INTERVIEW WITH

LARRY PITORAK
GENERAL COUNSEL
SHERWIN-WILLIAMS

24 JANUARY 1991

INTERVIEW CONDUCTED BY

KATHLEEN MCDERMOTT
THE WINTHROP GROUP, INC.

PVS/draft/10/24/91

WG: Larry, would you start off by telling us how you came to Sherwin-Williams, the first job you had?

LP: I started with S-W in August of 1973, as a tax analyst. I moved through several positions in the tax department. At one time, I was corporate director for taxes -- from 1978 through 1983. Then I moved over to the stores division as controller -- what is now Stores Group. /Unclear/ Then I was treasurer for a year and a half. /Unclear/

WG: Who is secretary?

LP: I am. It has been separated in the past.

WG: You started with the company in August of 1973. Was this your first job out of school?

LP: No, I worked for three and a half years for a public accounting firm.

WG: When you were in the tax department for that ten year period what were some of the issues that a tax analyst would have been working on?

LP: One of the primary things was simple acquisitions. Probably one of the major issues back in the mid 1970's was the sale of our titanium dioxide facility in Ashtabula. That was one of my major projects. I broke down allocation of purchase price. We sold Osborn Manufacturing in the 1970's. In the 1977-78 era, we started getting out of our international operations. Essentially, we liquidated these businesses. That's the kind of thing I was doing.

WG: There were a lot of sales or liquidations in the mid to late 1970's?

LP: Yes, there were two types. One, we sold, for example, the titanium dioxide, that was a strategic decision. It is one of our many raw materials, and continues to be. And Osborn was sold with the idea of going more toward the retail end of the business -- the redeployment of assets. So we sold Osborn, both the U.S. operations and the European operations. We got out of a joint venture.

The other type -- a liquidation. We had companies set up as subsidiaries, like Sprayon. You'll see in the records that we liquidated Sprayon and made it a division of Sherwin-Williams. We did a lot of these.

WG: Why?

LP: Basically, it's inexplicable to me. Sherwin-Williams, at the time, compared to now, was much more political. I'm sure you've heard of Bill Inman. He stands for a lot of good and bad things. A lot of the liquidations were at his direction, and I think it was to show that within the company he was very active. There were some debt issues; borrowing money. Sometime in this timeframe, we increased our ownership. . . /unclear/

WG: And when you were head of the tax debarment was there more of the same?

LP: The topics were the same, but there was a different kind of involvement.

WG: Would you have had a lot of contact with the people running the company at that time?

LP: Yes. I had the most contact with Inman.

WG: I get the impression that there were two transactions: Maumee and Sprayon in the 1960's, but in the 1970's, plants were closed, and businesses divested. At the same time, retail stores were changed into decorating stores.

LP: Some of this is more my perspective than factual. The strategic perception was that we were redeploying our assets, getting out of losing businesses. We were losing significant amounts of money. The redeployment/financial . . /unclear/. . We had a joint venture in Indonesia. We realized you just couldn't do business in Indonesia, the Foreign Corrupt Practices Act, during that period of time. It prohibited us. I've never seen this company do things intentionally wrong -- but the FCPA -- there are many aspects of the legislation that don't deal with reality. We had to get out of Indonesia. The only way to get things done were in violation of the FCPA. So we were withdrawing. We made acquisitions as part of the redeployment. The thrust of it was redeployment of assets from heavy, capital-intensive business. That was not a money-loser. It was making a good solid profit. We moved more toward a retail mentality. That was my perspective. There were parts that were hard to explain, like Maumee. It was said that Maumee added to our chemical group, which was a very vulnerable segment of business. it is very cyclical. The vice president of chemicals, George Shlaudecker. . ./unclear/. . . There were experiments with stores. There were two types: Decorating World -- this huge one down in Charlotte, and then ones in between. It was experimentation towards more of a retail kind of thing. I got a lot of this perspective from being in the stores division. But seventy percent of our business for many, many years was in wholesale. Our retail business is very important to our paint stores. I think the percentage over the years has hovered around 65-70% wholesale, and 30-35% retail. The distortions continued -- containers, chemicals. In containers, there was a good reason to sell. The strategic reason was to grow the business. The primary customers, to pinpoint . . . /unclear/

Chemicals -- that's more of a decision about where do you want to take the business. We were moving away from such capital intensive business and towards all aspects of coatings. Also, pure economics -- a lot of it was vertical integration in chemicals. That is the kind of thing that was going on.

WG: Tell me about your job as stores controller. What were the issue there?

LP: It gave me insight and more knowledge. There really is a difference between a corporate job and a division, or operating job. I joined the division in late 1983. Dave Fuente had been president of the division. He really go the market orientation underway. Prior to that, the mentality of the company was more of. . . If a store didn't make money, we closed it rather than analyzing why it wasn't making money. But it's not a reflection on Bill Eldredge. It was a cultural change. And Dave was a big part of that. He got the marketing group going. Then we started opening stores and got that rolling. The stores really started growing, and gaining significant sales and marketshare.

WG: Who was Carl Bellini?

LP: He came to the company as president and general manager of the stores division. His previous employment was with /Unclear/. He came a couple of years later than Jack. Jack came with Tom Commes, Tom Fuente, and Conway Ivy.

WG: Flipping back to when you were head of the tax debarment, I think of the 1970's as a tough time for the company, on a slide. Did that manifest itself in the tax department? Were there issues that needed addressing?

LP: There were problems that a lot of people could see. We had a Canadian operation. You could see that the company was not -- did not have a strong financial orientation. It wasn't because of bad people. No one imposed them. We had centralized purchasing. When we had financial difficulties the vice president of purchasing was adamant about paying bills on time or early to maintain a good credit record. That was a problem. As interest rates went up, OPEC. . . /unclear/. . .

There were things being addressed, too. The point of sale terminals were very important and gave a lot of financial control. The perspective was that Spencer was an intelligent man who had a lot of ideas on how to get things done. He surrounded himself with not very strong people, and/or didn't listen to others. He made a very strategic move to remove the Sherwin-Williams brand; but he didn't have a plan to replace it. We lost a significant portion of our dealer business. Harward stores. They switched to other brands, rather than take Martin /unclear/.

Another perspective -- getting back into the 1960's -- the company had literally no borrowing until the 1960's. It appeared that the company had not maintained its facilities. Driven by a desire to avoid debt. It caught up with the company. We built the CEP in 1978.

[tape change]

Delaying. . . Richmond is one of our best facilities. All of these things being put in in a very fast timeframe. Some of the things that were hard to understand was changing the logo. I guess it had to do with the idea of bigger stores and "we're more than a paint company." And environmentalist threats had something to do with it. You'll find this in the reports that justify the change -- rather than from people themselves. The first time I ever heard of the environmental issue was at a justification meeting. There were a lot of significant events of the 1970's. It was not a do-nothing time. Redeployment of assets, and a lot of it was having the people to do it.

WG: On the issue of capacity, at the same time that Maumee and Sprayon were acquired, the company took on debt. The reason given was the one you just mentioned. The company had grown a lot during the 1950's, and sold a lot of paint, but it had no facilities -- it hadn't expanded. There was a feeling that something had to be done. Another thing I don't understand is why, if the company was selling so much paint, why profits weren't so great?

LP: they had their all-time record year in profit in 1977. This would be speculation, but form my perspective, this company went on a buying rampage back in the 1950's. Acme, Lowe Brothers, a ton of acquisitions. They bought a lot of companies which required capacity. I never viewed us as a significant underperformer. It may be accurate, but I didn't see it. From my perspective, we made all these acquisitions, but didn't know how to rationalize them. There was a time when I came that we had more stores than we have now. I think we had 2,000+ stores, as a result of all of these acquisitions. We didn't rationalize it very well. Stores could be just across the street. Nowadays, when we look at acquisitions, we look at overlap. Store acquisitions become less and less attractive because of overlap. If there was underperformance issues, part of it could be lack of management. We were very conservative in management. These things could tend to underperformance. We started to close stores when I came. The thing I thought was amazing was whoever bought all these companies -- it was long before this was done -- rationalized them into a business. Unbelievable. In a period where they didn't want to get into debt, both acquisitions of Sprayon and Maumee, to my recollection, were done for stock. We did do a borrowing in 1974. I saw Bill Noonan's name on your list. I knew him very well. He was one of the owners of Sprayon. He was a big shareholder of Sherwin-Williams then -- it was done through stock.

WG: When you became treasurer sometime after 1986, what were the responsibilities of that job?

LP: Primarily providing and ensuring that cash was invested. . ./unclear/. Contacts with lenders, insurance companies, investment bankers, analysts.

WG: Has there always been a treasurer function? Has the job changed over time?

LP: No. Every company has a treasurer. It probably has changed the least. A very important aspect of the treasurers function here, because of the stores, is the cash retrieval system. Taking the cash out of the stores. /Unclear/

WG: Were there any critical issues that came across your desk as treasurer?

LP: My predecessor was /unclear/. . . Tom Commes had been CFO. . ./unclear/

WG: Now what about as legal counsel? What are the issues there?

[tape turned off]

WG: When did the company start dealing with lead litigation?

LP: Three cases that were initially filed in Massachusetts -- primarily in the Boston area. That's where it all started. This has occupied an enormous amount of time -- not so much my time -- but the litigation staff is involved. At least once a week there is some sort of discussion with counsel trying to work together through our lawyers as best we can to hopefully minimize the impact of the litigation. It's a coordinated effort.

WG: Was the company involved in much environmental litigation before?

LP: This is not environmental litigation. There are several types of cases. Environmental is reference to public domain -- pollution -- dump-sites. That's the traditional environmental case. The lead cases are personal injury. They involve children who have allegedly had some kind of impairment. There are other actions in different categories, but those are the two basic categories. Personal injury or abatement. The latter are coming from cities, landlords, looking for cost of removal. Cities have bene under court order for years and haven't done it. Abatement is more of a property-oriented thing. Being general counsel when these were filed, lead was a /unclear/ issue. Back in the late 1960's and early 1970's, legislation /unclear/. Everyone knew about it, and they shouldn't have put it on toys and crib rails. And we had removed it from paint well before that. So no one really thought it would become a big issue. A lot of these lawyers are the same that were involved with asbestos. They're trying to do the same thing, but the two are very different. Asbestos in its form to be used was dangerous. Paint was not designed to be ingested.

WG: Has the pace of these concerns stepped up over the years?

LP: Oh yes. The litigious society -- the case load is significantly higher. Everybody sues. Someone falls in a store. . . We don't have a lot of the large /unclear/ million dollar cases, but lots and lots of smaller ones. Was there something wrong with the product? Did the manager or store representative recommend the wrong product? Did the individual or homeowner apply it properly? It is a war of attrition. We feel long-term we'll be successful.

WG: What was it like for you in stores division when Jack Breen came in?

LP: Different reactions. The problem was viewed at the time as a management problem. I think that was true. A little fresh blood goes a long way. Just a different perspective. One part was management. /unclear/ A year later, we now had a significant amount of cash in the bank. Gulf & Western owned a significant percentage of our stock. Jack brought that back. The level of expectation had changed. /unclear/ Sherwin-Williams was a very political situation /unclear/ product of not much management coming from the outside. Always promoting from within. All people think exactly the way you do -- it's very political. I'm not saying I experienced it myself, but others did. The financial health of the company recovered very quickly, much more than people thought. Then we bought Dutch Boy and got back to acquisitions. The workload is extensive. It's very busy here. Prior to Breen, the tax department was not required to do what it should. There was more interest in doing personal tax returns -- but Commes wanted tax work for the company. More planning; cash flow aspects of tax function. It changed a lot. I learned a lot. The learning curve was very high. /Unclear/. Spencer did a lot of really good things. Maybe it lacked execution, or timing wasn't exactly right. Breen always gets standing ovations because he is viewed as saving the company. It was some very interesting times. You were required to become better. I wouldn't have been the same tax director. I wouldn't have achieved that level. I would have bene focused on industrial stuff, not management issues. There was a lot of work, good incentives. If I closed my eyes and forgot the name of the company, I'd say I'd worked for two different companies.

WG: Looking at the past as broadly as you can -- what are the things that were turning points from 1973 to now? Good or bad, that affected the company.

LP: Taking the Sherwin-Williams brand out of all channels of distribution, except our stores. It had some very adverse effects, but it was very significant. The advent of the true mass merchandise channels requires it. The acquisition of Dutch Boy. These are the two most significant event of this period. Bringing back the logo was a very significant step. The financial control. I don't mean we were out of control -- the culture. Installing the corporate charge. Maybe there was a major marketing emphasis back in the 1940's. There wasn't one again until Jack Breen came. So, the reinstitution of marketing.

WG: Spencer complained that his board did not have a marketing mentality.

LP: It was a cultural thing. He didn't think of hiring a vice president of marketing. Gray Drug was an important development. Being a lawyer, I was involved in that. We had the opportunity to buy this company. It didn't work. There were a lot of human resources wasted. One of the most positive sides was that it really give us a focus on what we could do. As a result we've focused on our core businesses. That's what happened to a lot of American industries. During the merger period of the '80s there were so many companies that were willing to put up millions and millions of dollars to invest in businesses they knew nothing about. /Unclear/. They lost their focus. I think long term that we'll have to decide. We can only focus on a core business. There's only so many paint stores you can put in , but we've got a long way to go. There's only so many acquisitions in the coatings business that you can make that would fit. A lot of businesses we could expand into, but some aren't for sale, they're privately held. Some we wouldn't be able to buy. At some point there may be a strategic decision to have another focus to continue the growth.

WG: Is there anything I haven't asked that needs to be told?

LP: The emphasis on quality in the last six years. We've always sold a quality product. The real recognition, coming to the forefront of the paint contractor business. Everyone called us retailers. Everyone knows what we are now. If you go back to the 1970's or even early '80s, various publications that categorize businesses by industry, there was a standing question mark as to "Where would we be this year?" this translated down to what were we? What are we? You need to have clear picture. The people down in the field need a clear picture. There is no one standing over their shoulder. You don't have someone to ask. If you know what you are, you can make more consistent decisions. The image of what we are -- a paint company -- the core business recognizing the contractor and wholesale side, and that he's into quality.

WG: This is quality in all areas, not just manufacturing?

LP: Yes. Customer service is a big part of quality. Focus, identification, emphasis on quality. A lot of those weren't missing before, they just weren't emphasized. Another thing is upgrading the quality of people. Starting at the store level and upward. This is a significant thing that has happened to the company.

I think the most impressive thing about the turnaround was the result of Breen's personal style. Putting apart his skill as a businessman, and going right to the people. He doesn't go through others. He talks to store managers. He didn't setp up in an office on the 12th floor -- he went out into the field, and talked to people at all levels. He found out about problems from his own perspective. Without the quickness of the turnaround, he may not have been able to save the company from Gulf and Western.

WG: What about your own department? What is in store for the '90s?

LP: I have the legal department and environmental department. I don't see the litigation craze slowing down. It would be nice. It's not very productive. In the '90s I'd like to continue developing the relationship between the legal department and the operating divisions. To extend a preventative approach. There are well into the thousands of contracts that are signed annually in the field. The contracting end is a big business. Lots of contracts -- indemnification provisions. We try to go out to the stores.

WG: So presently you've got the legal department divided up?

LP: Into three functional areas. One is litigation management -- they manage outside counsel. They have to make sure counsel in Maine and the midwest do the same thing with the same issues. An aspect is lead litigation. We also have an intellectual property section. What's left is the generalist section -- general contract work, compliance with advertising laws, and so on. It's everything else.

Our company is unique. I was trying to hire someone -- a state and local tax person. We're a manufacturer, a wholesaler, a retailer and we're doing business in 48 states. I try to find someone with a good background, who is very versatile. We have a lot of different kinds of things going on in generalist area and in the litigation area. The legal department will probably grow over time.

WG: How big is it now?

LP: Eighteen professionals. The environmental area, compliance area, that's the hot issue. There's a lot of lack of common sense. Our company is an environmentally responsible company. If we know of a health and safety problem we're going to take corrective actions. But in other situations, you find yourself fighting not for the basic problem -- not for the basic fact that you accept responsibility. We will pay our "fair share" -- that whole project doesn't cost more than it has to, and two, that just because we have deep pockets, we don't have to give up everything.

We find ourselves fighting not the fact that we'll eventually clean things up, but the government uses it as a club. We'll fix it up, and we'll charge you under the superfund act, and it will cost more than if you do it yourself. They don't care who pays. The companies themselves have to fight among themselves. They just say, "You'll have to pay and it will be joint, and several liabilities, which means you have to pay for the whole thing yourself, Sherwin-Williams, and if you want to, then you go and seek help."

They try to find the five or six big companies and we have to find the others. So the environmental thing is going to be a big thing in the '90s. There's a whole new Clean Air Act. There's not even regulation out to quantify the impact. That's the first real clean air stuff that's gone on since the 1970's. The legal environment over a period of time will find a more rational cast of thinking than it presently has. There is legislation that is fought by the legal professional, putting a cap on damages.

If there's paint, and its a bad batch, we'll correct it. We're a marketing company. There is an emphasis on clean stores and safety. Problems that are our fault get corrected before litigation. In the legal department we try to be as service oriented as possible.