Annual Report
1938

THE SHERWIN-WILLIAMS CO.

0007-SWP-034726

N21737

THE SHERWIN-WILLIAMS CO.

GEORGE A. MARTIN

PRESIDENT

To the Stockholders:

Herewith are presented the Consolidated Balance Sheet and the Consolidated Income and Surplus Statements of The Sherwin-Williams Company and its Subsidiaries for the fiscal year ended August 31, 1938. These have all been audited by Ernst & Ernst, Certified Public Accountants, whose certificate is part of this Annual Report.

The Balance Sheet shows the Company in a good financial condition with $20,230,801 in current assets against $4,076,527 liabilities. Cash alone amounting to $6,640,192 exceeds all the Company's liabilities by $2,563,665.

The net earnings, after depreciation and all other deductible items, but before federal income taxes, amount to $2,602,185.43. After setting aside $373,824.70 for the federal income taxes, the final net profit available for dividends is $2,228,360.73.

Deducting $679,507.50 for Preferred Dividends paid during the fiscal year, there remains $1,548,853.23 earned on the Common Stock which is equivalent to $2.42 per share.

The volume of sales suffered a shrinkage of 13.8% in comparison with the previous year.

Even though great care was exercised in the purchase of raw materials for our requirements and inventories were reduced to the extreme limit, we found market quotations as of August 31, 1938 below the average cost of raw materials which went into our finished products during the course of the year, causing us to make an adjustment of $546,523.22 in the value of our manufactured

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goods to bring it down from a cost to a replacement basis. Likewise we wrote off $153,805.88 on raw materials on hand August 31, 1938. The total inventory adjustment accordingly amounted to $610,327.10. Our inventory as of August 31, 1938 was $15,472,117.77 as compared with $19,752,789.86 as of August 31, 1937.

While it may be somewhat indiscreet to express an opinion on our new fiscal year, we believe, from the results shown on the business received since August 31, 1938 up to this writing and specific conditions which govern our industry, that we may expect a reasonably satisfactory business for the coming year.

More so in the year just closed than in any other in the past the Management wants to express to each and every one in the service its thanks for their faithful performance during the difficult and adverse conditions which existed.

President

October 26, 1938

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1938

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1938, before other income, depreciation, other deductions and federal taxes on income.			$ 4,122,[illegible]
Other income			[illegible]
			$ 4,2[illegible]
Deductions:			
Provision for depreciation		$1,[illegible]	
Write-off of intangible assets acquired during the year ([illegible]), loss on disposal of fixed assets and expenses applicable to non-operating properties		[illegible]	
Interest expense		[illegible]	
Provision for doubtful accounts, pension payments and sundry items		[illegible]	
Provision for estimated federal taxes on income (includes provision for surtax in the amount of $[illegible])	$ [illegible]		
Less adjustment of federal income tax provisions for prior years . .	47,[illegible]	[illegible]	2,[illegible]
NET PROFIT			$ 2,[illegible]

EARNED SURPLUS

Balance September 1, 1937			[illegible]
Add net profit for the year			2,[illegible]
			[illegible]
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—[illegible] per share . .	$ [illegible]		
Common—[illegible] per share . .	1,[illegible]	$2,[illegible]	
Premium on preferred stock called for redemption		[illegible]	2,[illegible]
BALANCE AUGUST 31, 1938 .			[illegible]

(Note A) Proportionate share of the operating results of unconsolidated Canadian subsidiary [illegible] in the foregoing statements; [illegible] operating results for the year ended August 31, 1938, [illegible] of this report. Proportionate share ([illegible]) of net profit for the year ended August 31, 1938, of other unconsolidated subsidiary [illegible] investment [illegible] less than cost, due to absorbing proportionate share of previous net losses of such subsidiary.

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CONSOLIDATED BALANCE SHEET

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

August 31, 1938

Assets

CURRENT ASSETS		
Cash	$ 6,640,192.36	
Trade notes, acceptances and accounts receivable, less reserves (includes accounts amounting to $9,116.08, receivable from unconsolidated subsidiaries)	8,118,491.26	
Inventories—raw materials and supplies, in process and finished merchandise stated on basis of lower of cost or market (estimated inter-plant and inter-company profits have been eliminated)	15,472,117.77	$30,230,801.38
OTHER ASSETS		
Notes receivable for properties sold during 1934—secured by mortgage	$ 101,494.14	
Sundry notes and accounts receivable, claims and advances, less reserves	305,254.13	406,748.27
INVESTMENTS		
Securities of unconsolidated subsidiaries—Note A	$ 3,698,609.87	
Other securities—at or below cost	47,898.83	3,746,508.70
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserves for depreciation		18,473,949.07
PATENTS AND TRADE MARKS		
Nominal amount		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc.	$ 628,013.26	
Unexpired insurance premiums, deferred taxes, etc.	267,470.00	895,483.26
		$53,833,191.67

Liabilities, Capital Stock and Surplus

CURRENT LIABILITIES		
Trade accounts payable, pay rolls and sundry items (includes account amounting to $1,053.68 payable to unconsolidated subsidiary)	$ 2,612,970.05	
Preferred dividend payable September 1, 1938	165,236.26	
Accrued taxes (estimated) and sundry items	729,399.38	
Deposits—officers and employees	630,931.48	
Mortgage payable (existing when subsidiary was fully acquired in 1934)	140,000.00	$ 4,076,827.97
RESERVES		
For contingencies, maintenance of plants and employers' liability insurance		757,638.42
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Preferred — authorized 396,000 shares (par value $100.00 each—redeemable at $105.00 per share): Outstanding—series "AAA" 5% cumulative preferred—132,189 shares	$13,218,900.00	
Common — authorized 800,000 shares (par value $25.00 each): Outstanding—638,927 shares	15,973,175.00	
	$29,192,075.00	
EARNED SURPLUS	19,806,970.28	48,999,045.28
		$53,833,191.67

(Note A) Investments in securities of unconsolidated subsidiaries include (1) investment of $3,[illegible] in Canadian affiliate stated at cost which was less than the proportionate share of the book value (including intangibles) of the net assets of such affiliate as reported to the Company and (2) investment in another affiliate amounting to $2,784.87 which is stated at equity in net assets. Net decrease in equity in Canadian affiliate since date of acquisition, not taken up by parent Company, amounted to approximately $[illegible] as of August 31, 1937 (final statement as to operating results for the year ended August 31, 1938, was not available at date of issuance of this report). Proportionate share (not significant) of net losses of other unconsolidated subsidiary has been taken up.

(Note B) The companies were contingently liable at August 31, 1938, in the amount of $[illegible] as guarantors of a portion of certain notes discounted by dealers.

AUDITORS' CERTIFICATE

The Sherwin-Williams Company,
Cleveland, Ohio.

We have made an examination of the consolidated balance sheet of THE SHERWIN-WILLIAMS COMPANY and its consolidated subsidiaries as at August 31, 19[illegible], and of the consolidated statements of profit and loss and surplus for the year ended at that date. In connection therewith we examined or tested accounting records of the companies and other supporting evidence, and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon our examination, the accompanying balance sheet and related statements of profit and loss and surplus fairly present the consolidated position of the Company and its consolidated subsidiaries at August 31, 19[illegible], and the consolidated results from operations for the year ended at that date. Further, it is our opinion that the statements have been prepared in accordance with accepted principles of accounting and on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants.

October 21, 19[illegible].

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THE SHERWIN-WILLIAMS CO.

101 Prospect Ave., N. W. Founded [illegible] Cleveland, Ohio

Manufacturers of

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

Main plants

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

Transfer Agents

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

Registrars

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

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