was recognized by the company.

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 of continuing operations is recognized as claims are incurred and amounted to $31,903,000, $21,699,000 and $20,068,000 for 1988, 1987 and 1986, respectively. There were 12,646, 11,886 and 11,042 active employees and 4,240, 4,199 and 3,937 retired employees entitled to receive benefits under these plans as of December 31, 1988, 1987 and 1986, respectively.

During 1987, a fund was established to provide for payment of health care benefits for certain qualified employees. Contributions of $18,000,000 and $33,339,000 were made to the fund in 1988 and 1987, respectively. Distributions from the fund amounted to $21,771,000 in 1988.

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Note 10—Long-Term Debt

Thousands of dollars	Due Date	Sinking Fund/ Prepayments Amount	Sinking Fund/ Prepayments Commence	Amount in Treasury December 31, 1988	Amount in Treasury December 31, 1987	Amount in Treasury December 31, 1986	Amount Outstanding Net of Treasury December 31, 1988	Amount Outstanding Net of Treasury December 31, 1987	Amount Outstanding Net of Treasury December 31, 1986
9 875% Debentures	2016	$ 5,000	2007	—	—	—	$ 50,000	$ 50,000	$ 50,000
5.45% Debentures	1992	2,000	Payable currently	$ 4,894	$ 6,894	$ 8,894	13,106	13,106	13,106
6 25% Convertible Subordinated Debentures (Convertible into common stock at $5.75 a share)	1995	2,000	Payable currently	9,521	9,521	9,521	490	571	882
9.45% Debentures	1999	2,000	Payable currently	4,798	6,798	3,665	27,202	27,202	32,335
9.375% Promissory Notes	1994	3,325	Payable currently	—	—	—	13,425	20,075	26,725
10.50% Promissory Notes	1996	2,997	Payable currently	—	—	—	18,027	24,021	30,015
5 90% to 11 875% Industrial Revenue Bonds	Through 2002	Varies	Payable currently	—	—	—	2,270	2,340	7,293
8% to 12% Mortgage Notes secured by certain land and buildings	Through 2005	Varies	Payable currently	—	—	—	3,360	1,849	7,436
8 90% Promissory Notes, $12,000 principal amount less unamortized discount based on imputed interest rate of 16.5%	—	—	—	—	—	—	—	—	3,827
Obligations under capital leases—less current portion of $471 in 1988, $552 in 1987 and $996 in 1986							1,724	2,223	5,888
				$19,213	$23,213	$22,080	$129,604	$141,387	$177,507

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, 1988, $205,999,000 was available for cash dividends on common stock.

The company has sufficient debentures in treasury to satisfy most sinking fund requirements on public debenture issues through 1990. 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:

1989—$ 6,584,000
1990—$ 6,543,000
1991—$ 8,866,000
1992—$22,635,000
1993—$ 8,467,000

Interest expense on long-term debt of continuing operations amounted to $13,501,000, $15,878,000 and $16,859,000 for 1988, 1987 and 1986, respectively. There were no interest charges capitalized during the periods presented.

Under a credit agreement with a group of twelve banks, the company may borrow up to $280,000,000 until June 22, 1992. Amounts outstanding under the agreement may be converted into two-year term loans at any time. The credit agreement includes certain restrictive covenants regarding the working capital ratio. There are no compensating balance requirements.

Under a credit agreement with The Sherwin-Williams Company Salaried Employees' Retirement Trust, the company may borrow up to the lesser of $65,000,000 or 25% of the assets of the trust until October 9, 1992. Revolving credit amounts outstanding can be converted into five-year term, ten-year term or six-year installment loans at any time. The credit agreement includes certain restrictive covenants regarding working capital levels and the working capital ratio.

Under a shelf registration with the Securities and Exchange Commission covering $200,000,000 of unsecured debt securities with maturities ranging from nine months to thirty years, the company may issue the securities from time to time in one or more series and will offer the securities on terms determined at the time of sale.

Under a commercial paper program, the company may issue and sell up to $100,000,000 aggregate principal amount of unsecured short term notes.

At December 31, 1988 the company had no borrowings outstanding under any of the above financing arrangements.

Note 11—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	December 31, 1988	1987	1986
Buildings	$ 6,001	$ 8,090	$ 8,090
Machinery and Equipment	168	245	355
	6,169	8,335	8,445
Less allowance for amortization	4,987	6,828	6,601
	$ 1,182	$ 1,507	$ 1,844

Rental expense of continuing operations for operating leases was $79,166,000, $72,022,000 and $55,825,000 for 1988, 1987 and 1986, respectively. Contingent rentals included in rent expense of continuing operations were $6,659,000 in 1988, $5,868,000 in 1987 and $4,327,000 in 1986. Rental income, as lessor, from real estate leasing activities and 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, 1988:

Thousands of dollars	Capital Leases	Operating Leases
1989	$ 802	$ 48,353
1990	798	42,072
1991	747	36,034
1992	422	29,910
1993	110	22,722
Later years	317	59,181
Total minimum lease payments	3,196	$238,272
Amount representing interest	(627)	
Executory costs	(374)	
Present value of net minimum lease payments	$ 2,195	

Note 12—Capital Stock

	$1.00 Common Stock	
	Shares in Treasury	Shares Outstanding Net of Treasury
Balance at January 1, 1986	6,672,374	46,071,826
Stock issued upon:		
Exercise of stock options	22,779	300,851
Conversion of 6.25% Convertible Subordinated Debentures	—	63,626
Contribution to PAYSOP	(53,533)	53,533
Treasury stock acquired/retired	(3,589,992)	(2,410,008)
Balance at December 31, 1986	3,051,628	44,079,828
Stock issued upon:		
Exercise of stock options	57,140	360,511
Conversion of 6 25% Convertible Subordinated Debentures	—	54,077
Treasury stock:		
Acquired	922,300	(922,300)
Contributed to Employee Stock Purchase and Savings Plan	(150,944)	150,944
Balance at December 31, 1987	3,880,124	43,723,060
Stock issued upon:		
Exercise of stock options	44,126	277,649
Conversion of 6 25% Convertible Subordinated Debentures	—	14,253
Treasury stock acquired	974,210	(974,210)
Balance at December 31, 1988	4,898,460	43,040,752

An aggregate of 2,101,640, 2,437,675, and 2,909,413 shares of stock at December 31, 1988, 1987 and 1986, respectively, were reserved for conversion of convertible subordinated debentures and exercise and future grants of stock options. At December 31, 1988, there were 200,000,000 shares of common stock and 30,000,000 shares of serial preferred stock authorized for issuance.

During January 1989, the board of directors approved a shareholders rights plan which designates 1,000,000 shares of the authorized serial preferred stock as cumulative redeemable serial preferred stock which may be issued if the company becomes the target of coercive and unfair takeover tactics.

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Note 13—Stock Purchase and Stock Option Plans

Currently 7,531 employees participate through regular payroll deductions in the company's Employee Stock Purchase and Savings Plan. The company's contribution charged to continuing operations amounted to $10,048,000, $11,867,000 and $8,431,000 for 1988, 1987 and 1986, respectively. Additionally, the company made contributions on behalf of participating employees of continuing operations, which represent salary reductions for income tax purposes, amounting to $5,005,000 in 1988, $4,560,000 in 1987 and $3,933,000 in 1986.

At December 31, 1988 there were 6,612,834 shares of the company's stock being held by this plan, representing 15% of the total number of shares outstanding. Shares of company stock credited to each member's account under the plan are voted by the trustee under confidential instructions from each individual plan member. Shares for which no instructions are received are voted by the trustee in the same proportion as those for which instructions are received.

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 the 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 generally expire ten years after the date of grant.

A stock plan which permits the granting of stock options, stock appreciation rights, and restricted stock to eligible employees was approved by the shareholders in 1984. No stock appreciation rights or restricted stock have been granted under this plan.

	1988		1987		1986	
	Shares	Aggregate Price	Shares	Aggregate Price	Shares	Aggregate Price
Stock Option Plans						
Options outstanding beginning of year	1,699,404	$36,745,180	2,022,208	$37,263,000	1,088,848	$11,942,000
Granted	174,200	4,674,675	289,400	9,567,200	1,352,800	30,422,000
Exercised	(321,775)	(4,753,719)	(417,651)	(5,855,407)	(323,630)	(3,173,000)
Canceled	(85,357)	(2,181,823)	(194,553)	(4,229,613)	(95,810)	(1,926,000)
Options outstanding end of year	1,466,472	$34,484,313	1,699,404	$36,745,180	2,022,208	$37,263,000
Exercisable	806,025		621,071		457,109	
Reserved for future grants	550,066		638,909		733,756	

Note 14 — Income Taxes

Thousands of dollars	Years ended December 31, 1988	1987	1986
The components of income from continuing operations before income taxes consist of the following:			
Domestic	$118,178	$150,026	$161,827
Foreign	44,862	11,186	12,043
Total income from continuing operations before income taxes	$163,040	$161,212	$173,870
The components of income tax expense of continuing operations are as follows:			
Current:			
Federal	$ 36,777	$ 47,519	$ 48,243
State and local	8,500	8,967	6,211
Foreign	13,932	3,100	2,433
	59,209	59,586	56,887
Deferred	2,751	7,821	21,022
Total income tax expense of continuing operations	$ 61,960	$ 67,407	$ 77,909

The company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting, relating primarily to depreciation, deferred employee benefit items 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, 1988, such undistributed earnings amounted to $3,741,000.

The source and deferred tax effect of timing differences for continuing operations are as follows:

Thousands of dollars	Years ended December 31, 1988	1987	1986
Depreciation	$ 3,425	$ 3,537	$ 4,361
Dispositions, terminations and other similar items	(2,630)	(4,923)	(32,141)
Deferred employee benefit items	1,419	18,444	51,415
Other items (each less than 5% of the computed "expected" tax amount)	537	(9,237)	(2,613)
	$ 2,751	$ 7,821	$21,022

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

	Years ended December 31, 1988	1987	1986
Statutory tax rate	34.0%	40.0%	46.0%
Effect of:			
State and local taxes	3.4	3.3	1.9
General business tax credits	—	(1.4)	(.8)
Other — net	.6	(.1)	(2.3)
Effective tax rate	38.0%	41.8%	44.8%

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Note 15 — Quarterly Data (Unaudited)

Quarterly Stock Prices and Dividends

1988	Quarter	High	Low	Dividend	1987	Quarter	High	Low	Dividend
	1st	$30⅝	$24½	$.16		1st	$38½	$27⅞	$.14
	2nd	29½	24	.16		2nd	37⅞	31⅜	.14
	3rd	31⅜	26¾	.16		3rd	36⅛	31⅜	.14
	4th	29	24⅞	.16		4th	34¼	20⅛	14

Summary of Quarterly Results of Operations

Thousands of dollars, except per share data		Continuing Operations				Per Share	
Year	Quarter	Net Sales	Gross Profit	Income	Net Income	Income From Continuing Operations	Net Income
1988	1st	$413,372	$158,416	$ 8,410	$ 8,410	$ .19	$ .19
	2nd	544,511	217,476	36,136	36,136	.82	.82
	3rd	548,005	224,144	37,820	37,820	.86	.86
	4th	444,586	163,592	18,714	18,714	.43	.43
1987	1st	$382,355	$142,914	$ 7,685	$ 8,175	$ .17	$ .18
	2nd	493,534	203,616	30,123	32,405	.67	.72
	3rd	514,607	213,836	36,423	36,423	.81	.81
	4th	410,084	173,477	19,574	19,574	.44	.44

1988

Fourth quarter adjustments increased income from continuing operations by $14,192,000 ($.32 per share). This increase was due primarily to the gain on sale of BAPCO of $19,828,000 ($.45 per share), year-end inventory adjustments of $8,316,000 ($.19 per share), and a net gain of $1,436,000 ($.03 per share) from the realization of full value on an asset previously reduced and provisions for additional environmental costs. Partially offsetting these gains were provisions of $15,388,000 ($.35 per share) for the disposition and termination of certain operations.

1987

During the third quarter, the settlement of certain insurance claims for the Dayton, Ohio distribution center fire increased income from continuing operations by $1,740,000 ($.04 per share) which was more than offset by provisions for the disposition and termination of certain operations amounting to $2,400,000 ($.05 per share).

Fourth quarter adjustments increased income from continuing operations by $11,640,000 ($.26 per share). This increase was primarily due to year-end inventory adjustments of $13,166,000 ($.30 per share) and a gain on the sale of certain fixed assets of $6,318,000 ($.14 per share) offset by other year-end adjustments of $2,000,000 ($.05 per share) and by provisions of $5,844,000 ($.13 per share) for the disposition and termination of certain operations.

Note 16 — Financial Schedules

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

Included in other assets were the following 5% promissory notes receivable from certain officers of the company:

Thousands of dollars	Beginning Balance	Additions	Deductions	Ending Balance
1987				
T. A. Commes	$ 160	—	$ (160)	—
C. A. Bellini	882	—	(882)	—
	$1,042	—	$(1,042)	—
1986				
T. A. Commes	$ 160	—	—	$ 160
C. A. Bellini	160	$722	—	882
	$ 320	$722	—	$1,042

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

Thousands of dollars	Years ended December 31, 1988	1987	1986
Maintenance and repairs	$26,494	$25,098	$19,395
Advertising costs	84,382	73,275	62,300

Amounts above relate to continuing operations only and exclude $1,185,000 and $2,994,000 for maintenance and repairs and $4,139,000 and $10,818,000 for advertising costs associated with discontinued operations in 1987 and 1986, respectively.

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.

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Note 16 — Financial Schedules (continued)

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

Additions and retirements of property, plant and equipment were as follows:

Thousands of dollars	Beginning Balance	Additions	Retirements	Other changes	Ending Balance
1988					
Land	$ 32,069	$ 3,005	$ 518	$ 650	$ 35,206
Buildings	159,478	22,038	1,632	6,837	186,721
Machinery and equipment	324,498	46,414	12,057	6,979	365,834
Construction in progress	11,663	94	—	—	11,757
	$527,708	$71,551	$14,207	$ 14,466	$599,518
1987					
Land	$ 30,409	$ 3,672	$ 356	$ (1,656)	$ 32,069
Buildings	154,362	16,847	4,499	(7,232)	159,478
Machinery and equipment	347,966	38,824	11,057	(51,235)	324,498
Construction in progress	15,594	(2,564)	—	(1,367)	11,663
	$548,331	$56,779	$15,912	$(61,490)	$527,708
1986					
Land	$ 28,216	$ 2,218	$ 25	—	$ 30,409
Buildings	142,563	12,402	1,093	$ 490	154,362
Machinery and equipment	307,456	47,314	7,004	200	347,966
Construction in progress	13,352	2,242	—	—	15,594
	$491,587	$64,176	$ 8,122	$ 690	$548,331

Other changes consist primarily of acquisitions in 1988 and 1986 and disposition of the Drug Stores Segment in 1987.

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

Thousands of dollars	Beginning Balance	Expense	Retirements	Other changes	Ending Balance
1988					
Buildings	$ 53,665	$ 6,713	$ 1,266	$ (1,474)	$ 57,638
Machinery and equipment	166,939	30,152	8,779	2,199	190,511
Other	18,242	—	—	529	18,771
	$238,846	$36,865	$10,045	$ 1,254	$266,920
1987					
Buildings	$ 50,868	$ 6,710	$ 1,984	$ (1,929)	$ 53,665
Machinery and equipment	165,187	27,800	7,822	(18,226)	166,939
Other	14,541	—	—	3,701	18,242
	$230,596	$34,510	$ 9,806	$(16,454)	$238,846
1986					
Buildings	$ 46,401	$ 5,211	$ 921	$ 177	$ 50,868
Machinery and equipment	142,518	27,042	5,891	1,318	165,187
Other	11,347	—	—	3,194	14,541
	$200,266	$32,253	$ 6,612	$ 4,689	$230,596

Other changes consist primarily of disposition provisions in 1988 and 1986 and disposition of the Drug Stores Segment in 1987.

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

Thousands of dollars	Years ended December 31, 1988	1987	1986
Notes payable to banks at December 31	$ 362	$ 8,307	$ 252
Weighted average interest rate at December 31	19.8%	9.0%	23.0%
Maximum amount outstanding at any month-end	$ 484	$ 8,384	$ 598
Average amount outstanding during the period	$ 284	$ 7,534	$ 329
Weighted average interest rate during the period	16.9%	7.7%	25.5%

Short-term borrowings are included in accounts payable on the balance sheet. Borrowings for 1988 and 1986 relate solely to certain foreign subsidiaries at rates prevailing in those countries.

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

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

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Note 16 — Financial Schedules (continued)

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, 1988	1987	1986
Beginning balance	$ 2,820	$ 3,132	$ 4,239
Bad debt expense	7,535	7,550	6,807
Net uncollectible accounts written off	(7,618)	(7,862)	(7,914)
Ending balance	$ 2,737	$ 2,820	$ 3,132

Activity related to other assets:

Thousands of dollars	Years ended December 31, 1988	1987	1986
Beginning balance	$42,153	$52,661	$77,131
Charges to expense	(10,595)	(4,527)	(23,440)
Asset deductions	(7,406)	(5,981)	(1,030)
Ending balance	$24,152	$42,153	$52,661

Charges to expense consist primarily of funded employee benefits in 1988, amortization of intangibles, and, for 1986, unusual items. Asset deductions consist primarily of balance sheet reclassifications, the sale of the partnership interest in BAPCO in 1988, and, for 1987, assets sold with the Drug Stores Segment partially offset by the noncurrent portion of a contribution to an employee benefit fund.

Activity related to other long-term liabilities:

Thousands of dollars	Years ended December 31, 1988	1987	1986
Beginning balance	$42,482	$25,209	$32,502
Charges to expense	4,378	3,554	7,257
Reserve additions (deductions)	10,763	13,719	(14,550)
Ending balance	$57,623	$42,482	$25,209

Charges to expense consist primarily of adjustments to estimated liabilities, deferred compensation, and, in 1986, unusual items. Reserve additions (deductions) consist primarily of balance sheet reclassifications.

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

Thousands of dollars, except per share data

	December 31, 1988	1987	1986
Fully Diluted			
Average shares outstanding	43,677,247	44,287,459	45,219,324
Options—treasury stock method	237,674	550,390	582,189
Assumed conversion of 6.25% Convertible Subordinated Debentures	91,478	135,363	176,841
Average fully diluted shares	44,006,399	44,973,212	45,978,354
Income from continuing operations	$101,080	$93,805	$ 95,961
Add 6.25% Convertible Subordinated Debentures interest net of tax	20	24	31
Income from continuing operations applicable to fully diluted shares	101,100	93,829	95,992
Income from discontinued operations	—	2,772	9,991
Net income applicable to fully diluted shares	$101,100	$96,601	$105,983
Income per share:			
From continuing operations	$2.30	$2.09	$2.09
From discontinued operations	—	.06	.22
Net income	$2.30	$2.15	$2.31
Primary			
Average shares outstanding	43,677,247	44,287,459	45,219,324
Options—treasury stock method	237,674	550,390	565,456
Average shares and equivalents	43,914,921	44,837,849	45,784,780
Income from continuing operations	$101,080	$93,805	$ 95,961
Income from discontinued operations	—	2,772	9,991
Net income applicable to shares and equivalents	$101,080	$96,577	$105,952
Income per share:			
From continuing operations	$2.30	$2.09	$2.09
From discontinued operations	—	.06	.22
Net income	$2.30	$2.15	$2.31

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0007-SWP-000117057

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, 1988, 1987 and 1986. The primary responsibility for the integrity of the financial information 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	T. R. Miklich	J. L. Ault
Chairman and Chief Executive Officer	Senior Vice President — Finance Chief Financial Officer	Vice President — Corporate Controller

Report of Independent Auditors

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

We have audited the consolidated financial statements of The Sherwin-Williams Company and subsidiaries listed in Item 14(a) of the Index on page 33. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements listed in Item 14(a) of the Index present fairly, in all material respects, the consolidated financial position of The Sherwin-Williams Company and subsidiaries at December 31, 1988, 1987 and 1986, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1988 the company changed the consolidation method for its real estate subsidiary.

Cleveland, Ohio
January 25, 1989

Ernst & Whinney

0007-SWP-035636

0007-SWP-000117058

Exhibit Index

Number

3.(a) Amended Articles of Incorporation, dated April 27, 1988, as amended February 15, 1989 (filed herewith).

(b) Regulations of the Company, as amended, dated April 27, 1988, filed as Exhibit 4(b) to Post-Effective Amendment No. 1, dated April 29, 1988, to Form S-8 Registration Statement Number 2-91401, and incorporated herein by reference.

4.(a) Indenture between the Company and Chemical Bank, as Trustee, dated June 15, 1988, filed as Exhibit 4(b) to Form S-8 Registration Statement Number 33-22705, dated June 24, 1988, and incorporated herein by reference.

(b) Revolving Credit Agreement dated June 22, 1987 by and among the Company and the Sherwin-Williams Development Corporation, as co-makers, and several banking institutions, filed as Exhibit 4(e) to Post-Effective Amendment No. 1, dated April 29, 1988, to Form S-8 Registration Statement Number 2-91401, and incorporated herein by reference.

(c) Indenture between the Sherwin-Williams Development Corporation, as issuer, the Company, as guarantor, and Harris Trust and Savings Bank, as Trustee, dated June 15, 1986, filed as Exhibit 4(b) to Form S-3 Registration Statement Number 33-6626, dated June 20, 1986, and incorporated herein by reference.

(d) Note Agreement dated December 15, 1976 filed as Exhibit G to Form 8 dated April 12, 1979, and incorporated herein by reference.

(e) Note Agreement dated November 15, 1976 filed as Exhibit 1 to Form 8-K dated December 8, 1976, and incorporated herein by reference.

(f) Indenture between the Company and The Cleveland Trust Company, as Trustee, dated December 1, 1974, filed as Exhibit 2(b) to Amendment No. 1, dated December 3, 1974, to Form S-7 Registration Statement Number 2-52343, and incorporated herein by reference.

(g) Indenture between the Company and Central National Bank, dated March 1, 1970, filed as Exhibit 4 to Form S-7 Registration Statement Number 2-36240, and incorporated herein by reference.

(h) Indenture between the Company and The Cleveland Trust Company, as Trustee, dated April 17, 1967, filed as Exhibit 2(a) to Amendment No. 1, dated April 18, 1967, to Form S-9 Registration Statement Number 2-26295, and incorporated herein by reference.

9. Not Applicable.

Number

10.(a) Form of Director and Officer Indemnification Agreement, filed as Exhibit 28(a) to Form S-3 Registration Statement Number 33-22705, dated June 24, 1988, and incorporated herein by reference.

(b) Employment Agreements, filed as Exhibit 28(b) to Form S-3 Registration Statement Number 33-22705, dated June 24, 1988, and incorporated herein by reference.

(c) Form of Severance Pay Agreements, filed as Exhibits 28(c) (i) and (ii) to Form S-3 Registration Statement Number 33-22705, dated June 24, 1988, and incorporated herein by reference.

(d) Form of Supplemental Death Benefit Agreement, filed as Exhibit 28(d) to Form S-3 Registration Statement Number 33-22705, dated June 24, 1988, and incorporated herein by reference.

(e) The Sherwin-Williams Company Key Managment Deferred Compensation Plan, filed as Exhibit 28(e) to Form S-3 Registration Statement Number 33-22705, dated June 24, 1988, and incorporated herein by reference.

(f) Stock Purchase and Sale Agreement, dated May 1, 1987, between the Company, Rite-Aid Corporation and Rite-Aid of Ohio, Inc., for the sale of the stock of Gray Drug Fair, Inc. (filed herewith).

11. Computation of Net Income Per Share - Page 28.

12. Not applicable.

13. Not applicable.

16. Not applicable.

18. Not applicable.

19. Not applicable.

22. Subsidiaries - Page 31.

23. Not applicable.

24. Consent of Independent Auditors - Page 32.

25. Powers of Attorney (filed herewith).

28. Not applicable.

29. Not applicable.

0007-SWP-035637

0007-SWP-000117059

Corporate Directory

Board of Directors

James A. Attwood, 61
Chairman, President and Chief Executive Officer
The Mutual Life Insurance Company of New York

James M. Biggar, 60
Chairman and Chief Executive Officer
Nestlé Enterprises, Inc.

John G. Breen, 54
Chairman and Chief Executive Officer
The Sherwin-Williams Company

D. Wayne Calloway, 53
Chairman and Chief Executive Officer
PepsiCo, Inc

Leigh Carter, 63
President and Chief Operating Officer
B F.Goodrich Company

Thomas A. Commes, 46
President and Chief Operating Officer
The Sherwin-Williams Company

Dr. Robert C. Doban, 65
Retired, former Senior Vice President Science and Technology
Owens-Corning Fiberglas Corporation

Allen C. Holmes, 68
Retired, former Senior Partner
Jones, Day, Reavis & Pogue

J. Robert Killpack, 66
Retired, former Chairman
National City Corporation

William G. Mitchell, 58
Retired, former Vice Chairman
Centel Corporation

Ralph E. Schey, 64
Chairman and Chief Executive Officer
The Scott & Fetzer Company

Executive Officers

John G. Breen, 54
Chairman and Chief Executive Officer

Thomas A. Commes, 46
President and Chief Operating Officer

Thomas R. Miklich, 41
Senior Vice President-Finance and Chief Financial Officer

John L. Ault, 43
Vice President
Corporate Controller

Conway G. Ivy, 47
Vice President and Treasurer

Thomas Kroeger, 40
Vice President
Human Resources

Larry J. Pitorak, 42
Vice President, General Counsel and Secretary

Leonard A. Ward, 62
Vice President
Administration

Francis C. Piccirillo, 39
Assistant Secretary and Corporate Director of Taxes

Operating Managers

Frank E. Butler, 53
President & General Manager, Consumer Division

Christopher M. Connor, 32
President & General Manager, Western Division

William B. Eldredge, 60
President
International Group

Robert E. Kinney, 53
President & General Manager, Transportation Services Division

Rolan D. Kjosen, 52
President & General Manager, Chemical Coatings Division

James W. Krause, 44
President & General Manager, Automotive Division

Theodore R. Kreuzer, 42
President & General Manager, Mid Central Division

John C. Macatee, 37
President & General Manager, South Central Division

James E. Renshaw, 41
President & General Manager, Eastern Division

Joseph M. Scaminace, 35
President & General Manager, Sprayon Division

Robert B. Venick, 41
President
Paint Stores Group

Richard M. Wilson, 36
President & General Manager, Southeastern Division

Subsidiaries

Brazil—Sherwin-Williams do Brasil Industria e Comercio Ltda., São Paulo*
Canada—Sherwin-Williams Canada Inc., Gravenhurst
—Sherwin-Williams Automotive Finishes, Inc., Mississauga
—147926 Canada Inc., Gravenhurst
Mexico—Compania Sherwin-Williams, S.A. de C.V., Mexico City*
Panama—Sherwin-Williams de Panamá S.A., Panama City*
United Kingdom—Lyons Technological Products Ltd.
West Indies—Sherwin-Williams Cayman Islands Ltd., Grand Cayman*
—The Sherwin-Williams Co. Resources Limited, Kingston, Jamaica
—Sherwin-Williams (Caribbean) NV., Curaçao
—Sherwin-Williams (West Indies) Ltd., Kingston, Jamaica
—Sherwin-Williams Foreign Sales Corporation Limited, Charlotte Amalie, Virgin Islands

USA—Sherwin-Williams Development Corporation
—SWDC (Virginia), Inc.
—Contract Transportation Systems Co.
—Dupli-Color Products Company
—Lyons Transportation Lines, Inc.
—P-Y Transport, Inc.
—Certified Distribution Services, Inc.
—Western Automotive Finishes Company

*Unconsolidated

0007-SWP-035638

0007-SWP-000117060

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 4 dated April 27, 1987, to Registration Statement No 2-80510 on Form S-8, Post-Effective Amendment Number 1 dated April 29, 1988, to Registration Statement Number 2-91401 on Form S-8, and Registration Statement Number 33-22705 on Form S-3 dated June 24, 1988 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, 1988

Ernst & Whinney

Cleveland, Ohio
March 10, 1989

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 10th day of March, 1989.

THE SHERWIN-WILLIAMS COMPANY

by L. J. PITORAK
L. J. Pitorak, 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 10, 1989.

Officers and Directors of The Sherwin-Williams Company:

J. G. BREEN J. G. Breen	*Chairman, Chief Executive Officer, Director*
T. A. COMMES T. A. Commes	*President, Chief Operating Officer, Director*
T. R. MIKLICH T. R. Miklich	*Senior Vice President—Finance, Chief Financial Officer*
J. L. AULT J. L. Ault	*Vice President, Corporate Controller*
J. A. ATTWOOD J. A. Attwood	*Director*
J. M. BIGGAR J. M. Biggar	*Director*
D. W. CALLOWAY D. W. Calloway	*Director*
L. CARTER L. Carter	*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*
R. E. SCHEY R. E. Schey	*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 L. J. PITORAK
L. J. Pitorak, Attorney-in-fact

March 10, 1989

0007-SWP-035639

0007-SWP-000117061

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, 1988
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 44115-1075
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
Preferred Stock Purchase Rights	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 43,043,888 shares of common stock, par value $1.00, outstanding, net of treasury shares, at January 31, 1989. These shares were held by 12,493 holders of record on this date. The stock's price per share at January 31, 1989 was $26.

The aggregate market value of the voting stock at January 31, 1989 was $1,113,038,472, excluding the voting stock held by the directors.

The definitive Proxy Statement dated March 10, 1989, filed with the Securities and Exchange Commission pursuant to Regulation 14A, is incorporated by reference into this Form 10-K with respect to the information contained therein which is required to be filed under Part III of Form 10-K as referenced in the Index-Form 10-K Report.

Index-Form 10-K Report

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	b. Reports on Form 8-K The Company did not file any Reports on Form 8-K for the Quarter Ended December 31, 1988.	

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