The Sherwin-Williams Company • 1971 Report to Shareholders

0007-SWP-035029

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Annual Meeting

The annual meeting of Shareholders will be held at 10:30 A.M., December 15, 1971, at the Sheraton Cleveland Hotel, Public Square, Cleveland, Ohio.

TRANSFER AGENTS

The Cleveland Trust Company
Cleveland, Ohio

Bankers Trust Company
New York, New York

REGISTRARS

Central National Bank of Cleveland
Cleveland, Ohio

Morgan Guaranty Trust Company of New York
New York, New York

TRUSTEES

5.45% Debentures Due 1992
The Cleveland Trust Company
Cleveland, Ohio

4.25% Convertible Subordinated Debentures Due 1993
Central National Bank of Cleveland
Cleveland, Ohio

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Financial Highlights

	August 31	
	1971	1970
Net sales	$554,692,413	$525,787,767
Income before income taxes and extraordinary credit	28,885,446	29,029,995
Income taxes—United States and foreign	13,710,038	14,487,082
Income before extraordinary credit	15,175,408	14,542,913
Extraordinary credit—net gain resulting from the sale of securities of Berger, Jenson & Nicholson Limited less applicable income taxes	—0—	534,482
Net income	15,175,408	15,077,395
Cash dividends declared:		
Preferred	1,109,641	1,109,583
Common	10,631,259	10,656,715
Per Common Share:		
Income before extraordinary credit	2.65	2.52
Net income	2.65	2.62
Cash flow	5.17	4.69
Dividends paid	2.00	2.00
Working capital	188,394,698	184,209,262
Ratio of current assets to current liabilities	4.42 to 1	4.25 to 1
Capital expenditures	12,872,833	15,485,604
Provisions for depreciation	11,9[illegible]0,036	10,645,666

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Letter To Shareholders

Fiscal 1971 reflected real progress in the major coatings segment of our business but brought problems and disappointments in chemicals and containers.

Total sales for the year increased to an all-time high of \$554,692,413 from \$525,787,767 last year, a 5.5% gain. Net earnings for the year were \$15,175,408, or \$2.65 per common share, compared to \$14,542,913, or \$2.52 per share excluding a 10¢ per share extraordinary credit last year.

Our sales pattern paralleled to a great degree general economic conditions during the year. The first half was disappointing, but as the economy began its slow upward climb during our third quarter, sales showed renewed strength, reaching a new record for the fourth quarter. Results for the final quarter were: sales, \$170,277,186 versus \$158,726,347 last year, a 7.3% gain; net earnings, \$7,804,392, or \$1.42 per share compared to \$8,201,251, or \$1.49 per share a year ago.

The Coatings Group, whose sales represented 76.8% of total consolidated sales, enjoyed a record year in both sales and earnings. The performance was very much better than that of the corporation as a whole. Pretax earnings of this group were up 18.9%, rising to \$23,592,329 in 1971 from \$19,843,308 in 1970, on a 6.1% sales gain.

Retail and maintenance sales through our branch stores and automotive refinish sales through our automotive service centers and automotive jobbers were the most important factors in the Coatings Group's sales performance. Industrial sales were slow during the year, but there was a noticeable upturn in the fourth quarter. With definite signs of improvement in industrial activity, and because of new large industrial customers, we look forward to continued growth in fiscal 1972 in our coatings business.

In line with our long-range plans, we are devoting more of our resources—manpower, money and time—to the many opportunities that exist in the marketing phase of our coatings business. Broad coverage of the market, supported by our most intensive advertising and merchandising program, should provide an effective springboard for future gains.

Chemicals Group sales comprised 9.4% of total consolidated sales. Although sales this year were only 2.4% under last year, the group continued to be plagued with depressed prices and increasing cost pressures. As a consequence, pretax results for the year showed a loss of \$4,341,175 versus a loss of \$2,239,037 in 1970.

We can expect improvement in chemical sales and earnings only as the general economy improves and companies in the chemical industry move to strengthen themselves to compete more effectively against determined foreign producers. The characteristics of the chemical business—in particular the relative capital requirements and the volatility of the business—are such that this segment, even more than others, must be under constant review. We have shut down one and are in process of shutting down a second chemical operation, both of which are no longer profitable. Two other operations are being converted to products that give promise of profitability. In the next few months we will determine whether any other operations hold insufficient expectations of satisfactory profits to justify continuing them.

Auxiliaries Group sales accounted for 9.2% of total consolidated sales. Despite a sales gain of 5.8% over last year, profits were down. This was due to a combination of start-up and strike-generated costs affecting the container division, and the general softness in demand for durable goods which adversely affected performance of the Osborn Manufacturing Co. subsidiary. Earnings gains by other elements of this group were insufficient

President Spencer (left) and Chairman Baldwin examine sketches illustrating various phases of the "More Than a Paint Store" advertising-merchandising program.

to offset these drains totally, resulting in a pretax profit for the group of $7,075,628 this year versus $9,134,046 last year. However, we foresee improvement in both costs and sales and anticipate that profits will recover in the coming year.

Our Sprayon Products subsidiary had a record sales year, and it was necessary to expand the production capacity of the Anaheim, California, plant. Pretax earnings were $1,428,264 compared to $1,114,907 in 1970. With aerosol packaging growing for many products, we expect fiscal 1972 to be another banner year.

Although still small, International Operations continued to grow in importance. Pretax earnings rose to $1,330,400 from $1,176,791 last year. We are placing a great deal more emphasis on developing more profits, particularly over the longer term, from this sector of our business.

To implement the restructuring of various segments of our business to a group concept of organization, an officer designation of Group Vice President was established. The following officers were elected to new posts: Richard G. Bull, Group Vice President-Coatings; William Moonan, Group Vice President-Auxiliaries; and George F. Schlaudecker, Group Vice President-Chemicals.

At the organizational meeting of the Board of Directors held immediately following the Annual Shareholders Meeting in December, 1970, John N. Bauman submitted his resignation in keeping with established policy covering retirement at age 70. He had served effectively for a period of eight years, and the board is grateful for his role in helping to guide the company.

Gene C. Brewer, president of Southwest Forest Industries, was named to fill the vacancy thus created.

After 41 years of service, Arthur B. Holton retired as Vice President and Technical Advisor to the President. Mr. Holton's contributions to the company and the industry were many and varied. To him we express our warm appreciation.

Two new positions created during the year were that of Director of Corporate Development and Director of Environmental Control. The former encompasses all planning functions with particular emphasis on refining our long-range planning activities. It is already apparent that this move will greatly enhance our ability to plan and control future growth of sales and profits. The latter position is designed to implement our firm corporate commitment to have the best possible working environment within our plants and offices and not to despoil the environment around us.

We are pleased with the progress made by the Coatings Group during the year, particularly in light of the general economic climate that prevailed. While the results in certain other areas of our business were disappointing, we are confident the steps that have been and are being taken will provide a base for improvement in these areas. We have clearly defined the problems and are vigorously attacking them. If the economic recovery continues at its present pace, next year's results should exceed those posted in 1971.

On behalf of the Directors, we thank all of our employees for their efforts and cooperation during the year.

E. Colt Baldwin

Chairman of the Board

W. O. Spencer

President

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The Year in Review

"MORE THAN A PAINT STORE"—That new advertising-merchandising theme comes alive in Sherwin-Williams branch stores. As the photo at left above illustrates, customers have a wide choice of paints to meet every painting need. They also find helpful color selection aids, authoritative advice on how to paint, plus a full complement of painting tools.

As befits a paint store that is "More Than a Paint Store," many other decorating components are available in these bright, modern shops. As indicated in the photo at left below, wallpaper, carpeting, drapery materials, even lamps and unfinished furniture may be selected in a relaxed and comfortable atmosphere.

As pointed out in the Letter to Shareholders, important changes were made in our organization during the year. The various parts of our business have been restructured into groups and each placed under the direction of a group vice president.

Heretofore, responsibility for research, production, distribution, marketing and accounting had been divided along functional lines. Now all these responsibilities are divisionalized in accordance with the business interests of each segment of the corporation. This change speeds decision making, provides more effective communication and insures faster action in relation to market changes.

The restructuring is reflected in the reports from the group vice presidents that follow. All comparisons to last year have been made after reworking last year's figures to conform with the new concept of organization.

To round out the reports from each of the group vice presidents, we have included reviews from other executives in which their particular areas of responsibility are covered. We believe their comments and observations will give you a more complete view of the operations of your company.

Individually, the reports focus on the various parts of our business; collectively, they reflect the strengths with which your company faces the future. We are confident we will successfully meet the challenges and opportunities that surely lie ahead.

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The Coatings Group

"Vigorous advertising and merchandising efforts, coupled with a continuing cost reduction program . . . point toward highly satisfactory results in our coatings sales and profits."

Richard G. Bell
Group Vice President—Coatings

The Coatings Group is responsible for the production, marketing and distribution of paints, varnishes, lacquers and allied materials supplied to retail customers, dealers, painting contractors, industrial maintenance customers, architects, automotive refinishers and users of factory-applied finishes. The group also markets painting tools, wallpaper, floor coverings, draperies, decorative accessories, unpainted furniture and related items.

Sales gains were made in all sections of the group. Again the branch organization contributed the largest share of our results. Branch store sales set new highs.

At year's end, we were operating 1847 branch stores in the United States. During the year 11 new ones were opened, while 39 were closed, 75 were relocated and 25 were remodeled and expanded. Even though we had fewer branch stores in operation at year's end, the total square footage of the stores was greater than a year ago. These changes are in keeping with our planned program to provide more complete service and keep pace with changing market conditions brought about by population shifts and changing retail buying habits.

We moved into 18 additional leased departments, chiefly in mass merchandising outlets, during the year. However, the total number of such departments we now operate declined to 279 from 310 a year ago. This reflects the continuation of programs established some time ago by some retail chains under which they eventually take over operation of these departments themselves. However, these departments continue to sell products which we manufacture.

Sales to dealers held up well. As expected, dealer-owned buying organizations and multiple-unit retailing concerns were our best dealer customers with the smaller independent outlets accounting for a shrinking proportion of sales.

Sales to painting contractors and to industrial maintenance customers began to show improvement during the second quarter of the year and have continued that pattern. The former were spurred by the increase in housing starts. Not only did this affect sales for new construction, but also redecoration and home improvement. Increased emphasis on maintenance by industry helped sales of industrial maintenance products. These sales were also abetted by our expanded color styling service to industry which assists industrial management in making effective functional use of color.

We also enjoyed an encouraging gain in sales through architects. This came largely as a result of our sustained effort in this market during the last few years. The Beau Monde™ color system, introduced at midyear, is finding excellent acceptance among architects as a further aid in color and finish selection.

Automotive refinish sales by Sherwin-Williams and the Martin-Senour, Acme and Rogers divisions continued to expand as they have for some years. This is a steadily growing market on which we are placing considerable emphasis. During the year, five new automotive service centers were established, raising to 48 the total of such specialized centers serving the many facets of this market.

For much of the year, sales of industrial finishes suffered from the slowdown in industrial activity. However, sales started to move upward in the middle of the third quarter and continued to show renewed strength. Finishes for the building industry were a considerable factor in the sales turn-around. Coil coatings for metal siding, roof decking and other building components contributed strongly, as did materials for factory finishing of wood components. The start-up of several major electrodeposition lines by customers also led to increased sales.

Operating costs in the group's 12 plants continued to improve during the year. Heavy emphasis is being put on inventory management to keep stocks in balance with demand. The efficiency of the management system was evidenced by our ability to reduce inventories while maintaining a high level of service to customers during the year. The system also eliminates closing plants for inventory purposes since taking of finished goods inventories is now done cyclically throughout the year.

Early in the fiscal year we closed the W. W. Lawrence plant at Pittsburgh. This was done when it became evident that other plants could more efficiently produce equivalent output. We are discontinuing varnish and lacquer production at Dayton for the same reason.

Environmental quality control continues to hold a high priority in our operations. At Oakland, California, we are pioneering a new approach to control of vapors from the varnish plant. This involves the use of low temperature condensers which are expected to solve a troublesome odor problem, eliminate hydrocarbon emissions and recover what had been discharged into the atmosphere.

Typical of other current activities in environmental control are: changes in varnish production methods at Gibbsboro, New Jersey, to eliminate air pollution; installation of waste water treatment facilities at Morrow, Georgia, and Los Angeles so effluent standards can be met; and construction of a settling tank at the Newark plant to eliminate discharge of objectionable materials into the municipal sewage system. A number of other projects at various plants are also underway, and still others are in the engineering stage.

We have made substantial progress in the further development of practical powder coatings. These coatings are paint in a solid rather than a liquid form. The powder is applied to an object, usually by electrostatic spray, the object is then subjected to heat, and the powder is converted into a cured, continuous film. This method of applying a coating has many advantages, not the least of which is the fact that it permits highly efficient use of coating materials with pollution problems largely, if not wholly, eliminated. Plans for commercial production of powder coatings are now nearing completion.

Water-dispersed coatings that include solutions or dispersions of resins in water have now been developed. Such coatings have many of the characteristics of latex emulsion paints. For industrial applications, they provide hard, durable finishes based on such resins as alkyds and polyesters with all the advantages of water-based systems.

Among other research and development projects brought to commercial usefulness are: high energy curing fillers and clear finishes for plywood and hardboard; urethane foam materials with a high potential for application in the furniture, building component and other fields; and high heat resistant polyester compositions for electrical laminates and other electrical end uses.

We are working toward the virtual elimination of lead from all residential paints. In anticipation of regulations restricting the lead content of such products, we have established new formulas that will enable us to meet the proposed requirements by the end of this calendar year. We have also eliminated mercurial compounds both as a bactericide and as a mildewcide in all of our coatings.

Fiscal 1972 appears to be a promising year for growth in our coatings sales and profits. Vigorous advertising and merchandising efforts, coupled with a continuing cost reduction program and the expected improvement in the economy, point toward highly satisfactory results.

"The outlook for the Chemicals Group is promising as we look into the future. As new products are put into production, they can be expected to bolster both sales and earnings."

George F. Schlaudecker
Group Vice President—Chemicals

Products of the Chemicals Group include pigments, organic and inorganic chemicals, chemical intermediates, textile chemicals, consumer specialty chemical products and contract custom chemicals. These products are sold to a wide variety of industries.

For some time now, the chemical industry generally has been suffering from lack of sales volume, depressed prices and increasing costs. All of these conditions were reflected in the performance of the Chemicals Group during 1971. Sales declined from the year before and an operating loss was sustained.

Shortfalls in anticipated sales revenue stemmed from a number of circumstances. The depressed state of the graphic arts industry seriously affected organic pigment sales. Price erosion in commodity chemicals, largely the result of intensified foreign competition, also contributed to lower sales revenue.

Increased unit costs were due in part to the fact that several plants operated at a rate significantly under capacity because of declining sales and industry overcapacity. Concurrently, increased labor costs, rising prices of raw materials and purchased services and increased expenditures relating to pollution controls also contributed to higher costs.

With an eye to improving profitability, certain marginal operations have been closed down. Phthalic anhydride production at Chicago and the inorganic agricultural chemicals operations at Bound Brook, New Jersey, were discontinued during the year. Scheduled phasing out of linseed oil production at Cleveland was begun and is to be completed within a few months.

Because of the virtual elimination of lead from paint formulations, the manufacture of leaded-zinc oxide is being phased out at the Coffeyville, Kansas, plant. These facilities are being converted to a new process for zinc oxide manufacture which will greatly increase our capacity and also improve our product quality, thereby enabling us to serve new markets.

Plans are being developed to change the phthalic anhydride plant over to production of isophthalonitrile, an intermediate for agricultural and polymer chemicals. Concurrently, we are evaluating a number of inorganic chemicals that may be profitably produced in some of our other existing facilities.

The realignment of research laboratories begun last year was completed this year, and the number reduced from four to three, each specifically oriented to broader areas of interest. The realignment will increase the efficiency of total laboratory effort.

Several steps were taken during the year toward developing more profitable means of marketing functional products. In line with the corporate objective of serving more directly the ultimate users of our products, a textile chemicals division was established to provide more inclusive service to the textile industry which we have long served with our Shordye color line. Similarly, we have enlarged the scope of our consumer specialty products effort to include not only the Acme line of garden chemicals, but also lines of swimming pool chemicals, boating chemicals and other recreational and household products of interest to consumers.

A Metals Protection Venture, concerned with marketing chemicals that contribute to corrosion resistance of various metals, was organized. We see this as a promising sales channel for triazols and several new chemicals. Additionally, we are developing pigment concentrates for direct use in the plastics field.

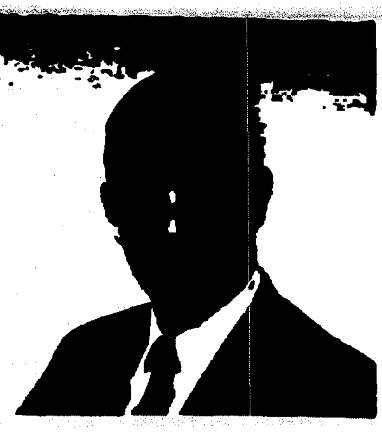
Efforts to make all of our plants pollution-free are continuing. Currently, equipment to control odorous emissions is being installed at the organic chemicals plants in Chicago, and a waste water quality improvement project is being carried through at Ashtabula.

The outlook for the Chemicals Group is promising as we look into the future. An upswing in the general economy is certain to be reflected in chemical sales, and cost reduction efforts made this year should begin to have favorable effect in the near term. As new products are put into production, they can be expected to bolster both sales and earnings.

The Auxiliaries Group

"Prospects for the Auxiliaries Group are highly encouraging. There appear to be no obstacles in the way of further growth."

William [illegible]
Group Vice President—Auxiliaries



Included in the Auxiliaries Group are the Container, Deshler Products and Printing divisions, and the Osborn Manufacturing Co., Rubberset Co. and Rubberset Co. (Canada), Ltd.

Although sales of the group rose, earnings were under last year. The dip in earnings is directly attributable to three factors: a 13-week strike at the San Leandro, California, container plant which made it necessary to supply many customers from other plants at considerably increased cost; continued higher-than-expected costs in bringing the new Elgin container lines into full production; and lower sales of Osborn Manufacturing Co. brought about by the general downturn in the metal working industry.

Container division sales volume rose and accounted for 55.9% of total group sales. However, earnings declined in the face of rising costs. A large portion of the sales increase was due to considerable growth in demand for aerosol containers and improved sales of containers for paint and charcoal lighter fluid.

As noted, Osborn Manufacturing sales declined, accounting for 30% of group sales. The operating earnings of this subsidiary were under those of a year ago. However, the projected increase in sales of industrial power-driven brushes and grinding wheels, plus a substantial backlog of machinery orders, indicates an improvement in fiscal 1972. In Germany, although the Schmitz & Ludwig subsidiary of Osborn achieved a sales increase, the operation incurred a loss due to problems involved in start-up of a new plant and the introduction of new technology in a new market.

The Rubberset Co. had an increase in both sales and earnings over the previous year's level. Its sales comprised 7.3% of group sales. A new French licensee, Rhodiaceta, S. A., began producing nylon brushes during the year. Rubberset Co. (Canada), Ltd., also enjoyed improved sales and earnings over 1970 with 6.5% of total group sales.

The printing division produces labels, stationery and advertising-merchandising sales aids for all domestic and international segments of the company. Typical of the division's production during the year were 25 million color cards, 61 million labels, 400,000 catalogs and a variety of sales promotion materials.

The Deshler Products division had the most productive year in its history. Practically all of its production was supplied to the Coatings Group and to the Rubberset Co. Plans are now being made to market more of the division's output to outside customers.

The Auxiliaries Group made major plant investments only at the Elgin, Illinois, container plant. There, $2,882,000 was invested in two new metal lithographing lines, a gallon oblong container production line, a quart oblong container production line and an additional aerosol container production line. Another aerosol container line is scheduled for 1972.

Two pollution control projects are now underway at the group's plants. One involves the installation of after-burners on ovens at the Chicago container lithographing facilities. These incinerators are so designed that products of combustion from the ovens will be converted to carbon dioxide and water, solving an odor pollution problem. At Osborn's brush plant in Henderson, Kentucky, a waste water diversion project is underway to eliminate the possibility of polluting streams in that area. A new wood waste disposal system is now being engineered for the Henderson location. This will eliminate air-borne sawdust and burn all wood wastes to supply heat for the kiln dryers.

Prospects for the Auxiliaries Group are highly encouraging. Although the new container lines at Elgin are not yet operating at satisfactory capacity, we expect to see slow, but steady, improvement. With these added facilities, container production will increase to enable us to capitalize more fully on expanding sales opportunities.
As stated earlier, in view of Osborn's current order backlog, we expect its sales to improve substantially. There appear to be no obstacles in the way of further growth for the other segments of the group.

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Sprayon Products, Inc.

"The aerosol packaging industry appears to be headed for continued growth . . . Sprayon has kept pace with the industry's progress and we expect to maintain our strong position."

John G. Ellis
President—Sprayon Products, Inc.

A highly specialized subsidiary, Sprayon Products, Inc., provides aerosol packaging service to many industries through its custom division. The company also packages and markets a broad line of industrial products under the Sprayon label through its industrial supply division.

Continuing an upward trend, sales in the 1971 fiscal year rose to a new record. They made up 2.6% of total consolidated sales. Earnings were also higher than in fiscal 1970.

Although packaging of coatings for the Coatings Group, as well as for many other coatings manufacturers, is a major segment of the custom division's business, packaging of other types of products is growing steadily. The volume of such materials as window cleaners, metal cleaners and fabric protectors is increasing at a good pace. Also of growing importance are materials for the automotive after-market—vinyl cleaners, engine degreasers, carburetor cleaning compounds and auto body undercoats. The electronics industry is contributing to custom packaging growth through increasing demand for specialized cleaning materials and other electronically-oriented products.

Another area of promising growth is the adhesive field. Pressure-sensitive adhesives, as well as adhesives for floor tile, package closures, photo mounts and many other uses, are now being successfully packaged in aerosol containers.

In a major breakthrough, Sprayon recently developed a method of aerosol packaging both pigmented and clear shellac, overcoming a number of difficult technical problems in the process. The technological achievements are expected to have application in packaging other difficult-to-handle products.

The industrial supply division continues to expand its line of products. At the same time, the division is adding to its extensive jobber distributing organization. At year's end that organization included 498 jobbers. The number is expected to increase about 10% in the coming year.

Thanks to stepped-up efficiency through measures taken at both the Bedford Heights, Ohio, and Anaheim, California, plants, Sprayon found it necessary to institute only very minor price increases during the year despite rising costs. Further cost control measures now in effect include the use of leased trucks which is resulting in substantial savings on freight charges.

As the variety of products being packaged has increased, the need for stepped-up quality control procedures has also increased. This need is being met by the use of sophisticated instruments designed to safeguard the quality of both the new products and those which the subsidiary has packaged for some time.

In the past, Sprayon has not generated pollution problems. The nature of its operations is such that the probability of future pollution is extremely low. If problems do develop, we are confident the advanced design of Sprayon's plants will permit them to be effectively handled by existing facilities.

The aerosol packaging industry appears to be headed for continued growth as the convenience of its "push-button" dispensers is introduced into an increasing number of product fields. For several years, Sprayon has kept pace with the industry's progress, and we expect to maintain our strong position.

International Operations

"This division seeks to expand the company's participation in markets abroad. Additional joint venture possibilities and acquisitions are currently being explored."

Michael D. Welsh
General Manager—International Operations

The major function of International Operations is the manufacture and marketing of coatings outside the United States, Canada and Puerto Rico. In addition, this division seeks to expand the company's participation in markets abroad. Plants of wholly-owned subsidiaries are operated in Mexico, Brazil and the Netherlands, and there are licensees in 19 other countries. The division also has wholly-owned subsidiaries serving as sales organizations based in Belgium and Jamaica, plus an International Technical Laboratory in Cleveland.

Gross revenues and net income for the year increased modestly over a year ago. Earnings, however, were affected adversely by the unstable economic conditions in some foreign countries and by disappointing results in the Netherlands operation.

Expenses during the year increased for several reasons. A main pre-occupation of the division is the development and training of management and staff for foreign needs of existing operations and for expansion. Immediate returns are not seen from expenses of this kind. The operations of the International Technical Laboratory were expanded to provide the broader technical base deemed necessary for the future growth of the division. During the year this laboratory gave increased assistance to a number of overseas factories in gauging plant requirements and in production techniques.

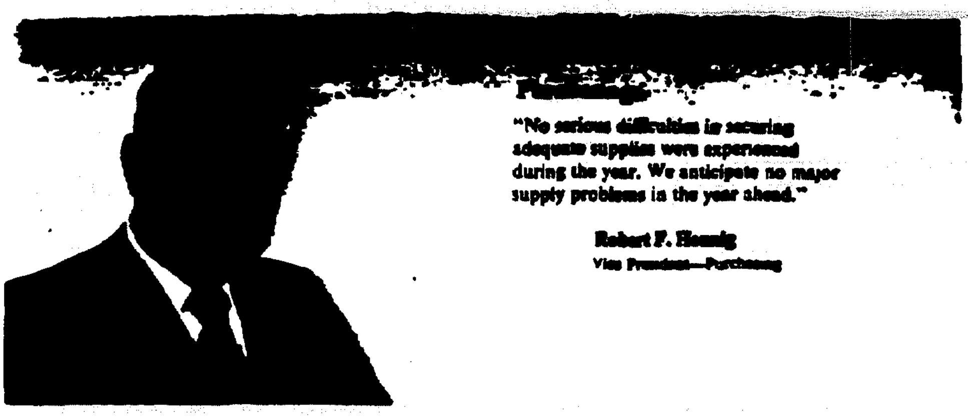
During the year license agreements were signed with paint manufacturers in Australia, New Zealand, and Costa Rica. At the very close of the year, we entered into a joint venture for paint manufacture in Panama. In this we will be associated with an existing licensee of long standing and with local interests. Additional joint venture possibilities and acquisitions are currently being explored.

In Mexico, operations continued to enjoy steady growth and seven new branch stores, patterned largely after those in North America, were established. The Mexican company now operates 43 such branch stores.

Verffabrieken Ralston, N. V., in the Netherlands opened a fifth branch store during the year at Roosendaal. The newest branch store is experimental and in it Ralston plans to test more intensively some of the new merchandising concepts we believe can further expand sales. In Europe there appears to be developing a do-it-yourself market with indications that new and different approaches in selling will be needed.

It is our philosophy that the interests of the company, its subsidiaries and its licensees, can be served best through coordination on a regional basis. In May the first regional meeting was conducted for representatives of companies in 13 Latin American and Caribbean countries. At the meeting new marketing and management concepts were examined. Major steps were taken to achieve uniform packaging of similar products throughout the region. We believe that this uniformity is a prerequisite to making feasible regional advertising programs necessary for accelerated sales growth.

Early in the 1972 fiscal year we will create the new position of Manager—European Region. This move is designed to give further assistance to our European subsidiaries and licensees, with the ultimate objective of increasing penetration into the European market. We are confident that under the regional concept results will be as effective as those now being achieved in Latin America.



"No serious difficulties in securing adequate supplies were experienced during the year. We anticipate no major supply problems in the year ahead."

Robert F. Hennig
Vice President—Purchasing

Purchasing is a corporate function with the Purchasing Department negotiating contracts and commitments, and providing procurement services for the Coatings, Chemicals and Auxiliaries Groups.

The Purchasing Department is centralized, with specialists concentrating on specific materials and services. This also assures the economies made possible through large quantity purchases. In the interests of efficiency, the purchasing function is also exercised at each plant to expedite procurement of materials and supplies for local use and to meet local production requirements.

Among the raw materials purchased are rutile, barytes and celestite ores and zinc concentrates for pigment and chemical manufacture; pigments, latexes, oils and petroleum and coal tar solvents for coatings production; and a variety of chemicals and chemical intermediates for resin and chemical operations. Other items purchased include tin plate and cold rolled steel for container manufacture; cartons and drums for packaging our products; propellants for aerosol packaging; natural and synthetic bristle and wire for brushes; lumber for brush handles; fabric for paint rollers; and all plant and office equipment and supplies.

The Purchasing Department establishes the sources of supply for the many decorating and related products re-sold in our branch stores and leased departments. The actual purchasing of such materials is handled locally in accordance with corporate purchasing guidelines.

No serious difficulties were experienced in securing adequate supplies during the year. In anticipation of a possible work stoppage in the steel industry at midyear, tin plate purchases were materially increased to insure uninterrupted production of metal containers. Overall, prices held fairly steady, with decreases on some items offsetting increases on others to a large extent. In regard to purchased services, two general freight rate increases by both the railroads and the truck lines were a major concern. To offset some of these increases, we are now operating leased truck fleets where this is feasible.

To further strengthen the corporate purchasing function, Harvey L. Piepho has been named Assistant Vice President-Purchasing. Mr. Piepho brings to our purchasing organization valuable expertise gained in previous assignments within the corporation. These encompassed technical and plant operations, engineering and planning. He was most recently Corporate Director of Engineering.

A recent organizational change included the consolidation of the specialized leased department purchasing function into the corporate Purchasing Department. This activity was formerly carried through at Detroit. We believe it can be more effectively performed at headquarters in conjunction with procurement services for branch store operations.

We anticipate no major supply problems in the year ahead. There is no evidence at this time to suggest the development of any critical situations in our areas of interest. However, it seems likely that the average price of purchased materials and services will be moderately higher.

Personnel

"... we will also seek increased motivation for all members of our work force so they may find both challenge and satisfaction in their day-to-day tasks."

Richard R. Crow
Vice President—Personnel

All personnel policies are administered by the Corporate Personnel Department. Responsibilities cover the full spectrum of matters related to employees, including recruitment, compensation, contract negotiations, training and employee communications. However, the personnel function is broadly decentralized with personnel managers located at all producing units, major laboratories and in sales regions.

At the end of fiscal 1971 we had 20,034 employees, a decrease of 431 from the previous year. This decrease was largely the result of the elimination or consolidation of functions under a very effective Profit Improvement Program.

Labor contract negotiations were conducted at 10 locations during the year. Eight of the resulting contracts were for three years, the other two for two years. Because of local circumstances, the costs of the new contracts varied considerably, but all were well within the range of settlements by other companies during the same period. The contract at the San Leandro container plant was obtained only after a three-month strike. A work stoppage at the Newark plant and another at the Morrow plant, both over non-economic issues, were of short duration. Contract negotiations scheduled for 1972 involve six major bargaining units.

During the year, 348 employees made use of the Tuition Aid Plan under which the company provides financial aid for work-related education on the undergraduate and graduate levels. Efforts in the National Alliance of Businessmen program to train and place hard-core unemployed were continued. A total of 80 persons underwent training. Our retention rate compares very favorably with the national average.

Manpower planning activities in all areas of our business have been further intensified in line with overall corporate long-range planning. The objective is to have well-qualified people available for new assignments as these develop. We are making strong efforts to search out the talent already in the organization, provide effective guidance for it and be ready to move people into new and more challenging positions as opportunities open. This program has many facets, including an Assessment Program to identify specific capabilities, and extensive in-service training in a wide variety of skills.

The program of communicating on a person-to-person basis with employees concerning benefits available to them as members of the organization has received enthusiastic acceptance. It is being expanded to provide information on general corporate objectives and pertinent financial matters.

In fiscal 1972, we plan to broaden the scope of the employee communications program to include discussions of local objectives and results within the framework of corporate aims. At the same time, more thorough effort will be made to determine employee attitudes and reactions to programs and plans of the corporation. We will also seek increased motivation for all members of the work force so they may find both challenge and satisfaction in their day-to-day tasks.

Financial Review:

"Our overall financial condition is strong and in good balance. This provides us with an excellent base and considerable flexibility to support the growth we envisage."

William C. Fine
Vice President—Finance

As part of the restructuring of the Company into operating groups, our accounting has been reorganized so that we can report comparably on each general business area. Following is a schedule of pretax operating results for 1971 versus 1970 for each of the reporting units. The income figures have been computed after full absorption by each of the units of all direct and indirect costs and allocation to those units of all corporate costs, including interest, pensions and general administrative expense. This approach provides your management with much more precise information relative to the profitability of each segment of the business. Since all costs have been fully reflected in the operations of each unit, the total of the income figures agrees exactly with the amount of pretax income reported in the corporate Statement of Consolidated Income.

(Thousands of Dollars)

	1971				1970				Change	
	Sales	Percent of Total	Income Before Taxes	Percent of Total	Sales	Percent of Total	Income Before Taxes	Percent of Total	Sales	Income Before Taxes
Coatings	$425,886	76.8%	$23,390	81.7%	$401,431	76.3%	$19,843	68.4%	$24,455	$3,740
Chemicals	52,074	9.4%	-4,541	-15.7%	53,367	10.1%	-2,239	-7.7%	-1,293	-2,302
Auxiliaries	51,004	9.2%	7,076	24.5%	48,202	9.2%	9,134	31.5%	2,802	-2,058
Sprayon	14,281	2.6%	1,428	4.9%	12,367	2.4%	1,115	3.8%	1,914	313
International	11,447	2.0%	1,330	4.6%	10,421	2.0%	1,177	4.0%	1,026	153
Totals	$554,692	100.0%	$28,883	100.0%	$525,788	100.0%	$29,030	100.0%	$28,904	$ -145

Taxes—The provision for U. S. and foreign income taxes for fiscal 1971 amounts to $13,710,038. Other taxes continued to rise. These taxes amounted to $15,027,311, up from $13,402,332 in 1970.

Dividends totalling $11,740,980 were declared this year. Cash dividends have been paid in every year since 1885.

Capital Expenditures during 1971 amounted to $12,872,833, compared with $15,485,604 for 1970. Depreciation in 1971 totalled $11,930,036, up from $10,845,666 in 1970.

Closed Facilities—Negotiations are in process for the possible disposition of the Cleveland linseed oil mill and the Bound Brook, New Jersey, insecticide plant. At this time it appears there will be no substantial gain or loss on disposition. Certain costs associated with close-downs will be incurred in 1972. A reserve has been created to cover these estimated costs.

General Financial Condition—During the year a $25,000,000, three-year Revolving Credit Agreement was negotiated with a group of banks. We do not foresee the need for any additional financing during the 1972 fiscal year, except for seasonal borrowings.

Working capital at August 31, 1971 increased to $188,394,848 from $184,299,362 in 1970. Current ratio was 4.42 to 1.

During the year $1,303,000 principal amount of the Company's 5.45% Debentures Due 1992 were repurchased to meet sinking fund requirements which first become effective in April 1973.

Pension Plans—Pension expense for fiscal 1971 was $4,931,056, compared to $4,430,636 in 1970. Certain of the pension plans were amended during the year providing improvements for the participants. These changes become effective at various times starting in the 1972 fiscal year.

Employee Stock Purchase Plan—Just over 6,800 salaried employees currently are participating through regular payroll deductions in the Plan which was started April 1, 1969. At August 31, 1971, 189,316 shares of Common Stock, representing 3.5% of the total number of shares outstanding, were owned by this employee fund.

FINANCIAL SECTION

FISCAL YEAR 1971

THE SHERWIN-WILLIAMS COMPANY

0007-SWP-035045

Statement of Consolidated Income

	Year Ended August 31	
	1971	1970
Net sales	$554,692,413	$525,787,767
Other income—net	1,326,074	1,130,959
	556,018,487	526,918,726
Costs and expenses, including depreciation (principally straight-line) of $11,920,036 in 1971 and $10,645,666 in 1970:		
Cost of products sold	355,854,727	332,386,375
Selling, general and administrative expenses	159,950,458	154,312,500
Pensions—Note F	4,931,056	4,430,636
Interest	6,396,800	6,759,220
	527,133,041	497,888,731
Income Before Income Taxes and Extraordinary Credit	28,885,446	29,029,995
Income taxes:		
United States—Note B:		
Payable currently	11,000,000	13,048,000
Deferred	1,518,851	380,053
Foreign	1,191,187	1,059,029
	13,710,038	14,487,082
Income Before Extraordinary Credit	15,175,408	14,542,913
Extraordinary credit—net gain resulting from the sale of securities of Berger, Jenson & Nicholson Limited less applicable income taxes of $552,000	—0—	534,482
Net Income	$ 15,175,408	$ 15,077,395
Net income per common share—Note E:		
Assuming no dilution:		
Income before extraordinary credit	$ 2.65	$ 2.52
Extraordinary credit	—0—	.10
Net income	$ 2.65	$ 2.62
Assuming full dilution:		
Income before extraordinary credit	$ 2.47	$ 2.43
Extraordinary credit	—0—	.09
Net income	$ 2.47	$ 2.52

See notes to consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY
And Consolidated Subsidiaries

Statement of Changes in Consolidated Financial Position

	Year Ended August 31	
	1971	1970
Source of Funds		
From operations:		
Income before extraordinary credit	$ 15,175,408	$ 14,542,913
Add back charges to operations not requiring funds:		
Provision for depreciation	11,920,036	10,645,666
Increase in noncurrent deferred federal income taxes	1,432,335	695,151
Funds provided from operations exclusive of extraordinary credit	28,527,779	25,883,730
Extraordinary credit	—0—	534,482
	28,527,779	26,418,212
Proceeds from sale of 6.25% Convertible Subordinated Debentures	—0—	40,000,000
Decrease in revolving credit notes	—0—	(25,000,000)
	—0—	15,000,000
Proceeds from sale of stock under stock option plan	253,719	50,625
	$ 28,781,498	$ 41,468,837
Application of Funds		
Cash dividends declared	$ 11,740,900	$ 11,766,298
Additions to property, plant and equipment, net of normal retirements	11,728,767	14,470,122
Purchase of common shares for treasury	—0—	592,063
Purchase of 5.45% Debentures	1,303,000	—0—
Increase in working capital	4,185,436	14,533,778
Other—net	(176,605)	106,576
	$ 28,781,498	$ 41,468,837
Changes in Working Capital—Increase (Decrease)		
Cash and short-term investments	$ (6,178,541)	$ 12,433,208
Trade accounts receivable	7,154,792	6,688,272
Inventories	1,319,235	9,819,136
Recoverable federal income taxes	—0—	(2,188,749)
Trade accounts payable	850,191	(1,061,295)
Pension, interest and other accruals	(642,262)	(2,393,531)
Income taxes	2,239,776	(8,939,633)
Other—net	(557,755)	176,370
Increase in Working Capital	$ 4,185,436	$ 14,533,778

See notes to consolidated financial statements.

0007-SWP-035047

0007-SWP-000116467

Statement of Consolidated Shareholders' Equity

	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Common Stock In Treasury
Balance at September 1, 1969	$9,195,438	$33,342,156	$1,247,841	$184,779,312	$ (97,796)
Series B preferred stock:					
125 shares issued upon exercise of stock options	4,441	—	4,746	—	—
Common Stock issued:					
52 shares upon conversion of 25 shares of Series A preferred stock and 7 shares of Series B preferred stock	(1,137)	325	812	—	—
889 shares upon exercise of stock options	—	5,556	35,882	—	—
Other	—	—	(45)	—	—
Net income	—	—	—	15,077,395	—
Cash dividends declared:					
Series A preferred stock—$4.00 per share	—	—	—	(296,096)	—
Series B preferred stock—$4.40 per share	—	—	—	(813,487)	—
Common—$2.00 per share	—	—	—	(10,656,715)	—
Purchase of 20,600 common shares for treasury	—	—	—	—	(592,063)
Balance at August 31, 1970	9,198,742	33,348,037	1,289,236	188,090,409	(689,859)
Common stock issued:					
31 shares upon conversion of 18 shares of Series A preferred stock	(640)	194	444	—	—
6,150 shares upon exercise of stock options	—	38,438	215,281	—	—
Net income	—	—	—	15,175,408	—
Cash dividends declared:					
Series A preferred stock—$4.00 per share	—	—	—	(296,024)	—
Series B preferred stock—$4.40 per share	—	—	—	(813,617)	—
Common—$2.00 per share	—	—	—	(10,631,259)	—
Balance at August 31, 1971	$9,198,102	$33,386,669	$1,504,961	$191,524,917	$(689,859)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

August 31, 1971

NOTE A—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include all significant subsidiaries except The Sherwin-Williams Company of Canada, Limited (majority owned). The Company's equity in the consolidated net assets of that subsidiary amounted to $9,148,000 at August 31, 1971. For the year ended August 31, 1971, the Company's equity in the earnings was $160,000. No dividends were received during the year.

Intercompany transactions have been eliminated. Appropriate rates of exchange have been used to translate foreign currency amounts into United States dollars, and the effect, which was not significant, was included in consolidated income.

NOTE B—INCOME TAXES

The Company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting. The principal differences relate to depreciation and reserves.

NOTE C—LONG-TERM DEBT

The 5.45% Debentures Due 1992 and the 6.25% Convertible Subordinated Debentures Due 1995 are redeemable in whole or in part at the option of the Company at the rates of 104% and 105.94% respectively and at declining rates to 100% in 1987 and 1990 respectively. The related indentures require annual sinking fund payments of $2,000,000 for each of the issues, commencing in 1973 for the 5.45% Debentures and in 1981 for the 6.25% Debentures. The Convertible Subordinated Debentures are convertible into Common Stock at $46 a share, subject to adjustment in certain events.

A revolving credit agreement with a group of banks entitles the Company to borrow at prime rate up to $25,000,000 in the form of notes due June 1, 1974. A fee of ½% is charged on the unused portion of the credit commitment. The agreement requires the Company to maintain consolidated net current assets of not less than $125,000,000. The Company has not yet borrowed under this agreement.

NOTE D—CAPITAL STOCK

Authorized and issued shares of the various classes of stock at August 31, 1971:

	SHARES Authorized	SHARES Issued
Serial Preferred Stock:	1,500,000	
$4.00 Cumulative Convertible Preferred Stock, Series A . .		73,006
$4.40 Cumulative Convertible Preferred Stock, Series B . .		154,913
Common Stock (including 22,500 shares held in treasury)	15,000,000	5,341,867

The shares of Series A and Series B preferred stock are convertible at base conversion prices of $57.93 and $62.50 per share of Common Stock, respectively, taking each share of preferred stock at $100 for this purpose. The holders of the preferred stock are entitled to one vote for each share.

The Company may redeem the Series A preferred stock commencing in 1972 at $104 per share and at a declining amount each year to $100 per share in 1980 and thereafter, and the Series B preferred stock at $109 until December, 1971, and at declining amounts to $100 in 1981 and thereafter. The aggregate preference of the Serial Preferred Stock in involuntary liquidation is $25,891,900.

At August 31, 1971, an aggregate of 1,641,193 shares of Common Stock was reserved for conversion of Serial Preferred Stock, conversion of Convertible Subordinated Debentures and exercise of stock options.

NOTE E—NET INCOME PER COMMON SHARE

Net income per common share has been computed based on the average number of shares outstanding during the year after deducting the dividend requirements of the Serial Preferred Stock. Net income per common share assuming full dilution also assumes the conversion of the Series A preferred stock and the 6.25% Convertible Subordinated Debentures (after adding to net income interest on the debentures net of income taxes) and the exercise of stock options (with the proceeds from options used to purchase Common Stock of the Company).

NOTE F—RETIREMENT PLANS

Substantially all employees of the Company and its domestic subsidiaries, who meet certain requirements as to age and length of service, participate in noncontributory pension plans. The Company's policy is to accrue contributions for its pension funds representing normal cost and amortization of unfunded prior service costs over 30 years. At the most recent actuarial determination dates, the assets of the pension funds and the balance sheet accrual exceeded the actuarially computed value of vested benefits.

NOTE G—LEASES

Branches, offices and certain warehouses and plants are leased for various periods. The rental expense of leased premises for the year ended August 31, 1971, aggregated approximately $17,300,000. Approximately 85% of these rentals relate to leases expiring in five years or less.

NOTE H—STOCK OPTIONS

During fiscal 1971, the shareholders approved a restatement of the Company's stock option plan authorizing the issuance of an additional 200,000 shares of Common Stock to officers and key employees. Options are granted at prices not less than fair market value of the shares at date of grant. The options are exercisable to the extent of one-half or one-fifth of the optioned shares for each full year of employment following the date of grant, and expire five or ten years after date of grant.

During the year, options were granted for 178,150 shares, 6,150 options were exercised at an aggregate price of $253,719, and options for 50,666 shares were canceled. At August 31, 1971, options for 249,337 shares were outstanding at an aggregate price of $10,137,086, options for 72,457 shares were exercisable, and 81,111 shares were reserved for future grants.

Accountants' Report

Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We have examined the consolidated financial statements of The Sherwin-Williams Company and consolidated subsidiaries for the year ended August 31, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the consolidated financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of income, shareholders' equity, and changes in financial position present fairly the consolidated financial position of The Sherwin-Williams Company and consolidated subsidiaries at August 31, 1971, and the consolidated results of their operations, changes in shareholders' equity, and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cleveland, Ohio
October 14, 1971

Consolidated Balance Sheet

Assets

	August 31 1971	August 31 1970
Current Assets		
Cash	$ 12,655,182	$ 12,833,723
Short-term investments—at cost (approximate market)	5,000,000	11,000,000
Trade accounts receivable, less allowances ($1,313,000 in 1971; $1,288,000 in 1970)	70,598,955	63,444,163
Inventories—at lower of cost (average or first-in, first-out method) or market:		
Finished merchandise	100,713,533	104,314,963
Work in process, raw materials and supplies	46,419,358	41,498,693
	147,132,891	145,813,656
Prepaid expenses	5,664,874	5,201,275
Deferred federal income taxes—Note B	2,437,767	2,524,283
Total Current Assets	243,489,669	240,817,100
Investments and Other Assets		
Common shares of The Sherwin-Williams Company of Canada, Limited—at cost—Note A	4,182,766	4,182,766
Receivables, advances and other assets	4,398,666	4,494,671
	8,581,432	8,677,437
Property, Plant and Equipment—on the basis of cost		
Land	5,402,398	5,369,650
Buildings	75,833,871	73,826,032
Machinery and equipment	158,424,184	150,918,221
	239,660,453	230,113,903
Less allowances for depreciation	101,239,795	91,501,975
	138,420,658	138,611,928
	$390,491,759	$388,106,465

Liabilities and Shareholders' Equity

	1971	1970
Current Liabilities		
Notes payable	$ 2,817,030	$ 2,817,030
Trade accounts payable	13,793,494	14,643,685
Compensation and amounts withheld	14,023,831	13,346,413
Pension, interest and other accruals	13,676,428	13,034,166
Dividends payable on preferred stock	277,410	277,428
Taxes, other than income taxes	3,806,921	3,549,483
Income taxes	6,699,857	8,939,633
Total Current Liabilities	55,094,971	56,607,838
Long-Term Debt—Note C		
3.45% Debentures (exclusive of $1,303,000 in treasury in 1971)	48,697,000	50,000,000
6.25% Convertible Subordinated Debentures	40,000,000	40,000,000
	88,697,000	90,000,000
Deferred Federal Income Taxes—Note B	8,531,244	7,098,909
Reserves—for pensions and other items	3,243,754	3,163,153
Shareholders' Equity		
Capital stock—Notes D and H:		
Serial preferred—without par value	9,198,102	9,198,742
Common—$6.25 par value	33,386,669	33,348,037
Other capital	1,504,961	1,289,236
Retained earnings	191,524,917	188,090,408
	235,614,649	231,926,424
Less cost of common shares in treasury	689,859	689,859
	234,924,790	231,236,565
	$390,491,759	$388,106,465

See notes to consolidated financial statements.

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THE SHERWIN-WILLIAMS COMPANY
And Consolidated Subsidiaries

Five-Year Comparison

	Year Ended August 31				
	1971	1970	1969	1968	1967
Net sales	$554,692,413	$525,787,767	$495,139,134	$452,526,660	$417,409,220
Income before income taxes and extraordinary items	28,885,446	29,029,995	30,471,731	36,271,098	36,526,914
Income taxes—United States and foreign	13,710,038	14,487,082	11,829,912	17,281,235	17,161,621
Net income	15,175,408	15,077,395(A)	18,641,819	18,989,863	19,365,293
Earnings per share of Common Stock:					
Income before extraordinary credit	2.65	2.52	3.29	3.36	3.44
Net income	2.65	2.62(A)	3.29	3.36	3.44
Cash flow per share of Common Stock	5.17	4.69	5.18	5.11	4.88
Earnings as percent of sales	2.74%	2.87%	3.76%	4.20%	4.64%
Return on invested capital—Common Stock (B)	6.85%	6.89%	9.01%	9.55%	10.19%
Cash dividends declared:					
Preferred	$ 1,109,641	$ 1,109,583	$ 1,045,175	$ 299,444	$ 278,057
Common	10,631,259	10,656,715	10,650,863	10,616,310	10,585,957
Cash dividends per share of Common Stock	2.00	2.00	2.00	2.00	2.00
Number of shareholders:					
Preferred	1,027	1,078	1,075	1,280	93
Common	9,903(C)	8,996(C)	8,278(C)	8,252	8,094
Preferred and common shareholders' equity	$234,924,790	$231,236,565	$228,466,951	$220,949,787	$213,266,737
Common shareholders' equity	209,032,890	205,342,865	202,582,551	194,646,187	186,940,337
Per share	39.33	38.53	38.05	36.64	35.25
Capital expenditures	12,872,833	15,485,604	30,721,718	31,303,399	26,998,256
Provisions for depreciation	11,920,036	10,645,666	9,265,119	7,885,271	6,578,007
Working capital	188,394,698	184,209,262	169,875,484	162,918,649	144,221,514
Ratio of current assets to current liabilities	4.42 to 1	4.25 to 1	4.78 to 1	4.93 to 1	4.77 to 1
Total assets	$390,401,759	$388,106,465	$357,374,497	$324,432,101	$308,873,794
Number of employees	20,034	20,465	20,242	19,403	18,633

Above reflects acquisitions recorded as poolings of interests.

(A) Includes $534,482 net gain after taxes, equal to $0.10 a share, from the sale of securities of Berger, Jenson & Nicholson Limited.

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

(C) In addition to the registered shareholders, there were beneficial shareholders participating in the Company's Stock Purchase and Savings Plan for salaried employees (6,802 in 1971, 7,068 in 1970 and 7,220 in 1969).

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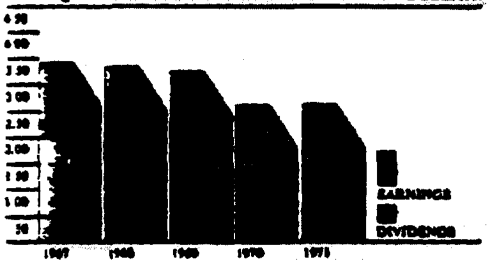
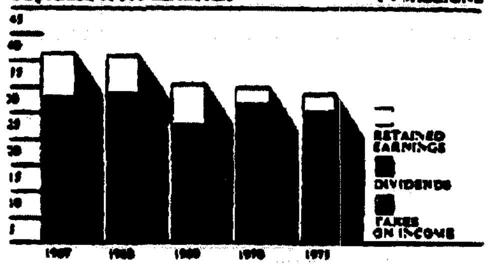
Cash Flow IN MILLIONS

Capital Expenditures and Depreciation IN MILLIONS

Earnings and Dividends Per Common Share IN DOLLARS

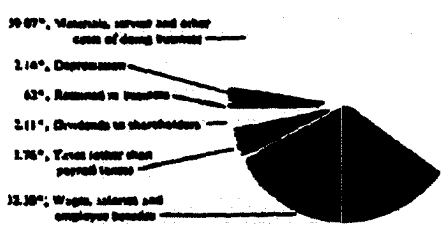


Disposition of Pre-tax Income IN MILLIONS



Consolidated Net Sales IN MILLIONS

Distribution of Total Revenue
YEAR ENDED AUGUST 31, 1971



0007-SWP-035053

The Sherwin-Williams Company o

Expressed I

Consolidated Balance Sheet

		August 31 1971	August 31 1970
Assets	***Current Assets***		
	Cash	$ 621,060	$ 674,889
	Trade accounts receivable, less allowances ($176,000 in 1971; $167,700 in 1970)	6,941,618	5,975,071
	Other accounts receivable	87,493	92,223
	Inventories—at the lower of cost (average or first-in, first-out method) or market:		
	Finished merchandise	8,385,397	8,293,006
	Work in process, raw materials and supplies	2,431,411	2,614,206
		10,816,808	10,907,212
	Prepaid expenses	433,943	485,450
	Recoverable income taxes	—0—	284,507
	Total Current Assets	18,900,922	18,419,352
	Investment and Other Assets		
	Common shares of The Carter White Lead Company of Canada Limited (50% owned)—at cost	200,000	200,000
	Miscellaneous receivables and advances	58,496	66,410
		258,496	266,410
	Property, Plant and Equipment—on the basis of cost		
	Land	607,442	607,442
	Buildings	5,691,189	5,667,497
	Machinery and equipment	8,269,752	8,010,756
		14,568,383	14,285,695
	Less allowances for depreciation	10,024,143	9,717,230
		4,544,240	4,568,465
		$23,703,658	$23,254,227
Liabilities and Shareholders' Equity	***Current Liabilities***		
	Trade accounts payable	$ 4,461,723	$ 4,085,524
	Payrolls, compensation and other accruals	601,132	512,034
	Taxes, other than income taxes	578,337	566,435
	Income taxes	70,958	—0—
	Total Current Liabilities	5,712,150	5,163,993
	Unfunded Pension Costs Reduced to a Net of Tax Basis—Note B	1,461,906	1,610,565
	Deferred Income Taxes	564,800	568,250
	Shareholders' Equity		
	Capital stock — Note A:		
	Preferred, 7% cumulative, par value $100 per share:		
	Authorized —40,000 shares		
	Outstanding—33,191 shares (1970—34,600 shares)	3,319,100	3,460,000
	Common, no par value:		
	Authorized —225,000 shares		
	Outstanding—224,720 shares	224,720	224,720
	Retained earnings	12,280,082	12,226,699
	Capital surplus—Note A	117,240	—0—
	Contributed surplus—Note A	23,660	—0—
		15,964,802	15,911,419
		$23,703,658	$23,254,227

See notes to consolidated financial statements.

d In Canadian Dollars

Statements of Consolidated Income, Retained Earnings, Capital Surplus and Contributed Surplus

		Year ended August 31	
		1971	1970
Income	Net sales	$37,356,140	$35,578,432
	Dividends received	55,000	60,000
		37,611,140	35,638,432
	Costs and expenses (including depreciation computed principally on a declining balance method of $429,262 in 1971 and $434,759 in 1970):		
	Cost of products sold	22,891,479	21,423,564
	Selling, general and administrative expenses	13,241,481	12,979,489
	Company and government pension cost	505,487	492,015
	Interest on current debts	205,484	250,617
		36,843,931	35,145,685
	Income Before Income Taxes and Extraordinary Credit	767,209	492,747
	Income taxes	358,000	206,000
	Income Before Extraordinary Credit	409,209	286,747
	Extraordinary credit—proceeds from the sale of the Green Cross Division on September 1, 1969 in excess of the net carrying value of the tangible assets sold net of the income tax effect	—0—	1,662,000
	Net Income	$ 409,209	$ 1,948,747
Retained Earnings	Balance at beginning of year	$12,226,699	$10,688,692
	Add—Net income for the year	409,209	1,948,747
		12,635,908	12,637,439
	Deduct—		
	Cash dividends declared:		
	Preferred $7 per share	238,586	242,200
	Common $0 per share (1970—$0.75)	—0—	168,540
		238,586	410,740
	Designated as a capital surplus—Note A	117,240	—0—
		355,826	410,740
	Balance at End of Year	$12,280,082	$12,226,699
Capital Surplus	The cost of purchase for cancellation of 1,409 preferred shares of a par value of $100 each—Note A	$ 117,240	$ —0—
Contributed Surplus	The excess of the par value of 1,409 preferred shares over the cost of purchase for cancellation—Note A	$ 23,660	$ —0—

See notes to consolidated financial statements.

The Sherwin-Williams Company of Canada, Limited And Subsidiary
Expressed in Canadian Dollars

Statement of Source and Application of Funds

		Year ended August 31	
		1971	1970
Source of Funds	From operations:		
	Net income	$ 409,209	$1,94[illegible]47
	Provision for depreciation	429,262	434,759
	(Gain) loss on disposal of property and equipment	(3,078)	19,193
	Deferred income tax credit (deduction)	(3,450)	(22,750)
	Total From Operations	831,943	2,379,949
	Proceeds from disposal of property and equipment	9,473	34,981
	Decrease (increase) in miscellaneous receivables and advances	7,914	(20,996)
	Decrease in net current assets	66,586	—0—
		$ 915,916	$2,393,934
Application of Funds	Additions to property, plant and equipment	$ 411,431	$ 420,053
	Dividends paid	238,586	410,740
	Purchase of preferred shares for cancellation	117,240	—0—
	Decrease in unfunded pension cost reduced to a net of tax basis	148,659	118,718
	Increase in net current assets	—0—	1,444,423
		$ 915,916	$2,393,934

Notes to the Consolidated Financial Statements

NOTE A—During the year 1,409 preferred shares were purchased for cancellation and the Company has set aside as not available for distribution capital surplus of $117,240 in compliance with Section 62 of the Canada Corporation Act. The difference between the cost of purchase and the par value of the shares so purchased ($23,660) is shown as a contributed surplus as required by the Act.

NOTE B— Improvements to the Company's pension plan have created additional long-term obligations arising from services rendered prior to August 31, 1971. This amount is approximately $1,200,000 (at August 31, 1970—$375,000) and in accordance with accepted accounting principles will be charged to operations over the working lives of the employees not exceeding 19 years.

Accountants' Report

To the Shareholders,
The Sherwin-Williams Company of Canada, Limited.
(A public company under the laws of Canada).

We have examined the consolidated balance sheet of The Sherwin-Williams Company of Canada, Limited and its subsidiary as of August 31, 1971, and the related statement of consolidated income, statements of consolidated retained earnings, capital surplus and contributed surplus and statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the consolidated financial position of The Sherwin-Williams Company of Canada, Limited and its subsidiary at August 31, 1971, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
September 28, 1971.

Ernst & Ernst
Chartered Accountants

Consolidated Subsidiaries

Domestic

The Osborn Manufacturing Company

Rubberset Company

Sprayon Products, Inc.

Foreign

Compania Sherwin-Williams, S.A. de C.V.
Mexico City, D. F., Mexico

The Sherwin-Williams Co. of Puerto Rico, Inc.
San Juan, Puerto Rico

Rubberset Company (Canada) Limited
Gravenhurst, Ontario, Canada

The Sherwin-Williams Co. (West Indies) Ltd.
Kingston, Jamaica

Verffabrieken Ralston N. V.
Zeist, Netherlands

Sherwin-Williams (Europe) Société Anonyme
Antwerp, Belgium

Schmitz & Ludwig und Comp.
Fabrik Technischer Bürsten GmbH.
Frankenberg, Germany

Unconsolidated Subsidiaries

Sherwin-Williams do Brasil S/A Tintas e Vernizes	Sao Paulo, Brazil
The Sherwin-Williams Company of Canada, Limited	Montreal, Canada
The Carter White Lead Company of Canada Limited (50% owned—unconsolidated).	Montreal, Canada
Société Anonyme des Machines Osborn.	Paris, France

Licensees

*Aktiebolaget Syd-ferniss (Sweden)

*Astral Sté de Peintures,
Vernis et Encres
D'Imprimerie (France)

*Donald Macpherson Group, Ltd. (England)

Fabrica Nacional de Pinturas "Espiasbol"
S. A. (Bolivia)

*Montecatini Edison S. p. A. (Italy)

*Nippon Paint Company, Ltd. (Japan)

Pinchin Johnson & Co. (New Zealand), Ltd.

Pinturas Andina S.A. (Chile)

Rhodiaceta, S.A. (France)

Sherwin-Williams Argentina Industrial y
Comercial S.A.

Fabrica Nacional de Pinturas
Sherwin-Williams de Colombia S.A.

Sherwin-Williams del Ecuador
Fabrica Nacional de Pinturas S.A.

Sherwin-Williams Peruana S.A.

Sherwin-Williams, Philippines, Inc.

Sherwin-Williams de Centro America, S.A.

Sherwin-Williams de Costa Rica, S.A.

Sherwin-Williams de Panama S.A.

Sherwin-Williams Española, S.A.

Sherwin-Williams Venezolana C.A.

*Shinto Paint Co., Ltd. (Japan)

*Taubmans Industries, Ltd. (Australia)

**Coil Coatings*

Products and Plants

Principal Products

Paints • Enamels • Varnishes • Lacquers • Stains • Aerosol Specialties • Zinc Pigments • Lithopone • Metal Containers • Industrial Power-Driven and Maintenance Brushes • Colored Pigments • Synthetic Para Cresol • Saccharin • Barium and Strontium Chemicals • Foundry Machinery and Equipment • Finishing Machinery and Grinding Wheels • Organic Chemicals • Titanium Dioxide Pigments • Textile Printing and Dyeing Colors • Paint Brushes • Rollers and Other Painting Accessories.

Domestic Plants

Anaheim, California
Ashtabula, Ohio
Bedford Heights, Ohio
Bound Brook, New Jersey
Chicago, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Coffeyville, Kansas
Crisfield, Maryland
Dayton, Ohio
Deshler, Ohio
Detroit, Michigan
Elgin, Illinois
Garland, Texas
Gibbsboro, New Jersey
Greensboro, North Carolina
Henderson, Kentucky
Hubbard, Ohio
Los Angeles, California
Morrow, Georgia
Newark, New Jersey
Oakland, California
San Leandro, California

Printing Center

North Olmsted, Ohio

Research Center

Chicago, Illinois

Foreign Plants

Bayamon, Puerto Rico
Frankenberg, Germany
Gravenhurst, Canada
Mexico City, Mexico
Montreal, Canada
Sao Paulo, Brazil
Toronto, Canada
Vancouver, Canada
Winnipeg, Canada
Zeist, Netherlands

The A. W. Steudel Technical Center

Chicago, Illinois

Container Technical Center

Countryside, Illinois

THE SHERWIN-WILLIAMS COMPANY

Founded in 1866

EXECUTIVE OFFICES

101 Prospect Avenue, N. W., Cleveland, Ohio 44115

Directors

E. Colin Baldwin
Chairman of the Board and
Chief Executive Officer

Keith S. Benson
Director—Various Companies

Willis B. Boyer
President and Chief Executive Officer
Republic Steel Corporation

Gene C. Brewer
President
Southwest Forest Industries, Inc.

Richard G. Bull
Group Vice President—Coatings

William C. Fine
Vice President—Finance

Robert F. Hennig
Vice President—Purchasing

John A. Hill
President
Hospital Corporation of America

Allen C. Holmes
Partner
Jones, Day, Cockley & Reavis
Attorneys

Victor Holt, Jr.
President
The Goodyear Tire & Rubber Company

William Moonan
Group Vice President—Auxiliaries

Robert W. Ramsdell
Retired—Formerly Chairman
The East Ohio Gas Company

George F. Schlaudecker
Group Vice President—Chemicals

Walter O. Spencer
President

John D. Wright
Director
TRW Inc.

Arthur W. Steudel
Honorary Director

Officers

E. Colin Baldwin
Chairman of the Board and
Chief Executive Officer

Walter O. Spencer
President

Richard G. Bull
Group Vice President—Coatings

William Moonan
Group Vice President—Auxiliaries

George F. Schlaudecker
Group Vice President—Chemicals

William C. Fine
Vice President—Finance

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Vice President—Purchasing

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Virgil A. Hollis
Assistant Vice President—Finance

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Assistant Vice President—Purchasing

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Secretary

Frank H. Clark
Assistant Treasurer and Assistant Secretary

Frank C. Kollath
Assistant Treasurer

William P. Inman
Assistant Secretary

As in years past, this Annual Report was printed at the Sherwin-Williams Printing Center, North Olmsted, Ohio. Many of the inks used in its production contain pigments supplied by the Sherwin-Williams Chemicals Group.

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