SHERWIN WILLIAMS

The Sherwin-Williams Company 1986 Annual Report and 10 K

0007-SWP-035500

N21778

Annual Meeting
The annual meeting of shareholders will be held at 10:00 a.m., April 22, 1987, at Stouffer's Tower City Plaza, 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.

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

6.25% Convertible
Subordinated Debentures
Society National Bank
Cleveland, Ohio

9.875% Debentures (SWDC)
Harris Trust & Savings Bank
Chicago, Illinois

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

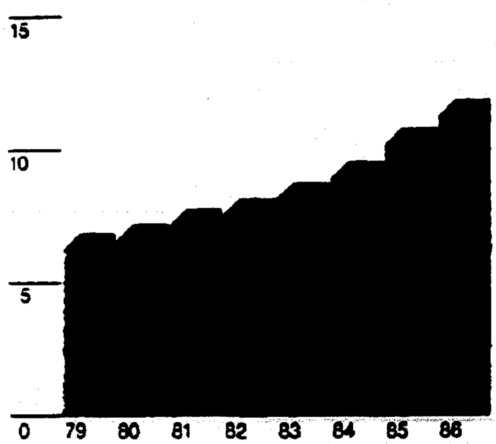
Independent Auditors
Ernst & Whinney
Cleveland, Ohio

Investor Relations
Dianne B. McCormick
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115-1075

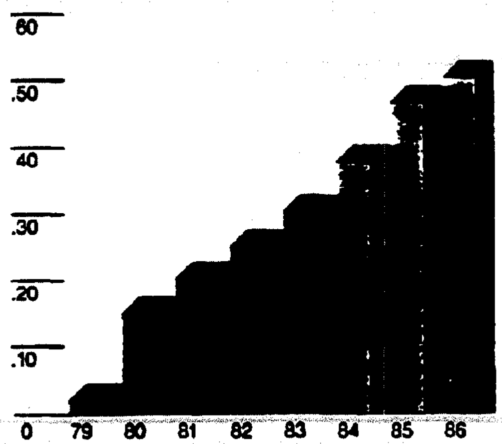
Dividend Reinvestment Program
A dividend reinvestment program is available to shareholders of common stock. For information, contact Investor Relations office as described above

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

Book Value Per Common Share
Dollars



Dividends Per Common Share
Dollars



Common Stock Trading Statistics

	1986	1985	1984	1983	1982	1981	1980
High	$32¼	$23½	$16¼	$15⅞	$12¾	$5⅞	$5 [illegible]
Low	21⅛	13⅛	11⅛	9⅛	4½	[illegible]	2 [illegible]
Close December 31	27⅝	22⅛	14	13⅞	11	5 [illegible]	[illegible]
Shares traded	28,[illegible],700	19 910 200	23 812 800	29 266 600	24 032 500	14 084 300	2[illegible] 456 200
% of average outstanding shares	84%	43%	52%	64%	57%	36[illegible]	35[illegible]
Number of common shareholders of record	11,836	11 384	9 777	9 641	8 590	8 858	8 653

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Highlights

Thousands of dollars, except per share data

The Sherwin-Williams Company
and Subsidiaries

Years ended December 31,	1986	1985	1984
Net sales*	$1,552,931	$1,522,348	$1,451,877
Income from continuing operations	95,961	68,662	62,751
Income from continuing operations excluding unusual items	76,366	68,662	62,751
Income per common share:			
From continuing operations excluding unusual items	1.66	1.48	1.37
From discontinued operations	.22	.13	.05
	1.88	1.61	1.42
From unusual items	.43	—	—
Net income	2.31	1.61	1.42
Cash dividends per common share	.50	.46	.38
Book value per common share	11.15	10.10	8.97
Average shares outstanding	45,784,780	46,221,896	45,849,648
Return on sales*	6.2%	4.5%	4.3%
Return on common shareholders' equity:			
From continuing operations	20.6%	17.0%	17.0%
From total operations	22.8%	18.5%	17.6%
Effective income tax rate*	44.9%	44.7%	47.1%
Debt to capitalization	19.6%	23.8%	29.5%
Times interest earned*	15.1x	10.5x	9.5x
Current ratio	1.8 to 1	2.0 to 1	1.9 to 1
R&D expenditures	$12,290	$11,117	$11,077
Advertising expenditures*	62,300	61,851	56,530
Number of common shareholders of record	11,938	11,384	9,777
Number of employees*	13,706	12,970	13,092

The company is negotiating to sell the Drug Stores Segment (reported as discontinued operations). Certain financial data for prior years has been restated to conform with the 1986 presentation

*Based on continuing operations only

Who We Are

Sherwin-Williams celebrated 120 years of doing business in 1986. 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 1,719 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.

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To Our Shareholders:

In 1986, earnings per share rose 16.8 percent from $1.61 to $1.88, excluding unusual items. Reported earnings per share increased to $2.31 including a gain from the settlement of certain pension obligations (net of nonrecurring expenses) of $.43 per common share ($19,595,000 after tax). Income, excluding unusual items, increased 15.7 percent to $86,357,000 from $74,638,000, while reported net income increased 42 percent to $105,952,000. Net sales, excluding the Gray Drug Fair Division which we have reported as a discontinued operation, were up 2 percent at $1,552,931,000 compared to 1985's $1,522,348,000. Adjusted for the June 1985 Chemicals Division divestiture, this increase was 4.4 percent. Return on equity, excluding unusual items, was 18.6 percent in 1986 verus 18.5 percent in 1985. 1986 represents our eighth consecutive year of earnings improvement.

Overview of 1986

Our main accomplishments in 1986, in addition to continuing to improve both the balance sheet and income statement, included the strengthening of our management team through internal promotions, the announced divestiture of the Gray Drug Fair Division, and the reorganization of the Paint Stores business.

Mr. Thomas A. Commes, formerly senior vice president, finance and chief financial officer, was promoted to president and chief operating officer. Mr. Thomas R. Miklich, who joined the company in 1969, and was most recently serving as treasurer, succeeded Mr. Commes as senior vice president, finance and chief financial officer. Mr. Larry J. Pitorak was promoted to vice president, secretary, treasurer and general counsel. Mr. Pitorak, who joined the company in 1973, previously served Sherwin-Williams as controller for the Paint Stores Group and as corporate tax director. Mr. William B. Eldredge, who's experience and ability have been well demonstrated during his 33 years with Sherwin-Williams, reassumed the reins of our International Group. These promotions and others reaffirm our commitment to promote from within our organization. Developing, training and rewarding quality managers ensures our future.

We announced the anticipated sale of our Gray Drug Fair Division on December 22, 1986. The Rite Aid Corporation of Shiremanstown, Pennsylvania entered into a definitive agreement to purchase Gray Drug Fair's Florida and Baltimore, Maryland drug stores for cash. We are negotiating to sell the balance of our Gray Drug Fair Division. We expect that both transactions will be for cash and result in a small gain. The decision to sell this division was based on the conclusion that company resources would be more profitably deployed in our coatings and related businesses.

The Paint Stores Division was restructured in 1986. This change was designed to move management responsibility closer to the marketplace. The prior regions are now established as operating divisions, with full profit and loss accountability. Operating plans and budgets for each new division were submitted and reviewed this fall and they are off to a very good start. The president-general manager appointments are as follows: Christopher M. Connor, president and general manager, Western Division; George R. Davenport, president and general manager, Southeastern Division; John C. Macalee, president and general manager, South Central Division; James E. Renshaw, president and general manager, Eastern Division; and Robert B. Venick, president and general manager, Mid Central Division. These individuals will report to David I. Fuente, president, Paint Stores Group, who will maintain a core staff at the group level to provide the divisions with services such as purchasing, advertising and merchandising.

The Paint Stores Group exceeded 1985 for both sales and operating income. We gained market share in 1986 as unit volume growth outperformed published industry data. To achieve our goal of increased market share, the time required for new stores to reach profitability must be reduced, the size and productivity of our sales force increased, and distribution expanded by opening new stores. We opened 92 net new stores in 1986, including 19 Hughes Decorating Stores in Los Angeles (purchased in late December). We plan to open over 100 new stores in 1987.

The Consumer Division's operating income also surpassed 1985. The Division made progress toward reaching their two primary goals: to improve external brand market share and attain the low-cost supplier position in the industry. New Dutch Boy accounts in the retail architectural market have been added this year. External brand gallonage outperformed industry gains lead by Dutch Boy, Kem-Tone and private label brands. Our goal of becoming the low-cost supplier will require efficient, timely distribution, high-quality, low-cost products and aggressive merchandising and marketing techniques. The purchase of Lyons Group, Inc. a less than truckload common carrier in early 1987 will strengthen our distribution capability to our customers.

The Automotive Aftermarket Division experienced weak market conditions in 1986. It is important that we continue to expand our channels of distribution in order to become more responsive to changing market conditions. The number of automotive branches increased to 100. We plan to increase the number of branches by 15 percent next year.

The Chemical Coatings Division's external sales were below budget but outperformed original equipment coatings industry data. Our targeted marketing approach to specific customer segments is directed at increasing sales and profits.

The Sprayon Division has maintained sales and increased profits despite the loss of a large account. Sales growth for our Dupli-Color line will receive special emphasis in 1987.

The International Group improved this year despite difficult conditions in the countries where they operate. Instability in several of these markets is expected to continue for several years.

1987 and beyond

We believe that 1987 will be another sluggish year for the U.S. economy. The consumer has been spending and borrowing at a record rate, exports are recovering, but too slowly; capital spending should be lower due to excess capacity and the new tax reform bill, our national deficit continues to increase, and the public sector will be constrained due to the need to rein in government spending.

We continue to emphasize tight controls over inventory and operating expenses. We have positioned ourselves at Sherwin-Williams to grow in a more competitive environment. Opportunities for market share growth are available to us. Greater manufacturing efficiency, increased productivity at our plants and from our sales representatives and improving the relationship between product quality and price will strengthen our efforts to improve market share.

Acquisitions will be concentrated in the coatings and related business areas. They will be working capital intensive. We must have existing management expertise and some familiarity with the business. We will also grow through internal sales development.

Last year was a good year for us. We are stronger financially and managerially which gives us confidence to face the future. We expect 1987 to be another tough year, but fully expect our results to be better than in 1986.

J G Breen

John G. Breen
Chairman and Chief
Executive Officer

T A Commes

Thomas A. Commes
President and Chief
Operating Officer

Sherwin-Williams at a glance by segment

		Principal Products	Major Markets
Paint Stores	Stores Group	Sherwin-Williams branded architectural coatings, paint sundries and industrial finishes, wallcoverings, floorcoverings, window treatments, spray equipment and other associated products and tools.	Professional painters, contractors, industrial maintenance, home builders, property managers, architects, do-it-yourselfers, small-to-medium-sized manufacturers of products requiring a factory finish.
Coatings	Consumer Division	Architectural finishes under Sherwin-Williams, Dutch Boy, Martin-Senour, Kem-Tone and private label brands, industrial maintenance products, brushes, rollers, labels, adhesives, and color cards.	Retail do-it-yourselfers, industrial and commercial maintenance accounts and painting contractors.
	Automotive Aftermarket Division	Motor vehicle finish and refinish products marketed under the Sherwin-Williams, Martin-Senour, Acme, Rogers, and Acloss (factory-packaged colors for Japanese cars) labels.	Independent automotive body shops, dealerships, fleet refinishers, body builders, truck OE, and marine aftermarket accounts.
	Chemical Coatings Division	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, farm and off-road equipment.
	Sprayon Division	Custom and industrial aerosol brands for paint and coatings, automotive, sanitary supply, institutional, pest control and industrial products. Dupli-Color touch-up paints and associated products primarily for motor vehicles.	Retail and/or wholesale paint, automotive, institutional, sanitary supply, insecticides and industrial markets.
	International Group *Sherwin-Williams Canada* *Sherwin-Williams Mexico** *Sherwin-Williams West Indies* *Sherwin-Williams Brazil** *unconsolidated	Architectural coatings, industrial and automotive repaint finishes, paint sundries and a variety of home decorative items.	Independent paint dealers, painting contractors, automotive body shops, commercial and industrial maintenance accounts, original equipment manufacturers and do-it-yourselfers.

General business development—On December 22, 1986 the company announced the anticipated sale of the Drug Stores Segment.

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

Environmental affairs—The company has made significant progress in the corporate-wide program to test underground storage tanks and to remove and replace tanks when necessary. The company is expanding its continuing efforts associated with the clean-up of existing and closed-down operations. The cost of these and capital expenditures for other environmental controls will not be significant in 1987. The company adopted a Hazardous Material Identification System to help meet various employee right-to-know regulations.

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

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

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

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

Facilities are listed on page 31 of this report. The majority of the plants are owned by the company. The company believes that the various production facilities of the Coatings Segment are adequate to operate at a significantly higher volume than in 1986.

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

Legal—Other than ordinary routine litigation incident to its business, the company is not a party to any legal proceedings material to its business-financial condition.

Distribution	Competition	Seasonality
Through 1,719 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 quality competitive.	Seasonal with approximately 58 percent of sales occurring in the second and third quarters.
The Paint Stores Group, mass merchandisers, independent dealers, distributors, home center chains.	More than 1,000 coatings manufacturers at regional and national level. Brand recognition, quality, price, product innovation, distribution and service are main competitive factors.	Seasonal with major portion of sales occurring in the second and third quarters.
100 Sherwin-Williams automotive branches, jobbers and wholesale distribution centers.	Four major competitors with broad product offerings and several small companies with niche products. Strong distribution, product quality, technology and service are key competitive factors.	Moderately seasonal.
The Paint Stores Group and direct to manufacturers.	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, grocery and drug store chains, automotive chains, sanitary supply marketers, electrical construction and general maintenance distribution channels.	Seven primary competitors. Technical know-how, quality, service, and price are main competitive factors.	No significant seasonality
Direct sales force, distributors and jobbers. Company-operated stores as follows: Mexico 78, Jamaica 14, Trinidad 6; Barbados 2; Puerto Rico 11	Many competitors in each foreign market. Sherwin-Williams' competitive position is significant only in Mexico and the West Indies. Price, service and quality sensitive.	No significant seasonality.

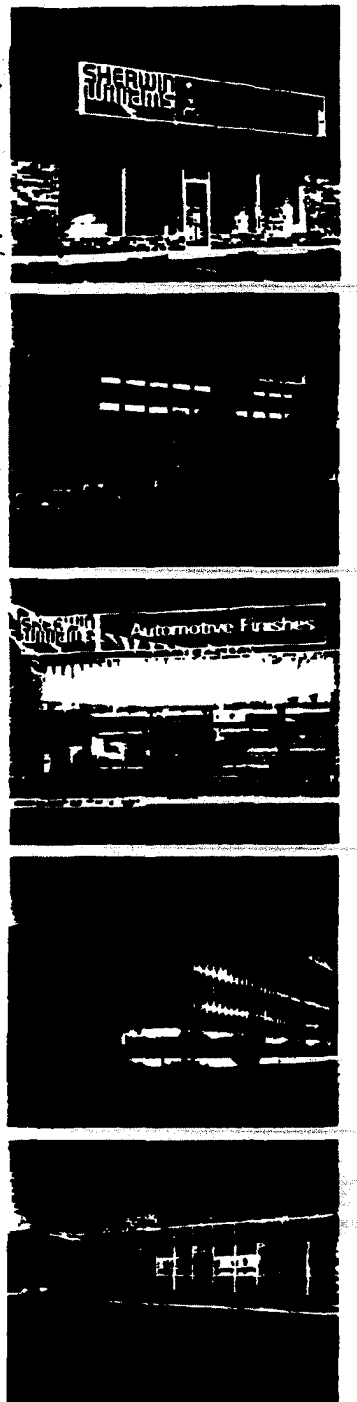
Ask Sherwin-Williams

The "Ask Sherwin-Williams" advertising and promotion program for our paint stores is targeted at homeowners, do-it-yourselfers, and the professional trade — including painting contractors, builders, plant owners, architects and chemical coatings users. This comprehensive campaign emphasizes that Sherwin-Williams' stores offer a full line of paint, floorcovering, wallcovering and window treatments along with knowledgeable service that both the professional and retail customer cannot find in competitive outlets. This basic campaign idea is communicated to consumers via heavy schedules in broadcast and newspaper virtually every month throughout the year. Trade advertising utilizes over 30 trade magazines and over 125 ad insertions through the year to reach our target audiences and to communicate our product messages.

He Works Hard For Your Money

The Dutch Boy advertising theme "He works hard for your money," clearly positions the brand as one that offers high consumer value. Increasingly, product value impacts consumer purchase decisions. This theme line builds on the uniqueness of the Dutch Boy character trademark. Over the years, consumers have recognized this trademark as a symbol of high quality.

1986 Operating Review by Segment



Operating Highlights for 1986

Paint Stores

Stores Group

- Sales rose 8.3 percent and operating profits 8.6 percent, excluding unusual items. Existing stores accounted for a majority of the sales improvement.
- Paint Stores Group gained market share in 1986 as paint gallonage increases outperformed the industry.
- Target marketing programs focused on home builders, property managers, retail do-it-yourselfers, painting contractors and industrial maintenance and chemical coatings accounts.
- Remodeled 41 stores, opened 98, relocated 56, closed 6.

Coatings

Consumer Division

- Operating income surpassed last year. Sales were impacted by lower than anticipated volume in general products and highway coatings.
- External architectural coatings gallonage outperformed industry data led by Dutch Boy, Kem-Tone and private label brands.
- Martin-Senour introduced "True Match," a retail computer color matching system designed to help dealers improve customer service.

Automotive Aftermarket Division

- Sales were weak due to soft market conditions.
- Distribution expanded through the addition of 16 Sherwin-Williams branches.
- Established distribution in the marine aftermarket.
- Purchased Automotive Computer Group, complete business management systems for body shops, to serve customers more effectively.

Chemical Coatings Division

- External sales outperformed OEM coatings industry data. Areas of strength included office products, forest products, and coil products.
- Granted a patent for a high pressure injection process used to in-mold coat plastics.

Sprayon Division

- External sales increased through addition of new customers in the coatings market.
- Expanded sales at existing accounts with new products.
- Introduced new line of upside down aerosol marking paints for the industrial market.

FACILITIES
Left, top to bottom

Sherwin-Williams stores coast-to-coast market paint, wallcoverings, floorcoverings, window treatments, spray equipment and associated products to DIY'ers, professional painters, industrial maintenance and OEM accounts.

New architectural product research center places special emphasis on polymer development, color matching capabilities and 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 used in the development and testing of industrial coatings and automotive refinish products.

Aerosol filling plant in Bedford Heights, Ohio encompasses 226,000 square feet of space. Most products are produced on high speed automated lines to ensure prompt customer service.

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Developments for 1987

Paint Stores

Stores Group

- Ensure smooth transition from a centrally-managed organization to a geographically divisionalized organization.
- Improve new store profitability by expanding sales representatives in new markets.
- Focus on strengthening real estate programs to ensure continued growth of store network.
- Develop dedicated representatives and designated facilities to increase chemical coatings sales.
- Remodel 27 stores, open 126, relocate 77, close 0.

Coatings

Consumer Division

- Create a dedicated sales force for each external brand to increase market share.
- Maintain commitment to performance based on quality standards, improve engineered performance and sustain manufactured quality.
- Continue product line reduction/rationalization.
- Become more self-sufficient in critical non-commodity raw materials.

Automotive Aftermarket Division

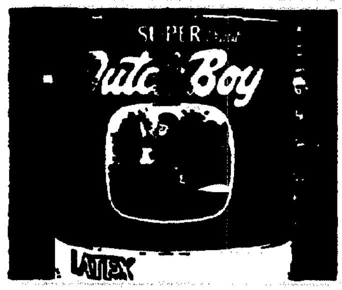
- Add 15 Sherwin-Williams automotive branches and expand distribution in external brands.
- Grow market share in marine aftermarket and truck OE through execution of focused market plans.
- Improve sales representative productivity.

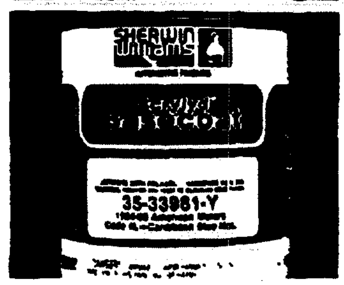
Chemical Coatings Division

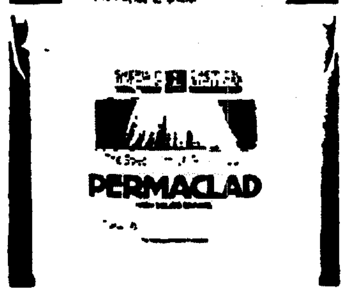
- Introduce to cabinet and furniture makers SHERTEC 1000, a texture coating which simulates the appearance of laminates.
- Establish the Automotive Group in Detroit, strengthening our position in the OEM automotive market.

Sprayon Division

- Grow external sales at new and existing accounts through dedicated sales force and new marketing programs.
- Improve materials requirements planning system and gain quicker turn-around time on orders with lower inventories.
- Upgrade aerosol lines at all plants to improve operating efficiency.



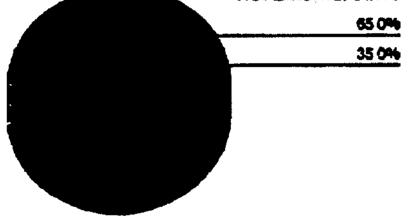




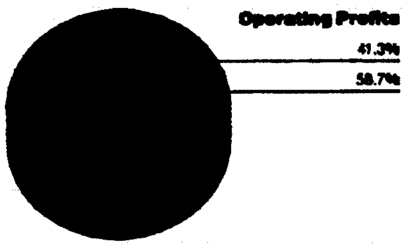
PRODUCTS
Right, top to bottom
A-100 Exterior Flat Latex House & Trim Paint. Our best selling exterior latex offers superior hiding, long-term durability, excellent washability and scrubbability.
Dutch Boy SUPER one coat exterior paint is specially formulated for maximum protection and durability.
This improved acrylic enamel basecoat offers painters the most advanced automotive refinishing technology in the industry.
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 that includes primers and metallics, and also features fast dry, excellent durability and superior corrosion resistance.

Business Segments

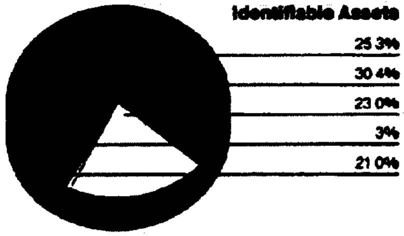
Net External Sales



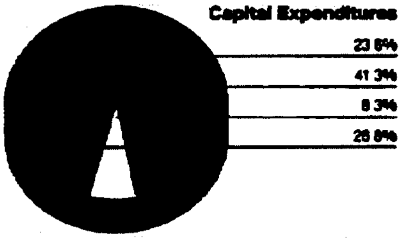
Operating Profits



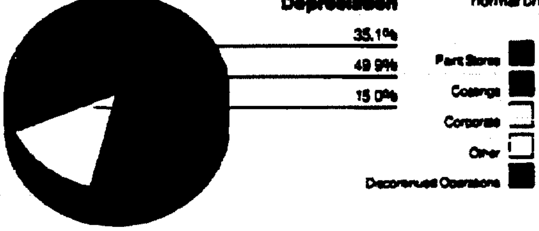
Identifiable Assets



Capital Expenditures



Depreciation



Thousands of dollars

Years ended December 31,	1986	1985	1984
Net External Sales			
Paint Stores	$1,008,941	$ 931,302	$ 850,051
Coatings	543,990	555,748	513 134
Other	—	35 298	88 692
Segment totals	$1,552,931	$1 522,348	$1 451 877
Operating Profits			
Paint Stores	$ 90,998*	$ 64,266	$ 55,866
Coatings	129,136*	93,660	76,571
Other	—	3,509	10,964
Segment totals	220,134	161,435	143,401
Corporate expenses — net	(33,679)*	(24,246)	(10,843)
Interest expense	(12,381)	(13,057)	(13 907)
Income from continuing operations before income taxes	$ 174,074	$ 124,132	$ 118,651
Identifiable Assets			
Paint Stores	$ 290,118	$ 257,973	$ 228 186
Coatings	348,828	331,104	304 986
Other	2,859	2,947	43 041
Segment totals	641,805	592,024	576 213
Corporate	263,556	231 540	219 829
Discontinued Operations	240,286	232,249	208 354
Consolidated totals	$1,145,647	$1 055,813	$1 004 396
Capital Expenditures			
Paint Stores	$ 12,025	$ 15,870	$ 16 401
Coatings	21,008	24 111	14 828
Other	5	147	661
Segment totals	33,038	40,128	31 890
Corporate	4,239	7,705	2 348
Discontinued Operations	13,615	10 904	13 140
Consolidated totals	$ 50,890	$ 58 737	$ 47 378
Depreciation			
Paint Stores	$ 8,611	$ 8 012	$ 6 927
Coatings	12,265	10 930	9 081
Other	—	1 134	3 432
Segment totals	20,876	20 076	19 440
Corporate	3,683	2 190	2 131
Continuing operations totals	$ 24,559	$ 22 266	$ 21 571
Operating Margin**			
Paint Stores	9.0%	6.9%	6.6%
Coatings	14.8%	10.8%	9.6%
Other	—	9.9%	12.3%
Segment totals	11.7%	8.8%	8.2%

*Includes net credits from the unusual items

**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.

Intersegment Transfers									
Millions of dollars	Years Ended December 31								
	1986	1985	1984	1983	1982	1981	[illegible]	[illegible]	[illegible]
Coatings	$331.4	$314.2	$287.0	[illegible]	$232.5	[illegible]	[illegible]	[illegible]	[illegible]
All other segments	—	.1	.3	25.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Segment totals	$331.4	$314.3	$287.3	$298.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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1983	1982	1981	1980	1979	1978
$ 724 374	$ 621 032	$ 615 434	$ 582,292	$ 585,312	$ 575,579
484 503	490 894	554 378	465,740	414,300	385,932
186,682	199 202	229 135	215,689	196,731	170,839
$1 395,559	$1 311,128	$1 398,947	$1,263,721	$1,196,343	$1,132,350
$ 28,767	$ 13,842	$ 16,176	$ 7,805	$ 5,779	$ (14,078)
89,067	77,728	56,597	45,059	39,066	40,048
10 479	11,354	7,822	23,562	16,247	21,879
128,313	102,924	80,595	76,426	61,092	47,849
(15,569)	(21,403)	(11,437)	(9,523)	(8,290)	(16,942)
(14,035)	(15,603)	(16,896)	(18,552)	(19,366)	(21,318)
$ 98,709	$ 65,918	$ 52,262	$ 48,351	$ 33,436	$ 9,589
$ 177 905	$ 143 665	$ 166,711	$ 159,342	$ 165,694	$ 179,390
299,715	276,564	304 534	306,480	289,137	310,637
53,426	136,001	144,942	142,465	135,507	123 286
531 046	556,230	616,187	608,287	590,338	613,313
205,450	156,178	75,517	160,305	121,396	40,486
203 347	175 859	172,734	—	—	—
$ 939,843	$ 888 267	$ 864,438	$ 768,592	$ 711,734	$ 653,799
$ 7,163	$ 5 766	$ 9,889	$ 5,814	$ 1,388	$ 2,671
11,742	8 947	9,949	6,194	3,267	9,804
1 487	6,413	19,781	10,107	5,959	3,764
20 392	21,126	39,619	22,115	10,614	16,239
2,652	4 153	2,711	1,589	1,253	1,035
8 864	5 366	742	—	—	—
$ 31 908	$ 30 645	$ 43,072	$ 23,704	$ 11 867	$ 17,274
$ 5,716	$ 5 518	$ 5,853	$ 5,260	$ 5,226	$ 4,775
8 204	8 093	8,331	8,463	8,171	8,268
6 699	6 589	6,099	5,483	5,230	4 883
20 619	20 200	20 283	19,206	18,627	17,926
1 976	1,307	1,289	773	831	512
$ 22 595	$ 21 507	$ 21 572	$ 19,979	$ 19,458	$ 18,438
4 0%	2 2%	2 6%	1.3%	1.0%	(2.4%)
11 8%	10 7%	6 9%	6 5%	6 2%	6 6%
4 9%	5 0%	3 0%	9.4%	7 1%	11 0%
7 6%	6 5%	4 8%	5.0%	4 2%	3 5%

Effect of LIFO

Major products	Year of Adoption	(Increase) Decrease in Income From Continuing Operations 1986	1985	1984	1983	1982	1981	1980	1979
Paint Stores	1980	$(1.2)	$ 4	$(1 4)	$ 1	$ 1 7	$ 5 1	$ 3 7	—
Coatings	1980	(4.4)	1 0	4 2	(.5)	1 5	12 9	12 1	—
Other	1979	—	—	(.5)	2 5	(3 4)	1 9	1 4	16 2
Segment totals		$(5.6)	$1 4	$2 3	$2 5	$ (.2)	$19 9	$26 2	$16 2

Notes to Segment Tables

The Other Segment consists of the Chemicals Division operations, the majority of which were 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 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 significant provisions for disposition and termination of operations. During 1986, certain unusual items were recorded (see Note 3) and distributed by segment. The following summarizes operating profits by segment excluding the effect of the unusual items:

Thousands of dollars	Operating Profits Years ended December 31 1986	1985	1984
Paint Stores	$ 69,819	$ 64 266	$ 55 866
Coatings	99,113	93 660	76 571
Other	—	3 509	10 964
Segment totals	168,932	161 435	143 401
Corporate expenses — net	(16,262)	(24 246)	(10 843)
Interest expense	(12,381)	(13 057)	(13 907)
Unusual items — net	33,785	—	—
Income from continuing operations before income taxes	$174,074	$124 132	$118 651

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

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

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

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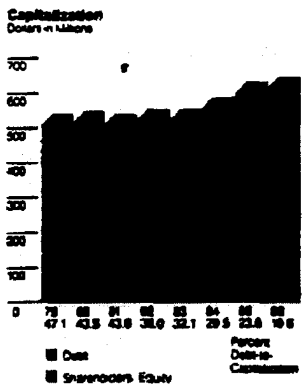
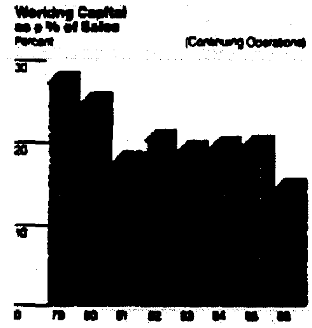




Significant Events Occurring in 1986

The company is negotiating to sell the Drug Stores Segment for cash. The sales are expected to be completed by the second quarter of 1987. The Drug Stores Segment has been reported as discontinued operations.

Effective January 1, 1986 the company adopted new standards of accounting for pensions and settlements of defined benefit obligations. Accordingly, pension expense decreased in 1986 and a gain on the settlement of obligations was recognized.

Provisions for unusual items were recorded in 1986 which partially offset the effects of the gain on settlement of obligations.

1986

Cash Flow

- Cash decreased by $88.3 million compared to 1985 primarily due to the repurchase of 2.4 million shares of common stock for $63.1 million and expenditures for acquisitions.
- Net cash flow provided by operations has enabled the company to fund its capital needs without external financing.
- The company uses external financing in Sherwin-Williams Development Corporation ("SWDC"), an unconsolidated real estate subsidiary, to purchase and develop properties to be leased to the Paint Stores Segment and others.

Working Capital

- The 1986 current ratio of 1.8 is lower than 1985 primarily because of the decrease in cash and an increase in other accruals related to unusual items.
- The LIFO method of inventory valuation results in a lower reported current ratio. The current ratio on a FIFO basis would have been 1.9 in 1986, 2.2 in 1985 and 2.1 in 1984.
- The company has had no domestic short-term borrowings since 1979.
- Our current cash position and anticipated future cash flow provided by operations should be sufficient to finance working capital needs.

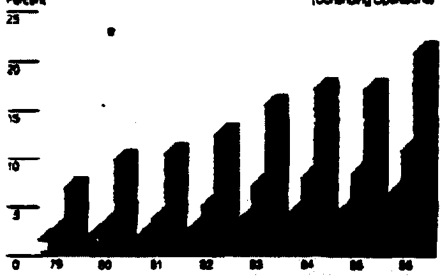
Capital Expenditures/Acquisitions

- Capital expenditures were $50.9 million in 1986 compared to $58.7 million in 1985, excluding fixed assets acquired through acquisitions of $1.9 million in 1986 and $1.2 million in 1985.
- Capital expenditures relate primarily to the remodeling or adding to the number of paint stores as well as renovation of certain manufacturing, distribution and research facilities.
- Reported capital expenditures do not include SWDC expenditures of $24.1 million.
- External financing is not anticipated for 1987 except for SWDC's real estate activities.

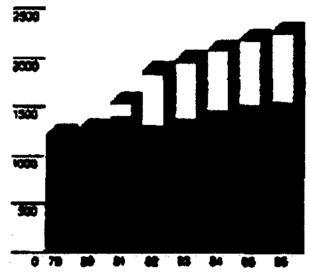
Lines of Credit

- The company has a $150 million unused line of credit with a group of eleven banks. This credit agreement was entered into as of August 31, 1983, and expires August 31, 1988. No borrowings were outstanding under this line of credit during 1986 or 1985.
- During 1986 the company entered into a credit agreement with The Sherwin-Williams Company Salaried Employees Retirement Trust which allows borrowings up to the lesser of $65,000,000 or 25 percent of the assets of the trust until October 9, 1992. No borrowings were outstanding under this agreement during 1986.
- SWDC has a $75 million line of credit with a group of four banks. The agreement was entered into as of December 15, 1985, and expires December 15, 1995. Under a commercial paper program, which is backed by a letter of credit, SWDC may borrow up to $50 million until December 15, 1987. No borrowings were outstanding under these agreements at December 31, 1986 while $43 million was outstanding at December 31, 1985.

Return on Sales, Assets and Equity
Percent
(Continuing Operations)



Sales: Continuing/Discontinued
Dollars in Millions



Capital Structure

- The ratio of debt (including capital leases) to total capitalization was 19 6 percent at the end of 1986 compared to 23 8 percent at the end of 1985.
- This ratio has steadily improved since 1978 resulting from improved profitability, debt repurchases, conversions of 6.25 percent convertible subordinated debentures into common stock, and other reductions in long-term debt, offset to some extent by purchases of our common stock for treasury.
- Total debt (including capital leases) was $119.7 million at December 31 1986, and $145 4 million at December 31, 1985 At December 31, 1978, total debt amounted to $253 1 million.
- The decrease in total debt during 1986 is primarily attributable to planned reductions of long-term debt outstanding.
- During 1986 SWDC issued $50,000,000 of 9.875 percent guaranteed debentures which have been unconditionally guaranteed by The Sherwin-Williams Company. This debt was used principally to repay outstanding revolving credit and commercial paper borrowings of SWDC.
- We purchased shares of our common stock during 1986 for general corporate purposes and, depending on our cash position and market conditions, we may purchase additional shares of common stock in 1987

Interest/Fixed Charge Coverage

- Based on continuing operations, which includes unusual items, we have improved our interest coverage to 15.1 times in 1986, from 10 5 times in 1985, and 9 5 times in 1984
- The fixed charge coverage for continuing operations (coverage of total rent expense and interest) was 3 2 times in 1986, 2.8 times in 1985 and 3 0 times in 1984 The improvement in this ratio in 1986 is attributable to profitability keeping pace with rent expense increases related to the paint store expansion program and the net effect of unusual items on income from continuing operations.

Dividends

- This is the eighth consecutive year we have increased the dividend as a result of the company's improved performance The dividend has increased at a compounded rate of 29 percent since 1979.
- The company's improved financial condition allowed for the reinstatement of the dividend in 1979 and subsequent increases to a quarterly rate of $.125 per share during 1986.
- The board of directors, at a meeting held February 17 1987 declared a quarterly dividend of $.14 per share.
- Our dividend payout ratio in 1986 was 31 1 percent of trailing annual earnings.

Results of Operations

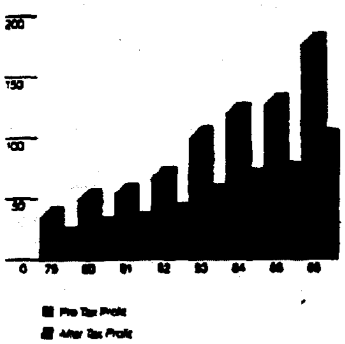
1986 vs 1985

Net Sales

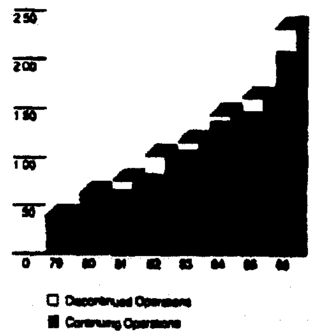
- Net sales of continuing operations increased 2 0 percent in 1986 Adjusted for the June 1985 Chemicals Division divestiture, this increase was 4.4 percent.
- The Paint Stores Segment, with a sales gain of 8 3 percent, was primarily responsible for the sales increase The sales gain resulted from aggressive promotional activity and an increased number of stores.
- The Coatings Segment's sales decreased 2 1 percent. Sales declines were primarily due to weak market conditions and planned sales declines in certain businesses.

Profits: Pre-Tax/After-Tax
Dollars in Millions

Continuing Operations



Earnings Per Common Share
Dollars



Gross Profit

- Gross profit margins of continuing operations increased to 41.0 percent in 1986 from 40.1 percent in 1985. Consolidated gross profit of continuing operations was $636.0 million in 1986 compared to $609.7 million in 1985, an increase of 4.3 percent.
- The improved gross profit is largely attributable to the Paint Stores Segment which contributed through sales gains.
- The Coatings Segment contributed to the improved gross profit primarily due to cost reductions.

Selling, General and Administrative Expenses

- SG&A expenses increased as a percentage of sales to 31.8 percent from 30.8 percent in 1985.
- Increased SG&A expenses relate primarily to the Paint Stores Segment which continues to achieve sales gains through increased promotional activities and the addition of new stores.
- General and administrative costs have increased only modestly as a result of planned cost containment strategies.
- The increase in SG&A expenses as a percentage of sales over 1985 also reflects the effects of the disposition of the majority of the Chemicals Division operations whose SG&A expenses were a significantly lower percentage of sales as compared to consolidated totals.

Investment Income/Interest Expense

- Investment income decreased to $9.8 million in 1986 from $11.2 million in 1985, primarily due to lower average investment levels and lower income yields.
- Interest expense declined from $13.0 million in 1985 to $12.4 million in 1986, reflecting continued conversions of 6.25 percent convertible subordinated debentures into common stock and other planned reductions in long-term debt.

Net Income

- Income from continuing operations increased to $96.0 million in 1986 from $88.7 million in 1985. Adjusted for the effects of unusual items, income from continuing operations increased 11.2 percent, to $76.4 million, in 1986.
- Unusual items increased income from continuing operations by $19.6 million ($.43 per common share). See Note 3 of the consolidated financial statements for a further discussion of unusual items.
- Income from continuing operations for 1986 and 1985 includes provisions established for the disposition and termination of certain operations of $11.6 million and $8.6 million respectively.
- The adoption of Financial Accounting Standards Board Statement No. 87, Employers Accounting for Pensions, as of January 1, 1986 increased income from continuing operations by $3.5 million.
- Improved operating profit levels in the Paint Stores Segment contributed significantly to higher income from continuing operations due to sales gains and improved gross margins.
- The Coatings Segment also contributed to profit improvements because of cost reductions and productivity improvements.
- Income from discontinued operations increased due to higher sales levels and improved gross margins.
- The company's financial position and results of operations may be affected in the future by a proposal of the Financial Accounting Standards Board on accounting for income taxes because of the lower rates adopted in the Tax Reform Act of 1986. This proposal, which is subject to change, would favorably affect the company by reducing the rate at which deferred taxes would be recognized on the balance sheet, to reflect the lower rates under the Act.

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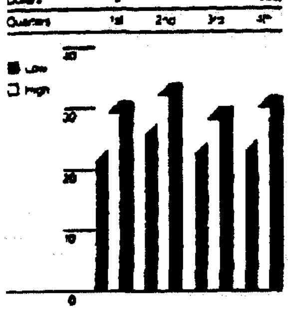
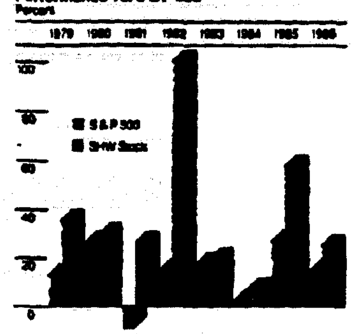
Quarterly Common Stock Prices
Dollars



Sherwin-Williams Stock Performance Vs. S & P 500
Percent



Effects of Inflation

- The 1986 moderate inflation rate had a negligible impact on the operating results of the company.
- The impact of inflation on inventory is currently recognized by the company through the use of the LIFO method of inventory valuation.
- In general the company offsets any increased costs by achieving productivity improvements.

Results of Operations

1985 vs 1984

Net Sales

- Consolidated net sales of continuing operations increased 4.9 percent primarily from the Paint Stores Segment's sales gains of 9.6 percent.
- The Coatings Segment, whose sales increased 8.3 percent, was favorably impacted by the acquisition of the Dupli-Color operations.
- The Other Segment's sales decline is due to the disposition of the majority of the Chemicals Division operations during June 1985.

Gross Profit

- Gross profit margins from continuing operations increased to 40.1 percent in 1985 from 38.2 percent in 1984. Gross profit of continuing operations increased 9.9 percent.
- The Paint Stores Segment was largely responsible for the improved gross profit through sales gains and price increases while the Coatings Segment contributed through higher production levels and related cost reductions.

Selling, General and Administrative Expenses

- SG&A expenses increased $40.0 million compared to 1984 and increased as a percentage of sales to 30.8 percent from 29.5 percent in 1984.
- The addition of new stores and increased promotional activities to achieve sales gains in the Paint Stores Segment were the main contributions to the increased SG&A expenditures.
- The increase in SG&A expenses as a percentage of sales reflects the effects of the disposition of the majority of the Chemicals Division operations whose SG&A expenses were a significantly lower percentage of sales.

Investment Income/Interest Expense

- Investment income decreased to $11.2 million in 1985 from $13.0 million in 1984, primarily due to lower average investment levels and lower income yields. However, after-tax investment income was approximately equal to the 1984 level due to increased use of tax advantaged investments in 1985.
- Interest expense declined slightly primarily due to continued conversions of 6.25 percent convertible subordinated debentures into common stock and other planned reductions in long-term debt.

Net Income

- Income from continuing operations increased to $68.7 million, an increase of 9.4 percent.
- Income from discontinued operations increased principally because of sales gains.
- Income from continuing operations for 1985 and 1984 includes provisions established for the disposition and termination of certain operations.
- The Coatings Segment was the main contributor to the profit increase, partially offset by a decline in the Other Segment as a result of the disposition of the majority of the Chemicals Division operations.
- A reduced effective income tax rate for 1985 compared to 1984 also had a favorable impact on income from continuing operations.

Financial Summary

Millions of dollars, except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31	1986	1985	1984	1983	1982	1981	1980	1979	1978
Operations									
Net sales	$ 1,583	$ 1,522	$ 1,452	$ 1,395	$ 1,311	$ 1,399	$ 1,264	$ 1,196	$ 1,132
Cost of goods sold	917	913	897	896	881	976	868	829	795
Selling and administrative expenses	484	469	429	394	358	365	344	323	312
Interest expense	12	13	14	14	16	17	19	19	21
Income from continuing operations before income taxes	174	124	119	98	65	52	48	33	[illegible]
Income taxes	78	55	56	47	30	24	23	16	[illegible]
Income from continuing operations	96	69	63	51	35	28	25	17	[illegible]
Net income	106	75	65	55	43	31	25	17	[illegible]
Net cash flow provided by operations	88	100	124	99	124	51	103	76	40
Financial Position									
Inventories	$ 410	$ 367	$ 338	$ 332	$ 299	$ 335	$ 237	$ 242	$ 244
Accounts receivable — net	180	164	157	141	133	132	131	128	135
Working capital	323	372	344	340	331	297	312	323	317
Property, plant and equipment — net	235	230	221	199	228	240	211	204	[illegible]
Total assets	1,146	1,056	1,004	940	888	864	769	712	[illegible]
Long-term debt	120	145	169	175	196	230	213	234	242
Common shareholders' equity	492	465	404	370	334	284	263	243	243
Total shareholders' equity	492	465	404	371	349	305	287	268	263
Per Common Share Data									
Average shares outstanding (thousands)	45,786	46,222	45,850	47,639	41,807	39,635	39,070	42,327	[illegible]
Book value	$ 11.15	$ 10.10	$ 8.97	$ 8.12	$ 7.59	$ 7.17	$ 6.69	$ 6.25	$ [illegible]
Income from continuing operations	2.09	1.48	1.37	1.08	.83	.68	.61	.39	[illegible]
Net income	2.31	1.61	1.42	1.16	1.01	.77	.61	.39	[illegible]
Cash dividends	.50	.46	.38	.30	.25	.20	.15	[illegible]	—
Financial Ratios									
Return on sales*	6.2%	4.5%	4.3%	3.7%	2.7%	2.0%	2.0%	1.5%	—
Asset turnover*	1.8x	1.9x	1.9x	1.9x	1.8x	1.8x	1.7x	[illegible]	[illegible]
Return on assets*	10.8%	8.3%	7.9%	7.0%	5.0%	3.7%	3.2%	2.5%	[illegible]
Return on equity (A)									
From continuing operations	20.8%	17.0%	17.0%	15.3%	12.1%	10.3%	9.8%	[illegible]	[illegible]
From total operations	22.8%	18.5%	17.6%	16.6%	14.8%	11.6%	9.8%	[illegible]	[illegible]
Dividend payout ratio	21.3%	28.2%	26.5%	25.1%	25.0%	26.1%	24.6%	[illegible]	—
Debt to capitalization	19.6%	23.8%	29.5%	32.1%	36.0%	43.0%	43.5%	[illegible]	[illegible]
Current ratio	1.8 to 1	2.0 to 1	1.9 to 1	2.0 to 1	2.2 to 1	2.0 to 1	2.3 to 1	[illegible]	[illegible]
Times interest earned (B)*	15.1x	10.5x	9.5x	8.0x	5.2x	4.1x	3.6x	[illegible]	[illegible]
Working capital to sales*	14.5%	19.4%	19.3%	18.8%	20.1%	17.4%	24.7%	[illegible]	[illegible]
Effective income tax rate*	44.9%	44.7%	47.1%	47.9%	46.4%	46.5%	48.6%	[illegible]	[illegible]
General									
Capital expenditures	$ 51	$ 59	$ 47	$ 32	$ 31	$ 43	$ 24	$ [illegible]	$ [illegible]
Research and development	12	11	11	10	9	10	9	—	—
Advertising*	62	62	57	51	42	40	29	[illegible]	[illegible]
Depreciation and amortization*	25	22	22	23	22	22	20	[illegible]	[illegible]
Number of shareholders:									
Preferred	—	—	—	40	557	750	355	[illegible]	[illegible]
Common	11,838	11,384	9,777	9,641	8,590	8,858	8,688	[illegible]	[illegible]
Number of employees*	13,708	12,970	13,092	13,172	14,297	15,879	16,808	[illegible]	[illegible]
Sales per employee*	$113,303	$117,378	$110,895	$105,945	$91,708	$88,098	$75,[illegible]	[illegible]	[illegible]
Sales per dollar of assets*	1.71	1.85	1.83	1.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* 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

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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, 1986, 1985 and 1984. The opinion of Ernst & Whinney, the company's independent auditors, on those financial statements is included. The primary responsibility for the integrity of the financial information included in this annual report rests with management. This information is prepared in accordance with generally accepted accounting principles, based upon our best estimates and judgments and giving due consideration to materiality.

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

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

J. G. Breen
J. G. Breen
Chairman and
Chief Executive Officer

T. R. Miklich
T. R. Miklich
Senior Vice President — Finance
Chief Financial Officer

J. L. Ault
J. L. Ault
Vice President —
Corporate Controller

Report of Ernst & Whinney, Independent Auditors

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

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

In our opinion, the consolidated financial statements listed in Item 14(a) of the Index present fairly the consolidated financial position of The Sherwin-Williams Company and subsidiaries at December 31, 1986, 1985 and 1984, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of accounting for pension costs as described in Note 7 to the consolidated financial statements.

Cleveland, Ohio
January 30, 1987

Ernst & Whinney

Statements of Consolidated Income

Thousands of dollars, except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31	1986	1985	1984
Net sales	$1,552,931	$1,522,348	$1,451,877
Costs and expenses:			
Cost of goods sold	916,886	912,609	897,248
Selling, general and administrative expenses	493,721	468,707	428,724
Interest expense	12,381	13,057	13,907
Interest and net investment income	(9,779)	(11,160)	(12,981)
Other	(567)	15,003	6,328
Unusual items — net	(33,785)	—	—
	1,378,857	1,398,216	1,333,226
Income from continuing operations before income taxes	174,074	124,132	118,651
Income taxes	78,113	55,470	55,900
Income from continuing operations	95,961	68,662	62,751
Income from discontinued operations — net of tax	9,991	5,976	2,255
Net income	$ 105,952	$ 74,638	$ 65,006
Income per common share:			
From continuing operations	$ 2.09	$ 1.48	$ 1.37
From discontinued operations	.22	.13	.05
Net income	$ 2.31	$ 1.61	$ 1.42

See notes to consolidated financial statements

Consolidated Balance Sheets

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

December 31	1986	1985	1984
Assets			
Current assets			
Cash and short-term investments	$ 101,740	$ 170,025	$ 166,233
Accounts receivable, less allowance	180,197	164,116	157,486
Inventories:			
Finished goods	374,843	330,487	301,795
Work in process and raw materials	35,035	36,127	35,978
	409,878	366,614	337,773
Other current assets	61,677	47,309	48,020
Total current assets	753,492	748,064	709,512
Deferred pension assets	104,853	—	—
Other assets	52,363	77,581	73,739
Property, plant and equipment			
Land	7,642	9,839	9,558
Buildings	91,730	97,109	108,313
Machinery and equipment	347,550	307,057	309 065
Construction in progress	8,987	12,097	11 702
	455,909	426,102	438 638
Less allowances for depreciation and amortization	220,970	195,934	217 493
	234,939	230,168	221,145
Total assets	$1,145,647	$1,055,813	$1,004 396
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	$ 204,043	$ 193,620	$ 183 938
Compensation and taxes withheld	50,201	48,224	48,726
Current portion of long-term debt	9,222	9,084	11,760
Other accruals	139,193	95,280	97,098
Accrued taxes	27,631	30,262	23,737
Total current liabilities	430,290	376,470	365 259
Long-term debt	119,716	145 437	168,878
Deferred income taxes	78,863	36 037	29 489
Other long-term liabilities	25,209	32 502	36 630
Shareholders' equity			
Common stock	47,131	26,372	25,852
Other capital	118,042	153 281	145,402
Retained earnings	407,873	358,749	305,175
Cumulative foreign currency translation adjustment	(12,808)	(12,552)	(12,530)
	560,238	525,850	463 899
Treasury stock, at cost	(68,669)	(60 483)	(59 759)
Total shareholders' equity	491,569	465 367	404,140
Total liabilities and shareholders' equity	$1,145,647	$1,055,813	$1 004 396

See notes to consolidated financial statements

0007-SWP-035518

Statements of Consolidated Cash Flows

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

Years ended December 31	1986	1985	1984
Net cash flow provided by (used for) operating activities:			
From continuing operations			
Income from continuing operations	$ 95,961	$ 68.662	$ 62.751
Non-cash charges (credits) to income from continuing operations:			
Depreciation and amortization	24,559	22,266	21.571
Equity in (income) losses of affiliates	(111)	3,718	5.020
Deferred income taxes	40,321	3 356	3.154
Disposition of noncurrent assets	5,353	16,460	4 125
Amortization of intangible assets	10	10	—
Noncurrent unusual items — net	(67,405)	—	—
From discontinued operations:			
Income from discontinued operations	9,991	5,976	2.255
Non-cash charges to income from discontinued operations:			
Depreciation and amortization	5,240	4,061	3 348
Deferred income taxes	1,968	995	1 188
Amortization of intangible assets	2,719	2,729	2 633
(Increase) decrease in current items	(16,958)	(22.478)	7 814
Other	(15,534)	(5.842)	10.254
Net cash flow provided by operating activities	86,114	99.913	124 113
Cash flows provided by (used for) investing activities:			
Capital expenditures	(50,890)	(58.737)	(47 378)
Increase in current items from business acquisitions	(2,935)	(1.071)	(6 566)
Noncurrent assets from business acquisitions	(5,575)	(1,622)	(16 372)
Net book value of noncurrent assets associated with dispositions	—	7 433	—
Investment in Canadian joint venture	(358)	(379)	(14 137)
Noncurrent items associated with sales of property to unconsolidated subsidiaries	6,757	—	—
Other	493	(4.915)	3 665
Net cash used for investing activities	(52,508)	(59 291)	(80 738)
Cash flows provided by (used for) financing activities:			
Reductions in long-term debt and lease obligations	(21,272)	(21 355)	(4 521)
Cash dividends	(22,594)	(21 064)	(17 211)
Purchases of stock for treasury	(63,135)	—	(20 669)
Other	5,110	5 589	4 902
Net cash used for financing activities	(101,891)	(36 830)	(37 499)
Net (decrease) increase in cash and short-term investments	(68,285)	3 792	5 826
Cash and short-term investments			
Beginning of the year	170,025	166.233	160 407
End of the year	$101,740	$170 025	$166 233

See notes to consolidated financial statements

Statements of Consolidated Shareholders' Equity

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance at January 1, 1984	$ 386	$158,364	$ 6,220	$257,527	$(11,741)	$(39,786)
Treasury stock acquired/retired	(13)	—	—	(18)	—	(20,638)
Common stock issued	(373)	2,310	4,360	(129)	—	665
Net income	—	—	—	65,006	—	—
Cash dividends:						
Series A preferred stock — $1.00 per share	—	—	—	(11)	—	—
Common stock — $.38 per share	—	—	—	(17,200)	—	—
Reduction in par value of common stock	—	(134,822)	134,822	—	—	—
Current year translation adjustment	—	—	—	—	(789)	—
Balance at December 31, 1984	—	25,852	145,402	305,175	(12,530)	(59,759)
Common stock issued	—	520	7,879	—	—	(724)
Net income	—	—	—	74,638	—	—
Cash dividends on common stock — $.46 per share	—	—	—	(21,064)	—	—
Current year translation adjustment	—	—	—	—	(22)	—
Balance at December 31, 1985	—	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)
Common stock issued	—	326	5,522	—	—	388
Net income	—	—	—	105,952	—	—
Cash dividends on common stock — $.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)

See notes to consolidated financial statements.

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Years ended December 31 1986, 1985 and 1984

Note 1 — Significant Accounting Policies

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

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

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

Buildings	2%-6⅔%
Machinery and equipment	4%-20%
Furniture and fixtures	5%-20%
Automobiles and trucks	10%-33⅓%

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

Research and development costs. All research and development costs are charged to continuing operations, and were $12,290,000, $11,117,000 and $11,077,000 for 1986, 1985 and 1984, respectively.

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

Stock split. The par value of additional shares of common stock issued in connection with a two-for-one stock split distributed during March, 1986, was credited to common stock and a like amount charged to other capital.

Reclassification. Certain amounts in the 1985 and 1984 financial statements have been reclassified to conform with the 1986 presentation of discontinued operations.

Note 2 — Inventories

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

Thousands of dollars, except per share data	Years ended December 31 1986	1985	1984
Percentage of total inventories on LIFO	98%	97%	99%
Excess of FIFO and average cost over LIFO	$64 423	$65 112	$62 287
Increase (decrease) in net income due to LIFO:			
From continuing operations	3 042	(750)	(1 250)
From discontinued operations	(2 682)	(2 455)	(2 455)
Increase (decrease) in net income per common share due to LIFO			
From continuing operations	.07	(.02)	(.33)
From discontinued operations	(.06)	(.05)	(.05)

During each year certain inventories were reduced. These reductions resulted in liquidations of LIFO inventories carried at the lower costs of prior years, as compared with current year costs. The effect of these liquidations, which increased income from continuing operations, was immaterial for each of the years presented.

Note 3 — Unusual Items

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 7). In addition, management's evaluation of certain long-term commitments resulted in provisions for anticipated losses or expenses. Provisions were made for the anticipated costs of terminating certain long-term contracts, the reduction in book value of various long-term assets, the need for initiating a program to ensure environmental protection and control at operating facilities and the expenses of positioning certain manufacturing processes and other items to enhance future growth. A summary of the net gain recognized of $33,785,000 ($.43 per common share) is as follows

Thousands of dollars	Year Ended December 31 1986
Gain on settlement of pension obligation	$90 956
Termination of contracts	(20 950)
Reduction in book value of long-term assets	(16 371)
Environmental protection and control at operating facilities	(10 600)
Other nonrecurring items	(9 250)
	$33 785

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Note 4 — Income Taxes

Thousands of dollars	1986	1985	1984
	Years ended December 31,		
The components of income from continuing operations before income taxes consist of the following			
Domestic	$162,031	$117 947	$115,612
Foreign	12 043	6 185	3,039
Total income from continuing operations before income taxes	$174,074	$124,132	$118,651
The components of income tax expense of continuing operations are as follows:			
Current:			
Federal	$ 49,492	$ 42 491	$ 45,313
State and local	6,203	5,140	6,214
Foreign	2,433	4,483	1 219
	58,128	52,114	52,746
Deferred			
Federal	19 985	3 356	3,161
Foreign	—	—	(7)
	19 985	3 356	3,154
Total income tax expense of continuing operations	$ 78,113	$ 55,470	$ 55 900

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 pension gain 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, 1986, such undistributed earnings amounted to $1,755,000.

Investment tax credits from continuing operations (accounted for by the flow-through method) aggregated $1,142,000, $3,014,000 and $2,270,000 for 1986, 1985 and 1984, respectively.

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

Thousands of dollars	1986	1985	1984
	Years ended December 31,		
Depreciation	$ 3 378	$ 4,222	$ 4,121
Dispositions, terminations and other similar items	(32,141)	(5,450)	(518)
Deferred pension items	51 415	3,029	1,331
Other items (each less than 5% of the computed "expected" tax amount)	(2,687)	1,555	(1,780)
	$ 19 985	$ 3,356	$ 3,154

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

	1986	1985	1984
	Years ended December 31		
Statutory tax rate	46 0%	46 0%	46 0%
Effect of			
State and local taxes	1 9	2 2	2 8
General business tax credits	(8)	(2 7)	(2 2)
Other — net	(2 2)	(8)	5
Effective tax rate	44 9%	44 7%	47 1%

Note 5 — Discontinued Operations

In December 1986 the company and Gray Drug Fair, Inc entered into a definitive agreement with a third party to sell a portion of the Drug Stores Segment for cash. The company also is negotiating to sell for cash the stock of Gray Drug Fair, Inc., which encompasses the balance of the Drug Stores Segment. The sales are expected to be completed by the second quarter of 1987. Assets and liabilities of the discontinued operations which are included in the consolidated balance sheets are summarized as follows:

Thousands of dollars	1986	1985	1984
	December 31		
Inventories	$158,126	$144 861	$127 194
Other current assets	17 443	22,293	18 795
Current liabilities	(76 851)	(90 868)	(82 111)
	98,718	76,086	63 878
Property, plant and equipment—net	43,846	46 264	40 271
Long-term debt	(9 180)	(17 292)	(23 264)
Other assets and liabilities—net	12 274	10 886	12 132
Net assets of discontinued operations	$145 660	$115 944	$ 93 017

Summarized operating results for the discontinued operations are as follows:

Thousands of dollars	1986	1985	1984
	Years ended December 31		
Net sales	$700 258	$672 577	$623 317
Operating profit	10,072	6 683	82
Income (loss) before income tax benefit	8 448	4 506	(2 545)
Income tax benefit	1 543	1 470	4 800
Income from discontinued operations — net of tax	$ 9 991	$ 5 976	$ 2 255

Note 6 — Acquisitions and Dispositions

During the three year period ended December 31, 1986 the company purchased various retail paint and drug stores, as well as certain paint manufacturers. Assets purchased consisted primarily of inventory, accounts receivable and fixed assets. The results of operations of these businesses since the dates of acquisition were not material to consolidated results.

The company received cash and other securities approximating net book value in June 1985 for the majority of its Chemicals Division operations, the operations of which have been included in the company's Other Segment through its date of disposition. The net effect of this disposition was not material to the consolidated results of operations.

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Note 7 — Retirement 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 each year of service for union employees. The company's funding policy for defined benefit plans is to fund the minimum annual contribution required by applicable regulations.

The following table sets forth the funded status and amounts recognized in the company's consolidated balance sheet for the defined benefit pension plans:

Thousands of dollars	December 31, 1986
Actuarial present value of benefit obligations.	
Vested benefit obligation	$ (84,083)
Accumulated benefit obligation	$ (86 707)
Projected benefit obligation	$ (95,654)
Plan assets at fair value	218 970
Plan assets in excess of projected benefit obligation	123 316
Unrecognized net asset at January 1, 1986, net of amortization	(37 625)
Unrecognized net loss	17 686
	103 377
Pension liability included in current liabilities	1 476
Deferred pension assets	$104 853

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

The assumed discount rate and the weighted-average assumed rate of increase in future compensation levels used in determining the actuarial present value of benefit obligations was 8% and 6%, respectively. The assumed long-term rate of return on assets was 10%.

The actuarial present value of accumulated plan benefits at January 1 1985 was $223,095,000, including vested benefits of $216,812,000 with net assets available for plan benefits of $336,548,000. The actuarial present value of accumulated plan benefits at January 1, 1984 was $220,246,000, including vested benefits of $210 676,000 with net assets available for plan benefits of $339,151,000. These amounts were determined under the prior pension accounting method and reflected an assumed rate of return of 8.5% for both years. Plan assets of foreign plans exceeded the actuarially computed vested benefits of these plans based on the latest actuarial computations available for 1986, 1985 and 1984.

Pension expense (credit) for defined benefit plans of continuing operations was $(16,890,000), $(5,028,000) and $(1,148,000) for 1986, 1985 and 1984, respectively. Effective January 1, 1986 the company adopted Financial Accounting Standards Board Statement No. 87, Employers' Accounting for Pensions. The effect of this change in accounting principle increased the pension credit by $6,407,000 and increased income from continuing operations by $3,460,000 ($.08 per common share). Pension expense (credit) and related information presented for 1985 and 1984 have not been retroactively restated. The components of net pension expense (credit) for the defined benefit plans for 1986 were as follows:

Thousands of dollars	Year ended December 31 1986
Service cost	$ 3 348
Interest cost	15 970
Actual return on plan assets	(36 159)
Net amortization and deferral	(49)
Net pension credit	$(16 890)

The company's annual contribution for defined contribution plans, which is based on a level percentage of compensation for covered employees, offset the pension credit for defined benefit plans by $8,550,000 for 1986, $8,000,000 for 1985 and $3,500,000 for 1984.

The cost of multiemployer and foreign plans charged to income from continuing operations was immaterial for the three years ended December 31, 1986.

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, pursuant to Financial Accounting Standards Board Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, 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 $20,068,000, $20,147,000 and $20,906,000 for 1986, 1985 and 1984, respectively. There were 11,042, 10,781 and 10 747 active employees and 3,937, 3,851 and 3,736 retired employees entitled to receive benefits under these plans as of December 31, 1986, 1985 and 1984, respectively.

Note 8 — Long-Term Debt

Thousands of dollars	Due Date	Sinking Fund/ Prepayments Amount	Commence	Amount in Treasury December 31 1986	1985	1984	Amount Outstanding Net of Treasury December 31 1986	1985	1984
5 45% Debentures	1992	$2,000	Payable currently	$ 8,894	$ 7,896	$ 9 896	$ 13 108	$ 16 104	$ 16 104
6 25% Convertible Subordinated Debentures (Convertible into common stock at $5 75 a share)	1996	2,000	Payable currently	9,521	9,521	11 521	882	1 248	3 334
9 45% Debentures	1999	2,000	Payable currently	3,665	4,665	6,665	32,335	33,335	33 335
9 375% Promissory Notes	1996	3,325	Payable currently	—	—	—	26,725	33 375	36 700
10 50% Promissory Notes (10% in 1984)	1998	2,997	Payable currently	—	—	—	30,015	36 009	39 006
5 90% to 11 875% Industrial Revenue Bonds	Through 2002	Varies	Payable currently	—	—	—	7 293	7 418	15 109
8 90% Promissory Notes, $12 000 principal amount less unamortized discount based on imputed interest rate of 16 5%	1991	1 200	Payable currently	—	—	—	3 827	4 653	6 732
8 125% Mortgage Note, $6 225 principal amount less unamortized discount based on imputed interest rate of 16% monthly payments of $53	—	—	—	—	—	—	—	4 106	4 143
9 25% Promissory Notes $6 500 principal amount less unamortized discount based on imputed interest rate of 16 5%	—	—	—	—	—	—	—	—	1 197
Obligations under capital leases—less current portion of $956 in 1986 $1 349 in 1985 and $2,482 in 1984							5 533	9 189	13 218
				$22,080	$22 082	$28 082	$119 716	$145 437	$168 379

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, 1986, $147,425,000 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 1988. Maturities of long-term debt, exclusive of capital lease obligations and after the above-mentioned reduction for sinking fund requirements to be satisfied from debentures on deposit with the trustee, are as follows for the next five years:

1987—$ 8,266,000
1988—$ 8,820,000
1989—$10,092,000
1990—$10,092,000
1991—$11,173,000

Interest expense on long-term debt of continuing operations amounted to $11,837,000, $12,684,000 and $13,219,000 for 1986, 1985 and 1984 respectively. There were no interest charges capitalized during the periods presented.

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

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 percent 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.

At December 31, 1986 there were no borrowings outstanding under either of the above credit agreements.

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Note 9 — 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, 1986	1985	1984
Buildings	$ 7,853	$ 7,979	$ 9,745
Machinery and Equipment	355	1,251	11,241
	8,208	9,230	20,986
Less allowance for amortization	6,505	6,856	15,521
	$ 1,703	$ 2,374	$ 5,465

Rental expense of continuing operations for operating leases was $68,075,000, $56,574,000 and $45,959,000 for 1986, 1985 and 1984, respectively. Contingent rentals included in rent expense of continuing operations were $5,106,000 in 1986, $4,888,000 in 1985 and $3,872,000 in 1984. 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 of total operations and noncancelable operating leases of continuing operations having initial or remaining terms in excess of one year at December 31, 1986:

Thousands of dollars	Capital Leases	Operating Leases
1987	$ 2,011	$ 35,075
1988	1,824	30,718
1989	1,619	25,437
1990	1,455	20,102
1991	1,304	14,886
Later years	3,176	33,762
Total minimum lease payments	11,389	$159,980
Amount representing interest	(3,909)	
Executory costs	(991)	
Present value of net minimum lease payments	$ 6,489	

Note 10 — Capital Stock

	Shares in Treasury: $4.00 Series A Cumulative Convertible Preferred Stock	Shares in Treasury: $1.00 Common Stock	Shares Outstanding Net of Treasury: $4.00 Series A Cumulative Convertible Preferred Stock	Shares Outstanding Net of Treasury: $1.00 Common Stock
Balance at January 1, 1984	371	5,118,884	10,503	45,559,692
Stock issued upon				
Exercise of stock options	—	(74,000)	—	632,778
Redemption of preferred stock	—	—	(845)	—
Conversion of preferred stock	—	—	(9,658)	133,258
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	335,678
Contribution to PAYSOP	—	(99,952)	—	99,952
Treasury stock acquired/retired	(371)	1,718,468	—	(1,718,468)
Balance at December 31, 1984	—	6,661,400	—	45,042,890
Stock issued upon				
Exercise of stock options	—	81,306	—	595,940
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	362,662
Contribution to PAYSOP	—	(70,350)	—	70,350
Treasury stock acquired/retired	—	18	—	(18)
Balance at December 31, 1985	—	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

An aggregate of 2,909,413, 3,296,694 and 4,336,726 shares of common stock at December 31, 1986, 1985 and 1984, respectively, were reserved for conversion of convertible subordinated debentures and exercise and future grants of stock options. During April 1986 the shareholders approved an Amendment to the Amended Articles of Incorporation to increase the authorized shares of common stock from 100,000,000 shares to 200,000,000 shares. At December 31, 1986, there were also 30,000,000 shares of serial preferred stock authorized for issuance.

The company called for redemption all outstanding shares of Series A preferred stock effective April 1984. The redemption price was $100 per share plus accrued dividends. Substantially all outstanding shares were converted into common stock by the redemption date. Shares of the Series A preferred stock were convertible at a base conversion price of $7.24135 per share of common stock based on a value of $100 per share of preferred stock for this purpose.

Note 11 — Stock Purchase and Stock Option Plans

Currently 6,677 employees of continuing operations 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 $8,431,000, $8,059,000 and $5,776,000 for 1986, 1985 and 1984, respectively. Additionally, the company made contributions on behalf of participating employees of continuing operations, which represent salary reductions for income tax purposes, amounting to $3,933,000 in 1986, $3,590,000 in 1985 and $3,275,000 in 1984.

Substantially all company employees not covered by a collective bargaining agreement are eligible to participate equally in The Sherwin-Williams Company Payroll Based Stock Ownership Plan ("PAYSOP"). The company's contribution, for employees of all operations, to the PAYSOP of $1,499,000 for 1986, $1,417,000 for 1985 and $1,310,000 for 1984 resulted in corresponding reductions of applicable income tax liabilities.

At December 31, 1986 there were 7,242,473 shares of the company's common stock being held by these employee plans, representing 16% of the total number of common shares outstanding. Shares of company stock credited to each member's account under these plans are voted by the trustee under confidential instructions from each individual plan member.

Non-qualified and incentive stock options have been granted to certain officers and key employees under the company's stock option plans, at prices not less than fair market value of the shares at 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 appreciation rights plan and a plan providing for purchases of restricted stock by eligible employees were approved by the shareholders in 1984; however, no rights have been granted under these plans.

	1986		1985		1984	
	Shares	Aggregate Price	Shares	Aggregate Price	Shares	Aggregate Price
Stock Option Plans						
Options outstanding beginning of year	1 088.848	$11 942.000	1 461 514	$11 250.000	1 832 904	$10 331 000
Granted	1 352 800	30.422.000	329.000	5 250.000	353 000	4 679 000
Exercised	(323.630)	(3.173.000)	(603 048)	(3.469 000)	(561 978)	(2 425 000)
Canceled	(95.810)	(1.928.000)	(98.618)	(1 089.000)	(162 412)	(1 334 000)
Options outstanding end of year	2,022,208	$37,263.000	1 088.848	$11 942 000	1 461 514	$11 250 000
Exercisable	457,109		481 194		489 394	
Reserved for future grants	733 758		1 990 746		2 221 129	
Employee contracts						
Options outstanding beginning of year	—	$ —	74 200	$ 195 000	145 000	$ 380 000
Exercised	—	—	(74.200)	(195 000)	(70 800)	(185 000)
Options outstanding end of year	—	$ —	—	$ —	74 200	$ 195 000

Note 12 — 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.

Summarized at right is the financial data related to the decision to close or sell certain plants and operating units. Inventory, property, plant and equipment, and other assets have been reduced to their net realizable values, while the related costs for severance pay, shutdown expenses and estimated future operating losses to disposal date are included in current liabilities. The company expects to complete the closing and sale of the facilities at various dates through 1988.

Thousands of dollars	1986	1985	1984
Beginning accrual — January 1	$29 195	$30 704	$31 539
Provision included in cost of goods sold	17 587	4 288	3 350
Provision included in costs and expenses — other	3 981	11 583	1 987
Total provision	21 568	15 871	5 337
Actual costs incurred and adjustments to prior accruals	(8 551)	(17 380)	(6 172)
Ending accrual — December 31	$42 212	$29 195	$30 704
Net after-tax provision from continuing operations	$11 647	$ 3 570	$ 2 982
Net after-tax provision per common share from continuing operations	$ .25	$ .19	$ .06

0007-SWP-035526

0007-SWP-000116948

Note 13 — Quarterly Data (Unaudited)

Quarterly Common Stock Prices and Dividends

1986	Quarter	High	Low	Dividend	1985	Quarter	High	Low	Dividend
	1st	$29¾	$21¼	$ 125		1st	$17⅝	$13⅞	$ 115
	2nd	32¼	25⅛	125		2nd	19⅞	15¾	115
	3rd	28¼	22¾	125		3rd	20	16⅝	115
	4th	30	22⅞	125		4th	23⅞	17⅛	115

Summary of Quarterly Results of Operations

Thousands of dollars, except per share data

		Continuing Operations				Per Common Share	
Year	Quarter	Net Sales	Gross Profit	Income	Net Income	Income From Continuing Operations	Net Income
1986	1st	$332,274	$124,760	$ 5,322	$ 6,877	$ 11	$ 15
	2nd	431,966	174,092	27,427	30,492	58	65
	3rd	438,203	180,402	29,869	32,269	66	71
	4th	350,488	156,791	33,343	36,294	75	81
1985	1st	$326,664	$122,024	$ 4,076	$ 5,714	$ 09	$ 12
	2nd	443,003	175,168	26,265	28,535	57	62
	3rd	421,959	171,755	27,629	29,094	60	63
	4th	330,722	140,792	10,492	11,295	22	24

1986

Effective January 1, 1986, the Company adopted Financial Accounting Standards Board Statement No. 87, Employers' Accounting for Pensions. The effect of this change in accounting principle increased income from continuing operations by $1,188,000 ($.03 per common share), $1,134,000 ($.02 per common share) and $324,000 ($.01 per common share) in the first, second and third quarters, respectively.

Fourth quarter adjustments increased income from continuing operations by $29,485,000 ($.64 per common share). This increase was due primarily to year-end inventory and other year-end adjustments of $17,510,000 ($.37 per common share), the change in accounting for pensions of $814,000 ($.02 per common share) and the recording of unusual items of $19,595,000 ($.43 per common share). The increase was partially offset by provisions of $8,434,000 ($.18 per common share) for the disposition and termination of certain operations.

1985

Fourth quarter adjustments increased income from continuing operations by $6,230,000 ($.13 per common share). This increase was due to year-end inventory adjustments of $10,163,000 ($.22 per common share) offset primarily by provisions of $4,084,000 ($.09 per common share) for the disposition and termination of certain operations.

Note 14 — Business Segments

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

Note 15 — Unconsolidated Real Estate Subsidiary

Sherwin-Williams Development Corporation ("SWDC") is a wholly-owned unconsolidated subsidiary carried on the equity basis. This subsidiary and its wholly-owned affiliates own, develop and lease real estate for the company and others. The majority of the square footage owned by SWDC is leased to unrelated parties. Under a revolving credit agreement, the subsidiary may borrow up to $75,000,000 until December 15, 1995. Under a commercial paper program, which is backed by a letter of credit, the subsidiary may borrow up to $50,000,000 on a short-term basis until December 15, 1987. The Sherwin-Williams Company has not guaranteed either debt, however, the company and SWDC have a maintenance agreement that requires the company to make payments to SWDC in amounts sufficient to maintain SWDC's fixed charge coverage at specified minimum levels. At December 31, 1986, there were no borrowings outstanding under the revolving credit agreement or commercial paper program.

During July 1986 SWDC issued $50,000,000 of 9.875% guaranteed debentures which are due in 2016 and have been unconditionally guaranteed by The Sherwin-Williams Company.

Summarized consolidated financial data for SWDC and its affiliates is as follows:

	December 31,		
Thousands of dollars	1986	1985	1984
Property plant and equipment — net	$82,796	$81,153	$46,976
Current assets	1,881	1,469	1,538
Other noncurrent assets	1,159	475	549
Total assets	$85,836	$83,097	$49,063
Long-term debt	$57,791	$45,431	$36,955
Current liabilities	24,038	14,570	9,321
Other noncurrent liabilities	3,146	2,171	1,396
Equity	861	925	1,391
Total liabilities and equity	$85,836	$63,097	$49,063
Total revenues	$11,113	$ 8,253	$ 6,559
Total expenses—net	11,381	9,172	7,320
Net loss	64	467	348
Funds provided by operations	3,453	2,274	1,886

Note 16 — Financial Schedules

Marketable Securities — Other Investments (10-K, Schedule I)

The short-term investments at December 31, 1986 consist of

Thousands of dollars	
Repurchase agreements	$ 42 500
Municipal securities	28 390
Other securities	30 850
Total	$101 740

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

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

Thousands of dollars

Debtor	Beginning Balance	Additions	Deductions	Ending Balance
1986				
T A Commes	$ 160	—	—	$ 160
C A Bellini	160	$ 722	—	882
	$ 320	$ 722	—	$1,042
1985				
J. G. Breen	$ 560	—	$ (560)	—
T A Commes	160	—	—	$ 160
C A Bellini	160	—	—	160
	$ 880	—	$ (560)	$ 320
1984				
J G. Breen	$ 560	—	—	$ 560
T A. Commes	160	—	—	160
C. A. Bellini	160	—	—	160
	$ 880	—	—	$ 880

The outstanding amounts represent 5.0% Promissory Notes with interest payable annually and are due on July 28, 1989, February 10, 1991 or within ninety days of termination of employment.

Note 16 — Financial Schedules (continued)

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

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

Thousands of dollars	Years ended December 31 1986	1985	1984
Balance — beginning of year	$426 102	$438 639	$408,431
Total additions at cost	50 890	58.737	47 378
Assets acquired through acquisitions	1 949	1 174	9 605
Total retirements at cost	(8 097)	(6 547)	(14 276)
Reductions due to dispositions	—	(63 325)	—
Other changes	(14 935)	(2 575)	(12 500)
Balance — end of year	$455 909	$426 102	$438 638

Other changes for all years presented consist primarily of capitalized leases, the translation of foreign assets to U.S. dollars, the sale of property to unconsolidated subsidiaries, and for 1984, the sale of property to various Canadian companies.

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

Thousands of dollars	Years ended December 31 1986	1985	1984
Balance — beginning of year	$195.934	$217 493	$209 548
Total charged to expense	29.799	26 327	24 919
Retirements	(5 610)	(4 742)	(9 900)
Reductions due to dispositions	—	(56 368)	—
Other changes	1 847	13.224	(7.074)
Balance — end of year	$220 970	$195 934	$217.493

Other changes for all years presented consist primarily of capitalized leases, reserves for the disposition and *termination of operations, the sale of property to* unconsolidated subsidiaries, and, for 1984, the sale of property to various Canadian companies.

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

Changes in the allowance for doubtful accounts are as follows:

Thousands of dollars	Years ended December 31, 1986	1985	1984
Beginning balance	$3.796	$3.759	$3.350
Bad debt expense	6.055	9,136	10.321
Net uncollectible accounts written off	(7,002)	(9.099)	(9,912)
Ending balance	$2,849	$3.796	$3,759

Activity related to other assets:

Thousands of dollars	Years ended December 31, 1986	1985	1984
Beginning balance	$77.581	$73.739	$64.426
Charges to expense	(23.411)	(9.360)	(6.099)
Asset (deductions) additions	(1.807)	13.202	15.412
Ending balance	$52.363	$77.581	$73.739

Charges to other assets consist primarily of unusual items, amortization of intangibles and, for 1985, adjustments to pension assets Asset (deductions) additions consist primarily of balance sheet reclassifications.

Activity related to other long-term liabilities.

Thousands of dollars	Years ended December 31 1986	1985	1984
Beginning balance	$32 502	$36 630	$30 636
Charges (credits) to expense	7 257	(1 914)	(901)
Reserve (deductions) additions	(14 550)	(2 214)	6 893
Ending balance	$25 209	$32 502	$36 630

Charges (credits) to other long-term liabilities consist primarily of unusual items, adjustments to estimated pension liabilities and deferred compensation. Reserve (deductions) additions consist primarily of balance sheet reclassifications

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

Thousands of dollars	Years ended December 31 1986	1985	1984
Notes payable to banks at December 31	$ 252	—	$ [illegible]
Weighted average interest rate at December 31	23 0%	—	[illegible]
Maximum amount outstanding at any month-end	$ 598	$ 89	$ [illegible]
Average amount outstanding during the period	$ 329	$ 22	$ [illegible]
Weighted average interest rate during the period	25 5%	18 5%	22 [illegible]

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

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

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

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

Thousands of dollars	Years ended December 31, 1986	1985	1984
Maintenance and repairs	$19,374	$20.979	$21 833
Advertising costs	62.300	61.851	56 530

Amounts above relate to continuing operations only and exclude $2,994,000, $1,992,000 and $2,270,000 for maintenance and repairs and $10,818,000, $13,468,000 and $12,419,000 for advertising costs associated with discontinued operations in 1986, 1985 and 1984, 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.

0007-SWP-035529

0007-SWP-000116951

Exhibit Index

Number		Page
3	Articles of Incorporation as amended filed herewith and regulations filed as Exhibit 4(b) to Form S-3 dated May 17 1982, and incorporated herein by reference	
4	Not applicable	
9	Not applicable	
10	Material Contracts — Incorporated by reference to pages 11-12 from the definitive Proxy Statement dated March 9 1987	
11	Computation of Net Income Per Common Share.	29
12	Not applicable	
13	Not applicable	
18	Not applicable.	
19	Not applicable.	
22	Subsidiaries of the registrant	31
23	Not applicable.	
24.	Consent of Independent Auditors.	32
25.	Power of Attorney on file with the Securities and Exchange Commission.	
28.	Not applicable.	
29	Not applicable.	

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

Thousands of dollars except per share data

	December 31 1986	1985	1984
Fully Diluted			
Average shares outstanding	45 219 324	45 783 880	45 263 772
Options — treasury stock method	582,189	457 590	597 460
Assumed conversion of			
Series A preferred stock	—	—	36 036
6 25% Convertible Subordinated Debentures	176 841	317 810	694 346
Average fully diluted shares	45,978,354	46 559 080	46 591 614
Income from continuing operations	$ 95,961	$68 662	$62 751
Add 6 25% Convertible Subordinated Debentures interest net of tax	31	54	165
Income from continuing operations applicable to fully diluted shares	95,992	68 716	62 916
Income from discontinued operations	9 991	5 976	2 255
Net income applicable to fully diluted shares	$105,983	$74 692	$65 171
Income per common share			
From continuing operations	$2 09	$1 47	$1 35
From discontinued operations	22	13	05
Net Income	$2 31	$1 60	$1 40
Primary			
Average shares outstanding	45,219,324	45,783,680	45 263 772
Options — treasury stock method	565,456	438,216	585,876
Average shares and equivalents	45,784,780	46,221,896	45,849 648
Income from continuing operations	$ 95,961	$68,862	$62 751
Income from discontinued operations	9,991	5,976	2 255
Net income applicable to shares and equivalents	$105,952	$74,838	$65 006
Income per common share:			
From continuing operations	$2.09	$1.48	$1 37
From discontinued operations	22	13	05
Net income	$2.31	$1 61	$1 42

Board of Directors

James A. Attwood, 59
Chairman, President and Chief Executive Officer
MONY Financial Services

Keith S. Benson, 68
Retired, formerly Executive Vice President
Finance and Administration
Oglebay Norton Company

John G. Breen, 52
Chairman and Chief Executive Officer
The Sherwin-Williams Company

D. Wayne Calloway, 51
Chairman and Chief Executive Officer
PepsiCo, Inc.

Leigh Carter, 61
President and Chief Operating Officer
The BFGoodrich Company

Thomas A. Commes, 44
President and Chief Operating Officer
The Sherwin-Williams Company

Dr. Robert C. Doban, 63
Senior Vice President
Science and Technology
Owens-Corning Fiberglas Corporation

Allen C. Holmes, 66
Retired, former Partner
Jones, Day, Reavis & Pogue

J. Robert Killpack, 64
Chairman
National City Corporation

William G. Mitchell, 55
Vice Chairman
Centel Corporation

Ralph E. Schey, 62
Chairman and Chief Executive Officer,
The Scott & Fetzer Company

Executive Officers

John G. Breen, 52
Chairman and Chief Executive Officer

Thomas A. Commes, 44
President and Chief Operating Officer

Dr. F. Thomas Krotine, 45
Senior Vice President,
Corporate Research and Development

Thomas R. Miklich, 39
Senior Vice President, Finance and Chief Financial Officer

David I. Fuente, 41
President
Paint Stores Group

John L. Ault, 41
Vice President
Corporate Controller

Conway G. Ivy, 45
Vice President, Corporate Planning and Development

Arthur D. Maine, 47
Vice President,
Human Resources

Larry J. Pitorak, 40
Vice President, Secretary-Treasurer and General Counsel

Robert A. Tschannen, 64
Vice President, Facilities and Administrative Services

Francis C. Piccirillo, 37
Assistant Secretary and Corporate Director of Taxes

Division Managers

Frank E. Butler, 50
President & General Manager,
Consumer Division

Christopher M. Connor, 30
President & General Manager,
Western Division

George R. Davenport, 61
President & General Manager,
Southeastern Division

Joseph M. DeVittorio, 52
President & General Manager,
Chemical Coatings Division

William B. Eldredge, 58
President
International Group

John C. Macatee, 35
President & General Manager,
South Central Division

James E. Renshaw, 39
President & General Manager,
Eastern Division

Joseph M. Scaminace, 33
President & General Manager,
Sprayon Division

Robert B. Venick, 39
President & General Manager,
Mid Central Division

Leonard A. Ward, 60
President & General Manager,
Automotive Aftermarket 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
Mexico — Compania Sherwin-Williams, S.A. de C.V., Mexico City*
West Indies — Sherwin-Williams Cayman Islands Ltd., Grand Cayman*
— The Sherwin-Williams Co. Resources Limited, Kingston, Jamaica
— Sherwin-Williams (Caribbean) N.V., Curaçao
— Sherwin-Williams (West Indies) Ltd., Kingston, Jamaica
— Sherwin-Williams (Barbados) Ltd., Bridgetown, Barbados
— Sherwin-Williams Foreign Sales Corporation Limited, Charlotte Amalie, Virgin Islands

USA — Sherwin-Williams Development Corporation*
— SWDC (Ohio), Inc.*
— SWDC (Virginia), Inc.*
— Contract Transportation Systems Co.
— CTS Brokerage, Inc.
— Gray Drug Fair, Inc.
— The Marshall Drug Company
— Gray Drug Stores, Inc.
— GDF, Inc.
— Drug Way Stores, Inc.
— Drug Fair, Inc.
— Drug Fair of Pa., Inc.
— Price King, Inc.
— Dupli-Color Products Company

*Unconsolidated

Joint Ventures

Canada — BAPCO, Toronto,
— 128639 Canada, Inc., Toronto
Ecuador — Sherwin-Williams del Ecuador Fábrica Nacional de Pinturas, S.A., Guayaquil
Ireland — FS W Coatings Limited, Dublin
FS.W Paints Ltd., Dublin
Japan — Nippon Sherwin-Williams Chemicals Co., Ltd., Osaka
Panama — Sherwin-Williams de Panama S.A., Panama City
Saudi Arabia — Sherwin-Williams Saudi Arabia Ltd., Jeddah
United Kingdom — FS.W. Ltd., Bradford

Licensees

Argentina — Sherwin-Williams Argentina Industrial y Comercial, S.A.
— National Lead, S.A.
Belgium — Starlac N.V.
Bolivia — *Fábrica de Pinturas "Espiritbol," S.A.*
Chile — Pinturas Andina, S.A.
China — (P.R.C.) — China National Construction Corporation
— Tianjin Paint General Factory
Colombia — Fábrica Nacional de Pinturas Sherwin-Williams de Colombia, S.A.
Costa Rica — Sherwin-Williams de Costa Rica, S.A.
Dominican Republic — Acabados Automotrices, S.A.
El Salvador — Sherwin-Williams de Centro America, S.A. de C.V.
France — Akzo Coatings, S.A.
Haiti — Peintures Ideales, S.A.
Honduras — Sherwin-Williams de Honduras, S.A. de C.V.
India — Garware Paints, Ltd.
Italy — Akzo Coatings, S.p.A.
— Colorificio Toscano S.p.A.
Japan — Atom Chemical Paint, Ltd.
— Nippon Paint Company, Ltd.
— Dai Nippon Toryo Co., Ltd.

Jordan — National Paints Factories Co.
Korea — Daihan Ink and Paint Manufacturing Company
Lebanon — Amer Paints Trading Establishments
— Universal Paint and Chemical Industries S.A.R.L. "CHEMIPAINT"
Netherlands — Sikkens Groep, N.V.
Peru — Sherwin-Williams Peruana, S.A.
Philippines — Globesco, Inc.
Puerto Rico — Enco Manufacturing Corporation
South Africa — Advanced Coatings PTY, Ltd.
Spain — Industrias Quimicas Procolor, S.A.
— Coatings Caribbean, S.A.
— Barnices Valentine, S.A.
Taiwan (R.O.C.) — Yung-Koo Paint & Varnish Mfg. Co. Ltd.
Thailand — Bangkok China Paint Mfg. Co. Ltd.
Venezuela — C.A. Quimica Integrada
— C.A. Venezolana de Pigmentos
— C.A. Venezolana de Pinturas
West Germany — Akzo Coatings GmbH

Plants

PAINT		OTHER		INTERNATIONAL
Baltimore, MD	Garland, TX	Anaheim, CA	Elk Grove, IL	Guayaquil, Ecuador
Chicago, IL	Greensboro, NC	Bedford Hts., OH	Fords, NJ	Jeddah, Saudi Arabia
Emeryville, CA	Morrow, GA	Coffeyville, KS	Fountain Inn, SC	Kingston, Jamaica
	Newark, NJ	Crisfield, MD	Gravenhurst, Canada	Mexico City, Mexico
	Richmond, KY	Deshler, OH	Scarborough, Canada	Panama City, Panama
				São Paulo, Brazil
				Toronto, Canada
				Virginia, Ireland

Paint Stores

Eastern	347
Mid Central	446
South Central	312
Southeastern	429
Western	185
	1,719

0007-SWP-035532

0007-SWP-000116954

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 3 dated April 28, 1986 to Registration Statement No 2 80510 and Registration Statement Number 2-91401 on Form S-8 dated May 25, 1984 of our report on the consolidated financial statements included in the annual report on Form 10-K of The Sherwin-Williams Company for the year ended December 31, 1986

Ernst & Whinney

Cleveland, Ohio
March 6 1987

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 9th day of March, 1987

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 9, 1987

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*
J. A. ATTWOOD J. A. Attwood	*Director*
K. S. BENSON K. S. Benson	*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 9, 1987

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, 1986
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
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 44,220,515 shares of common stock, par value $1.00, outstanding, net of treasury shares, at January 31, 1987. These shares were held by 11,874 holders of record on this date.
The aggregate market value of the voting stock at January 31, 1987 is $1,472,308,251, excluding the voting stock held by the directors.

Index — Form 10-K Report

Items Number 10, 11, 12 and 13 are incorporated by reference from the definitive Proxy Statement dated March 9, 1987, filed with the Securities and Exchange Commission pursuant to Regulation 14A.
Items Number 4 and 9 and all other schedules (Nos. III, IV, VII, XI, XII, XIII and XIV) for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Sherwin Williams

0007-SWP-035535

0007-SWP-000116957