HE SHERWIN-WILLIAMS CO.
101 PROSPECT AVENUE, N.W.
CLEVELAND, OHIO
1966

FIRST CLASS MAIL

S-W 000401

1966

REPORT TO SHAREHOLDERS

THE SHERWIN-WILLIAMS COMPANY

CONTENTS

Annual Meeting – December 13, 1966

The Annual Meeting of Shareholders will be held at 11 A.M. December 13, 1966, at the Sheraton-Cleveland Hotel, Public Square, Cleveland, Ohio. Shareholders unable to attend the meeting are urged to exercise their right to vote by proxy. Proxy cards, proxy statements, and return envelopes will be sent to all holders of Sherwin-Williams' common stock on or about November 9, 1966.

TRANSFER AGENTS — THE CLEVELAND TRUST COMPANY, Cleveland, Ohio; BANKERS TRUST COMPANY, New York, N.Y.

REGISTRARS — CENTRAL NATIONAL BANK OF CLEVELAND, Cleveland, Ohio; MORGAN GUARANTY TRUST COMPANY OF NEW YORK, New York, N.Y.

FINANCIAL HIGHLIGHTS
August 31, 1966 and 1965

	1966	1965
Net sales	$386,062,160	$344,783,077
Income before income taxes	38,757,790	36,759,449
Income taxes—United States and foreign	17,854,085	17,494,519
Net income	20,903,705	19,264,930
Cash dividends declared:		
Preferred	—0—	379,129
Common	9,860,431	8,754,195
Per Common Share:		
Net income	3.96	3.66
Dividends paid	1.90	1.70*
Working capital	123,374,147	124,105,729
Ratio of current assets to current liabilities	4.57 to 1	4.81 to 1
Capital expenditures	11,506,661	6,527,549
Provisions for depreciation	4,916,575	4,322,747

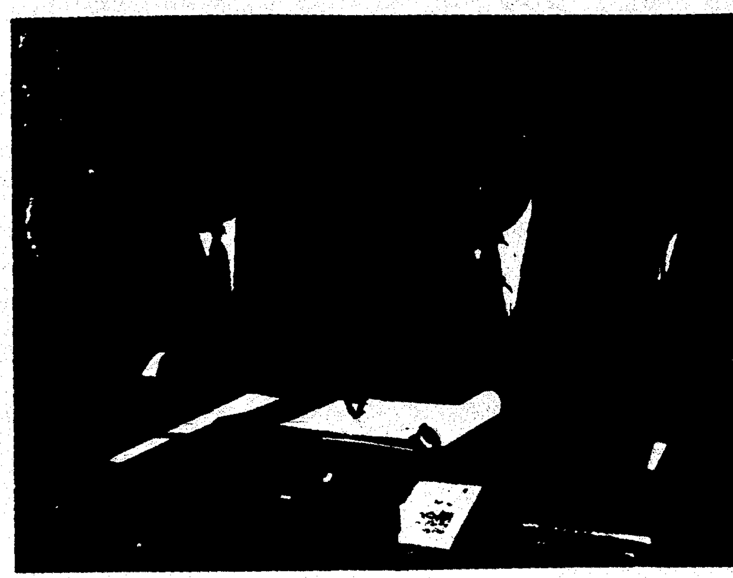
*Adjusted for 2 for 1 stock split effective December 9, 1964

TO OUR SHAREHOLDERS

We present herewith the Consolidated Balance Sheet and the Consolidated Income and Earned Surplus Statements of The Sherwin-Williams Company and consolidated subsidiaries for the fiscal year ended August 31, 1966, together with other financial statistics of interest.

The consolidated earnings applicable to Common shares amounted to $20,903,705 as compared with $18,885,801 for 1965. The earnings for 1966 are equivalent to $3.96 per share on the 5,281,589 shares of Common Stock outstanding at August 31, as compared with $3.66 last year. This is an increase of 8.20%.

Consolidated net sales amounted to $386,062,160. Both net income and the level of sales were the highest in the Company's history, as were last year's.



E. Colin Baldwin
President

Arthur W. Steudel
Chairman of the Board

S-W 000405

All major divisions contributed to the gain in sales. In the large Trade Sales area, gains were attributable to the increase in the number of sales service outlets, added manpower and the success of our promotional programs. Sales in the Chemical Coatings, Transportation and Pigments, Colors & Chemicals ends of the business continued to rise. Technical improvements in formulation and production have enabled us to meet the increasingly specialized demands of customers in these fields.

During the year a separate sales division for metal containers was set up to insure more concentrated attention to this large and growing market.

All divisions of the business continue to be supported with expanded effort and large outlays for Research and Development. Expenditures in this area rose 10.6% over last year.

During the year the Company acquired the assets of the Maumee Chemical Company—Toledo, Ohio. Maumee is engaged in the development, production and distribution of organic chemicals and intermediates. Many of these are the outgrowth of their research and development, leading to products with existing broad markets, manufactured with original technology. In addition, they are engaged in custom manufacturing of a wide range of products for chemical and drug producers, detergent manufacturers and agricultural chemical producers.

Although the product lines do not overlap, Maumee and Sherwin-Williams technology is quite closely related. Maumee's experience in developing and marketing new chemicals and in engineering new processes will strengthen further our growing position in the chemical industry.

On August 4, 1966 the Company entered into an Agreement of Merger with Sprayon Products, Inc. of Bedford Heights, Ohio. This transaction is described in detail in the Proxy Statement recently sent you. In a Special Meeting of Shareholders held on September 27, the Agreement of Merger was approved by shareholders by an affirmative vote of 89.5% of the shares entitled to vote and 99.5% of those voting.

Sprayon Products is a well-known supplier of high-quality aerosol products—paints, lubricants, chemicals and other liquids packaged in spray cans under pressure. This company fits nicely into our program of expanding our base and serving all types of customers who are interested in finishes.

Sprayon's main plant is in Bedford Heights, Ohio. Another plant in Anaheim, California began operations about five months ago to serve the West Coast market.

Despite record production in all of our manufacturing facilities, demand outran our ability to supply, even with operations at forced draft. As a result of this increasing demand for our goods in all the markets we serve, our manufacturing facilities must be expanded appreciably. This is essential if we are to realize our maximum sales opportunities and obtain the lowest possible costs in manufacturing.

If current schedules for engineering, constructing and equipping are met, our capital expenditures in the coming year will be slightly in excess of $30,000,000. These will center around a large additional metal container plant at Elgin, Illinois; a Pigment & Chemical complex at Ashtabula, Ohio; expansion of colors and chemicals facilities at Chicago, Illinois; a new paint plant at Atlanta, Georgia; a furniture finishes plant at Friendship, North Carolina; a program of expansion and modernization in existing paint plants at Cleveland, Detroit, Newark, Oakland, Garland and Dayton; an addition to the Chicago Research Center; and the initial costs of a new Chicago Technical Service Laboratory.

In anticipation of this large program of expansion and modernization and by reason of having retired all of our Preferred Stock for cash ($8,000,000), we have negotiated a Revolving and Term Loan Agreement to supplement funds which can be generated internally. This loan agreement with ten major banks can provide us with a total of $35,000,000 for capital needs and gives us latitude for an additional $15,000,000 for seasonal borrowings.

When viewed in the light of our traditional capital expenditures, the program referred to above appears, and is, very large. However, each individual project has been carefully evaluated in the light of its measured return on investment. Moreover, the immediate, short and long-range interests of the business make the program imperative if we are to maintain our position of leadership in our industry.

The fiscal year beginning September 1, 1966 is off to a good start. Sales continue to rise at a satisfactory rate. The outlook for our industry and our Company in the year ahead remains encouraging.

On behalf of the Directors we take pleasure in expressing grateful appreciation to our 17,500 employees for their dedicated efforts in the interests of the Company and its continued progress in this, our 100th year.

Chairman of the Board

E. C. Baldwin

President

Cleveland, Ohio
October 20, 1966

[illegible]

STATEMENTS [illegible] INCOME AND EARNED SURPLUS

[illegible]

Income	*1966*	*1965*
Net sales	$386,062,160	$344,783,077
Dividends received	405,478	262,613
Interest income	236,146	200,024
Miscellaneous	1,077,141	681,430
	$387,780,925	$345,927,144
Deductions from income:		
Cost of products sold	$234,188,706	$205,618,940
Selling, general, and administrative expenses	110,848,140	100,398,730
Pensions	3,055,473	2,421,264
Interest expense	474,498	81,259
Miscellaneous	456,318	647,502
	$349,023,135	$309,167,695
INCOME BEFORE INCOME TAXES	$ 38,757,790	$ 36,759,449
Income taxes:		
United States:		
Payable currently	$ 15,950,000	$ 15,725,000
Deferred	977,000	930,000
Foreign	927,085	839,519
	$ 17,854,085	$ 17,494,519
NET INCOME	$ 20,903,705	$ 19,264,930
Provisions for depreciation included in cost and expenses amounted to $4,916,575 in 1966 and $4,322,747 in 1965		
Earned Surplus		
Balance at beginning of year	$144,078,344	$133,946,738
Earned surplus of merged businesses at September 1, 1965, less dividends paid to date of merger—Note A	2,345,082	—0—
Net income for the year	20,903,705	19,264,930
	$167,327,131	$153,211,668
Deductions:		
Cash dividends declared:		
Preferred	$ —0—	$ 379,129
Common—$1.90 a share in 1966 and $1.70 a share in 1965	9,860,431	8,754,195
Excess of cost over par value of preferred shares redeemed	452,826	—0—
Net transfer to capital stock accounts in connection with mergers	5,016,930	—0—
	$ 15,330,187	$ 9,133,324
Balance at end of year	$151,996,944	$144,078,344

See notes to financial statements on page 8.

	1966	1965
Current Assets		
Cash	$ 12,998,576	$ 17,681,712
U. S. Treasury bills	—0—	9,860,367
Trade accounts receivable, less allowances of $665,000 in 1966 and $615,000 in 1965	43,621,172	38,441,444
Inventories—at lower of cost (average or first-in, first-out method) or market:		
Finished merchandise	$ 71,420,354	$ 62,644,403
Work in process, raw materials, and supplies	29,922,041	28,053,683
	$101,342,395	$ 90,698,086
TOTAL CURRENT ASSETS	$157,962,143	$156,681,609
Investment and Other Assets		
Common shares of The Sherwin-Williams Company of Canada, Limited—at cost—Note B	$ 4,182,766	$ 4,182,766
Receivables, advances, and miscellaneous other assets	1,885,497	1,368,935
	$ 6,068,263	$ 5,551,701
Property, Plant, and Equipment — on the basis of cost		
Land	$ 3,070,236	$ 2,836,024
Buildings	35,282,740	33,506,152
Machinery and equipment	84,007,458	73,307,756
Less allowances for depreciation	57,131,829	52,182,728
	$ 65,228,605	$ 57,467,204
Deferred Charges		
Advertising stock and supplies	$ 2,092,522	$ 1,919,348
Prepaid insurance and other items	1,939,704	1,781,864
	$ 4,032,226	$ 3,701,212
	$233,291,237	$223,401,726

	1966	1965
Current Liabilities		
Trade accounts payable	$ [illegible],327	$ 6,977,323
Payrolls, compensation, and other accruals	13,678,341	12,859,389
Dividend payable on Preferred Stock	—0—	94,741
Deposits—employees and officers	661,561	746,959
Taxes, other than income taxes	2,005,133	1,855,078
Income taxes	9,233,634	10,042,390
TOTAL CURRENT LIABILITIES	$ 34,587,996	$ 32,575,880
Reserves		
For deferred United States income taxes	$ 4,578,100	$ 3,601,100
For pensions and other items	1,623,466	1,396,728
	$ 6,201,566	$ 4,997,828
Capital Stock and Surplus		
Capital stock—Notes C and D:		
Serial Preferred—authorized 500,000 shares, without par value:		
$4.00 Cumulative Convertible Preferred, Series A:		
Outstanding—74,948 shares	$ 7,494,800	$ —0—
Cumulative Preferred, 4% series	—0—	7,687,100
Common—authorized 7,500,000 shares, par value $6.25 per share:		
Outstanding—5,281,589 shares in 1966 (at par); 5,156,621 shares in 1965 (at stated amount)	33,009,931	34,062,574
Earned surplus	151,996,944	144,078,344
	$192,501,675	$185,828,018
	$233,291,237	$223,401,726

See notes to financial statements on page 8.

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THE SHERWIN-WILLIAMS COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 1966

Note A—Mergers:

Pursuant to an Agreement of Merger dated in August, 1966, the Company issued 74,948 shares of $4.00 Cumulative Convertible Preferred Stock, Series A, in September, 1966, in exchange for the net assets and business of Sprayon Products, Inc. Such preferred shares have been treated as outstanding as of August 31, 1966. Earlier in 1966, the Company acquired substantially all the assets and business of Maumee Chemical Company for 115,298 common shares.

These transactions have been accounted for as poolings of interests and, accordingly, the results of operations of Sprayon and Maumee are included in the statement of consolidated income for the entire fiscal year. The statement of consolidated income for the year ended August 31, 1965, has not been restated to include the accounts of these companies since the effect on consolidated operations would not be significant.

Note B—The Sherwin-Williams Company of Canada, Limited:

The Company's equity in the consolidated net assets of the Canadian subsidiary amounted to $7,075,831 at August 31, 1966, which includes undistributed earnings since acquisition of $4,371,576. For the year ended August 31, 1966, the Company's equity in undistributed earnings of this subsidiary amounted to $36,142.

See pages 17 to 20, inclusive, for the consolidated financial statements of The Sherwin-Williams Company of Canada, Limited and subsidiaries.

Note C—Capital Stock:

The Company may redeem the $4.00 Cumulative Convertible Preferred Stock, Series A, commencing in 1972, at $104 a share and at a declining amount each year to $100 a share in 1980 and thereafter. Such preferred shares are convertible, at the option of the holder, into common shares at a base conversion price of $60 per share of common, and 125,000 unissued common shares have been reserved for such conversion. The holders of the preferred shares are entitled to one vote for each share of such stock.

Note D—Stock Options:

At August 31, 1966, there were 168,373 common shares reserved for issuance to officers and key employees under a stock option plan. Options are granted at prices not less than the fair market value of the shares at date of grant. In general, the options are exercisable to the extent of one-half or one-fifth of the optioned shares for each full year of employment following the date of grant, and expire five or ten years after date of grant.

A summary of the option transactions during the year follows:

		Option Prices		Market
	Shares	Per Share	Total	Prices
At beginning of year:				
Options outstanding	77,223	$40.25 or $45.625	$3,229,459	
Reserved for future options	100,820			
Changes during the year:				
Options granted	53,500	49.50	2,648,785	$2,648,785
Options becoming exercisable	19,120	40.25 or 45.625	794,842	994,240
Options exercised	9,670	40.25 or 45.625	397,334	486,912
Options canceled	3,800	40.25 or 45.625	156,712	
At end of year:				
Options outstanding	117,253	40.25 to 49.50	5,324,198	
Reserved for future options	51,120			

Note E—Revolving Credit:

Under the terms of a Credit Agreement, ten banks have made available to the Company a revolving credit in the aggregate amount of $35,000,000 until June 1, 1969. On or before June 1, 1969, the Company may replace any outstanding revolving credit notes with term notes payable in eight equal semiannual installments at an interest rate that may vary from 5% to 6% per annum. The Credit Agreement requires, among other things, that the Company maintain consolidated net current assets of not less than $75,000,000.

Note F—Long-term Leases:

Branches and offices of the companies are leased for various periods ranging generally from three to ten years. The annual rental expense aggregates approximately $9,700,000.

	1966	1965
Source of Funds		
From operations:		
Net income	$20,903,705	$19,264,930
Provisions for depreciation	4,916,575	4,322,747
Provisions for deferred United States income taxes	977,000	930,000
	$26,797,280	$24,517,677
Proceeds from sale of Common Stock issued under stock option plan	397,334	482,030
Working capital provided by merged businesses	1,027,963	—0—
	$28,222,577	$24,999,707
Application of Funds		
Cash dividends declared	$ 9,860,431	$ 9,133,324
Additions to property, plant, and equipment, net of retirements	10,798,572	5,540,283
Cost of Preferred Stock retired	8,139,926	2,221,978
Added to (reduction in) working capital	(731,582)	7,719,169
Other—net	155,230	384,953
	$28,222,577	$24,999,707

ACCOUNTANTS' REPORT

Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We have examined the consolidated financial statements of The Sherwin-Williams Company and consolidated subsidiaries for the year ended August 31, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and earned surplus present fairly the consolidated financial position of The Sherwin-Williams Company and consolidated subsidiaries at August 31, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, it is our opinion that the accompanying statement of source and application of funds presents fairly the information therein shown.

Ernst & Ernst

Cleveland, Ohio
October 14, 1966

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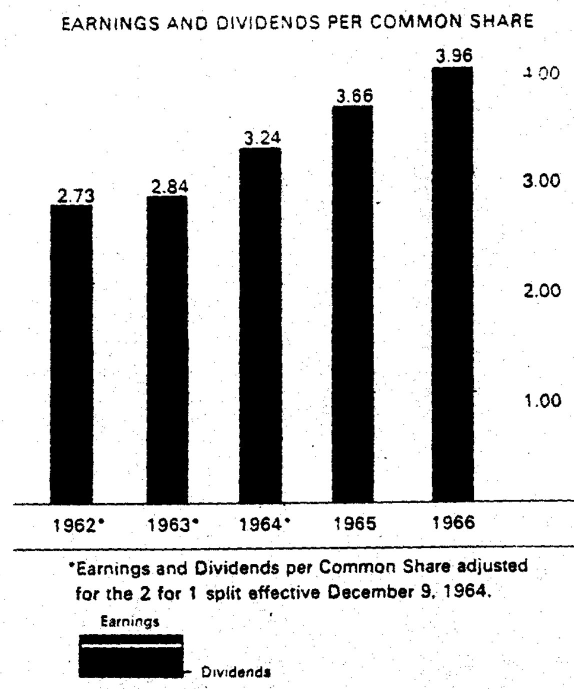
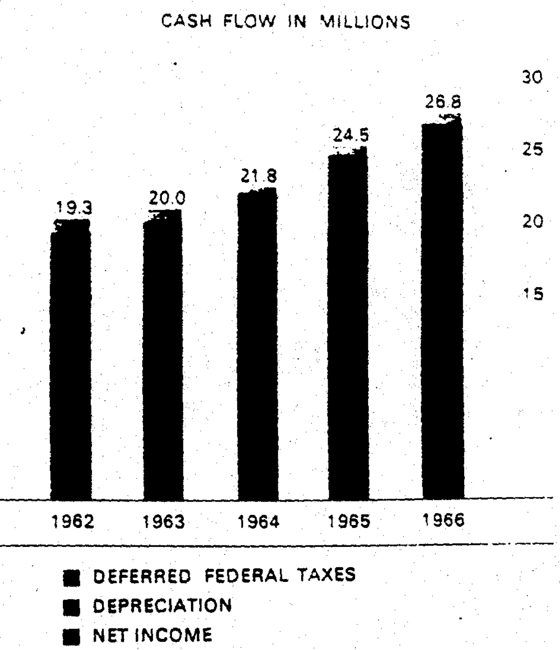
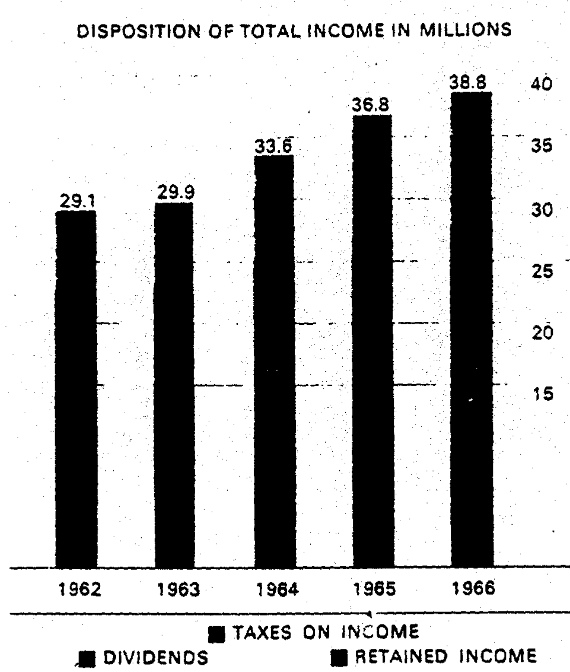
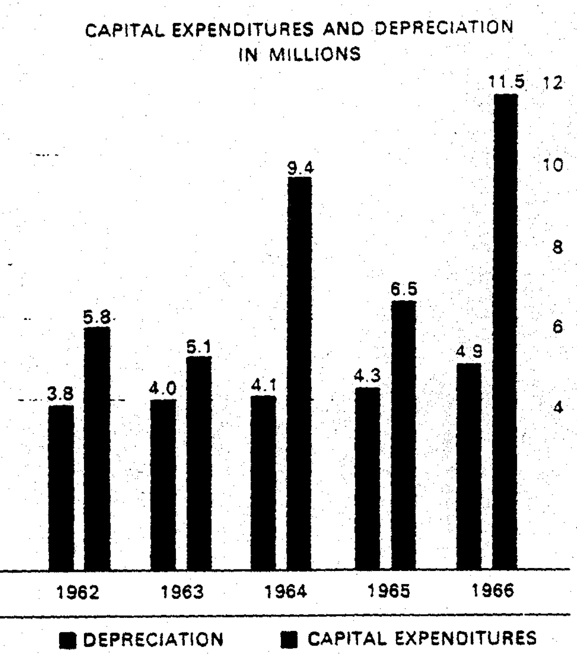

EARNINGS AND DIVIDENDS PER COMMON SHARE
2.73
2.84
3.24
3.66
3.96
1.00
2.00
3.00
4.00
1962*
1963*
1964*
1965
1966
*Earnings and Dividends per Common Share adjusted for the 2 for 1 split effective December 9, 1964.
Earnings
Dividends


CASH FLOW IN MILLIONS
19.3
20.0
21.8
24.5
26.8
15
20
25
30
1962
1963
1964
1965
1966
DEFERRED FEDERAL TAXES
DEPRECIATION
NET INCOME


DISPOSITION OF TOTAL INCOME IN MILLIONS
29.1
29.9
33.6
36.8
38.8
15
20
25
30
35
40
1962
1963
1964
1965
1966
TAXES ON INCOME
DIVIDENDS
RETAINED INCOME


CAPITAL EXPENDITURES AND DEPRECIATION IN MILLIONS
3.8
5.8
4.0
5.1
4.1
9.4
4.3
6.5
4.9
11.5
4
6
8
10
12
1962
1963
1964
1965
1966
DEPRECIATION
CAPITAL EXPENDITURES

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DISTRIBUTION OF TOTAL REVENUE
YEAR ENDED AUGUST 31, 1966

A. 56.54% Materials, services and other costs of doing business

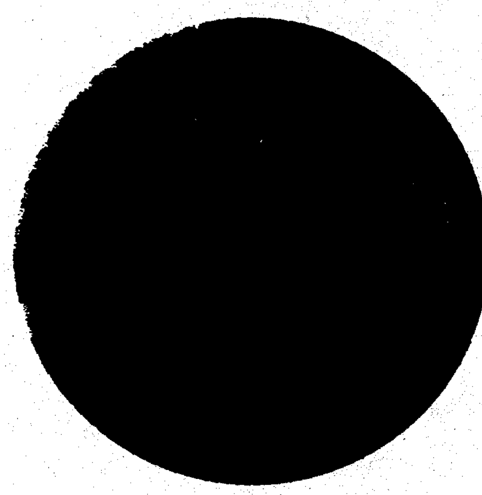
B. 31.15% Wages, salaries and employee benefits

C. 5.65% Taxes (other than payroll taxes)

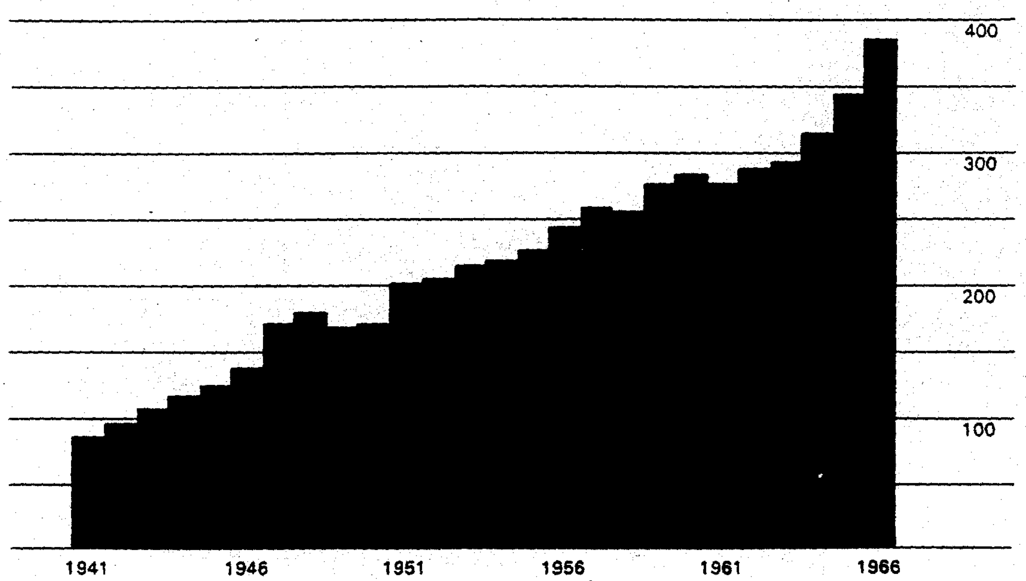
D. 2.85% Retained in business

E. 2.54% Dividends to shareholders

F. 1.27% Depreciation



CONSOLIDATED NET SALES IN MILLIONS



	1966
Net sales	$386,062,160
Income before income taxes	38,757,790
Income taxes—United States and foreign	17,854,085
Net income	20,903,705
Earnings per share of Common Stock	3.96
Earnings as percent of sales	5.42%
Return on invested capital—Common (2)	11.76%
Cash dividends declared:	
Preferred	$ —0—
Common	9,860,431
Cash dividends per share:	
Preferred	—0—
Common	1.90
Number of shareholders:	
Preferred	96
Common	7,583
Preferred and Common shareholders' equity	$192,501,675
Common shareholders' equity	184,707,083
Per share	34.97
Capital expenditures	11,506,661
Provisions for depreciation	4,916,575
Working capital (current assets less current liabilities)	123,374,147
Ratio of current assets to current liabilities	4.57 to 1
Total assets	$233,291,237
Number of employees	17,510

(1) Adjusted for 2 for 1 stock split effective December 9, 1964
(2) Based on Common shareholders' equity at beginning of year

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1965	1964	1963	1962
$344,783,077	$313,518,226	$291,838,896	$287,423,317
36,759,449	33,619,817	29,885,814	29,080,514
17,494,519	16,552,763	14,863,074	14,592,173
19,264,930	17,067,054	15,022,740	14,488,341
3.66	3.24 (1)	2.84 (1)	2.73 (1)
5.59%	5.44%	5.15%	5.04%
11.31%	10.57%	9.68%	9.72%
$ 379,129	$ 406,401	$ 436,796	$ 454,644
8,754,195	7,708,292	7,701,996	7,701,996
4.00	4.00	4.00	4.00
1.70 (1)	1.50 (1)	1.50 (1)	1.50 (1)
251	255	276	276
7,435	6,577	6,286	6,390
$185,828,018	$177,438,282	$168,882,728	$162,340,180
177,756,563	167,031,732	157,631,243	150,730,225
34.47	32.47 (1)	30.70 (1)	29.36 (1)
6,527,549	9,395,018	5,125,063	5,829,336
4,322,747	4,082,493	3,964,817	3,771,318
124,105,729	116,386,560	112,026,735	108,070,353
4.81 to 1	4.94 to 1	4.87 to 1	5.44 to 1
$223,401,726	$210,958,283	$201,210,419	$192,241,481
16,195	15,497	15,115	15,055

E. Colin Baldwin
President

John N. Bauman
President and Chief Executive Officer
White Motor Corporation

Richard G. Bull
Vice-President

Sollace B. Coolidge, Jr.
Vice-President

Edwin A. Daniels
President
The Lowe Brothers Company

Cyrus S. Eaton
Chairman of the Board
The Chesapeake and Ohio
Railway Company

George Gund
Chairman of the Board
The Cleveland Trust Company

Wade N. Harris
Chairman of the Board
Midland-Ross Corporation

Robert F. Hennig
Vice-President

Henry D. Lester
Vice-President and Treasurer

John S. Prescott
Executive Vice-President

Robert W. Ramsdell
Chairman and Chief Executive Officer
The East Ohio Gas Company

Arthur W. Steudel
Chairman of the Board

Charles M. White
Formerly Chairman and Consultant
Republic Steel Corporation

John D. Wright
Chairman and Chief Executive Officer
TRW Inc.

Arthur W. Steudel
Chairman of the Board

E. Colin Baldwin
President

Richard G. Bull
*Vice-President and Corporate
Director of Marketing*

Sollace B. Coolidge, Jr.
*Vice President and
Director of Auxiliaries*

Robert F. Hennig
*Vice-President and
Director of Purchases*

Robert H. Hill
Vice-President and Director of Sales

Henry D. Lester
Vice-President and Treasurer

Sidney Ling
*Vice-President—
International Operations*

John S. Prescott
*Executive Vice-President and
Director of Manufacturing*

William C. Fine
Secretary

James F. Cole
Assistant Secretary

Virgil A. Hollis
Assistant Secretary

PAINTS • ENAMELS • VARNISHES • LACQUERS • STAINS • ZINC PIGMENTS • DRY COLORS
LITHOPONE • ORGANIC CHEMICALS • COAL TAR AND PETROLEUM INTERMEDIATES
BARIUM CHEMICALS • LINSEED OIL • METAL CANS • AEROSOL SPECIALTIES
INSECTICIDES • BRUSHES • ROLLERS AND OTHER PAINTING ACCESSORIES.

ANAHEIM, CALIFORNIA
BEDFORD HEIGHTS, OHIO
BOUND BROOK, NEW JERSEY
CHICAGO, ILLINOIS (TWO)
CLEVELAND, OHIO (TWO)
COFFEYVILLE, KANSAS
DAYTON, OHIO
DESHLER, OHIO
DETROIT, MICHIGAN
EAST NEWARK, NEW JERSEY
GARLAND, TEXAS
GIBBSBORO, NEW JERSEY
HUBBARD, OHIO
LOS ANGELES, CALIFORNIA
NEWARK, NEW JERSEY
OAKLAND, CALIFORNIA
PITTSBURGH, PENNSYLVANIA
SAN LEANDRO, CALIFORNIA
ST. BERNARD, OHIO

BAYAMON, PUERTO RICO
GRAVENHURST, CANADA
MEXICO CITY, MEXICO
MONTREAL, CANADA (TWO)
SAO PAULO, BRAZIL
TORONTO, CANADA
VANCOUVER, CANADA
WINNIPEG, CANADA

RESEARCH CENTER

CHICAGO, ILLINOIS

PRINTING DIVISION

NORTH OLMSTED, OHIO

Acme Quality Paints, Inc.	*Detroit, Michigan*
Rogers Paint Products, Inc.	*Detroit, Michigan*
The Carl Graham Paint & Wallpaper Company	*Wichita, Kansas*
Compania Sherwin-Williams, S.A. de C.V.	*Mexico City, Mexico*
Deshler Products, Inc.	*Deshler, Ohio*
The Lowe Brothers Company	*Dayton, Ohio*
John Lucas & Company, Incorporated	*Philadelphia, Pennsylvania*
The Martin-Senour Company	*Chicago, Illinois*
Maumee Chemical Company	*Toledo, Ohio*
Rubberset Company	*East Newark, New Jersey*
Rubberset Company (Canada) Limited	*Gravenhurst, Canada*
Sherwin-Williams (Europe) Societe Anonyme	*Antwerp, Belgium*
The Sherwin-Williams Co. of Puerto Rico, Inc.	*San Juan, Puerto Rico*
The Sherwin-Williams Co. (West Indies) Ltd.	*Kingston, Jamaica*
Sprayon Products Company, Inc.	*Bedford Heights, Ohio*

UNCONSOLIDATED SUBSIDIARIES

Sherwin-Williams do Brasil S/A Tintas e Vernizes	*Sao Paulo, Brazil*
The Sherwin-Williams Company of Canada, Limited	*Montreal, Canada*
The Canada Paint Company Limited	*Montreal, Canada*
The E. Harris Company Limited	*Toronto, Canada*
The Lowe Brothers Company, Limited	*Toronto, Canada*
The Martin-Senour Company Limited	*Montreal, Canada*
The Winnipeg Paint & Glass Company, Limited	*Winnipeg, Canada*
The Carter White Lead Company of Canada Limited (50% owned—unconsolidated)	*Montreal, Canada*

LICENSEES

Sherwin-Williams Argentina, Industrial y Comercial, S.A.

Sherwin-Williams de Colombia S.A.

Sherwin-Williams del Ecuador S.A.

Sherwin-Williams del Peru S.A.

Sherwin-Williams, Philippines, Inc.

Sherwin-Williams de Centro America, S.A.

Sherwin-Williams Espanola, S.A.

Sherwin-Williams Venezolana C.A.

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	1966	1965
Net sales	$37,368,092	$36,120,471
Dividends received	50,000	50,000
Miscellaneous	—0—	28,796
	$37,418,092	$36,199,267
Deductions from income:		
Cost of products sold	$24,179,728	$23,156,329
Selling, general and administrative expenses	11,428,493	10,960,448
Company and government pension cost	504,835	314,578
Interest expense	285,830	197,707
Remuneration of officers and directors' fees	76,092	101,846
	$36,474,978	$34,730,908
INCOME BEFORE INCOME TAXES	$ 943,114	$ 1,468,359
Income taxes:		
Payable currently	$ 180,250	$ 518,550
Recoverable due to loss carry-back	(317,000)	—0—
Deferred	369,000	124,450
	$ 232,250	$ 643,000
NET INCOME	$ 710,864	$ 825,359

Provisions for depreciation included above amount to $378,890 in 1966 and $363,098 in 1965.

Earned Surplus

Balance at beginning of year	$10,035,760	$11,934,625
Deduct amount of unfunded pension costs reduced to a net of tax basis	—0—	2,100,000
	$10,035,760	$ 9,834,625
Net income for the year	710,864	825,359
	$10,746,624	$10,659,984
Cash dividends declared:		
Preferred—$7.00 per share	$ 242,200	$ 242,200
Common—$1.80 per share (1965—$1.70)	404,496	382,024
	$ 646,696	$ 624,224
Balance at end of year	$10,099,928	$10,035,760

See note to the consolidated financial statement on page 20.

	1966	1965
Current Assets		
Cash	$ 52,200	$ 51,500
Trade accounts receivable, less allowances for doubtful accounts of $142,700 in 1966 and $142,000 in 1965	7,518,888	7,018,828
Inventories—principally at the lower of cost (average or first-in, first-out method) or market:		
Finished merchandise	$ 7,135,842	$ 7,366,467
Work in process, raw materials and supplies	2,399,300	2,399,986
	$ 9,535,142	$ 9,766,453
Recoverable income taxes	296,905	—0—
TOTAL CURRENT ASSETS	$17,403,135	$16,836,781
Investment and Other Assets		
Common shares of The Carter White Lead Company of Canada Limited (50% owned)—at cost	$ 200,000	$ 200,000
Miscellaneous receivables and advances	58,896	58,094
	$ 258,896	$ 258,094
Property, Plant, and Equipment — on the basis of cost:		
Land	$ 607,442	$ 591,893
Buildings	5,608,777	4,524,308
Machinery and equipment	7,685,494	7,398,541
Less allowances for depreciation	8,982,477	8,714,636
	$ 4,919,236	$ 3,800,106
Deferred Charges		
Advertising stock and supplies	$ 188,299	$ 180,748
Prepaid insurance and other items	135,880	127,098
	$ 324,179	$ 307,846
	$22,905,446	$21,202,827

See note to the consolidated financial statement on page 20.

	1966	1965
Current Liabilities		
Owing to bank	$ 1,849,015	$ 568,988
Trade accounts payable	3,505,598	3,453,716
Payrolls, compensation and other accruals	807,104	714,181
Taxes, other than income taxes	383,852	372,952
Income taxes	42,125	186,310
TOTAL CURRENT LIABILITIES	$ 6,587,694	$ 5,296,147
Unfunded Pension Costs Reduced to a Net of Tax Basis	2,039,654	2,100,000
Deferred Income Taxes	493,450	86,200
Capital Stock and Surplus		
Capital stock:		
Preferred shares, 7% cumulative par value $100 per share:		
Authorized—40,000 shares		
Outstanding—34,600 shares	$ 3,460,000	$ 3,460,000
Common shares, no par value:		
Authorized—225,000 shares		
Outstanding—224,720 shares	224,720	224,720
Earned surplus	10,099,928	10,035,760
	$13,784,648	$13,720,480
	$22,905,446	$21,202,827

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Note—During the year ended August 31, 1966, the Company elected to record tax reductions (permitted under Section 72A of the Income Tax Act) as income in the year received rather than to amortize such tax reductions over the lives of certain research facilities. This election had the effect of increasing net income for the year 1966 by $258,750 of which amount $38,250 applied to the year 1965.

ACCOUNTANTS' REPORT

To the Shareholders,
The Sherwin-Williams Company of Canada, Limited.

We have examined the consolidated financial statement of The Sherwin-Williams Company of Canada, Limited and its subsidiaries for the year ended August 31, 1966, comprising the consolidated balance sheet as at that date and the statements of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statement presents fairly the consolidated financial position of The Sherwin-Williams Company of Canada, Limited and its subsidiaries at August 31, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change, in which we concur, in the treatment of certain tax reductions as described in the note to the financial statement, have been applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Chartered Accountants

Montreal, Quebec
September 28, 1966

THE SHERWIN-WILLIAMS COMPANY

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