Annual Report

1939

The Sherwin-Williams Co.

THE SHERWIN-WILLIAMS CO.

GEORGE A. MARTIN

To the Stockholders:

I submit herewith the Annual Report of The Sherwin-Williams Company for the fiscal year ended August 31, 1939.

The Consolidated Balance Sheet and the Consolidated Income and Surplus Statements, as audited by Ernst & Ernst, Certified Public Accountants, are set forth in the following pages.

The Year's Net Earnings after Depreciation and all other charges, but before Federal Income Taxes, amount to $5,638,237.06. After setting up a reserve for Federal Income Taxes the final Net Profit available for dividends is $4,463,991.86.

After deducting from this the amount paid in Preferred Stock Dividends during the fiscal year, the balance earned on the Common Stock is $3,809,254.36, or $6.96 per share.

Cash on hand August 31, 1939 amounted to $8,025,460.59, which alone exceeded the entire indebtedness of the Company by $2,901,288.89.

The business during the period under review shows a fair gain in sales over the previous year.

Business since September first has been somewhat in excess of normal conditions, but, nevertheless, it is our belief that we may look for a reasonably fair volume of sales for some time to come.

We are continually enlarging our field for the products we manufacture. We are pleased to advise that through a well-equipped chemical and technical organization we are abreast of the times in scientific developments in the industry, which have contributed to the improvement we show in earnings.

Today, as for some time past, we manufacture practically all intermediates and raw materials which enter into the manufacture of our finished products. In addition to the regular extension and modernization of our plant, we have in preparation the building

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of a Titanium Plant, the total output of which will be consumed by our own Company.

In view of the war conditions it seems pertinent to make reference to the amount of assets of foreign subsidiaries included in the Balance Sheet. The only important foreign investment is the Company's holding in the Common Stock of The Sherwin-Williams Company of Canada, Ltd., the amount of which, viz., $3,696,826.00, is set forth in Note A to the Balance Sheet in this report. Outside of Canada the Company has divested itself of its plants in foreign countries except a unit in Cuba. We are, however, erecting in Buenos Aires, Argentina, a modern Paint, Varnish and Lacquer Plant to take care of the business which we have been building up for many years but were losing due to the tariff, money exchange and other new conditions.

It affords the Management a great deal of satisfaction to take advantage of this opportunity to express to each and every one in the service of the Institution its appreciation for their loyalty and faithful performance of duty during the trying conditions which presented themselves.

President

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1939

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1939, before other income, provision for depreciation, other deductions and federal taxes on income			$ 6,995,951.69
Other income			48,516.98
			$ 7,044,468.67
Deductions:			
Provision for depreciation		$1,015,221.46	
Loss on disposal of fixed assets and expenses applicable to non-operating properties		84,206.16	
Interest expense		46,062.65	
Provision for doubtful accounts, pension payments and sundry items		363,151.49	
Provision for federal taxes on income—estimated	$1,066,962.00		
Adjustment of federal income tax provisions for prior years	4,386.20	1,071,348.20	2,580,476.81
NET PROFIT			$ 4,463,991.86

EARNED SURPLUS

Balance at September 1, 1938			$19,806,970.28
Add net profit for the year			4,463,991.86
			$24,270,962.14
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—$5.00 per share	$ 654,757.00		
Common—$2.00 per share	1,697,317.00	$2,352,075.00	
Premium on preferred stock called for redemption		24,750.00	2,376,825.00
BALANCE AUGUST 31, 1939			$21,894,137.14

(Note A) Proportionate share of the operating results of unconsolidated Canadian subsidiary has not been reflected in the foregoing statement; final statement as to such operating results for the year ended August 31, 1939, was not available at date of issuance of this report. Proportionate share (not significant) of net loss, for the year ended August 31, 1939, of other unconsolidated subsidiary has been taken up.

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CONSOLIDATED BALANCE SHEET

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

August 31, 1939

Assets

CURRENT ASSETS		
Cash	$ 8,023,450.59	
Trade notes, acceptances and accounts receivable, less reserves (includes accounts amounting to $7,155.38, receivable from subsidiaries not consolidated)	8,913,319.11	
Inventories—raw materials and supplies, in process and finished merchandise stated on basis of lower of cost or market (estimated inter-plant and inter-company profits have been eliminated)	16,470,179.62	$33,406,949.32
OTHER ASSETS		
Notes receivable for properties sold during 1934—secured by mortgage	84,578.45	
Insurance deposits, sundry notes and accounts receivable, claims and advances, less reserves	398,296.40	482,874.85
INVESTMENTS		
Securities of subsidiaries not consolidated—Note A	$ 3,697,635.32	
Other securities—at or below cost	83,200.85	3,780,836.16
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserves for depreciation		18,047,111.36
PATENTS AND TRADE-MARKS		
Nominal amount		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc.	$ 606,030.00	
Prepaid insurance, deferred taxes, etc.	285,242.58	891,272.58
		$56,579,045.26

Liabilities, Capital Stock and Surplus

CURRENT LIABILITIES		
Trade accounts payable, pay rolls and sundry items	$ 2,944,517.91	
Preferred dividend payable September 1, 1939	109,048.75	
Deposits—officers and employees	535,152.77	
Accrued taxes (other than income taxes) and sundry items	231,263.94	
Federal and foreign taxes on income—estimated	1,112,188.33	
Mortgage payable (existing when subsidiary was fully acquired in 1934)	140,000.00	$ 5,122,161.70
RESERVES		
For contingencies, maintenance of plants and employees' liability insurance		765,671.41
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Preferred — authorized 356,000 shares (par value $100.00 each—redeemable at $105.00 per share):		
Outstanding — Series "AAA" 5% cumulative preferred—127,239 shares	$12,723,900.00	
Common — authorized 800,000 shares (par value $25.00 each):		
Outstanding—638,927 shares	15,973,175.00	
	$28,697,075.00	
EARNED SURPLUS	21,994,137.14	50,691,212.14
		$56,579,045.26

(Note A) Investments in securities of subsidiaries not consolidated include (1) investment of $3,695,828.00 in Canadian affiliate stated at cost which was less than the proportionate share of the book value (including intangibles) of the net assets of such affiliate as reported to the Company and (2) investment in another affiliate amounting to $1,808.32 which is stated at equity in net assets. Net decrease in equity in Canadian affiliate since date of acquisition, not taken up by parent Company, amounted to approximately $513,000.00 as of August 31, 1938, (final statement as to operating results for the year ended August 31, 1939, was not available at date of issuance of this report). Proportionate share (not significant) of net losses of other unconsolidated subsidiary has been taken up.

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AUDITORS' CERTIFICATE

Board of Directors,

The Sherwin-Williams Company,

Cleveland, Ohio.

We have examined the consolidated balance sheet of THE SHERWIN-WILLIAMS COMPANY and its consolidated subsidiaries as of August 31, 1939, and the consolidated statements of income and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

We made tests of trade receivables at representative locations by communication with debtors; our examination of inventories included observation of procedures followed by the companies in ascertaining inventory quantities at the principal locations and examination of certificates obtained by the Comptroller from individuals responsible for inventories at the various locations. In addition thereto, we reviewed inventory records of the companies and made tests of the basis of pricing and of the computations.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the consolidated position of THE SHERWIN-WILLIAMS COMPANY and its consolidated subsidiaries at August 31, 1939, and the results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
October 23, 1939

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THE SHERWIN-WILLIAMS CO.

101 Prospect Ave., N. W. — Founded in 1866 — Cleveland, Ohio

Manufacturers of

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

Main plants

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

Directors

A. D. BALDWIN	E. J. HAHN	E. B. MARTIN
GEO. T. BISHOP	C. P. JARDINE	A. W. STEUDEL
HAROLD CHURCH	D. A. [illegible]	H. D. WHITTLESEY
C. S. EATON	GEO. A. MARTIN	L. W. WOLCOTT

Officers

GEO. A. MARTIN, *President*

H. D. WHITTLESEY, *First Vice-President*	A. W. STEUDEL, *Vice-President*
E. J. HAHN, *Vice-President*	L. E. SCHROEDER, *Treasurer*
N. B. VAN [illegible], *Vice-President*	T. G. [illegible], *Secretary*

Transfer Agents

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

Registrars

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

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