Annual Report

1942

THE SHERWIN-WILLIAMS CO.

THE SHERWIN-WILLIAMS CO.

GEORGE A. MARTIN

CHAIRMAN OF THE BOARD

To the Stockholders:

The Annual Report of The Sherwin-Williams Company for the fiscal year ended August 31st, 1942 is herewith submitted.

After allowing for all charges including depreciation, and after providing a reserve of $6,132,701.62 for Federal Income and Excess Profit Taxes, the final Consolidated Net Profit available for dividends is $6,328,266.15.

After deducting Preferred Dividends, the earnings are equivalent to $7.45 per share on the Common compared with $7.25 the previous year.

The Consolidated Balance Sheet and Profit and Loss Statements which accompany this letter, give the detailed figures.

The management feels that while the figures are largely self-explanatory, it may not be amiss to comment briefly on the current situation in our business.

We are pledged to do everything in our power to help the war effort, and turn out the needed volume of paints and protective coatings of all kinds for airplanes, army and navy equipment; also for spray and dusting insecticides to protect the vital food crops. In addition, there must be sufficient paints available to protect steel and metal and wood buildings and structures of all kinds from corrosion and weather. The conservation of property is a peace time economy and a war time *must* because these structures cannot be replaced for the duration. Paint protects and preserves them.

In spite of the many limitation orders and priorities which have affected the Paint Industry as few industries have been hit, we have been able to take fairly good care of the situation from a consumer standpoint.

This has been possible by the use of non-critical equipment and materials to a large extent. Our Research and Technical staffs have found ways and means of adapting our plants and operations to the new conditions. New materials are being developed and successfully used.

In one of my previous reports I stated that ours is a chemical industry. Today this applies to our business and to our company more than ever before, and it stands us in good stead.

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In 1916 we set out to declare our future independence from foreign imports of dyes, chemicals, intermediates and colors. The first World War plunged America into the making of dyes and colors which today are recognized as having no superiors. And, necessity being the mother of invention, also saw as an aftermath of World War I, the development of nitrocellulose lacquers for automobile and industrial finishing.

Today, science and chemistry again come to our aid. This time they bring us through their research and experiments, new materials to replace the large number of highly critical materials formerly used so extensively in our manufacturing processes.

One of the outstanding developments of the past year is a new kind of flat wall finish made on a synthetic resin-emulsion base, yet can be mixed with water. Unlike so-called water paints however, it is highly durable and washable.

This new product is marketed by all the companies in our Institution as a Specialty under the name of KEM-TONE. Made largely from non-critical materials, this product meets the needs of the home owner who wants a durable,-washable flat wall finish easy to apply over wallpaper and other surfaces. To make its application still easier, we have developed a Roller-Koater to apply it and a decorative touch with our new Kem-Tone Trims. These developments are all geared to the present times and to the war economy.

The container situation is a serious one but to meet the metal shortage, our new fibre package meets most of our requirements.

The man who wants to paint his property next Spring can be reasonably assured at this time, of getting the paint. He may have to be satisfied with certain sizes, fewer colors, emergency containers —even pails without handles, but if our chemists continue to follow their present course, Mr. and Mrs. Consumer will have nothing to complain of by way of the quality of the material.

To date over 1,800 of our men have joined the armed forces but those of us who remain on the job are proud and happy to do a little more each day. Our task is but a feeble effort and contribution compared to theirs. It seems to me that the finest thing we can do for them is to assure them on their return, of a place in a stronger, freer world where the post war possibilities for new materials, new ideas, new products, challenge the imagination.

G. A. Martin

Chairman of the Board

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1942

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1942, before other income, provision for depreciation, other deductions, and federal taxes on income			[illegible]
Other income			221,647.67
			[illegible]
Deductions:			
Provision for depreciation		[illegible]	
Loss on disposal of fixed assets and expenses applicable to non-operating properties		149,127.76	
Interest expense		81,390.17	
Provision for doubtful accounts, pension payments and miscellaneous items		[illegible]	
Provision for federal taxes on income—estimated:			
Normal income taxes	[illegible]		
Excess profits taxes	[illegible]		
	[illegible]		
Less adjustments of prior years provisions	[illegible]	[illegible]	[illegible]
NET PROFIT			[illegible]

EARNED SURPLUS

Balance at September 1, 1941			[illegible]
Add net profit for the year			[illegible]
			[illegible]
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—[illegible] per share	$ [illegible]		
Common—[illegible] per share	[illegible]	[illegible]	
Premium on preferred stock called for redemption		[illegible]	[illegible]
BALANCE AT AUGUST 31, 1942			[illegible]

(Note A)—Other income includes the amount of [illegible] for dividends received from the unconsolidated Canadian subsidiary. Final statement as to the operating results of that subsidiary for the year ended August 31, 1942, was not available at date of issuance of this report. The Company's proportionate share of net profits of the other unconsolidated subsidiary, not taken up, amounted to approximately [illegible].

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CONSOLIDATED BALANCE SHEET

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

August 31, 1942

Assets

CURRENT ASSETS		
Cash		$10,673,732.43
U. S. Government securities—at cost and accrued interest (quoted market $124,861.87)		124,946.87
Trade notes and accounts receivable, less reserves (includes account amounting to $40,227.41 receivable from subsidiary not consolidated)		10,306,090.79
Inventories—raw materials and supplies, in process and finished merchandise stated on basis of lower of cost or market (estimated inter-plant and inter-company profits have been eliminated)		25,091,[illegible].64
TOTAL CURRENT ASSETS		$46,196,358.73
INVESTMENTS AND OTHER ASSETS		
Securities of subsidiaries not consolidated (Note A)	$ 3,706,825.00	
Other securities—at or below cost	18,114.60	
Insurance deposits, miscellaneous notes and accounts receivable, claims and advances, less reserves	432,722.69	4,166,662.29
PROPERTY, PLANT, AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserves for depreciation		19,823,382.19
PATENTS AND TRADE-MARKS		
Nominal amount		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc.	$ 618,704.62	
Prepaid insurance, deferred taxes, etc.	388,535.25	1,007,240.87
		$71,183,646.88

(Note A)—Investments in securities of subsidiaries not consolidated include (1) investment of $3,695,[illegible] in Canadian subsidiary, stated at cost which was less than the proportionate share of the book value (excluding intangibles) of the net assets of such affiliate as reported to the Company; net increase in equity in this subsidiary since date of acquisition, not taken up by the parent Company, amounted to approximately $[illegible] as of August 31, 1941. (Final statement as to operating results for the year ended August 31, 1942, was not available at date of issuance of this report); (2) investment in another subsidiary amounting to $10,[illegible] stated at cost; the Company's proportionate share of net profits of such subsidiary not taken up, amounted to approximately $32,910.00.

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES		
Trade accounts payable, pay rolls and miscellaneous items (includes accounts payable to subsidiary not consolidated in the amount of $15,466.26)		$ 6,217,162.8[illegible]
Preferred dividend payable September 1, 1942		140,406.2[illegible]
Deposits—officers and employees		694,448.7[illegible]
Accrued taxes (other than federal income taxes) and miscellaneous items		497,497.2[illegible]
Federal taxes on income—estimated		6,300,054.8[illegible]
Notes payable to bank (in connection with advances to and loans by foreign subsidiary)		639,349.8[illegible]
TOTAL CURRENT LIABILITIES		$13,676,889.0[illegible]
RESERVES		
For contingencies, maintenance of plants, employers' liability insurance, etc.		788,916.8[illegible]
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Preferred—authorized 275,000 shares (par value $100.00 each—redeemable at $105.00 per share): Outstanding—Series "AAA" 5% cumulative preferred—112,389 shares	$11,238,900.00	
Common—authorized 900,000 shares (par value $25.00 each): Outstanding—678,927 shares	16,973,175.00	
	$27,212,075.00	
Earned surplus	29,645,763.64	56,8[illegible]
		$71,183,646.[illegible]

(Note B)—Net current assets (not significant) of consolidated foreign subsidiaries have been translated into U. S. dollars at the applicable exchange rates in effect at August 31, 1942. Such subsidiaries are located in Argentina, Canada, Cuba, and Mexico.

(Note C)—Contingent liabilities of the Company at August 31, 1942, were as follows:

(1) As endorser of notes discounted by a consolidated foreign subsidiary, $8,416.6[illegible]

(2) As surety on a performance bond relating to performance by The Sherwin-Williams Defense Corporation (subsidiary not consolidated) as a party to a construction and operation contract with The United States of America.

AUDITOR'S CERTIFICATE

Board of Directors,
The Sherwin-Williams Company,
Cleveland, Ohio.

We have examined the consolidated balance sheet of THE SHERWIN-WILLIAMS COMPANY and its consolidated subsidiaries as of August 31, 1942, and the consolidated statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, including tests of trade receivables at representative locations by communication with debtors and observation of procedures followed in ascertaining inventory quantities at the principal locations.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of The Sherwin-Williams Company and its consolidated subsidiaries at August 31, 1942, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
October 24, 1942

0007-SWP-034747

THE SHERWIN-WILLIAMS CO.

101 Prospect Ave., N. W. Founded in 1866 Cleveland, Ohio

Manufacturers of

Paints, Varnishes, Colors, Stains, Enamels, Lacquers, Lead Products, Dyes, Chemicals, Lithopone, Litharge, Linseed Oil, Dry Colors, Insecticides, Coal Tar Products, Disinfectants, Cleansers, Polishes.

Main Plants

Cleveland - Chicago - Dayton - Detroit - Newark - Brooklyn - Pittsburgh
Gloucester City, N. J. - Oakland, Cal. - Bound Brook, N. J. - Lincoln
Gibbsboro, N. J. - Dallas - Los Angeles - Coffeyville, Kan.

Directors

A. D. BALDWIN	[illegible]	A. W. STEUDEL
[illegible]	[illegible]	E. D. WHITTLESEY
GEORGE GUND	GEO. A. MARTIN	[illegible]
[illegible]	[illegible] MARTIN	[illegible]
	[illegible]	

Officers

GEO. A. MARTIN, *Chairman of the Board*
A. W. STEUDEL, *President*
E. D. WHITTLESEY, *Senior Vice-President* N. E. VAN STONE, *Vice-President*
[illegible], *Vice-President* [illegible], *Treasurer*
[illegible], *Secretary*

Transfer Agents

CLEVELAND TRUST COMPANY, Cleveland, Ohio
BANKERS TRUST COMPANY, New York, N. Y.

Registrars

CENTRAL NATIONAL BANK, Cleveland, Ohio
GUARANTY TRUST COMPANY, New York, N. Y.

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