ANNUAL REPORT

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1963

THE SHERWIN-WILLIAMS COMPANY

THE SHERWIN-WILLIAMS COMPANY
AND CONSOLIDATED SUBSIDIARIES
ANNUAL REPORT
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LETTER TO SHAREHOLDERS

Herewith are presented the Consolidated Balance Sheet and the Consolidated Income and Surplus Statements of The Sherwin-Williams Company and consolidated subsidiaries for the fiscal year ended August 31, 1963.

The consolidated earnings amounted to $15,022,740 as compared with $14,488,341 for 1962. After deducting $436,796 for Preferred Dividends, the earnings for 1963 are equivalent to $5.68 per share on the present outstanding 2,567,332 shares of Common Stock, as compared with $5.46 last year.

Consolidated net sales amounted to $291,838,896. This is the highest sales total in the Company's history and is 1.54% over the previous high of last year.

Principal sales increases were attributable to branch and industrial sales which advanced quite satisfactorily. Some sales were passed up where margins would have been completely unattractive. This was principally in the area of bid business. However, these were more than counterbalanced by the improved mix of sales which produced better margins of profit.

The Pigments, Colors and Chemicals Division enjoyed the most profitable year in its history.

Pension costs returned to a normal figure in contrast to last year's high cost which was caused by a necessary retroactive adjustment in mortality assumption by our actuary.

The reduction in the reserve for pensions and other items is a result of the write-down of the investments in the South American subsidiaries, prior-year tax payments and a reclassification of other items to Current Liabilities.

Expenses were well controlled. The only increased expenditures of consequence were in the areas of advertising and research and development. Advertising programs and expenditures will be further enlarged this year so as to maintain the prestige and leadership of our products in the marketplace and to stimulate increased retail sales.

Heavy emphasis has been and is being placed on research and development. This is essential in order to improve existing products, to develop new products to meet the ever-changing needs of consumers, professional painters and industrial users, and to assure increased future earnings.

Principal accomplishments in the research and development area were an improved formula for Super Kem-Tone, further advances in acrylic finishes and in organosols for coating strip metals, the introduction of Acrylyd, a finish for trucks with outstanding gloss and gloss retention characteristics, and continued developmental progress in the field of wood finishes for application at the factory.

During 1963, we increased the number of our Company-operated branches and, because of our continued success in this phase of our operations, will further expand our network in 1964.

At the same time we expect to expand distribution through independently-owned outlets so that our products will be available wherever people want to buy them.

Much has been accomplished in the area of greater efficiency in manufacturing facilities. The large consolidation of the Chicago paint manufacturing plant is well advanced and should be completed by the Summer of 1964. This project will vastly improve material handling, batch size production, filling operations, quality control and costs in general.

In other plants there is a continuing program to upgrade efficiency through the installation of modern equipment and better physical layouts. Substantial expenditures were made for improvements in several chemical processes and additions are being made to increase capacity of certain products where we have been unable to meet demand.

The application of computers in factories has materially aided production planning, processing and quality control. This program will be expanded.

Expenditures for plant additions during the year were $5,125,063. Continued additions and improvements will be made for the purpose of added production in existing units and the betterment of cost control, quality control and customer service.

During the past year the Company formed The Sherwin-Williams Company of Puerto Rico, Inc. in San Juan, Puerto Rico and established a paint manufacturing facility which is just coming into operation.

Also organized by the Company during the past year was Sherwin-Williams (Europe) S. A. in Antwerp, Belgium. This is a sales organization operating from a warehouse stock in a free port. Its immediate aims are further to develop the sales of established distributors in Europe, to gain additional ones and to strengthen the Company's ultimate position in that market.

The Board of Directors wishes to express its thanks to the staff in plants, offices and branches for their cooperation, industry and loyalty which have contributed immensely to this year's results.

Chairman of the Board — *President*

E. C. Baldwin

Cleveland, Ohio
October 18, 1963

THE SHERWIN-WILLIAMS COMPANY AN

Consolidated Balance Sheets, Aug

Assets	1963	1962
Current Assets		
Cash	$ 22,416,518	$ 21,781,469
U. S. Treasury bills—at cost	10,869,059	10,917,364
Trade accounts receivable, less allowances for doubtful accounts of $611,611 in 1963 and $609,760 in 1962	32,906,090	32,244,626
Inventories—principally at lower of cost (average or first-in, first-out method) or market:		
Finished merchandise	$ 50,947,734	$ 45,912,813
Work in process, raw materials, and supplies	23,866,935	21,565,681
	$ 74,814,669	$ 67,478,494
TOTAL CURRENT ASSETS	$141,006,336	$132,421,953
Investments and Other Assets		
Securities of unconsolidated Canadian subsidiary—at cost—Note A	$ 4,182,766	$ 4,182,766
Receivables, advances, and miscellaneous other assets	1,123,180	1,620,958
	$ 5,305,946	$ 5,803,724
Property, Plant, and Equipment — on the basis of cost		
Land	$ 2,138,422	$ 2,135,324
Buildings, machinery, and equipment	96,498,803	93,101,784
Less allowances for depreciation	47,044,069	44,348,096
	$ 51,593,156	$ 50,889,012
Deferred Charges		
Advertising stock and supplies	$ 1,493,941	$ 1,601,778
Prepaid insurance and other items	1,811,040	1,525,014
	$ 3,304,981	$ 3,126,792
	$201,210,419	$192,241,481

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ance Sheets, August 31, 1963, and 1962

469
364
626
813
681
494
953
766
958
724
24
34
6
12
778
014
792
481

Liabilities, Capital Stock, and Surplus	*1963*	*1962*
Current Liabilities		
Trade accounts payable, compensation, and miscellaneous items	$ 18,080,702	$ 15,081,937
Dividend payable on Preferred Stock	108,282	110,571
Deposits—employees and officers	1,031,014	1,075,747
Accrued taxes, other than federal taxes on income	1,346,437	1,320,345
Federal taxes on income	8,413,166	6,763,000
TOTAL CURRENT LIABILITIES	$ 28,979,601	$ 24,351,600
Reserves		
For deferred federal taxes on income	$ 2,037,000	$ 1,057,000
For pensions and other items	1,311,090	4,492,701
	$ 3,348,090	$ 5,549,701
Capital Stock and Surplus		
Capital stock:		
Preferred—authorized 395,500 shares, par value $100 per share:		
Cumulative Preferred 4% series (4,950 shares redeemable annually at $105 a share):		
Outstanding—107,157 shares in 1963 and 110,571 shares in 1962	$ 10,715,700	$ 11,057,100
Common—authorized 5,000,000 shares, par value $12.50 per share—Note B:		
Outstanding 2,567,332 shares—stated capital	33,172,651	33,172,651
Earned surplus	124,994,377	118,110,429
	$168,882,728	$162,340,180
	$201,210,419	$192,241,481

See notes to financial statements.

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THE SHERWIN-WILLIAMS COMPANY AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED INCOME AND EARNED SURPLUS

Years Ended August 31, 1963, and 1962

Income	*1963*	*1962*
Net sales	$291,838,896	$287,423,317
Dividends received (net) from unconsolidated Canadian subsidiary—Note A	133,224	134,524
Miscellaneous	671,053	930,879
	$292,643,173	$288,488,720
Deductions from income:		
Cost of products sold and selling, general, and administrative expenses	$256,231,303	$252,719,404
Pensions	2,170,176	2,750,000
Depreciation	3,964,817	3,771,318
Foreign taxes on income	478,806	421,017
Miscellaneous	500,331	288,640
	$263,345,433	$259,950,379
INCOME BEFORE FEDERAL TAXES ON INCOME	$ 29,297,740	$ 28,538,341
Federal taxes on income (including deferred taxes of $980,000 in 1963 and $1,057,000 in 1962)	14,275,000	14,050,000
NET INCOME	$ 15,022,740	$ 14,488,341
Earned Surplus		
Balance at beginning of year	$118,110,429	$111,778,728
Net income for the year	15,022,740	14,488,341
	$133,133,169	$126,267,069
Cash dividends declared:		
Preferred—$4.00 a share	$ 436,796	$ 454,644
Common—$3.00 a share	7,701,996	7,701,996
	$ 8,138,792	$ 8,156,640
Balance at end of year	$124,994,377	$118,110,429

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

THE SHERWIN-WILLIAMS COMPANY AND CONSOLIDATED SUBSIDIARIES

August 31, 1963

Note A—Unconsolidated Subsidiary:

At August 31, 1963, the Company's equity in the undistributed earnings of such subsidiary amounted to $5,283,000, including $186,000 applicable to the current fiscal year.

During the year, because of exchange restrictions and currency devaluation, the cost of investments in subsidiaries in Brazil and Argentina was reduced, by a charge to a reserve previously provided, to the potential recoverable tax basis and reclassified to miscellaneous other assets.

Note B—Stock Options:

Pursuant to a Plan, approved by the shareholders during the year, 100,000 shares of the Company's Common Stock are reserved for issuance to officers and key employees upon exercise of options which may be granted at prices not less than the fair market value of the shares at date of grant. Options run for a ten-year period and become exercisable after one year from date of grant to the extent of one-fifth of the optioned shares annually. During the year, options were granted for 41,900 shares. None of the options were exercisable at August 31, 1963.

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 $7,500,000.

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, 1963. 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, 1963, 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.

ERNST & ERNST

Cleveland, Ohio
October 15, 1963

THE SHERWIN-WILLIAMS COMPANY

Founded in 1866

101 PROSPECT AVE., N. W., CLEVELAND, OHIO

Manufacturers of Paints, Varnishes, Colors, Stains. Enamels, Lacquers, Zinc Pigments, Dyes, Chemicals, Lithopone, Linseed Oil, Dry Colors, Brushes, Roller Coaters, Cans, Insecticides.

Main Plants Cleveland • Chicago • Dayton • Detroit • Newark • Pittsburgh
Hubbard, Ohio; Oakland, Cal.: Bound Brook, N. J.;
Gibbsboro, N.J.; Deshler, Ohio; Garland, Texas;
Los Angeles: Coffeyville, Kan.; San Leandro, Cal.;
Montreal. Toronto, Winnipeg, Vancouver and
Gravenhurst, Canada

Research Center Chicago, Illinois

Directors

E. C. BALDWIN	H. D. LESTER
J. N. BAUMAN - White Mtr.	J. S. PRESCOTT
S. B. COOLIDGE	A. W. STEUDEL
E. A. DANIELS	W. M. STUART
C. S. EATON	B. M. VAN CLEVE
GEORGE GUND	N. E. VAN STONE
R. F. HENNIG	C. M. WHITE - Republic Steel
J. D. WRIGHT - Thomson-Ramo-Wooldridge	

Officers

A. W. STEUDEL	*Chairman of the Board and Chief Executive Officer*	
E. C. BALDWIN	*President*	
S. B. COOLIDGE	*Vice President*	- ~~Retired~~
R. F. HENNIG	*Vice President*	
R. H. HILL	*Vice President*	
J. S. PRESCOTT	*Vice President*	
B. M. VAN CLEVE	*Vice President*	- Retired
N. E. VAN STONE	*Vice President*	- Retired
H. D. LESTER	V.P. *Treasurer*	
W. C. FINE	*Secretary*	
V. A. HOLLIS	*Asst. Secretary*	

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

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

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