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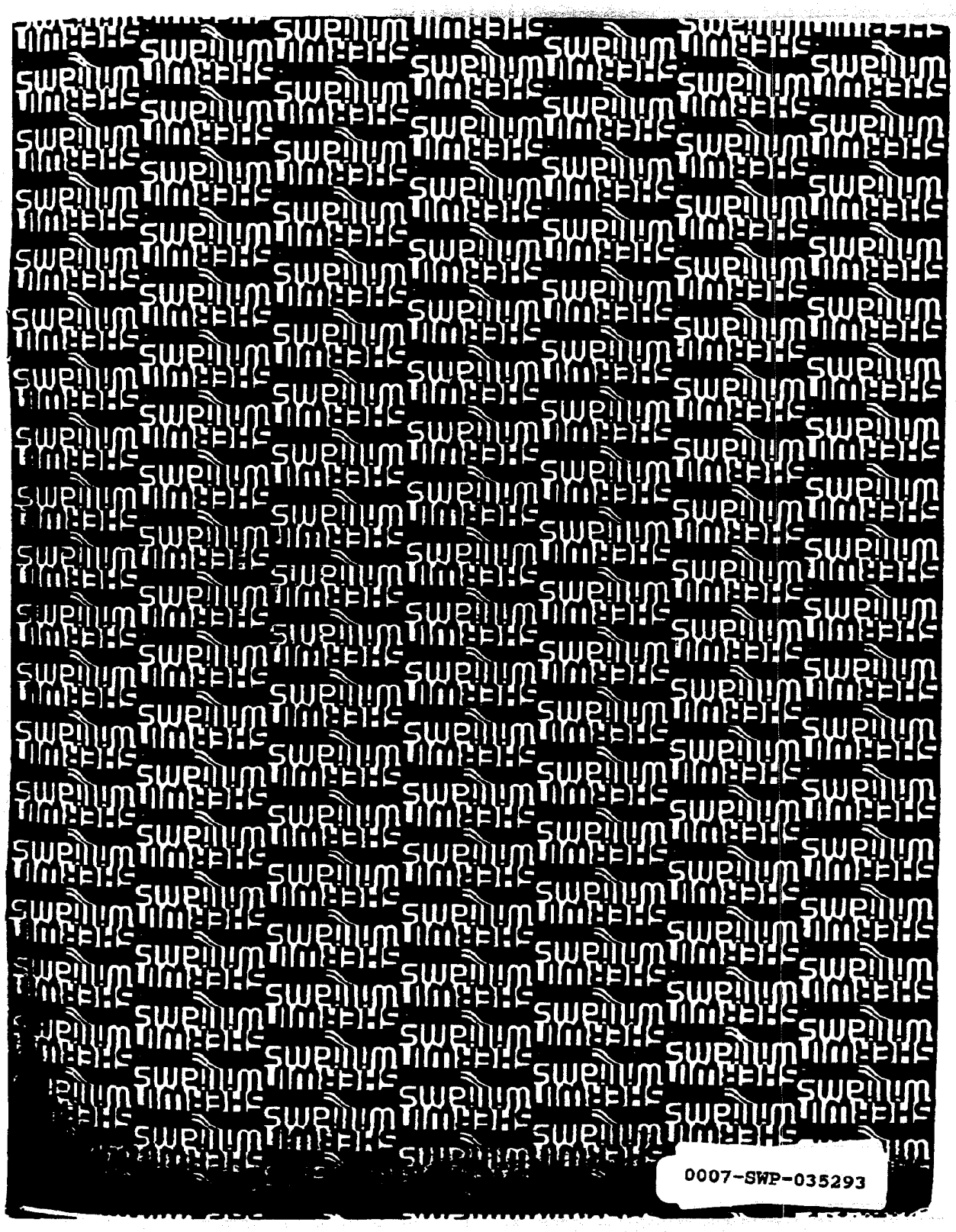
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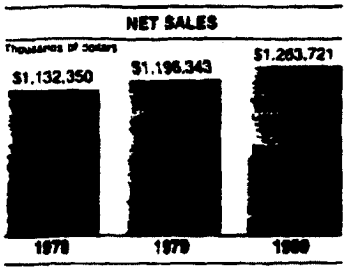
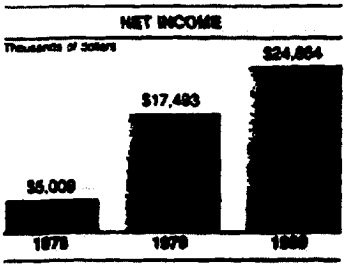
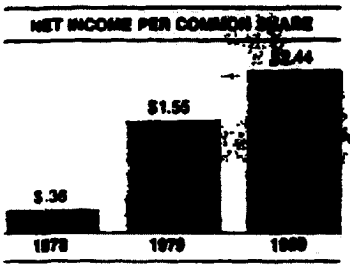
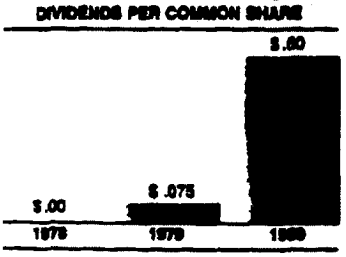
Highlights









Thousands of dollars, except common share data	1980	1979	1978
Net sales	$1,263,721	$1,196,343	$1,132,350
Net income	24,864	17,493	5,009
Per common share:*			
Net income	2.44	1.55	.36
Cash dividends	.60	.075	—
Book value	26.76	25.00	22.49
Average shares outstanding*	9,767,608	10,581,750	10,796,890
Return on sales	2.0%	1.5%	.4%
Return on common shareholders' equity	9.8%	6.8%	1.8%
Effective income tax rate	48.6%	47.7%	47.8%
Debt to capitalization	43.5%	47.1%	48.6%
Times interest earned	3.6 x	2.7 x	1.5 x
Current ratio	2.3 to 1	2.8 to 1	3.6 to 1

*All common share amounts and per share data reflect the stock split described in Note 2 to the consolidated financial statements.

Annual Meeting

The annual meeting of shareholders will be held at 10:00 a.m., April 22, 1981, at Stouffer's Inn on the Square, Public Square, Cleveland, Ohio.

The stock dividend shares issued in connection with the stock split are not entitled to vote at the annual meeting.

Transfer Agent & Registrar

AmeriTrust Company
Cleveland, Ohio

Trustees

5.45% Debentures; 9.45% Debentures
AmeriTrust Company
Cleveland, Ohio

6.25% Convertible
Subordinated Debentures
Central National Bank of Cleveland
Cleveland, Ohio

Headquarters

The Sherwin-Williams Company
101 Prospect Avenue, N.W.
Cleveland, Ohio 44115

Common Stock

Symbol: SHW

Exchange Listing:

New York Stock Exchange

This annual report incorporates all information required in Form 10-K filed annually with the Securities and Exchange Commission. The annual report and Form 10-K have been combined to provide all interested readers timely and easy access to this comprehensive data.

We characterize 1980 as a year of consolidating our turn-around. We are now in the lower range of where a large company such as ours should be. Therefore, we are continuing our aggressive cost-cutting measures. This combined annual report and 10-K represents yet another cost reduction that we undertake to best serve our shareholders.

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To Shareholders:

In 1980, earnings per share rose to $2.44 from $1.55 in 1979. These earnings reflect a $1.15 per share charge because of the adoption of LIFO for the remainder of the company's domestic inventories. Net income increased to $24,864,000 or 42 percent above 1979's figures. The annual dividend increased from $.075 per share in 1979 to $.60 in 1980, after adjusting for our two-for-one stock split announced on February 18, 1981.

Earnings represented a 9.8 percent return on common shareholder's equity versus 6.8 percent in 1979.

During 1980, we continued improving our existing businesses, adding to them, and consolidating our turn-around. We made significant progress, not only in preparing ourselves for a difficult economy, but in positioning the company for further improvement in the 1980's.

We are encouraged that we have increased our return on equity. However, our current level of profitability is inadequate, relative to returns necessary to offset the effects of inflation. Profitability must improve to justify further capital investment in our existing businesses.

Most of the markets we serve declined because of the recession, particularly the architectural coatings market, which was severely hit by reductions in housing sales. Despite the market conditions, we were able to increase market share and improve our results by continuing to reduce costs.

As a result of decentralizing our operations, the divisions have begun to take the initiative to improve their results. Our largest division, Stores, reorganized at several levels to intensify efforts to continue gaining share in the fast growing do-it-yourself market.

At the same time, the division significantly increased share in the important painting contractor market. As a result of its efforts, the Stores Division, in 1980, showed a profit for the second consecutive year — after several years of loss.

The Consumer Division acquired certain assets of Dutch Boy, which, in addition to Martin-Senour, will further strengthen our commitment to the independent dealer market.

Although high interest rates and a decline in miles driven adversely affected market conditions in the Automotive Aftermarket Division, we did well as the division held share and improved margins. We capitalized on new products, particularly with our Sunfire line, which permitted new penetration into the truck market. Chemical Coatings moved from a loss in 1979 to a profit in 1980, despite the year's economic problems in industrial markets. New products such as Powerclad 1100, a plastisol for steel siding, contributed to results.

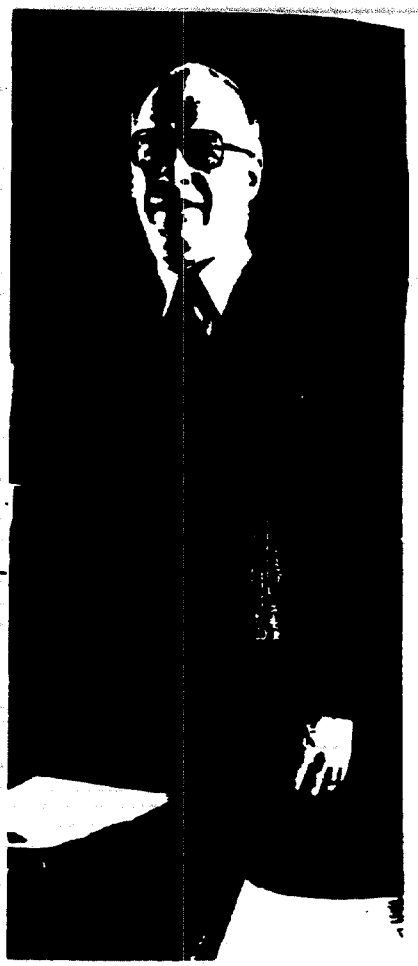
The Container Division and the Specialty Products Division reduced manufacturing costs and inventories, counteracting the effects of slow demand for paint cans and specialty products.

We enjoyed a record year in the Chemicals Division with very strong sales in the first half of the year. We integrated forward in our antioxidant business with the BHT product line acquisition from Ashland Chemical. We also acquired the zinc oxide business of Eagle-Picher to fit into our existing business.

All of our international operations improved, especially Mexico and Brazil — two countries where we achieved record profits. We continued to make steady improvements in Canada where we have significantly reduced our losses for the second consecutive year. Our key to success in Canada is to increase sales, which our management team fully recognizes.

Because of inflation, we think that the restoration, maintenance, and beautification of customers' property and equipment will become more important than ever before. If government incentives for capital spending combine with lowered inflation, we will also experience, in that environment, strong demand for our products.

We have all witnessed with alarm the dangerous trends that have developed in the U.S. and that have brought on high rates of taxation, inflation, and interest cost. All of this has eroded Americans' ability to acquire private property, principally, housing and autos. However, with recent changes in our government's direction, we are more confident than ever that these problems are going to be seriously addressed. We know that 1981 will be another difficult year, but I am confident we will continue our improvement despite the apparent weakness in the economy.



John G. Breen
Chairman, President & Chief Executive Officer

February 18, 1981

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If the federal government attempts to live within its means and starts to reduce the main causes of inflation, we can expect to see the private sector of the nation's economy recover slowly during the next few years. In relating that overall slow recovery to the fact that we are part of an intensely competitive, mature industry, we fully realize that we must continue to obtain what is essential for our very survival and financial strength — larger market share.

We assume our competitors also realize the crucial importance of pursuing greater market share. We plan to succeed by conducting a broad effort to differentiate our products. This means we have to improve profits in order to increase advertising and programs aimed at increasing the quality and diversity of our products, distribution, and service.

To accomplish this, we will continue to develop our management team, develop new products and processes, reorganize for greater efficiency, and increase the aggressiveness of our marketing.

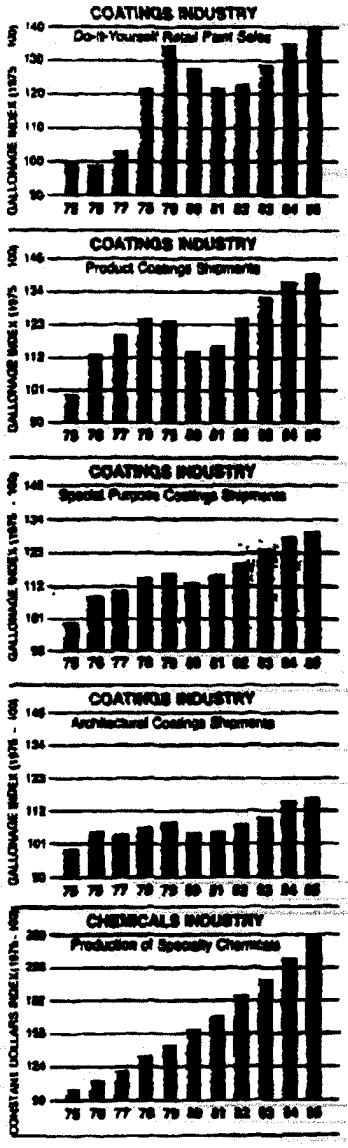
Management Development

The development of a stronger management team is continuing. At this time, we expect that the changes in management personnel, which have occurred frequently during the past two years, will moderate. Our focus will shift to team-building and improvement at lower levels in the organization. Employees throughout the organization are improving their performance against "stretch" goals.

New Product Development

During the past five years, research and development in the coatings industry has focused on cost reduction and on meeting government regulations. While we will continue our emphasis on low-cost production of coatings, we will also move aggressively to meet the customers' needs for more durable, functional products. In coatings, we will continue to emphasize product development that will help us secure a larger share of the fast-growing, do-it-yourself market, where consumers demand the highest standards of quality for covering characteristics and durability.

In the Chemicals segment, we will develop products related to our leadership position in plastic additives, corrosion inhibitors, specialty monomers and resins, and agricultural chemical intermediates.



In the Packaging Products segment, new products are being designed to complement the one-gallon plastic container we recently introduced.

Reorganizing for Greater Efficiency

Although we have made significant improvements in profitability, we still see opportunity for even greater profitability through increased efficiency in production, distribution, and service.

We expect the new bulk-handling and filling equipment we have installed in our Consumer Division plants will improve productivity. The reorganization of the quality-control staffs will reduce costs and, at the same time, improve quality and service in the field. Improvements in production planning and scheduling will also reduce costs by improving inventory turnover.

The consolidation of commercial branches into the Stores Division during 1981 will increase our competitive strength as one division will now have complete responsibility for marketing Sherwin-Williams branded products. The streamlining of the Stores Division regional organization will provide the division with greater flexibility in marketing to each geographical area.

Marketing

Through increased advertising, we will heighten customers' awareness of our products and service. In addition, to penetrate further into the do-it-yourself and small painting-contractor market, we are now focusing upon specific channels of distribution that have previously been avoided. We plan to open new Sherwin-Williams stores, which will result in a net increase for the first time in several years.

Acquisition

Acquisition of products and companies that fit with our expertise and resources will be necessary to provide for faster growth.

Specialty chemicals acquisitions, in particular, offer the potential of high margins and accelerated growth. Moreover, they provide us with an opportunity to enter markets outside the United States.

We intend to maintain our momentum and to secure the long-term future of Sherwin-Williams. We are committed to maintaining Sherwin-Williams as a viable and independent company. We are confident about the future of America and our opportunities to diversify and grow.

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Sherwin-Williams at a glance

Segment	Division	Principal Products	Major Markets
Stores	Stores Division	Sherwin-Williams labeled architectural coatings and industrial finishes; paint sundries; wallcoverings; floor coverings; window treatments; spray equipment.	Small to large painting contractors; retail "do-it-yourself" consumers; commercial and industrial maintenance accounts; OEM manufacturers.
Coatings	Consumer Division Automotive Aftermarket Division Chemical Coatings Division	Sherwin-Williams labeled industrial finishes and automotive refinish products. Architectural finishes are provided under the Martin-Senour, Dutch Boy, Baltimore and Kem labels, as well as other private labels.	Professional and do-it-yourself painters; large painting contractors; industrial and commercial maintenance accounts; automotive body shops; fleets; body manufacturers; OEM manufacturers; state highway departments. (Approximately 31 percent of shipments are to the Stores segment).
Chemicals	Chemicals Division	Specialty organic and inorganic [illegible] chemicals, pigments and [illegible]	Manufacturers of rubber and plastic products, food and beverages, printing ink, paint and agricultural products.
Packaging Products	Container Division Graphic Arts Division	Paint cans, oblong and aerosol containers, labels and color cards.	Manufacturers of paint and of consumer, personal and household products. Contract aerosol fillers and fillers of solvents, charcoal lighter fluid, industrial and agricultural products. (Approximately 30 percent of shipments are to the Coatings segment.)
Specialty Products	Specialty Products Division	Paint applicators; professional spray equipment; adhesives and sealants; aerosol packaging services.	Paint dealers and distributors; mass merchandisers; private label distributors of aerosol products; manufacturers of insulation, leather products, containers, and furniture. (Approximately 39 percent of shipments are to the Stores and Coatings segments.)
International	International Division Sherwin-Williams Canada Sherwin-Williams Mexico Sherwin-Williams West Indies Sherwin-Williams Brazil (unconsolidated)	Architectural coatings; industrial finishes; automotive repaint finishes; paint sundries; wallcoverings; floorcoverings; window treatments; spray equipment.	Painting contractors; retail "do-it-yourself" consumers; independent paint dealers; commercial and industrial maintenance accounts; automotive body shops; jobbers; OEM manufacturers.
	General development of business — The adoption of LIFO, discussed in Note 6, was the only material change in the business conducted by the company during the latest fiscal year. Raw materials and fuel supplies for all segments are generally available in sufficient quantities and from a variety of sources.	Environmental affairs — the company believes it is in substantial compliance with federal, state and local provisions regulating the discharge of materials into the environment. There are no material capital expenditures anticipated for environmental control facilities during the next year.	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. Employees at December 31, 1980, totaled 16,808.

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Distribution	Competition	Seasonality
Products are sold through approximately 1,400 company-owned stores.	Paint and wallpaper stores; mass marketers; home centers; national and regional paint manufacturers. Market is fragmented and highly price-and-quality competitive.	Business is seasonal with approximately 57% of sales occurring in the second and third quarters.
Products are sold by direct sales representatives; through distributors; jobbers; independent paint dealers; dealer-owned co-operatives; mass merchandisers. Additional distribution is provided by approximately 65 commercial branches, 70 automotive branches, and through our Stores segment.	Architectural market is fragmented and intensely price-and-quality competitive. Industrial market is serviced by both national and regional manufacturers. Competition is provided in commodity-type as well as in high technology, differentiated products. The company ranks among the four market leaders in the automotive aftermarket coatings industry, which is strongly oriented to quality and service.	Architectural and Automotive Aftermarkets are moderately seasonal with approximately 54% of sales in the second and third quarters. Industrial market is considered non-seasonal.
Products are sold by direct sales representatives domestically and by distributors in certain foreign markets.	Position is small relative to chemicals industry; however, Chemicals is a major factor in the domestic markets for synthetic pain cresol, saccharin, triacetin, isatoic anhydride and alkali blue and is a significant factor in the worldwide markets for these products.	Business is not considered seasonal.
Products are sold by direct sales representatives.	Major competition is provided by seven other container manufacturers. Significant competitive factors are quality, service and price.	Business is somewhat seasonal in that demand for paint and oblong containers is heavy in spring and early summer and drops significantly during the winter. Demand for aerosol containers is relatively steady throughout the year.
Products are sold through direct sales representatives and manufacturers' representatives.	All industries in which Specialty Products participates are highly fragmented. Specialty is a significant factor in the aerosol custom filling industry and ranks among the four market leaders of the brush and roller industry. Position in the adhesives industry is small.	Because of its diverse mix of products and markets, the business is considered non-seasonal.
Products are sold through company-owned stores; distributors; jobbers; dealers; direct sales representatives.	Competition is provided by numerous foreign competitors. Competitive position is not significant with the exception of operations in Canada, West Indies and Mexico where the company is a major factor in the market.	Canadian business is seasonal with the majority of sales and earnings generated in the second and third quarters of the year. Other operations are not considered seasonal.
Patents and licenses are not of material importance in the business of the company. However, a substantial part of the income of the International segment is derived from the license of technology, trademarks and trade names to other foreign companies. Financial results of these segments are included on page 19 of this report.	Legal—the company has been cited by the U.S. Occupational Safety and Health Administration at the Chicago, Illinois container plant. While the company's position has been upheld by an administrative law judge, the matter is being appealed by federal authorities.	Facilities are listed on page 27 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 1980. Research and development expenditures are described on page 17. Virtually all such activities were sponsored by the company rather than by customers.

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Operating Review

Segment	1980 Operating Highlights	
Stores	• Aided by national TV campaign to build S-W's image of quality among younger persons and to increase general awareness of stores as exclusive source for Sherwin-Williams brand, retail sales of paint increased almost 8%. • Special marketing efforts boosted sales to painters 15%, with more of this business for remodeling and repainting jobs. • Dollar gross margin improved because of higher ratio of paint sales to sales of other product lines.	• Greater use of part-time employees, refined loss-prevention program and other efficiency measures reduced expenses relative to sales. • Thorough review of each product line resulted in improvements in buying and pricing, plus reduction of inventory stockkeeping units. • Remodeling program made stores more attractive for retail shoppers. 1,365 stores were operating at December 31, a net decrease of 19 from previous year-end.
Coatings Consumer Division	• Sales were affected in the Consumer Division by the decline in the construction market, but this decline was offset by consumers shifting to repaint work. • Acquisition of Dutch Boy and Baltimore lines broadened offering to do-it-yourself customers.	• More disciplined scheduling of architectural paint production reduced batch-cycle time. • Major program in Consumer to enhance national distribution capacity improved inventory handling, transportation, and the order entry process.
Automotive Aftermarket Division	• In Automotive, fewer miles were driven and auto insurance deductibles were raised to higher levels. New car slump hurt repainting under warranty. Customer inventory reductions slowed sales in first half, recovery began in third quarter. Margins in this division were maintained with tight expense control and [illegible] programs to offset higher costs of raw materials.	• Established additional automotive branches in four states. • New acrylic urethane finish was specified for truck fleets of all major soft-drink companies.
Chemical Coatings Division	• In Chemical Coatings, slow-downs in construction and auto industry markets. Raw material costs increased faster than prices during the first half of the year and squeezed margins. • Campaign directed toward metal-building and office furniture markets showed initial success.	• Chemical Coatings filled two 75,000-gallon electrodeposition tanks at a second major manufacturer of farm equipment
Chemicals	• Sales declined in second half, after record highs in early months, both domestic and international. Product mix helped offset slowdowns in particular markets. • We were able to pass through cost increases early in the year for petrochemical feedstocks.	• International business rose to 15% of total, compared to 12% the year before. Division has 64 distributors in 41 countries. • Pilot plant for down-well products was started. • Acquired BHT business and purchased zinc oxide plant.
Packaging Products	• Reduction of customers' can inventories provided an opportunity for the division to capitalize on fast delivery capability. On-line order-entry system was installed. • Low volume and competitive pressures reduced margins.	• Plastic paint can, lighter and more durable than metal cans, was introduced. • Achieved 15% improvement in productivity through manufacturing efficiencies. • Labor contracts were signed at all four can plants without work stoppage.
Specialty Products	• Custom aerosol-filling business suffered from customer inventory cut-backs in first quarter but then began improving later in the year. • Industrial aerosol business declined with downturn in automotive industry.	• Industrial adhesives sales were off because of construction slowdown. • Consumer adhesives sales advanced 20% with new merchandising and marketing of Tiger Grip® brand.
International	• Performance improved in all international operations. • New management in Canada effected manufacturing efficiencies, identified key markets. Program of upgrading company stores was started; a number of new dealers were added.	• Record performance was again achieved in Mexico. • Brazil subsidiary achieved record growth, both through greatly increased sales. • Record performance achieved in licensing area

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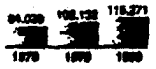
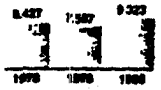
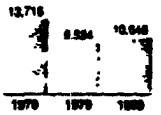
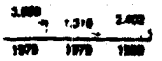
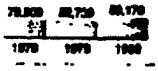
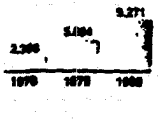
Net Sales *Thousands of Dollars*	Developments for the Future		Operating Income (Loss)* *Thousands of Dollars*
	• In-store stocking of wallcovering was started; to be put in place in 500 stores by April 1981. • "Superpaint," to be introduced in April 1981 will be our highest quality paint. • Streamlining of field organization from ten regions to five will give benefits of decentralization and better responsiveness to the needs of specific markets.	• 60 new stores, 50 relocations, 10 closures planned for 1981. • Extensive training of store personnel will increase quality of service. The initiation of a professional shopping service will also improve service as it monitors personnel's performance. • Consolidation of commercial branches gives the Stores Division complete responsibility for marketing S-W brand products.	
	• In Consumer, improvements in distribution of architectural products will concentrate on decentralization, while retaining strength of national networks.	• New bulk-handling and filling equipment installed at the Consumer Division's Newark plant will improve productivity.	
	• In Automotive, coatings for Japanese cars will be produced and marketed under new agreement with Dai Nippon Toryo Company, Japan's third largest coatings producer. • Superior corrosion resistance of new primer-surfacer will appeal to owners who want to keep their cars longer. • Improvements were obtained in inventory control, billing and receivables through use of mini-computers in branches.	• Polypropylene primer for plastic parts and for various types of plastics will soon be commercialized for interior automobile use. • Barrier coat sealer for use on original equipment baked finishes and for previously painted aged enamel and acrylic lacquer will soon be commercialized. Product prevents fading and provides excellent intercoat adhesion.	
	• Superior technology in high solids and water-based coatings is distinct advantage in helping customers reduce energy costs to meet environmental standards. • Will be introducing a high-solids polyester baking enamel for the metal furniture trade — this product is almost commercialized.	• Will be introducing an in-mold technology for injecting 100 percent solids coating into a mold. • Reorganization will create business units for the purpose of concentrating on certain key market segments.	
	• Specialty chemicals give strong entry into foreign markets, as well as into domestic ones. • Acquisition of BHT business gives good position in rapidly growing market. Purchase of zinc oxide plant expands capacity.	• Acquisitions in the specialty chemicals industry will continue, given the higher margins and growth rates in the field. We plan eventually to grow through internal growth, 50 percent and 50 percent through acquisitions.	
	• Aerosol marketing program is aimed at personal products industry, which always demands high quality. • Graphic Arts Division is pursuing opportunities for further application of sophisticated color-sample equipment.	• Plastic can will go into limited production in the late spring of 1981.	
	• Improvements in custom-filling operations will boost efficiency, profitability.	• Aggressively moving to higher technology and higher profit markets with specialty adhesives.	
	• Formation of Mexican store subsidiary will allow first expansion in five years. • Election results in Jamaica promise better business climate.	• New program for obtaining licensees will boost future royalties.	

*Reflects the adoption of LIFO in certain segments during 1979 and 1980. See Note 10 for the effect of LIFO on these segments.

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Financial Summary

Thousands of dollars, except per share data	Years ended December 31, 1980	1979 (A)	1978 (A)	1977 (A)	1976 (A)
Operations					
Net sales	$1,263,721	$1,196,343	$1,132,350	$1,035,989	$969,205
Cost of products sold	868,388	829,183	795,237	732,049	659,223
Selling, general and administrative expenses	343,931	323,206	311,514	283,879	269,608
Interest expense	18,552	19,366	21,318	17,965	13,154
Provision for disposition and termination of operations				16,434	
Income (loss) before income taxes	48,351	33,436	9,589	(11,890)	24,144
Income taxes (credit)	23,487	15,943	4,580	(3,683)	11,463
Net income (loss)	24,864	17,493	5,009	(8,207)	12,681
Cash flow provided from operations	49,496	44,763	24,640	11,117	26,199
Financial Position					
Inventories	$237,399	$242,264	$243,508	$256,314	$273,557
Accounts receivable — net	131,265	125,669	135,047	125,380	108,727
Working capital	307,451	317,028	311,537	270,320	297,271
Property, plant and equipment — net	210,754	203,851	209,580	201,112	177,054
Total assets	768,992	711,734	653,799	621,307	599,367
Long-term debt	212,934	234,285	242,362	196,621	182,273
Common shareholders' equity	262,964	243,402	242,868	238,648	256,702
Total shareholders' equity	286,876	268,107	267,793	263,586	281,695
Per Common Share Data (B)					
Average number of shares of common stock outstanding	9,767,608	10,581,750	10,796,890	10,793,492	10,785,970
Common shareholders' equity per share (book value)	$ 26.76	$ 25.00	$ 22.49	$ 22.10	$ 23.79
Net income (loss) per common share	2.44	1.55	.36	(.86)	1.06
Fully diluted net income (loss) per common share	2.12	1.43	.36	(.86)	1.01
Cash dividends declared per common share	.60	.075	—	.83	1.37
Financial Ratios					
Income (loss) as a percentage of sales	2.0%	1.5%	.4%	(.8%)	1.3%
Return on common shareholders' equity (C)	9.8%	6.8%	1.8%	(3.6%)	4.4%
Return on assets	3.2%	2.5%	.8%	(1.3%)	2.1%
Dividend payout ratio	24.6%	4.3%	—	+100.0%	+100.0%
Debt to capitalization	43.5%	47.1%	48.6%	46.2%	41.6%
Current ratio	2.3 to 1	2.8 to 1	3.6 to 1	3.0 to 1	3.7 to 1
Times interest earned (D)	3.6 x	2.7 x	1.5 x	.3 x	2.8 x
Working capital as a percentage of sales	24.3%	26.5%	27.5%	26.1%	30.7%
General					
Capital expenditures	$31,889	$11,867	$17,274	$31,888	$43,412
Provision for depreciation and amortization	19,979	19,458	18,438	16,924	13,469
Number of shareholders:					
Preferred	855	951	991	1,010	996
Common	8,688	9,796	10,611	10,927	10,603
Number of employees	16,808	16,872	18,015	19,269	19,910
Sales per employee	$75,186	$70,907	$62,856	$53,765	$48,679
Sales per dollar of assets	1.64	1.68	1.73	1.67	1.62

(A) Restated

(B) All common share amounts and per share data reflect the stock split described in Note 2 to the consolidated financial statements.

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

(D) Ratio of pre-tax income before interest expense to interest expense.

This summary should be read in conjunction with the financial statements and notes on pages 13-26 of this report.

0007-SWP-035301

0007-SWP-000116722

Liquidity and Capital Resources

We generally define liquidity as the ability to generate adequate amounts of cash to meet our needs. At December 31, our liquidity position was satisfactory, with a current ratio of 2.3. The current ratio has declined over the last several years, principally because of lower inventory levels and an increase in accounts payable and certain other accruals. The decline in inventory levels is the result of better inventory management and the adoption of the LIFO method of inventory valuation in 1979 and 1980. Accounts payable increased substantially as payment policies were reviewed and extended. Many companies, such as Sherwin-Williams, take advantage of terms generally available to companies that order significant quantities and have alternative sources of supply for most materials used in the business. These factors, along with improved operating results; the reduction of income tax expense due to the adoption of LIFO; and our improved cash management systems at both the corporate and division levels contributed to our significantly improved cash position. Improvements in receivable management systems have resulted in a reduction in days' sales outstanding for receivables from 56 days at the end of 1978 to 51 days at the end of 1980. The level of idle funds has also been reduced substantially since 1978, resulting in a higher level of short-term investments.

We have been free of short-term borrowings, except for borrowings by our Canadian subsidiary, since the end of 1978. Our Canadian subsidiary has available a line of credit for $13,000,000. Cash required to fund the working capital needs of this subsidiary will be obtained from borrowings pursuant to that line of credit or from the parent. In addition to the line of credit in Canada, we have unused lines of credit totalling $50,000,000.

The favorable change in cash position and credit market conditions allowed us to repurchase a significant amount of our debentures at a discount during 1979 and 1980. We now have sufficient debentures in treasury to satisfy most of our sinking fund requirements through 1983. The repurchases have helped to improve our ratio of total debt (including capitalized lease obligations) to total capitalization to 43.5% at the end of 1980 from 47.1% at the end of 1979 and 48.6% at the end of 1978. There have been no other material changes in capitalization during 1979 or 1980, nor have we entered into any significant financing arrangements not reflected in our financial statements.

Capital expenditures for the year were approximately $31,889,000, including expenditures for fixed assets of businesses acquired during 1980. Capital expenditures are expected to increase substantially in 1981, and we anticipate that additional acquisitions for cash will be made to strengthen our core businesses. A major part of the increased capital expenditures expected in 1981 arise from the decision to own rather than lease stores where ownership is financially attractive. This program will require a significant amount of capital over the next several years.

Our current cash and anticipated future cash flow from operations should be sufficient to finance our working capital needs and the capital expenditure and acquisition programs presently contemplated. However, depending upon the level of acquisition activity, external financing for this activity and for the store purchase program or seasonal borrowings to finance working capital requirements may be necessary. We anticipate that the financings required, if any, would not significantly change the average debt to equity ratio that we have experienced during the past several years.

Our financial position has strengthened significantly since 1978, and it is the company's objective to continue this improvement in the future. The improved financial position allowed the board of directors to reinstate the dividend at the end of 1979 at a quarterly rate of $.15 per share and to double that payout rate to $.30 in 1980. The dividend has been increased again in 1981 when the board, on February 18, 1981, declared a dividend of $.40 per share and a common stock split in the ratio of two-for-one (see Note 2). The $.40 per share dividend payable March 23, 1981, is equivalent to a rate of $.20 per share on the post-split shares. As this improvement continues, we hope to achieve a dividend payout ratio of approximately 30% of earnings.

Supplemental information regarding the impact of inflation upon the company is presented on pages 22 and 23 of this report.

0007-SWP-035302

0007-SWP-000116723

Results of Operations 1980 — 1979

Consolidated net sales increased $67,378,000 (5.6%) during 1980. The Coatings and Chemicals segments increased sales by $28,185,000 (7.6%) and $13,139,000 (12.9%) respectively, primarily due to price increases. Sales in all other segments showed improvement over 1979, also primarily attributable to price increases.

Gross profit margins continued to increase from 30.7% to 31.3%, in spite of our adoption of LIFO for the remainder of the domestic inventories, which negatively affected gross profit margins. The overall net improvement is primarily attributable to our continued emphasis on cost reduction and the shift in sales mix to higher-margin products.

Selling, general and administrative expenses increased $20,725,000 (6.4%) over the 1979 levels. Advertising expenses in the Stores Division returned to higher levels and added to the overall increase in this caption. Advertising expenses are expected to continue increasing with our emphasis on obtaining greater market share.

High interest rates and higher levels of investment resulting from improved working capital management increased interest income more than 100% over the prior year. A $2,491,000 increase related to the disposition and termination of operations and increases in other miscellaneous expenses were partially offset by a $1,831,000 increase in the gain on debentures purchased, resulting in a net change in costs and expenses, other, of $2,061,000.

Other accruals at December 31, 1980, include certain accrued expenses for the reorganization of the Stores Division that were not present last year. During 1980, we made several acquisitions and terminated certain operations. Although, in the aggregate, these transactions are not expected to affect the 1981 results materially, we anticipate that the acquisitions can be be a significant contributor in the long run.

Net income increased to $24,864,000 ($2.44 per common share, post-split basis) primarily because of a combination of increased profitability in the Stores and International segments and an increase in interest income. Income of the Stores, Coatings and Specialty segments in 1980 reflects the adoption of LIFO for these segments.

Results of Operations 1979 — 1978

Consolidated net sales increased $63,993,000 (5.7%) during 1979. The Coatings and Chemicals segments increased sales by $29,020,000 (8.4%) and $18,112,000 (21.6%) respectively, primarily due to price increases. Sales in all other segments showed improvement over 1978, resulting from a combination of volume and price increases.

Gross profit increased $30,047,000 over the previous year. Overall gross profit margins increased from 29.8% to 30.7%, despite the effect of the change to LIFO for certain domestic inventories. The margin improvements resulted from efforts to reduce production costs and from continued emphasis on the sale of higher margin products throughout all segments. Maintenance and repair costs increased $4,158,000 (18.3%) over prior year costs. Increased repairs and higher costs within the Chemicals segment accounted for approximately 50% of the increase.

Selling, general and administrative expenses increased $11,692,000 (3.8%) over 1978 expenses. Significant emphasis on the reduction of nonessential support services helped offset the effect of higher employee costs. Advertising expenditures were reduced 17.9% or approximately $4,662,000 compared to 1978 levels as a result of reduced advertising in the Stores segment.

Interest expense declined $1,952,000 (9.2%) from 1978 amounts due to the significant reduction in short-term borrowings, offset to a certain extent by increased interest on the additional debt issued in the fourth quarter of 1978. Increased investment in short-term securities during 1979 generated an increase in interest income of $6,418,000.

The gain on the purchase of debentures increased $1,107,000 in 1979. However, this increase was offset by a net change of $2,134,000 related to disposition and termination provisions and a $1,141,000 decrease related to foreign currency translation.

Net income rose to $17,493,000 ($1.55 per common share, post-split basis), an increase of 249%. This change resulted primarily from improvements in the Stores segment. The International segment also performed well, with losses of Canadian operations cut substantially from the prior year and record sales in the Mexican subsidiary. Income of the Packaging Products and Chemicals segments was reduced as a result of the accounting change to LIFO.

The reduced number of outstanding shares (resulting from the purchase of treasury stock) had minimal effect on 1979 income per common share because the purchase occurred late in 1979. If the purchase had been completed as of January 1, 1979, reported earnings per share would have been approximately $1.61 (post-split basis) for the year ended December 31, 1979.

0007-SWP-035303

0007-SWP-000116724

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, 1980, 1979 and 1978. The opinion of Ernst & Whinney, the company's independent auditors, on those financial statements is presented below. 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.
Chairman
President
Chief Executive Officer

T. A. Commes.
Senior Vice President, Finance
Chief Financial Officer

J. E. Wallace.
Vice President, Corporate Controller
Chief Accounting Officer

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 29. 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, 1980, 1979 and 1978, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for vacation benefits and except for the changes, with which we concur, in the method of determining inventory cost as described in Notes 4 and 6 respectively to the consolidated financial statements.

Cleveland, Ohio
February 18, 1981

Ernst & Whinney

0007-SWP-035304

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Board of Directors

James A. Attwood
Executive Vice President and Chief Investment Officer
Equitable Life Assurance Society of the United States

Keith S. Benson
Executive Vice President, Administration and Finance
Ogilvie Norton Company

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

D. Wayne Calloway
President and Chief Executive Officer
Frito-Lay Division of Pepsico, Incorporated

Thomas A. Commes
Senior Vice President, Finance
The Sherwin-Williams Company

William J. De Lancey
Chairman and Chief Executive Officer
Republic Steel Corporation

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

Allen C. Holmes
Managing Partner
Jones, Day, Reavis & Pogue, attorneys

J. Robert Kilpack
President
National City Bank and National City Corporation

William G. Mitchell
President
General Telephone and Utilities Corporation

Patrick S. Parker
Chairman of the Board and Chief Executive Officer
Parker-Hannifin Corporation

Officers

John G. Breen
Chairman, President and Chief Executive Officer

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Senior Vice President, Finance

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

Alan D. Childs
Vice President and General Counsel
Corporate Secretary

William B. Eldredge
Vice President, International Group

Conway G. Ivy
Vice President, Corporate Planning and Development

Arthur D. Maine
Vice President, Human Resources

James E. Wallace
Vice President, Corporate Controller

Thomas R. Mikilich
Treasurer

Carl Bellini
President & General Manager, Stores Division

Thomas N. Bird
President & General Manager, Specialty Products Division

Joseph M. DeVitterio
President & General Manager, Chemical Coatings Division

Edward D. Hopkins
President & General Manager, Consumer Division

James A. Mack
President & General Manager, Chemicals Division

Joseph P. Maladra
President & General Manager, Container Division

Leonard A. Ward
President & General Manager, Automotive Aftermarket Division

0007-SWP-035305

0007-SWP-000116726

Statements of Consolidated Income

The Sherwin-Williams Company and Subsidiaries

Thousands of dollars except per share data	Years ended December 31, 1980	1979 (Restated)	1978 (Restated)
Net sales	$1,263,721	$1,196,343	$1,132,350
Costs and expenses:			
Costs of products sold	868,388	829,183	795,237
Selling, general and administrative expenses	343,931	323,206	311,514
Interest expense	18,552	19,366	21,318
Interest income	(16,845)	(8,131)	(1,713)
Other	1,344	(717)	(3,595)
	1,215,370	1,162,907	1,122,761
Income before income taxes	48,351	33,436	9,589
Income taxes	23,487	15,943	4,580
Net income	$ 24,864	$ 17,493	$ 5,009
Net income per common share:*			
Primary	$ 2.44	$ 1.55	$ .36
Fully diluted	$ 2.12	$ 1.43	$ .36

See notes to consolidated financial statements.
*Per share data reflects the effect of the stock split described in Note 2.

Consolidated Balance Sheets

The Sherwin-Williams Company and Subsidiaries

Thousands of dollars	December 31, 1980	1979 (Restated)	1978 (Restated)
Assets			
Current assets			
Cash	$ 59	$ 7,563	$ 32,682
Short-term investments	148,671	101,839	40
Accounts receivable, less allowances of $2,000	131,265	125,669	135,047
Inventories:			
Finished products	173,941	177,748	185,974
Work in process and raw materials	63,458	64,516	57,534
	237,399	242,264	243,508
Other current assets	25,749	16,006	18,670
Total current assets	543,143	493,341	429,947
Other assets	14,695	14,542	14,272
Property, plant and equipment			
Land	6,925	5,612	5,822
Buildings	115,461	112,646	113,719
Machinery and equipment	256,166	240,506	233,084
Construction in progress	15,207	10,879	9,606
	393,759	369,643	362,231
Less allowances for depreciation and amortization	183,005	165,792	152,651
	210,754	203,851	209,580
	$768,592	$711,734	$653,799
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term borrowings	$ 8,235	$ 4,649	$ 10,720
Accounts payable	105,712	78,885	36,854
Compensation and amounts withheld	42,705	34,912	30,096
Pensions	14,084	14,899	14,610
Other accruals	46,424	28,445	19,825
Income taxes	18,532	14,523	6,305
Total current liabilities	235,692	176,313	118,410
Long-term debt	212,934	234,285	242,362
Deferred income taxes	26,365	24,873	18,111
Other long-term liabilities	4,995	5,326	3,607
Minority interest in subsidiary	1,730	2,830	3,516
Shareholders' equity			
Capital stock:			
Serial preferred	8,583	8,854	8,854
Common	34,162	33,884	33,881
Other capital	6,000	5,171	5,240
Retained earnings	254,184	236,234	220,508
	302,929	284,143	268,483
Less treasury stock, at cost	16,053	16,036	690
Total shareholders' equity	286,876	268,107	267,793
	$768,592	$711,734	$653,799

See notes to consolidated financial statements.

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Statements of Changes in Consolidated Financial Position

The Sherwin-Williams Company and Subsidiaries

Thousands of dollars	Years ended December 31, 1980	1979 (Restated)	1978 (Restated)
Source of Funds			
From operations:			
Net income	$24,864	$17,493	$ 5,009
Add back charges (credits) to operations not requiring (providing) funds:			
Provision for depreciation and amortization	19,979	19,458	18,438
Increase in noncurrent deferred income taxes	1,492	6,762	1,857
Provision for disposition of noncurrent assets	3,400	1,050	(664)
Other	(239)	—	—
Funds provided from operations	49,496	44,763	24,640
Increase in long-term debt	—	—	40,299
Obligations under capital leases	(2,654)	1,462	7,568
Sale of treasury stock	—	5,675	—
Net book value of noncurrent assets sold	—	—	3,215
Decrease in working capital	9,577	—	—
Other — net	2,998	772	—
	$59,417	$52,672	$75,722
Application of Funds			
Cash dividends	$ 6,914	$ 1,767	$ 801
Additions to property, plant and equipment, net of normal retirements	21,660	10,181	14,946
Additions to property under capital leases, net of normal retirements	437	4,598	10,475
Purchase of treasury stock	17	21,096	—
Noncurrent assets of businesses purchased	10,420	—	—
Acquisition of minority interest in subsidiary	1,297	—	—
Increase in working capital	—	5,491	45,588
Purchase of debentures	18,672	9,539	2,126
Other — net	—	—	1,786
	$59,417	$52,672	$75,722
Changes in Working Capital — Increase (Decrease)			
Cash	$ (7,504)	$(25,119)	$30,497
Short-term investments	46,832	101,799	(10)
Accounts receivable	5,596	(9,378)	9,667
Inventories	(4,865)	(1,244)	(7,690)
Other current assets	9,743	(2,664)	(4,654)
Short-term borrowings	(3,586)	6,071	19,145
Accounts payable	(26,827)	(42,031)	(3,831)
Compensation and amounts withheld	(7,793)	(4,816)	1,181
Pensions	815	(289)	(1,496)
Other accruals	(17,979)	(8,620)	4,351
Income taxes	(4,009)	(8,218)	(1,572)
Increase (decrease) in working capital	$ (9,577)	$ 5,491	$45,588

See notes to consolidated financial statements.

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0007-SWP-000116729

Statements of Consolidated Shareholders' Equity

The Sherwin-Williams Company and Subsidiaries

Thousands of dollars	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Treasury Stock
Balance at January 1, 1978, as previously reported	$ 8,859	$33,880	$ 5,237	$223,232	$ (690)
Cumulative effect of retroactive change in accounting principle	—	—	—	(6,932)	—
Balance at January 1, 1978, as restated	$ 8,859	$33,880	$ 5,237	$216,300	$ (690)
Common stock issued:					
444 shares upon conversion of preferred stock	(5)	1	3	—	—
Net income	—	—	—	5,009	—
Cash dividends declared:					
Series A preferred stock — $3.00 per share	—	—	—	(211)	—
Series B preferred stock — $3.30 per share	—	—	—	(590)	—
Balance at December 31, 1978, as restated	$ 8,854	$33,881	$ 5,240	$220,508	$ (690)
Treasury stock acquired:					
1,060,000 shares of common stock — net of 400,000 shares sold	—	—	(75)	—	(15,237)
2,200 shares of Series B preferred stock	—	—	—	—	(109)
Common stock issued:					
800 shares upon exercise of stock options	—	3	6	—	—
Net income	—	—	—	17,493	—
Cash dividends declared:					
Series A preferred stock — $4.00 per share	—	—	—	(212)	—
Series B preferred stock — $4.40 per share	—	—	—	(785)	—
Common stock — $.075 per share	—	—	—	(700)	—
Balance at December 31, 1979, as restated	$ 8,854	$33,884	$ 5,171	$236,234	$(16,036)
Treasury stock acquired:					
281 shares of Series A preferred stock	—	—	—	—	(17)
Common stock issued:					
63,200 shares upon exercise of stock options	—	197	615	—	—
24,908 shares upon conversion of preferred stock	(271)	78	192	—	—
1,084 shares upon conversion of 6.25% Convertible Subordinated Debentures	—	3	22	—	—
Net income	—	—	—	24,864	—
Cash dividends declared:					
Series A preferred stock — $4.00 per share	—	—	—	(278)	—
Series B preferred stock — $4.40 per share	—	—	—	(775)	—
Common stock — $.60 per share	—	—	—	(5,861)	—
Balance at December 31, 1980	$ 8,583	$34,162	$ 6,000	$254,184	$(16,053)

See notes to consolidated financial statements.

All common share data and per share amounts reflect the stock split described in Note 2.

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0007-SWP-000116730

Notes to Consolidated Financial Statements

The Sherwin-Williams Company and Subsidiaries
Years ended December 31, 1980, 1979 and 1978

Note 1 — Summary of Significant Accounting Policies

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

Foreign currency translation The effect of translating the accounts of foreign subsidiaries into U.S. dollars is included in costs and expenses, other, and amounted to a gain of $282,000 in 1980, a loss of $267,000 in 1979 and a gain of $874,000 in 1978.

Short-term investments Short-term investments are stated at cost, which approximates market.

Inventories Inventories are stated at the lower of cost or market. Cost is determined principally on the last-in, first-out (LIFO) method.

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% - 5%
Machinery and Equipment	4% - 12%
Furniture and Fixtures	5% - 10%
Automobiles and Trucks	10% - 33⅓%

Research and development costs All research and development costs are charged to operations, and were $8,854,000 for 1980, $7,100,000 for 1979 and $6,712,000 for 1978.

Reclassification Certain amounts in the 1979 and 1978 financial statements have been reclassified to conform to the 1980 presentation.

Note 2 — Stock Split

On February 18, 1981, the company's board of directors authorized a two-for-one split of the common stock effected in the form of a 100% stock dividend to be distributed on March 30, 1981, to holders of record on March 9, 1981. Accordingly, all numbers of common shares and per share data have been restated to reflect the stock split. The par value of the additional shares of common stock issued in connection with the stock split will be credited to common stock and a like amount charged to retained earnings.

Note 3 — Pensions

Substantially all employees of the company who meet certain requirements as to age and service participate in noncontributory pension plans. The company funds the amount charged to expense, which represents normal cost and amortization of unfunded prior service cost over 30 years.

Pension expense was $15,020,000, $15,558,000 and $15,353,000 for 1980, 1979 and 1978, respectively. During 1980, plan amendments for increased benefits and additional employees related to business acquisitions increased pension expense by approximately $1,100,000. In addition, certain actuarial assumption changes and plan amendments were made which decreased pension expense by approximately $1,600,000. In 1979, certain 1978 plan amendments for increased benefits became effective and increased pension expense by approximately $1,700,000. However, certain actuarial assumptions were changed, which reduced pension expense by approximately $1,500,000.

Actuarial information for the company's pension plans as of the latest valuation date is presented below:

Thousands of dollars	January 1, 1980
Actuarial present value of accumulated plan benefits	
Vested	$168,522
Non-Vested	8,070
	$176,592
Net assets available for benefits	$182,735
Weighted average assumed rate of return on accumulated plan benefits	8%

Note 4 — Accounting Change for Vacation Pay

Prior to 1980, the company followed the common practice of accounting for the costs of certain employees' vacation pay benefits in the period they were paid. Effective as of January 1, 1980, as a result of the Financial Accounting Standards Board's Statement No. 43, the company began accruing such benefits as they are earned. Financial statements for years prior to 1980 have been restated as required by the Statement, resulting in a decrease in retained earnings as of January 1, 1978 of $6,912,000 (after $5,904,000 income tax effect). The accounting change decreased previously reported net income by $535,000 ($.05 per share) for 1979 and $183,000 ($.02 per share) for 1978.

Note 5 — Acquisitions

During 1980, the company purchased certain businesses from Dutch Boy, Inc., Ashland Chemical Co. and the Eagle-Picher Co. for a total of $14,359,000. The assets acquired consist primarily of manufacturing facilities and the related machinery and equipment. The results of operations of these businesses have been included from the respective acquisition dates. Pro forma results of operations assuming the businesses were acquired on January 1, 1980 and 1979 are not presented due to immateriality.

Note 6 — Inventories

Effective January 1, 1980 and 1979, the company changed its method of determining inventory cost from the FIFO method and the average cost method to the LIFO method for substantially all domestic inventories. The company believes the LIFO method will more fairly present its results of operations by reducing the effect of inflationary cost increases in these inventories and thus match current costs with current revenues.

Thousands of dollars, except per share data	Years ended December 31, 1980	1979
Percentage of total inventories on LIFO	90%	20%
Excess of current cost over LIFO	$46,358	$10,509
Excess of FIFO and average cost over LIFO	32,424	6,221
Effect of change on net income	11,248	3,359
Effect of change on net income per common share	1.15	.32
Effect of LIFO on net income	14,150	3,359
Effect of LIFO on net income per common share	1.45	.32

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Note 7 — Income Taxes

Thousands of dollars	Years ended December 31, 1980	1979	1978
The components of income before income taxes consist of the following:			
Domestic	$39,360	$27,353	$ 7,424
Foreign	8,991	6,083	2,165
Total income before income taxes	$48,351	$33,436	$ 9,589
The components of income tax expense are as follows:			
Current:			
Federal	$16,830	$ 7,080	$ 1,192
State and Local	2,600	1,419	214
Foreign	4,479	3,400	2,724
	23,909	11,899	4,130
Refundable — Federal	—	—	(4,710)
Deferred:			
Federal	(774)	3,966	5,099
Foreign	352	78	61
	(422)	4,044	5,160
Total income tax expense	$23,487	$15,943	$ 4,580

The company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting, relating primarily to depreciation 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, 1980, such undistributed earnings amounted to approximately $16,014,000.

Refundable income taxes resulted from the carryback to prior years of a net operating loss for tax purposes in 1978, primarily resulting from timing differences between financial and tax accounting relating to depreciation and the tax effect of the provision for disposition and termination of operations.

Investment tax credits (accounted for by the flow-through method) aggregated $1,500,000, $1,483,000 and $3,060,000 for 1980, 1979 and 1978, respectively.

The source and deferred tax effect of timing differences is as follows:

Thousands of dollars	Years ended December 31, 1980	1979	1978
Depreciation	$ 3,112	$ 3,486	$ 3,428
Inventory valuation reserves	(4,210)	(1,302)	268
Provision for disposition and termination of operations	(1,530)	(1,157)	4,543
Foreign tax credits and similar items	—	—	792
Investment tax credits and other carryforwards	239	3,093	(3,594)
Gain on purchase of debentures	1,351	610	156
Revenue recognized on installment sale basis	1,702	—	—
Certain employee benefits	(1,029)	(456)	(156)
Other items (each less than 5% of the computed "expected" tax amount)	(57)	(230)	(277)
	$ (422)	$ 4,044	$ 5,160

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

	Years ended December 31, 1980	1979	1978
Statutory tax rate	46.0%	46.0%	48.0%
Effect of:			
State and local taxes	2.9	2.2	1.1
Investment tax credit	(3.1)	(3.9)	(29.7)
Foreign tax credit	(1.3)	(1.2)	—
Foreign operations subject to varying income tax rates	2.8	3.0	23.9
Other — net	1.3	1.6	4.5
Effective tax rate	48.6%	47.7%	47.8%

Note 8 — Net Income Per Common Share

Primary net income per common share was computed based on the average number of shares outstanding after adjustment for the effect of the two-for-one stock split and after adjusting net income for dividend requirements of the preferred stock.

Fully diluted net income per common share (no dilution in 1978) was computed based on the average number of shares outstanding for the year ended December 31, 1979 and 1980 after adjustment for the effect of the stock split and assumed the conversion of the 6.25% Convertible Subordinated Debentures (after adding to net income interest on the debentures net of income taxes), preferred stock and the exercise of dilutive stock options.

Note 9 — Disposition and Termination of Operations

In 1980 the company provided $4,867,000 ($2,628,000 after tax, or $.27 per common share) for costs related to the closing of certain plants and operating units. This provision reduced inventory and property, plant and equipment to their estimated net realizable values, while other related costs increased current liabilities. Approximately $1,500,000 of the provision is included in cost of products sold and $3,367,000 in costs and expenses, other. Costs incurred during 1980 totalled $3,182,000. An accrual of $7,798,000 for disposition of operations remains as of December 31, 1980.

In 1979 the company provided $3,703,000 ($1,766,000 after tax, or $.17 per common share) for costs related to the closing of certain plants and additional expenses for anticipated costs associated with previous provisions. This provision reduced inventory and property, plant and equipment to their net realizable values, while other related costs increased current liabilities. Approximately $2,540,000 of the provision is included in cost of products sold; $287,000 in selling, general and administrative expenses; and $876,000 in costs and expenses, other. Net costs incurred during 1979 totalled $1,770,000. An accrual of $6,113,000 for the disposition of operations remained as of December 31, 1979.

During 1978 a provision of $1,581,000 for the closing of approximately 100 company-owned stores was offset by a $2,839,000 adjustment to the 1977 provision for the disposition of portions of the Coatings, Chemicals and International segments. The net effect of this credit and the provision for store closings increased 1978 earnings by $1,258,000 ($513,000 after tax, or $.05 per common share), and is included in costs and expenses, other. Costs incurred during 1978 totalled $9,151,000. At December 31, 1978, the remaining estimated liability amounted to $4,180,000.

The company expects to complete the closing and sale of the facilities at various dates through 1982.

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Note 10 — Business Segments

Thousands of dollars	Years ended December 31. 1980 Net Sales	1980 Operating Income	1979 Net Sales	1979 Operating Income	1978 Net Sales	1978 Operating Income
Stores	$ 503,383	$ 7,656	$ 492,763	$ 4,704	$ 491,719	$(12,162)
Coatings	401,302	33,028	373,117	32,097	344,097	31,824
Chemicals	115,271	9,323	102,132	7,567	84,020	8,427
Packaging Products	101,252	10,646	95,007	9,524	87,107	13,716
Specialty Products	53,343	2,402	50,585	1,316	46,498	3,658
International	89,170	9,271	82,739	5,884	78,909	2,386
Segment totals	$1,263,721	72,326	$1,196,343	61,092	$1,132,350	47,849
Corporate expenses — net		(5,423)		(8,290)		(16,942)
Interest expense		(18,552)		(19,366)		(21,318)
Income before income taxes		$48,351		$33,436		$ 9,589

Thousands of dollars	Identifiable Assets Years ended December 31. 1980	1979	1978	Capital Expenditures Years ended December 31. 1980	1979	1978	Depreciation Years ended December 31. 1980	1979	1978
Stores	$141,028	$140,820	$151,923	$5,814	$1,388	$2,671	$5,260	$5,226	$4,775
Coatings	237,333	233,764	256,969	7,852	2,084	8,372	6,298	6,076	6,012
Chemicals	68,006	61,658	55,256	10,990	3,990	1,162	3,199	2,924	2,754
Packaging Products	78,406	77,951	72,403	3,656	2,097	2,696	2,501	2,521	2,317
Specialty Products	31,705	30,767	32,024	1,365	457	557	897	801	745
International	51,809	45,378	44,738	1,023	598	781	1,081	1,079	1,323
Segment totals	608,287	590,338	613,313	30,300	10,614	16,239	19,206	18,627	17,926
Corporate	160,305	121,396	40,486	1,589	1,253	1,035	773	831	512
Consolidated totals	$768,592	$711,734	$653,799	$31,889	$11,867	$17,274	$19,979	$19,458	$18,438

Descriptions of these segments appear on pages 4-5 of this report.

The Stores Division, formerly a part of the Coatings segment, has been reclassified as a separate operating segment and the information for years prior to 1980 reclassified to conform to this presentation.

The adoption of LIFO reduced 1980 operating income of the Stores, Coatings, and Specialty Products segments by approximately $6,577,000, $12,900,000 and $1,352,000 respectively. The 1980 LIFO effect on the Chemicals and Packaging Products segments reduced 1980 operating income by approximately $2,285,000 and $3,089,000 respectively.

The adoption of LIFO reduced 1979 operating income of the Chemicals and Packaging Products segments by approximately $2,881,000 and $3,340,000 respectively.

Operating income is total revenue less operating costs and expenses, excluding interest expense and corporate expenses. 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% of consolidated sales to unaffiliated customers during all years presented. Operations attributable to the minority interest in the consolidated Canadian subsidiary and the equity in net income or loss of affiliated companies are not significant.

Corporate expenses for 1979 and 1978 have been increased by $991,000 and $339,000, respectively, due to the change in accounting for vacation pay.

Paint, varnish, lacquer and allied material sales were 65%, 61% and 60% of total net sales during 1980, 1979 and 1978 respectively. Sales of products purchased for resale were 18%, 22% and 25% of total net sales during 1980, 1979 and 1978 respectively.

Intersegment transfers, which are accounted for at values comparable to normal, unaffiliated customer sales, are set forth in the following table:

Thousands of dollars	Years ended December 31. 1980	1979	1978
Coatings	$181,525	$154,302	$161,372
Packaging Products	43,379	38,566	35,413
Specialty Products	33,722	37,770	35,107
All other segments	1,438	1,198	819
Segment totals	$260,064	$231,836	$232,711

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Note 11 — Stock Purchase and Stock Option Plans

All common share amounts reflect the stock split described in Note 2.

Approximately 5,000 salaried employees currently are participating through regular payroll deductions in the company's Employee Stock Purchase and Savings Plan which became effective April 1, 1969. In this employee fund at December 31, 1980 there were 1,925,950 shares of common stock, representing approximately 20% of the total number of common shares outstanding. The company's contribution charged to operations during 1980 amounted to approximately $2,032,000. Shares of company stock credited to each member's account are voted by the trustee under confidential instructions from each individual plan member.

Stock options have been granted to certain officers and key employees under the company's stock option plan, at prices not less than fair market value of the shares at date of grant and become exercisable to the extent of one-fifth of the optioned shares for each full year of employment following the date of grant, expiring ten years after date of grant.

During 1979, the board of directors granted 146,000 stock options to certain officers at the fair market value on the date of grant with an aggregate price of $1,518,000. These options are part of related employment contracts and carry substantially the same terms as options granted under the company's stock option plan. During 1980, 24,000 of these options were exercised at an aggregate price of $247,250.

A stock appreciation rights plan was approved by the shareholders in 1979; however, no rights have been granted under the plan.

	1980		1979		1978	
	Shares	Aggregate Price	Shares	Aggregate Price	Shares	Aggregate Price
Options outstanding beginning of year	374,584	$5,507,000	432,068	$6,704,000	313,218	$5,739,000
Granted	479,000	6,847,000	30,000	326,000	148,000	1,526,000
Exercised	(39,200)	(565,000)	(800)	(8,000)	—	—
Canceled	(174,784)	(3,171,000)	(86,684)	(1,515,000)	(29,150)	(561,000)
Options outstanding end of year	639,600	$8,618,000	374,584	$5,507,000	432,068	$6,704,000
Exercisable	94,800		232,584		267,268	
Reserved for future grants	454,854		759,070		102,386	

Note 12 — Capital Stock

	Authorized Shares	Shares in Treasury, December 31,			Shares Outstanding Net of Treasury, December 31,		
		1980	1979	1978	1980	1979	1978
Serial Preferred Stock— without par value:	1,500,000						
$4.00 Cumulative Convertible Preferred Stock, Series A		281	—	—	68,370	70,498	70,498
$4.40 Cumulative Convertible Preferred Stock, Series B		2,200	2,200	—	170,755	176,549	178,749
Common Stock— $6.25 par value	15,000,000	1,105,002	1,105,010	45,010	9,827,026	9,737,826	10,797,026

All common share amounts reflect the stock split described in Note 2.

The shares of Series A and Series B preferred stock are convertible at base conversion prices of $28.965 and $31.250 per share of common stock, respectively, based on a value of $100 per share of preferred stock for this purpose. The holders of the preferred stock are entitled to one vote for each share.

The company may redeem the Series A preferred stock at $100 per share and the Series B preferred stock at $100.55 per share until December 1981 and at $100 per share thereafter. The aggregate preference of the preferred stock in involuntary liquidation was approximately $23,913,000, $24,705,000, and $24,925,000 at December 31, 1980, 1979 and 1978, respectively. The excess of the aggregate price in involuntary liquidation over the aggregate stated value does not create any restrictions on the distribution of retained earnings.

In October, 1979 the company purchased the 1,460,000 shares (13.5%) of its common stock held by Gulf & Western Industries, Inc. at a cost of $20,987,500. In December 1979 the Sherwin-Williams Pension Plans purchased 400,000 shares of common stock from the company for $5,675,000 at the closing market price on the date of sale.

An aggregate of 3,164,562, 3,724,954 and 3,088,968 shares of common stock, at December 31, 1980, 1979 and 1978, respectively, were reserved for conversion of preferred stock, convertible subordinated debentures and exercise of stock options.

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Note 13 — Long-Term Debt

Thousands of dollars	Due Date	Sinking Fund/ Prepayments: Amount	Sinking Fund/ Prepayments: Commence	Amount in Treasury December 31: 1980	1979	1978	Amount Outstanding Net of Treasury December 31: 1980	1979	1978
5.45% Debentures	1992	$2,000	Payable currently	$ 6,896	$ 3,564	$ 4,811	$ 27,104	$ 32,336	$ 33,189
6.25% Convertible Subordinated Debentures (Convertible into common stock at $23 a share)	1995	2,000	1981	13,190	2,350	—	26,810	37,650	40,000
9.45% Debentures	1999	2,000	Payable currently	6,831	6,271	—	41,169	43,729	50,000
9.375% Promissory Notes	1996	3,325	1982	—	—	—	50,000	50,000	50,000
10% Promissory Notes	1998	2,997	1984	—	—	—	45,000	45,000	45,000
5.25% to 6.30% Industrial Revenue Bonds	Through 1992	Varies	Payable currently	—	—	—	6,300	6,365	6,430
Obligations under capital leases — less current portion of $3,044 in 1980, $2,975 in 1979, and $2,410 in 1978.							16,551	19,205	17,743
				$26,917	$12,285	$ 4,811	$212,934	$234,285	$242,362

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 presently outstanding shares of preferred stock under the terms of the note agreements. At December 31, 1980, approximately $23,256,000 was available for cash dividends on common stock.

The company has sufficient debentures in treasury to satisfy most sinking fund requirements through 1983. The gain on purchase of debentures amounted to $3,487,000, $1,656,000 and $549,000 in 1980, 1979 and 1978, respectively. 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: 1981 — $65,000, 1982 — $3,390,000, 1983 — $3,390,000, 1984 — $8,660,000, 1985 — $10,387,000.

Interest expense on long-term debt amounted to $17,380,000, $18,060,000 and $14,449,000 for 1980, 1979 and 1978, respectively. There were no interest charges capitalized during the periods presented.

Under a credit agreement with a group of ten banks, the company may borrow up to $50,000,000 until December 1, 1983. Amounts outstanding under the agreement may be converted into four-year term loans at any time. The credit agreement includes certain restrictive covenants regarding working capital levels and the working capital ratio, with a commitment fee of ½% per annum on the unused portion until December 1983. The company may maintain compensating balances or pay a service fee in lieu of the compensating balance. Compensating balances are not restricted as to withdrawal. Throughout the year, neither the compensating balances maintained or the service fees paid were material to the company. At December 31, 1980 there were no borrowings outstanding under these line of credit arrangements.

Sherwin-Williams Canada Inc. had certain lines of credit available to it from the Bank of Montreal during the year in the amount of $13,000,000. At December 31, 1980, there was $8,134,000 borrowed under these lines of credit.

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Note 14 — 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, 1980	1979	1978
Buildings	$18,100	$19,085	$20,424
Machinery and equipment	12,931	12,612	8,010
	31,031	31,697	28,434
Less allowance for amortization	13,834	11,324	9,189
	$17,197	$20,373	$19,245

Rental expense for all operating leases was $34,529,000, $30,726,000 and $32,939,000 for 1980, 1979, and 1978, respectively. Contingent rentals and sublease income for all leases were not significant.

Following is a schedule, by year and in the aggregate, of future minimum lease payments under capital leases and noncancelable operating leases having initial or remaining terms in excess of one year at December 31, 1980:

Thousands of dollars	Capital Leases	Operating Leases
1981	$ 5,375	$23,958
1982	5,091	18,631
1983	4,631	12,915
1984	4,197	8,468
1985	3,550	4,933
Later years	7,476	7,877
Total minimum lease payments	30,320	$76,782
Amount representing interest	(8,067)	
Executory costs	(2,658)	
Present value of net minimum lease payments	$19,595	

Note 15 — Inflation Accounting (Unaudited)

In accordance with generally accepted accounting principles, financial statements have traditionally reported amounts reflecting historical costs, the prices that were in effect when the transactions occurred. These historical costs, especially during periods of high inflation, represent dollars of varying purchasing power and may not adequately reflect the effect of inflation on a business. Presented here, consistent with the requirements of Financial Accounting Standards Board (FASB) Statement No.33, are two estimates, using differing assumptions, of the effect of changing prices on our primary financial statements. These estimates include adjustment for the changing prices of inventory, property, plant and equipment, and for the related expenses of cost of goods sold and depreciation.

The major impact of inflation on inventory is currently recognized in the primary financial statements through the use of the LIFO method of inventory valuation. Accordingly, only minor adjustments are required in the supplemental statements. However, historical depreciation expense based on the historical cost of assets understates the cost of replacing capital equipment at current prices. This higher cost is not presently reflected in the primary financial statements and accounts for the majority of the supplemental statement adjustment. Because these additional costs are not currently deductible for income tax purposes, no adjustment of income tax expense has been made.

These calculations involve a substantial number of management judgments and estimating techniques which have been employed to maintain a reasonable cost of accumulating the data. The data should not be considered precise measurements, but should be used only as a general indication of the effect of changing prices on the company. In addition, because of varying assumptions and estimates used by each company, we believe comparisons with other companies and industries should be used with caution:

Constant Dollar Data

The constant dollar data represents the historical amounts of certain revenues and expenses stated in dollars of the same purchasing power. Under this measurement method, historical amounts of inventory, property, plant and equipment and the related cost of goods sold and depreciation expense were adjusted to reflect the increase in the Consumer Price Index (CPI-U) since the acquisition date of the assets. The CPI-U is a general index, however, and is not necessarily representative of changes in costs for a manufacturing company.

Current Cost

The current cost data represents the current cost of the assets of the company, reflecting specific price changes of the assets. The current cost of the majority of the company's plant and equipment was determined based upon externally generated indices of the major classes of assets. Current costs of property and the remaining plant and equipment were estimated using the CPI-U. Depreciation expense is based on the current cost of plant and equipment during the year and assumes the same depreciation methods as those employed in the primary financial statements.

The current cost of products sold approximates that used in the primary financial statements under the LIFO inventory method. Adjustments were made for those inventories not on LIFO. The current cost of inventory approximates a FIFO value of inventory.

Purchasing Power Gain

A separate disclosure, gain from decline in purchasing power of net amounts owed, is also presented. During periods of inflation, liabilities payable in a fixed dollar amount (monetary liabilities) will be repaid in dollars having less purchasing power than when borrowed or incurred. This gain in purchasing power has been calculated based on the company's net monetary liabilities during the year, adjusted for the change in the CPI-U for the year. Although this amount does not represent actual funds available for distribution to stockholders, it can be considered to represent the benefit the company received in terms of purchasing power by maintaining the net liability position.

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SUPPLEMENTAL STATEMENT OF CONSOLIDATED OPERATIONS*

For the year ended December 31, in average 1980 dollars *Thousands of dollars, except per share data*	Conventional Historical Cost	Constant Dollar Data	Current Cost Data	
	1980	1980	1980	1979
Net Sales	$1,263,721	$1,263,721	$1,263,721	$1,358,129
Costs and expenses:				
Cost of products sold	868,388	879,868	881,356	976,745
Selling, general and administrative expenses	343,931	349,371	350,491	372,419
Interest expense	18,552	18,552	18,552	21,984
Interest income	(16,845)	(16,845)	(16,845)	(9,230)
Other	1,344	1,344	1,344	(814)
	1,215,370	1,232,290	1,234,898	1,361,104
Income (loss) before income taxes	48,351	31,431	28,823	(2,975)
Income taxes	23,487	23,487	23,487	18,098
Net income (loss)	$ 24,864	$ 7,944	$ 5,336	$ (21,073)
Net income (loss) per common share	$ 2.44	$ .71	$ .44	$ (2.11)
Gain from decline in purchasing power of net amounts owed		$ 19,603	$ 19,603	$ 24,323
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year			$ 74,197	$ 78,110
Effect of increase in general price level			71,637	81,375
Increase in specific prices over (under) increase in the general price level			$ 2,560	$ (3,265)

Depreciation and amortization expense has been allocated between cost of products sold and selling, general and administrative expenses, consistent with the presentation in the primary financial statements.

Cost of products sold has been adjusted for changes in inventory costs in addition to depreciation and amortization expense. Selling, general and administrative expenses have been adjusted only for depreciation expense.

The current cost of net inventory and net property, plant and equipment at December 31, 1980 was approximately $283,757,000 and $359,106,000 respectively. The current cost of net inventory and net property, plant and equipment at December 31, 1979, was $252,773,000 and $334,454,000 respectively.

SUPPLEMENTAL FINANCIAL DATA*

Average 1980 dollars
Thousands of dollars, except per share data

	Per Share of Common Stock						
	Sales		Dividends Declared		Market Price at Year-End		Average Consumer
Year Ending December 31,	Historical Cost	Constant Dollar	Historical Cost	Constant Dollar	Historical Cost	Constant Dollar	Price Index
1980	$1,263,721	$1,263,721	$ .60	$ .60	$17.75	$16.96	246.8
1979	1,196,343	1,358,129	.075	.09	13.31	14.30	217.4
1978	1,132,350	1,430,214	-0-	-0-	10.00	12.17	195.4
1977	1,035,989	1,408,715	.83	1.12	13.81	18.32	181.5
1976	969,205	1,402,931	1.37	1.99	20.50	29.02	170.5

	Conventional Historical Cost		Historical Cost/Constant Dollar		Current Cost	
	1980	1979	1980	1979	1980	1979
Net Income (loss)	$ 24,864	$ 17,493	$ 7,944	($ 17,949)	$ 5,336	($ 21,073)
Income (loss) per common share	2.44	1.55	.71	(1.81)	.44	(2.11)
Total net assets	286,876	268,107	456,477	434,981	459,463	438,844
Shareholders' equity per common share	26.76	25.00	44.02	42.13	44.32	42.53
Total depreciation and amortization expense	19,979	19,458	33,001	33,202	35,681	37,625
Effective tax rate	48.6%	47.7%	74.7%	+100.0%	81.5%	+100.0%

*All per share data reflects the effect of the stock split described in Note 2.

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Note 16 — Quarterly Data (Unaudited)

QUARTERLY STOCK PRICES AND DIVIDENDS*

		Stock Price Data				Dividends		
		Common		Series B Preferred			Preferred	
Year	Quarter	High	Low	High	Low	Common	Series A	Series B
1980	1st	$18¾	$11⅛	$57	$41	$.15	$1.00	$1.10
	2nd	15	12⅝	53½	44¾	.15	1.00	1.10
	3rd	20¼	14⅜	65	52	.15	1.00	1.10
	4th	20⅛	17	65	58	.15	1.00	1.10
1979	1st	13⅛	9⅝	51	44	.075	1.00	1.10
	2nd	11½	10¼	49	44⅛	—	1.00	1.10
	3rd	14¼	10⅛	53½	46⅛	—	1.00	1.10
	4th	14½	11¼	52½	46	—	1.00	1.10

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS*

Thousands of dollars, except per share data					Per Common Share	
Year	Quarter	Net Sales	Gross Profit	Net Income	Primary	Fully Diluted
1980	1st	$284,693	$ 81,671	$ 778	$ .06	$ .05
	2nd	333,905	106,984	9,884	.98	.83
	3rd	348,751	106,769	10,621	1.06	.88
	4th	296,372	99,909	3,581	.34	.31
1979	1st	257,144	77,342	(121)	(.04)	(.04)
	2nd	333,833	102,978	8,846	.80	.69
	3rd	324,654	96,260	6,050	.54	.48
	4th	280,712	90,580	2,718	.25	.24

*All per share data and stock prices reflect the stock split described in Note 2.

1980

First, second and fourth quarter net income include after-tax gains of $610,000 ($.06 per common share), $716,000 ($.07 per common share) and $472,000 ($.05 per common share), respectively on the repurchase of debentures to satisfy future sinking fund requirements.

During the third quarter, net income for each of the first two quarters was restated by approximately $1,830,000 ($.19 per common share) due to the adoption of LIFO.

The actuarial valuation determining pension plan contributions for the 1980 plan year was received during the third quarter. This valuation resulted in a reduction of the estimate of pension expense used by the company in the first two quarters. The effect of this adjustment was recorded in the third quarter and increased third quarter net income $694,000 ($.07 per common share) as a result.

During the fourth quarter, net income for each of the first three quarters was restated by an additional $802,000 ($.08 per common share) due to the further adoption of LIFO ($500,000) and the change in accounting for vacation pay ($302,000).

Fourth quarter adjustments increased after-tax profits by approximately $4,275,000 ($.44 per common share). The adjustments include a $7,841,000 after-tax increase in profits ($.80 per common share) related to higher than estimated gross margins, offset by provisions for reorganization and disposition expenses of certain operations, inventory adjustments and other related liabilities.

1979

First quarter income includes a gain of $604,000 after tax ($.06 per common share) on the repurchase of debentures to satisfy future sinking fund requirements.

Second quarter income was reduced by a provision of $1,572,000 after tax ($.15 per common share) for estimated costs related to inventory obsolescence.

Third quarter income was reduced by a provision of $1,590,000 after tax ($.15 per common share) for costs associated with closing certain manufacturing operations.

Fourth quarter adjustments increased after-tax profits by approximately $4,050,000 ($.38 per common share). These adjustments included a $6,994,000 after-tax increase in profits ($.66 per common share) related to higher than estimated gross margins, offset by changes in estimates related primarily to inventory obsolescence and certain liabilities.

Net income for each of the four quarters was restated by approximately $134,000 ($.02 per common share) due to the 1980 change in accounting for vacation pay.

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Note 17 — Financial Schedules

Marketable Securities (10-K, Schedule I)

The marketable securities at December 31, 1980, consist of:

Thousands of dollars	
Certificates of deposit	$ 63,500
Eurodollar deposits	32,500
Repurchase agreements	18,500
Other securities	34,171
Total	$ 148,671

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

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

	Years ended December 31,		
Thousands of dollars	1980	1979	1978
Balance — beginning of year	$369,643	$362,231	$348,151
Total additions at cost	31,889	11,867	17,274
Total retirements at cost	(7,187)	(7,821)	(16,967)
Other changes	(586)	3,366	13,773
Balance — end of year	$393,759	$369,643	$362,231

The above changes in property, plant and equipment each constitute less than 10 percent of the ending balance of the period.

Other changes during 1979 related primarily to capitalized leases. Included in other changes during 1978 is $4,371,000 related to the reclassification to property, plant and equipment of certain items formerly included in inventories and $10,649,000 related to capitalized leases, offset by a $1,239,000 reduction in funds held by the Trustee under Industrial Revenue Bond agreements.

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

	Years ended December 31,		
Thousands of dollars	1980	1979	1978
Balance — beginning of year	$165,792	$152,651	$147,039
Total charged to expense	19,979	19,458	18,438
Retirements	(5,286)	(5,768)	(10,086)
Other changes	2,520	(549)	(2,740)
Balance — end of year	$183,005	$165,792	$152,651

Other changes for all years presented relate primarily to capitalized leases and reserves for the disposition and termination of operations.

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

Changes in the allowance for doubtful accounts are as follows:

	Years ended December 31,		
Thousands of dollars	1980	1979	1978
Beginning balance	$ 2,059	$ 2,008	$ 2,041
Bad debt expense	2,934	4,179	3,860
Net uncollectible accounts written off	(2,968)	(4,128)	(3,893)
Ending balance	$ 2,025	$ 2,059	$ 2,008

Activity related to other long-term liabilities:

	Years ended December 31,		
Thousands of dollars	1980	1979	1978
Beginning balance	$ 5,326	$ 3,607	$ 3,851
Addition to reserve	869	2,496	639
Deductions from reserve	(1,200)	(777)	(883)
Ending balance	$ 4,995	$ 5,326	$ 3,607

Reserves for pensions and other items are adjusted to the estimated year-end liability. Deductions from the reserve consist primarily of pension and deferred compensation payments.

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

	Years ended December 31,		
Thousands of dollars	1980	1979	1978
Notes payable to banks at December 31	$ 8,235	$ 4,649	$10,720
Weighted average interest rate at December 31	18.3%	15.0%	11.1%
Maximum amount outstanding at any month-end	$ 9,370	$11,647	$96,570
Average amount outstanding during the period	$ 7,653	$ 8,161	$74,077
Weighted average interest rate during the period	15.3%	16.0%	8.9%

The notes outstanding at December 31, 1980, pertain solely to the foreign subsidiaries and mature at various dates in 1981.

The average amount outstanding is equal to the total of month-end outstanding balances divided by the number of months in the period.

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

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

Thousands of dollars	Years ended December 31, 1980	1979	1978
Maintenance and Repairs	$28,468	$26,907	$22,749
Advertising Costs	29,454	21,252	25,874

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 less than 1% of total net sales.

Exhibit Index

Number		Page
3.	Articles of incorporation and by-laws, as amended, filed as Exhibit 1 to Form 8-K dated January 3, 1969 and incorporated herein by reference.	
4.	Not Applicable.	
10.	Not Applicable.	
11.	Computation of Net Income Per Common Share.	26
12.	Not Applicable.	
13.	Not Applicable.	
19.	Letter of Ernst & Whinney concurring in the adoption of the LIFO method of determining inventory cost.	28
20.	Not Applicable.	
22.	Subsidiaries of the registrant.	27

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

*Thousands of dollars, except per share data**	December 31, 1980	1979	1978
Primary			
Average shares outstanding	9,767,608	10,581,750	10,796,890
Net income	$24,864	$17,493	$ 5,009
Less preferred dividend requirements	1,053	1,067	1,069
Net income applicable to common	$23,811	$16,426	$ 3,940
Net income per common share	$2.44	$1.55	$ .36
Fully Diluted			
Average shares outstanding	9,767,608	10,581,750	10,796,890
Options — treasury stock method	198,730	65,010	(A)
Assumed conversion of:			
Series A preferred stock	239,130	243,388	(A)
Series B preferred stock	546,416	570,820	(A)
6.25% Convertible Subordinated Debentures	1,567,344	1,645,834	(A)
Average fully diluted shares	12,319,228	13,106,802	10,796,890
Net Income	$24,864	$17,493	$5,009
Less preferred dividend requirements	(B)	(B)	1,069
Add 6.25% Convertible Subordinated Debentures interest net of tax	1,247	1,295	(A)
Net income applicable to fully diluted shares	$26,111	$18,788	$3,940
Net income per common share	$2.12	$1.43	$ .36

(A) Inclusion would have been antidilutive

(B) Assumed conversion of preferred into common stock

* Common share amounts and per share data reflect the stock split described in Note 2

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Subsidiaries

Brazil — Sherwin-Williams do Brasil Industria e Comercio Ltda., São Paulo*
Canada — Sherwin-Williams Canada Inc., Montreal
— Rubberset Company (Canada) Limited, Gravenhurst, Ontario
Mexico — Compañiá Sherwin-Williams, S.A. de C.V., Mexico City
West Indies — Sherwin-Williams (West Indies) Ltd., Kingston, Jamaica
— Sherwin-Williams (Caribbean) N.V., Curaçao
USA — Contract Transportation Systems Co.
Unconsolidated

Joint Ventures

Ireland — FSW Coatings Limited, Dublin
Japan — Nippon Sherwin-Williams Chemicals Co., Ltd., Osaka
Panama — Sherwin-Williams de Panamá, S.A., Panama City

Licensees

Argentina — Sherwin-Williams Argentina Industrial y Comercial, S.A.
Australia — Taubmans Proprietary Limited
Bolivia — Fábrica Nacional de Pinturas "Espimbol," S.A.
Chile — Pinturas Andina, S.A.
Colombia — Fábrica Nacional de Pinturas Sherwin-Williams de Colombia, S.A.
Costa Rica — Sherwin-Williams de Costa Rica, S.A.
Denmark-Norway — Sadolin & Holmblad A/S
Dominican Republic — Acabados Automotricos, S.A.
Ecuador — Sherwin-Williams del Ecuador Fábriça Nacional de Pinturas, S.A.
El Salvador — Sherwin-Williams de Centro América, S.A. de C.V.
Finland — O. Y. Sadolin, A.B.
France — Astral, S.A.
— Corsain, S.A.
Haiti — Peintures Idéales, S.A.
Hong Kong — China Paint Mfg. Co. (1946) Ltd.
Italy — Vercolac, SPA
Japan — Nippon Paint Company, Ltd.
Netherlands — Sikkens Groep, N.V.
New Zealand — Taubmans International (N.Z.), Ltd.
Peru — Sherwin-Williams Peruana, S.A.
Philippines — Sherwin-Williams, Philippines, Inc.
South Africa — Advance Coatings PTY, Ltd.
Spain — Industrias Quimicas Procolor, S.A.
Switzerland — Kurt Vogelsang, A.G.
Thailand — Bangkok China Paint Mfg. Co. Ltd.
United Kingdom — Donald Macpherson Group, Ltd.
Venezuela — C.A. Quimica Integrada
— C.A. Venezolana de Pigmentos
— C.A. Venezolana de Pinturas
West Germany — Deutsche Akzo Coatings

Plants

Coatings

Chicago, IL
Cleveland, OH
Garland, TX
Morrow, GA
Baltimore, MD
Newark, NJ
Oakland, CA
Richmond, KY
Greensboro, NC
Los Angeles, CA

Chemicals

Cincinnati, OH
Chicago, IL
Forda, NJ
Coffeyville, KS
Hillsboro, IL

Packaging Products

Chicago, IL
Elgin, IL
Hubbard, OH
North Olmsted, OH
San Leandro, CA

Specialty Products

Anaheim, CA
Bedford Heights, OH
Crinfield, MD
Deshler, OH
Gravenhurst, Canada
Fulton, KY

International

Kingston, Jamaica
Mexico City, Mexico
São Paulo, Brazil
Montreal, Canada
Virginia, Ireland
Panama City, Panama

Printed in the Graphic Arts Unit of The Sherwin-Williams Company

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Individual financial statements of the registrant have been omitted as the registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements filed, in the aggregate, do not have minority equity interests and/or indebtedness to any person other than the registrant or its consolidated subsidiaries in amounts which together (excepting indebtedness incurred in the ordinary course of business which is not overdue and matures within one year from the date of its creation, whether or not evidenced by securities, and indebtedness of subsidiaries which is collateralized by the registrant by guarantee pledge, assignment, or otherwise) exceed 5% of the total assets as shown by the most recent consolidated balance sheet.

Financial statements (and summarized financial information) of unconsolidated subsidiaries or 50% or less owned persons accounted for by the equity method have been omitted because they do not, considered individually or in the aggregate, constitute a significant subsidiary.

Exhibit 19, Form 10-K

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

We have read the description of the change to the LIFO method of determining inventory cost as described in Note 6 to the consolidated financial statements in The Sherwin-Williams Company's 1980 Annual Report on Form 10-K for the year ended December 31, 1980. In our opinion, the aforementioned accounting change, with which we concur, is in conformity with generally accepted accounting principles. Further, on the basis of information you have provided to us, we believe that in your particular circumstances, the aforementioned change is to a preferable accounting principle.

Ernst & Whinney

Cleveland, Ohio
February 18, 1981

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 18th day of February, 1981

THE SHERWIN-WILLIAMS COMPANY

by A. D. CHILDS
A. D. Childs, 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 February 18, 1981.

Officers and Directors of The Sherwin-Williams Company:

J. G. BREEN J. G. Breen	*Chairman of the Board* *President and Chief Executive Officer,* *Director*
T. A. COMMES T. A. Commes	*Senior Vice President – Finance* *Principal Financial Officer,* *Director*
J. E. WALLACE J. E. Wallace	*Vice President,* *Corporate Controller and* *Principal Accounting Officer*
J. A. ATTWOOD J. A. Attwood	*Director*
K. S. BENSON K. S. Benson	*Director*
D. W. CALLOWAY D. W. Calloway	*Director*
W. J. DE LANCEY W. J. De Lancey	*Director*
R. C. DOBAN R. C. Doban	*Director*
J. R. KILLPACK J. R. Killpack	*Director*
W. G. MITCHELL W. G. Mitchell	*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 A. D. CHILDS
A. D. Childs, Attorney-in-fact

February 18, 1981

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0007-SWP-000116742

Securities and Exchange Commission
Washington, D. C 20549

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, 1980

Commission File Number 1-4851

THE SHERWIN-WILLIAMS COMPANY
AN OHIO CORPORATION
IRS EMPLOYER IDENTIFICATION NO. 34-0526850

101 Prospect Avenue, N.W.,
Cleveland, Ohio 44115
Telephone (216) 566-2480

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
$4.40 Cumulative Convertible Preferred Stock, Series B	New York Stock Exchange
Common Stock, Par Value $6.25	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 4,939,334 shares of Common Stock, par value $6.25, outstanding at January 30, 1981. These shares were held by 8,693 holders of record on this date.

The aggregate market value of the voting stock at January 30, 1981, is $209,408,099, excluding the voting stock held by the executive officers.

Items Number 4, 9 and 10 are incorporated by reference from the definitive Proxy Statement dated March 12, 1981, filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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	b. Reports on Form 8-K None filed during fourth quarter of 1980	
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All other schedules (Nos. II, III, IV, VII, XI, XII, XIII) 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.

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