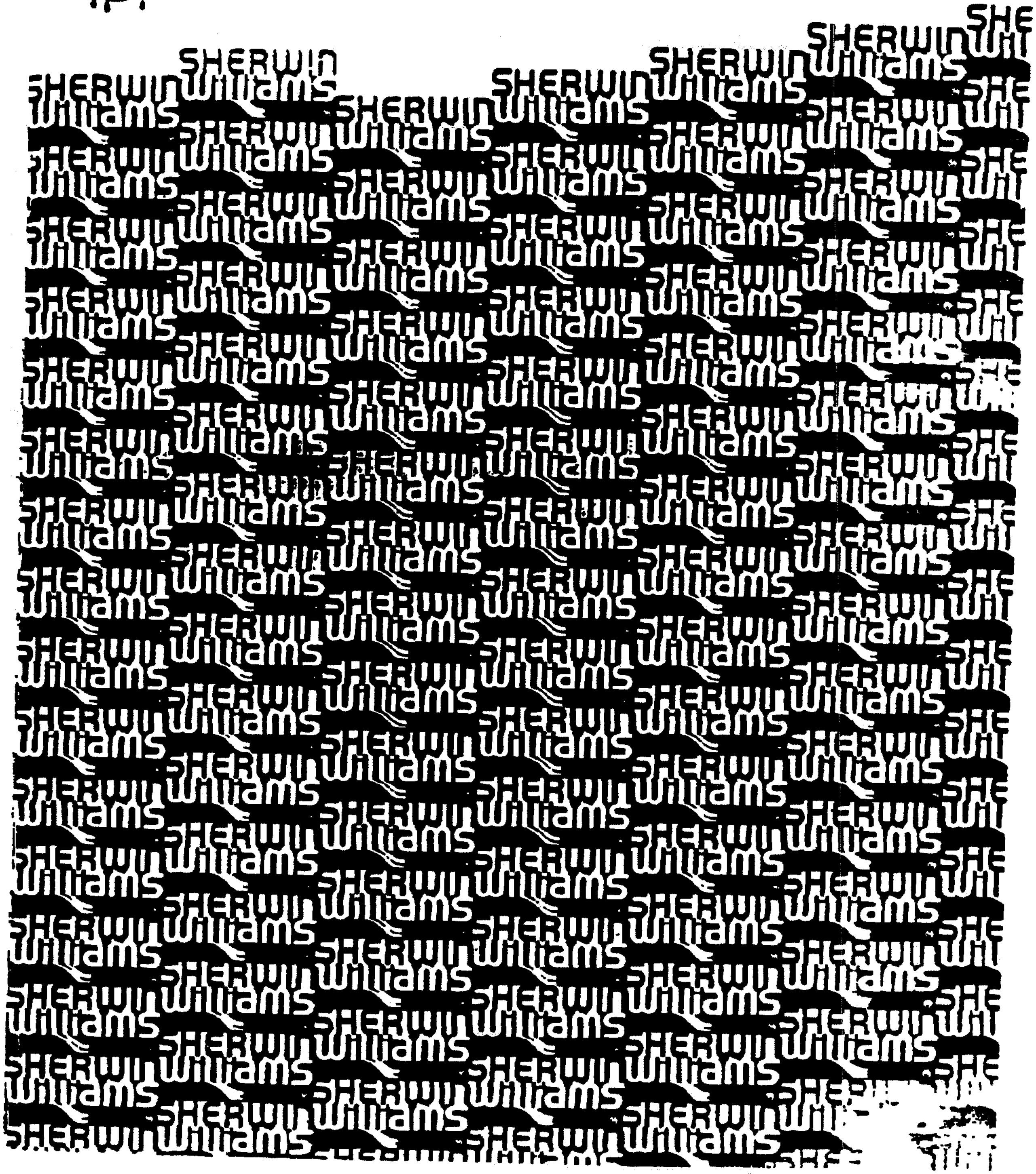
The Sherwin-Williams Company 1983 Annual Report and 10-K



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Annual Meeting
The annual meeting of shareholders will be held at 10:00 a.m. Apr. 25 1984 at Stouffer's Inn on the Square Public Square Cleveland Ohio

Headquarters
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115
(216) 566-2000

Stock Trading
Sherwin-Williams Common Stock — Symbol, SHW — is traded on the New York Stock Exchange.

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

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

Transfer Agent & Registrar
AmeriTrust Company
Cleveland, Ohio

Independent Auditors
Ernst & Whinney
Cleveland, Ohio

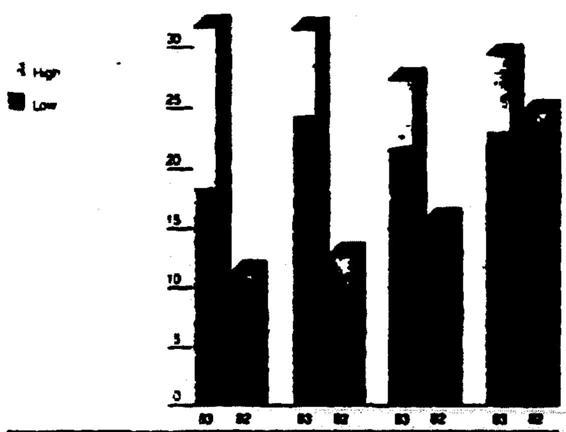
Investor Relations
Dianne McCormick
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115

Dividend Reinvestment Program
A dividend reinvestment program is available to shareholders of common stock. For information contact A. D. Childs, Secretary,
The Sherwin-Williams Company
101 Prospect Ave., N.W., Cleveland, Ohio 44115

The Sherwin-Williams Company seeks and employs the best qualified people available — without regard to the race, religion, color, creed, sex, national origin, handicap, or age of any person

Quarterly Common Stock Prices and Dividends

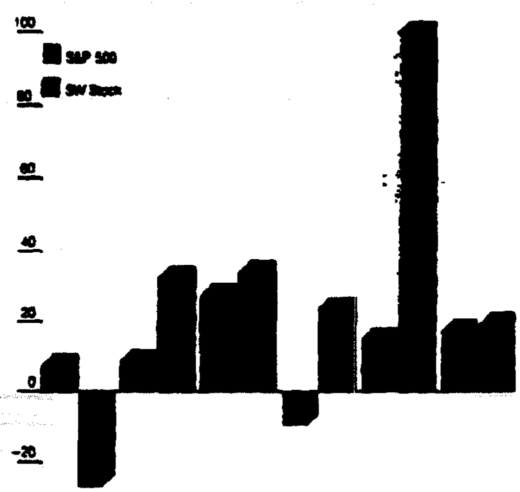
Quarters 1st 2nd 3rd 4th



Dividends .15 .125 .15 .125 .15 .125 .15 .125

Sherwin-Williams Stock Performance Vs. S&P 500
Percent

1978 1979 1980 1981 1982 1983



Quarterly Common Stock Prices

1983	Quarter	High	Low	1982	Quarter	High	Low
	1st	$31¾	$18¼		1st	$11⅛	$ 9⅛
	2nd	31⅝	24¼		2nd	12⅝	9⅞
	3rd	27⅞	21¾		3rd	15⅝	10⅝
	4th	29⅛	23		4th	24⅞	14⅞

Common Stock Trading Statistics

	1983	1982	1981	1980	1979
High	$31¾	$24⅞	$11⅞	$10⅛	$ 7¼
Low	18¼	9⅛	8⅛	5⅞	4⅛
Close 12/31	28¾	22	11	8⅞	6⅛
Shares traded	14,833,300	12,016,400	7,042,400	10,728,000	9,862,000
% of average outstanding shares	84%	57%	36%	55%	47%
Number of common shareholders of record	9,841	8,590	8,868	8,666	9,796

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Highlights

Thousands of dollars except per share data

Years ended December 31	1983	1982	1981
Net sales	$1,973,485	$1,851,776	$1,536 807
Pre-tax income	101,212	76,431	57,721
Net income	55,412	42,931	31,385
Per common share			
Net income — fully diluted	2.25	1 78	1 36
— primary	2.32	2.02	1 53
Cash dividends	.60	.50	40
Book value	16.24	15.19	14 34
Average shares outstanding — fully diluted	24,739,788	24,527,846	23,657,360
— primary	23,819,819	20,903,326	19,817,338
Return on sales	2.8%	2.3%	2.0%
Return on common shareholders' equity	16.6%	14.8%	11 6%
Effective income tax rate	45.3%	43.8%	45.6%
Debt to capitalization	32.1%	36.0%	43.0%
Times interest earned	6.8 x	5.0 x	4.2 x
Current ratio	2.0 to 1	2.2 to 1	2.0 to 1
R&D expenditures	$10,138	$9,135	$9,766
Advertising expenditures	61,358	51,764	43,029
Number of common shareholders of record	9,641	8,590	8,858
Number of employees	19,369	21,101	23,507

Who We Are

Sherwin-Williams completed 117 years of doing business in 1983. Our core business is the manufacturing, selling and distribution of coatings and related products. We also sell prescriptions, health and beauty aids, cosmetics and general merchandise through 402 Gray Drug and Drugfair stores in 10 states.

We sell Sherwin-Williams labeled architectural coatings, industrial finishes, and associated supplies through 1,417 company-operated paint and wallcovering stores in 48 states. We also manufacture and sell coatings such as Dutch Boy, Kem-Tone, Martin-Senour, Baltimore and Lucas plus private label brands to independent dealers, mass merchandisers, and home improvement centers. We produce coatings for original equipment manufacturers in a number of industries and special purpose coatings for the automotive after-market, industrial maintenance, and traffic paint markets.

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In 1983, earnings per common share increased to $2.32, primary, from $2.02 in 1982, and to $2.25, fully diluted, compared to $1.78. Net income increased 29 percent to $55,412,000, compared to 1982's $42,931,000. Net sales, at $1.97 billion, were up 7 percent compared to the previous year's $1.85 billion. Our goal for return on shareholders' equity in recent years has been 15 percent, which we exceeded in 1983 with a 18.6 percent return.

I said in the 1982 annual report that I expected 1983 to be another tough year. As anticipated, our competitors remained aggressive, and some segments of the economy lagged the recovery. However, 1983 proved to be a strong year for Sherwin-Williams.

Overview of 1983

Major accomplishments in 1983 and early 1984, in addition to strengthening our balance sheet and improving sales and profits, included the strengthening of our management team, divestiture of the Container Corporation, and the formation of our joint venture in Canada.

Earlier this year, Mr. William B. Eldredge, an employee for thirty years, became group vice president in charge of the International Group, Consumer Automotive Aftermarket, Chemical Coatings, and Chemicals divisions. Previously vice president of the International Group, Mr. Eldredge was succeeded by Mr. Max Duarte who had been general manager of S-W Mexico. Mr. Frank E. Butler, who joined the company in 1957 and was most recently serving as president and general manager of the Chemicals Division, was promoted to vice president of operations for the Consumer Division. Dr. Ashok K. Nanda became general manager of the Chemicals Division after having served as the division's vice president of manufacturing. He joined Sherwin-Williams in 1959. These internal promotions and others indicate the strengthening of our management organization. The quality of our managers ensures our future.

Mr. Patrick S. Parker, a director since 1975, has decided not to stand for reelection at this year's shareholders meeting. Mr. Parker joined our board at a very difficult period in Sherwin-Williams' history. We are deeply indebted to him for helping us through these past several years and for his strong support of the management group. We will miss his counsel greatly and wish him well in his new endeavors.

On November 30, an investment group acquired control of Sherwin-Williams Container Corporation, renaming it United States Can Company. The divestiture does not significantly affect our earnings, permits us to continue buying cans without interruption of supply, and allows us to redeploy the sale proceeds to our core business.

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In January of this year, we entered into a joint venture with C-I-L Inc. This joint venture owns and manages the decorative paint businesses formerly conducted by S-W Canada, Inc. and C-I-L Paint, Inc. a Toronto firm. The partnership was formed to create a stronger business in the highly fragmented Canadian market.

Our Paint Stores Division proved in 1983 they can successfully manage their retail and wholesale businesses. They gained double digit increases in operating profits for both businesses. They did this with more aggressive marketing, cost efficiencies and productivity improvements. For the first time in many years, our net number of stores increased. The Stores Division has a stronger management team in place commited to capturing the many opportunities still available for growth.

Gray Drug Fair, while contributing to consolidated profits, fell short of our expectations. Their sales account for 29.3 percent of the company total, yet their operating profit represents only 4.4 percent of segment total profits, which is approximately half of their 1982 performance. We have identified many of the problems, and the division's managers are addressing them. Gray Drug Fair's record so far as a turnaround division is not unlike the Paint Stores' experience in earlier years. As an inventory-intensive and service-oriented business, they must continue improving on the basics of financial controls, merchandise mix and inventory management.

In our Coatings segment, the Consumer Division increased their operating profit and continued improving operations. In 1983, they also created the sales organization for a multi-brand marketing approach. With salesmen trained and knowledgeable about the Dutch Boy, Martin-Senour, Lucas Group, Baltimore and Kem-Tone lines, the division expects to increase external sales in 1984. Once again, the Automotive Aftermarket Division's operating profits were up compared to the previous year. While much of this was due to sales increases, they also achieved operating improvements and manufacturing efficiencies. The Chemical Coatings Division lowered manufacturing failure costs and focused their merchandise mix on higher margin products to bring up gross margins. Both this division and the Automotive Aftermarket Division rely on strong product development functions to provide customers with high quality specialty coatings.

For the Chemicals Division, cost reductions and gross margin improvements contributed to their increase in operating profits. Finally, our International Group achieved a good performance given the currency devaluation in Jamaica and the deconsolidation of our Mexican subsidiary.

1984 and beyond

We expect 1984 to be a moderate year for the economy. Inflation will approximate current levels and unemployment should not increase substantially except for those industries still in transition. However, we continue emphasizing tight controls over inventory, sales, and operating expenses. Government budget deficits, resulting high real interest rates, and international debt problems may renew inflation and stop the business recovery.

We expect consumers will remain cost-conscious even as disposable income increases. When they restore, maintain or beautify existing assets, and as the country in general repairs its infrastructure, we want to make it as convenient as possible to "Ask Sherwin-Williams." One hundred fifty new stores will make it that much easier for customers to shop for paint, wallcoverings and other decorating items at a Sherwin-Williams store. And as consumers buy more of our products, our manufacturing operations will benefit from increased volume.

It is also important to offer customers convenience and service in making their health and beauty aid purchases. America's population continues to age and is more conscious of health and appearance. Adding to our number of Gray Drug and Drugfair stores is important. However, as the division grows, we must be confident it is managing the basics, and this will be our concentration in 1984.

Acquisitions will probably be working-capital intensive as opposed to fixed-assets intensive. And as I have said many times, we look at acquisitions where we already have management expertise and familiarity with the business. We will also continue to grow through internal development. As we have demonstrated, we will not hesitate to divest those businesses that do not improve our shareholders' wealth.

Looking back at 1983, we accomplished much. At the same time, we recognize that our competitors accomplished a great deal as well. For 1984 the best tools we can provide our people for increasing sales are new and improved products with good marketing programs. Our people continue to demonstrate the will to win, and this winning attitude will ensure another successful year in 1984.

John G. Breen

John G. Breen, Chairman,
President, Chief Executive Officer
March 12, 1984

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Sherwin-Williams at a glance by segment

		Principal Products	Major Markets
Paint Stores	Stores Division	Sherwin-Williams labeled architectural coatings and industrial finishes, wallcoverings, floor coverings, window treatments, paint sundries, spray equipment.	Professional users (including painters, contractors, industrial maintenance and commercial accounts), do-it-yourself consumers, small to medium sized manufacturers of products requiring factory finish
Drug Stores	Gray Drug Fair	Prescriptions, health and beauty aids, cosmetics, general merchandise.	General public.
Coatings	Consumer Division	Architectural finishes (under the Sherwin-Williams, Dutch Boy, Martin-Senour, Kem-Tone, Baltimore, Lucas Group and private brand labels), special purpose coatings, custom packaging of aerosol products, brushes, rollers, adhesives, labels, color cards.	Do-it-yourselfers, industrial and commercial maintenance accounts, painting contractors
	Automotive Aftermarket Division	Automotive refinish products under Sherwin-Williams, Martin-Senour, Acme, Rogers, Aclose (factory-packed colors for Japanese cars).	Automotive body shops, fleets, body builders.
	Chemical Coatings Division	Sherwin-Williams labeled industrial finishes for original equipment manufacturers.	Business machines, general products, forest products, transportation equipment, coil products, metal furniture, farm and off-road equipment.
Chemicals	Chemicals Division	Organic intermediates, saccharin, antioxidants and corrosion inhibitors.	Plastics, rubber, food, pharmaceuticals and agricultural chemicals
International	International Group *Sherwin-Williams Canada* *Sherwin-Williams Mexico** *Sherwin-Williams Caribbean* *Sherwin-Williams Brazil** **(unconsolidated)*	Architectural coatings, industrial and automotive repaint finishes, paint sundries and a variety of home decorative items.	Independent paint dealers, painting contractors, automotive body shops, commercial and industrial maintenance accounts, original equipment manufacturers and do-it-yourselfers

General business development — Disposition of Sherwin-Williams Container Corporation effective November 30, 1983, for cash and other securities.

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.

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 pages 8-9 of this report.

Number of employees is included on page 13 of this report.

Facilities are listed on page 31 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 1983.

Research and development expenditures are described on page 19. Virtually all such activities were sponsored by the company rather than by customers.

Legal — The company is one of the named defendants in a civil suit filed in the Twelfth District Court by the State of Illinois involving a recycling operation, Cross Brothers, Pembroke, Illinois. The state is seeking various forms of relief under the Illinois Environmental Protection Act. The suit is in the initial stages of discovery.

The citation against the company at its Chicago, Illinois Container Plant by the U. S. Occupational Safety and Health Administration has become a moot issue as a result of the November 30, 1983 disposition of Sherwin-Williams Container Corporation. The subject matter of the citation, the equipment in the container plant on the Chicago site, is now the responsibility of the new owners.

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Distribution	Competition	Seasonality
Through ~~1417~~ 1535 company-operated stores in 48 states	Paint and wallpaper stores, mass marketers, home centers, independent hardware stores, hardware chains. Market is fragmented and highly price, quality and service competitive.	Seasonal with the major portion of sales occurring in the second and third quarters.
402 retail stores in Delaware, Florida, Indiana, Maryland, New York, Ohio, Pennsylvania, Virginia, West Virginia, and the District of Columbia.	Drug chains, food stores and mass marketers. Customers respond to merchandising, pricing and service.	Seasonal with approximately 29 percent of sales occurring in the fourth quarter
The Stores Division, independent dealers, mass merchandisers, home centers.	More than 1,000 coatings manufacturers at regional and national level. Quality, service and price are main competitive factors.	Seasonal with the major portion of sales occurring in the second and third quarters.
66 Sherwin-Williams automotive branches, distributors and jobbers.	Division ranks among four major market leaders. Quality and service competitive.	Moderately seasonal.
Sherwin-Williams stores and direct sales.	Four major competitors with broad product offering and several small companies with niche products. Product technology, quality and service key competitive factors.	No significant seasonality.
Direct sales representatives, distributors and warehouses.	Major chemical companies. Technology and price competitive.	Not considered seasonal.
Direct sales force, distributors and jobbers. Company-operated stores as follows: Canada 90; Mexico 74, Brazil 5.	Many competitors in each foreign market. Sherwin-Williams competitive position is significant only in Mexico, Canada, and the West Indies. Price, service and quality sensitive.	Canadian operation seasonal with 60 percent of sales occurring in second and third quarters; other operations not significantly seasonal.

You get a whole lot of help.

More than an advertising slogan, the words "You get a whole lot of help" summarize our emphasis at Gray Drug and Drugfair stores upon product, service and price.

"You get a whole lot of help" describes our drug stores — shopping at a Gray Drug store or Drugfair store means convenience, friendly service and a strong product assortment at prices that help customers save.

The proof is in the performance.

"The Proof is in the Performance" advertising program for Dutch Boy stresses product attributes such as exterior durability, interior washability, excellent hiding characteristics, and, most of all, consistent quality. The proof of Dutch Boy's performance lies in the experience of professional painters. They participate in this advertising program by sharing with the consumer their success stories in using Dutch Boy.

Ask Sherwin-Williams

The "Ask Sherwin-Williams" advertising and promotion program for our paint stores is targeted for homeowners, do-it-yourselfers, and the professional trade — including painting contractors, builders, plant owners, and architects.

The comprehensive campaign emphasizes that Sherwin-Williams stores offer a product selection and knowledgeable service that both the professional and retail customer cannot find anywhere except Sherwin-Williams.

1983 Operating Review by Segment

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Operating Highlights for 1983

Paint Stores

Stores Division

- Increased sales 17 percent and operating profits 108 percent. Accomplished this through improved merchandising, stronger promotion — particularly of interior products — and operating efficiencies
- Emphasized benefits of greater supplier responsiveness through the successful Partners for Profit program
- Made more effective use of flexible hours for the staffing of stores
- Remodeled 163 stores, opened 56, relocated 66, closed 6. The current total of 1,417 stores represents the first net increase in many years

Drug Stores

Gray Drug Fair

- Increased sales 7 percent but profits were down 58 percent. SG&A costs eroded sales gains.
- Raised profitability of pharmacy sections of Gray Drug Fair stores, the fastest growing market segment of the division.
- Continued focusing on core assortment in product lines and on emphasizing convenience for the customer.
- Expanded and upgraded private label program, especially in vitamins
- Remodeled 112 stores, opened 30, relocated 8, closed 9

Coatings

Consumer Division

- Added new distribution as the result of restructured marketing program.
- Increased gallonage for Dutch Boy and Martin-Senour 12 percent because of aggressive marketing and promotional efforts.
- Benefited from efficiencies in raw materials purchasing. Greater volume improved factory operations.

Automotive Aftermarket Division

- Gained market share in fleet and truck OEM through new product introduction.
- Provided more training for customers and sales staff in product knowledge and application techniques.

Chemical Coatings Division

- Increased profits 33 percent. Profit performance due to operating efficiencies, decreasing manufacturing failure costs and improving working capital management.
- Developed state-of-the-art resin manufacturing process.
- Rolled out strong national program for Perma-Clad 2500 and Glas-Clad, both important new products.

PRODUCTS
Left, top to bottom
Our finest, SuperPaint guarantees one-coat hiding, easy application, and scrubbability . . . for 15 years.
New and expanded private label product lines mean quality and savings.
Home centers and hardware dealers sell Dutch Boy, one of Consumer Division's brand-name labels.
More than 6,000 NAPA auto parts stores exclusively market the Automotive Aftermarket Division's Martin-Senour line.
Permaclad, a high solids, EPA-complying coating, is used by the metal furniture industry and other metal product manufacturers.

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Developments for 1984

- Spend approximately 40 percent more on advertising, including strengthening network television advertising
- Build on foundation laid in 1983 to fine tune industrial maintenance and chemical coatings marketing
- Spend approximately $1 million on the training of managers and sales representatives to meet requirements of new stores and to ensure readiness in the future
- Add to the number of stores that carry the in-stock wallcovering program and to the number of patterns many stores already carry
- Remodel 140 stores, open 150, relocate 50 and close none

- Lower SG&A costs to attain greater profitability
- Improve inventory service levels
- Step up advertising circular program
- Remerchandise or sublet remaining space still available from Drugfair's terminating the apparel business.
- Remodel 86 stores, open 32, relocate 10, close 4

- Spend 50 percent more on advertising.
- Expand distribution through aggressive, competitive pricing, service and advertising
- Implement the formal sales training program created in 1983 to increase product knowledge and sales.
- Realize benefits from capital expenditures made in the latter part of 1983 for the paint filling and finishing areas and begin line rationalization.

- Continue new product introduction, particularly in the fleet and OEM truck niches. Offer end users easy-to-apply systems and superior color match.
- Engage in aggressive expansion of distribution network for all four product lines.
- Begin constructing main manufacturing plant at Richmond, Kentucky site.

- Introduce new products to improve end users' finishing productivity while meeting EPA regulations
- Separate responsibilities for new account development and existing account growth. Purpose is to concentrate on targeted accounts in faster growing market segments.
- Continue manufacturing and operating efficiencies, particularly in raw materials and inventory consolidations.

SERVICE
Right, top to bottom
Do-it-yourselfers appreciate the wide range of in-stock wallcoverings available at S-W decorating centers.
Helpful pharmacists are part of the fastest growing market segment of Gray Drug Fair.
Careful, precise quality assurance has set S-W ahead of others for more than a century. Consumer Division formulators and quality assurance personnel use this ICI Cone and Plate Viscometer to assess the brushability of various paints.
Our automotive body shop color mixing program offers 25,000 color formulas.
Fast spells action for Chemical Coatings customers. The division's customer service team specializes in sophisticated coatings and application equipment know-how.

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Business Segments

Thousands of dollars

Years ended December 31,		1983	1982	1981	1980	1979	1978
Net External Sales	Paint Stores	$ 724,374	$ 621,032	$ 615,434	$ 582,292	$ 585,312	$ 575,579
	Drug Stores	577,826	540,648	137,860			
	Coatings	[illegible]	553,773	568,556	476,988	426,160	393,842
	Chemicals	[illegible]	95,991	116,965	115,271	102,132	84,020
	International	18,222	40,332	97,992	89,170	82,739	78,909
	Segment totals	$1,973,[illegible]	$1,851,776	$1,536,807	$1,263,721	$1,196,343	$1,132,350
Operating Income	Paint Stores	$ 28,767	$ 13,842	$ 16,176	$ 7,805	$ 5,779	$ (14,076)
	Drug Stores	8,863	13,864	6,895			
	Coatings	[illegible]	74,920	61,055	45,927	41,862	51,112
	Chemicals	8,016	6,382	(3,732)	13,423	7,567	8,427
	International	1,274	7,800	7,086	9,271	5,884	2,386
	Segment totals	134,186	116,788	87,480	76,426	61,092	47,849
	Corporate expenses — net	[illegible]	(21,403)	(11,437)	(9,523)	(8,290)	(16,942)
	Interest expense	(17,[illegible])	(18,954)	(18,332)	(18,552)	(19,368)	(21,318)
	Income before income taxes	$ 101,212	$ 76,431	$ 57,721	$ 48,351	$ 33,436	$ 9,589
Identifiable Assets	Paint Stores	$ 177,[illegible]	$ 143,885	$ 186,711	$ 159,342	$ 165,694	$ 179,390
	Drug Stores	288,347	175,859	172,734			
	Coatings	[illegible]	290,017	317,805	329,130	317,808	333,929
	Chemicals	[illegible]	72,232	76,405	68,006	61,658	55,256
	International	38,715	41,318	55,266	51,809	45,378	44,738
	Segment totals	[illegible]	732,089	788,921	608,287	590,338	613,313
	Corporate	[illegible]	156,178	75,517	160,305	121,396	40,486
	Consolidated totals	$ [illegible]	$ 888,267	$ 864,438	$ 768,592	$ 711,734	$ 653,799
Capital Expenditures	Paint Stores	$ 7,169	$ 5,768	$ 9,880	$ 5,814	$ 1,388	$ 2,671
	Drug Stores	[illegible]	5,398	742			
	Coatings	12,157	10,518	14,286	8,734	4,638	11,825
	Chemicals	[illegible]	4,143	14,408	6,514	3,990	1,162
	International	[illegible]	701	1,039	1,023	598	781
	Segment totals	[illegible]	26,482	40,361	22,115	10,614	16,239
	Corporate	[illegible]	4,153	2,711	1,589	1,253	1,035
	Consolidated totals	$ [illegible]	$ 30,645	$ 43,072	$ 23,704	$ 11,867	$ 17,274
Depreciation	Paint Stores	$ 6,716	$ 6,618	$ 5,863	$ 5,290	$ 5,225	$ 4,775
	Drug Stores	1,825	888	98			
	Coatings	16,784	10,508	9,798	9,696	9,398	9,074
	Chemicals	[illegible]	3,934	3,753	3,199	2,924	2,754
	International	218	242	881	1,051	1,079	1,323
	Segment totals	22,344	21,088	20,379	19,206	18,627	17,926
	Corporate	1,876	1,307	1,289	773	831	512
	Consolidated totals	$ 24,220	$ 22,395	$ 21,668	$ 19,979	$ 19,458	$ 18,438
Operating Margin*	Paint Stores	4.8%	2.2%	2.6%	1.3%	1.0%	(2.4%)
	Drug Stores	1.5%	2.6%	5.0%			
	Coatings	16.7%	9.5%	7.3%	6.5%	6.5%	8.3%
	Chemicals	8.1%	6.6%	(3.1%)	11.5%	7.3%	9.9%
	International	7.9%	19.3%	7.2%	10.4%	7.1%	3.0%
	Segment totals	[illegible]	5.6%	4.9%	5.1%	4.3%	3.5%

*The operating margin for each segment is based upon total external sales and intersegment transfers. Intersegment transfers are accounted for at values comparable to normal unaffiliated customer sales.

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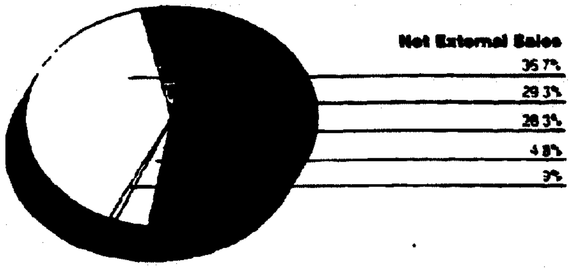
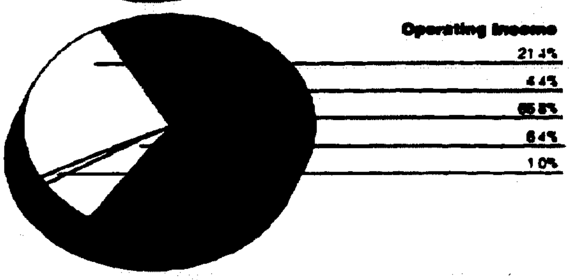
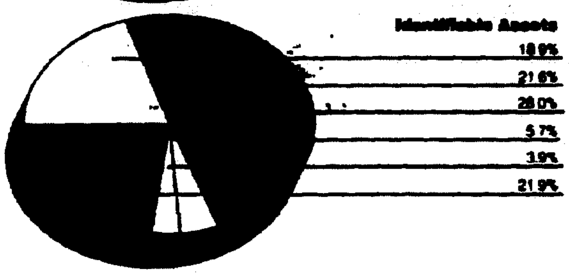
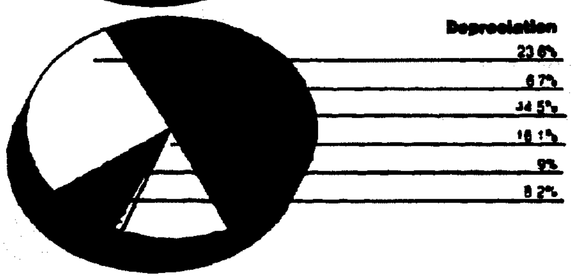
1983 Comparative Data









Notes to Segment Tables

The Drug Stores segment consists of the assets and operations of Gray Drug Stores, Inc., acquired during the fourth quarter of 1981 and additional drug stores acquired during 1983 and 1982. The data contains the results of operations of this segment beginning October 3, 1981.

In addition to capital expenditures, property, plant and equipment acquired by the Paint Stores and Drug Stores segments through acquisitions in 1983 totaled $1,733,000. Acquisitions during 1982 and 1981 related to the Drug Stores segment totaled $2,960,000 and $14,504,000, respectively.

Effective November 30, 1983, the company disposed of the Sherwin-Williams Container Corporation, a wholly-owned subsidiary, which was included as part of the Coatings segment.

Operating income is total revenue, including profit on intersegment transfers, less operating costs and expenses. Corporate expenses include significant provisions for disposition and termination of operations.

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.

Effect of LIFO

Thousands of dollars	Year of Adoption	Decr (Incr) in Operating Income 1983	1982	1981	1980	1979
Paint Stores	1980	$ 42	$ 1,707	$ 5,086	$ 8,720	—
Drug Stores	1981	3,180	4,140	3,620	—	—
Coatings . .	1979, 1980	(497)	(2,527)	10,479	16,199	$3,340
Chemicals	1979	(2,400)	(1,300)	2,564	2,284	2,881
International .	1981	—	2,154	1,773	—	—
Segment totals		$ 2,238	$ 3,978	$23,325	$26,203	$6,221

Intersegment Transfers

Thousands of dollars	Years ended December 31 1983	1982	1981	1980	1979	1978
Coatings . .	$275,871	$236,207	$284,380	$230,039	$216,042	$219,885
All other segments	321	433	1,596	1,438	1,198	819
Segment totals	$276,192	$236,640	$285,976	$231,477	$217,240	$220,704

- Paint Stores
- Drug Stores
- Coatings
- Chemicals
- International
- Corporate

Our business segments offer customers quality products such as those bearing the registered trademarks Dutch Boy®, Martin-Senour®, Kem-Tone®, Acme®, Rogers®, Glas-Clad®, Perma-Clad® and others. Other quality paint and paint related products are offered under the trademarks Baltimore®, Lucas Group® and SuperPaint®.

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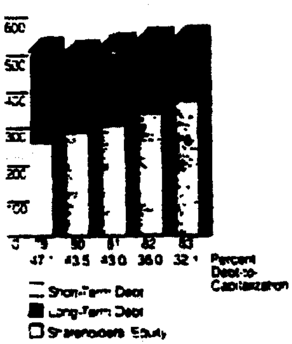
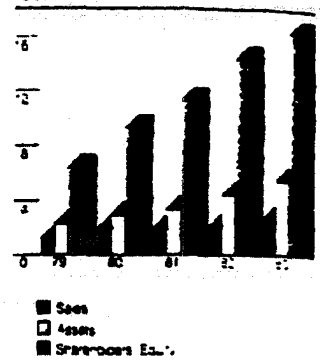
Capitalization



Working Capital as a % of Sales

Percent

Return on Sales, Assets and Equity



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1983

Cash Flow

- The cash position improved primarily because of increased earnings and the disposition of a wholly-owned subsidiary.
- Net cash flow provided by operations has enabled the company to fund its capital needs without external financing, except for financing in the Sherwin-Williams Development Corporation ("SWDC"), an unconsolidated real estate subsidiary. SWDC purchases and develops properties to be leased to the Paint Stores segment and to others.

Working Capital

No Domestic Short-Term Borrowings Since 1979.

- The 1983 current ratio of 2.0 has not varied substantially since 1979.
- The LIFO method of inventory valuation results in a lower reported current ratio. On the FIFO basis, the ratio would have been 2.2 in 1983; 2.4 and 2.2 in 1982 and 1981, respectively.
- The working capital increase of $8.5 million was primarily due to the increase in Drug Stores' inventory caused by distribution inefficiencies offset to some extent by inventory reductions in the Chemicals segment. These reductions were associated with discontinued businesses.
- The disposal during November 1983 of the company's wholly-owned subsidiary, Sherwin-Williams Container Corporation, also increased working capital.
- Our current cash position and anticipated future net cash flow provided by operations should be sufficient to finance working capital needs.

Capital Expenditures/Acquisitions/Divestiture

- Capital expenditures were $31.9 million compared to $30.6 million in 1982, excluding fixed assets acquired through acquisitions of $1.7 million in 1983 and $3.0 million in 1982.
- This increase occurred primarily because of remodeling or adding to the number of paint and drug stores.
- Expenditures for manufacturing improvements in the Coatings segment were partially offset by reduced expenditures in the Chemicals segment.
- Reported capital expenditures do not include SWDC expenditures, which were $20.2 million.
- SWDC has financed its real estate activities with revolving credit borrowings that are not guaranteed by the parent company.
- The disposal of Sherwin-Williams Container Corporation reduced net fixed assets by $35.9 million.

Lines of Credit

- We have an unused line of credit totaling $150 million with a group of eleven banks. This credit agreement was entered into August 31, 1983, and expires August 31, 1988.
- SWDC has a line of credit from a group of four banks for $50 million. This agreement was entered into December 22, 1983, and expires December 22, 1989. Borrowings under this agreement were $28.5 million at December 31

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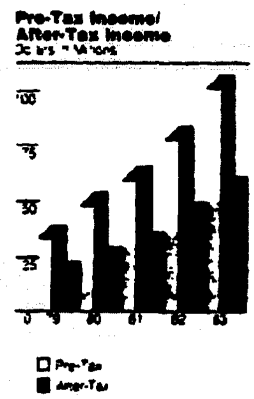

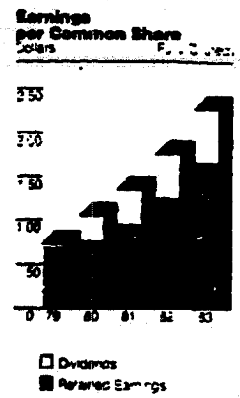

Capital Structure

The Ratio of Debt, Including Capital Leases, to Total Capital Was 32.1% At The End of 1983 Compared To 36.0% in 1982.

- This ratio in 1981 was 43.0 percent; 43.5 percent in 1980; 47.1 percent in 1979.
- Increased profitability and conversions of 8.25 percent debentures into common stock contributed to 1983's improvement in this ratio.
- We completed the redemption of all the outstanding $4.40 Cumulative Convertible Preferred Stock, Series B, with most of the shares being converted to common stock prior to the redemption date.
- During 1983, we repurchased 1,123,074 shares of common stock. Depending upon the company's cash position and market conditions, we may repurchase additional shares in 1984 for general corporate purposes. In 1982, no shares of common stock were repurchased.

Dividends

This is The Fifth Consecutive Year The Dividend Has Increased.

- The improved financial condition of the company since 1978 allowed for reinstatement of the dividend late in 1979 at a quarterly rate of $.0375 per share and subsequent increases to a quarterly rate of $.15 per share during 1983.
- On February 16, 1984, the board of directors declared a dividend of $.19 per share, an increase of 26.7 percent from the 1983 level.
- Our current dividend payout ratio of 25.1 percent is now aimed at a 30 percent level of trailing earnings, depending upon future capital needs.

Results of Operations

1983 vs. 1982

Net Sales

Net Sales Increased 6.6 percent in 1983.

- Consolidated net sales increased primarily because of a 16.6 percent increase in the Paint Stores segment and a 6.9 percent increase in the Drug Stores segment.
- The Coatings segment's increase of 1.0 percent was adversely affected by the disposition of the wholly-owned subsidiary in November. Comparable Coatings' sales increased 2.7 percent compared to 1982.
- The Chemicals segment's sales declined 2.2 percent despite increased volume reflecting the effects of competitive pricing.
- The International segment's lower sales reflect the deconsolidation of the company's Mexican subsidiary on January 1, 1983.

Gross Profit

- Gross profit margins increased to 33.8 percent in 1983 from 31.9 percent in 1982.
- All segments, except for the Drug Stores and International segments, improved gross profit margins.
- The Paint Stores segment accounted for 54.1 percent of the increase in gross profit.
- The Drug Stores segment's margins were lower than in 1982 due to distribution inefficiencies.
- The Coatings segment gained significantly in margins because of operating efficiencies and a more favorable product mix.
- The Chemicals segment increased gross profit by curtailing unprofitable operations, realizing the associated LIFO inventory reductions, and by operating efficiencies.

Selling, General and Administrative Expenses

- SG&A expenses increased $50,455,000, to 28.3 percent of sales from 27.4 percent in 1982
- Higher advertising and promotional expenses in the Paint Stores segment and higher operating costs in the Drug Stores segment were the main contributors to the increase
- Coatings segment expenses and other administrative costs increased only modestly because of continued emphasis on cost containment.

Investment Income/Interest Expense

- Although pre-tax interest and net investment income decreased modestly from $10.7 million in 1982 to $10.4 million in 1983, after-tax proceeds increased
- Interest expense declined $1,569,000 to $17,385,000 in 1983 because of the 1982 exchange of debentures and continuing conversions of 8.25 percent debentures for common stock.

Net Income

Net Income Increased 29.1 Percent From 1982.

- All segments, except for Drug Stores and International, contributed to the increase.
- The Paint Stores and Coatings segments made the major contributions to the profit increase. The Paint Stores' operating profit increased 107.8 percent. The paint sales portion of this increase generated more volume, leading to manufacturing efficiencies for the Coatings segment. General operating efficiencies also played a role in the Coatings segment's 19.7 percent operating profit increase.
- Net income for 1983 and 1982 include provisions for disposition and termination of operations. The provision in 1982 was offset to some extent by the gain on exchange of debentures for common stock.

Effects of Inflation

- Supplemental information regarding the impact of inflation upon the company is presented on pages 24 to 26 of this report

Results of Operations

1982 vs. 1981

Net Sales

- Consolidated net sales increased 20.5 percent during 1982 primarily because of the acquisition of Gray Drug Fair in October 1981
- Sales of the Drug Stores segment also increased because of acquisition of drug stores in 1982.
- Sales in the Paint Stores segment increased modestly for the year
- Sales of the Coatings segment declined 2.6 percent due to softness in the markets for the architectural coatings, chemical coatings and containers
- The reduced sales of the Chemicals segment reflect the effects of businesses discontinued during 1982 and continued weak demand for its products.

Gross Profit

- Gross profit margins increased to 31.9 percent in 1982 from 30.4 percent in 1981
- Chemicals segment gross profit margin improved primarily due to the curtailment of certain unprofitable operations and significant cost reductions.
- Profit margins improved for all divisions in the Coatings segment, except for the Container subsidiary, due to continued cost reduction activities.

Selling, General and Administrative Expenses

- SG&A expenses increased as a percentage of sales to 27.4 percent in 1982 from 26.2 percent in 1981
- The acquisition of Gray Drug Fair accounted for a major part of the increase.
- Additional advertising and promotional expenses in the Paint Stores and Coatings segments also contributed to the increase.

Investment Income/Interest Expense

- Interest and net investment income declined from $15.2 million in 1981 to $10.7 million in 1982. Both the lowering of investment levels as a result of expenditures for acquisitions and lower interest rates caused the decline
- Interest expense increased modestly from $18.3 million in 1981 to $19.0 million in 1982 because of the debt acquired in the Gray Drug Fair acquisition. This increase was offset slightly by the exchange and conversion of debentures for common stock, which reduced debt.

Net Income

- Net income increased to $42.9 million, an increase of 36.8 percent from 1981
- Acquisition of Gray Drug Fair and the improved performance of the Coatings and Chemicals segments increased net income.
- Net income for 1982 and 1981 include provisions for the disposition and termination of operations that were offset to some extent by gains on exchanges and repurchases of debentures.

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Financial Summary

Millions of dollars except per share data

Years ended December 31	1983	1982	1981	1980	1979	1978
Operations						
Net sales	$1,973	$1,852	$1,537	$1,264	$1,196	$1,132
Cost of goods sold	1,387	1,261	1,070	868	829	795
Selling, general and administrative expenses	558	507	402	344	323	312
Interest expense	17	19	18	19	19	21
Income before income taxes	101	76	57	48	33	10
Income taxes	46	33	26	23	16	5
Net income	55	43	31	25	17	5
Net cash flow provided by operations	56	84	7	79	104	(9)
Financial Position						
Inventories	$332	$299	$335	$237	$242	$244
Accounts receivable — net	141	133	132	131	126	135
Working capital	340	331	297	312	323	317
Property, plant and equipment — net	190	228	240	211	204	210
Total assets	940	888	864	769	712	654
Long-term debt	175	196	230	213	234	242
Common shareholders' equity	378	334	284	263	243	243
Total shareholders' equity	371	349	305	287	268	268
Per Common Share Data						
Average number of shares outstanding (thousands)	23,829	20,903	19,817	19,535	21,164	21,594
Book value per common share — fully diluted	$ 15.82	$ 14.66	$ 13.80	$ 12.91	$ 12.31	$ 11.25
— primary	16.24	15.19	14.34	13.38	12.50	11.25
Net income per common share — fully diluted	2.25	1.78	1.36	1.06	.72	.18
— primary	2.32	2.02	1.53	1.22	.78	.18
Cash dividends declared per common share	.60	.50	.40	.30	.0375	—
Financial Ratios						
Return on sales	2.8%	2.3%	2.0%	2.0%	1.5%	.4%
Asset turnover	2.2 x	2.1 x	1.9 x	1.7 x	1.8 x	1.8 x
Return on assets	5.9%	4.8%	3.6%	3.2%	2.5%	.8%
Return on common shareholders' equity — fully diluted (A)	16.4%	13.4%	10.2%	8.5%	6.1%	1.8%
— primary (A)	16.9%	14.8%	11.6%	9.8%	6.8%	1.8%
Dividend payout ratio	26.1%	25.0%	26.1%	24.6%	4.3%	—
Debt to capitalization	32.1%	36.0%	43.0%	43.5%	47.1%	48.6%
Current ratio	2.8 to 1	2.2 to 1	2.0 to 1	2.3 to 1	2.9 to 1	3.8 to 1
Times interest earned (B)	6.9 x	5.0 x	4.2 x	3.6 x	2.7 x	1.5 x
Working capital as a percentage of sales	17.2%	17.9%	19.3%	24.7%	27.0%	28.0%
Effective income tax rate	45.3%	43.8%	45.6%	48.6%	47.7%	47.8%
General						
Capital expenditures	$32	$31	$43	$24	$12	$17
Research and development expenditures	10	9	10	9	7	7
Advertising expenditures	61	52	43	29	21	25
Provision for depreciation and amortization	24	22	22	20	19	18
Number of shareholders:						
Preferred	48	557	750	855	951	991
Common	9,841	8,590	8,858	8,688	9,796	10,611
Number of employees	19,359	21,101	23,507	16,808	16,872	18,015
Sales per employee	$101,941	$87,758	$65,377	$75,186	$70,907	$62,856
Sales per dollar of assets	2.10	2.08	1.78	1.64	1.68	1.73

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

(B) 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 15-29 of this report

0007-SWP-035406

0007-SWP-000116828

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, 1983, 1982 and 1981. The opinion of Ernst & Whinney, the company's independent auditors, on those financial statements is included. 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
J. G. Breen,
Chairman, President,
Chief Executive Officer

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

J. E. Wallace
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 33. 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, 1983, 1982 and 1981, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio
February 1, 1984

Ernst & Whinney

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Statements of Consolidated Income

Thousands of dollars, except per share data

The Sherwin-Williams Company
and Subsidiaries

Years ended December 31,	1983	1982	1981
Net sales	$1,973,485	$1.851.776	$1.536.807
Costs and expenses.			
Cost of goods sold	1,306,712	1,260,732	1.070,171
Selling, general and administrative expenses	557,643	507,188	402,472
Interest expense	17,385	18,954	18,332
Interest and net investment income	(10,361)	(10,684)	(15,229)
Gain on exchange/purchase of debentures	—	(5,091)	(2,219)
Other	894	4,226	5,559
	1,872,273	1,775,345	1.479.086
Income before income taxes	101,212	76,431	57.721
Income taxes	45,800	33,500	26.336
Net income	$ 55,412	$ 42,931	$ 31.365
Net income per common share:			
Fully diluted	$ 2.25	$ 1.78	$ 1 36
Primary	$ 2.32	$ 2.02	$ 1.53

See notes to consolidated financial statements.

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Consolidated Balance Sheets

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

December 31	1983	1982	1981
Assets			
Current assets			
Cash and short-term investments	$160,407	$139,464	$ 77,530
Accounts receivable, less allowance	141,356	133,260	132,174
Inventories:			
Finished goods	294,305	250,803	278,114
Work in process and raw materials	37,600	48,505	56,776
	331,905	299,308	334,890
Other current assets	42,866	45,596	37,026
Total current assets	676,534	617,628	581,620
Other assets	64,426	42,235	42,550
Property, plant and equipment			
Land	9,247	9,676	12,522
Buildings	112,579	126,183	126,181
Machinery and equipment	279,243	307,809	275,356
Construction in progress	7,362	5,058	22,870
	408,431	448,726	436,929
Less allowances for depreciation and amortization	209,548	220,322	196,661
	198,883	228,404	240,268
Total assets	$939,843	$888,267	$864,438
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	$161,963	$138,443	$153,982
Compensation and taxes withheld	50,913	46,346	42,730
Current portion of long-term debt	13,069	10,017	5,589
Other accruals	90,496	73,455	74,698
Accrued taxes	20,418	18,156	7,478
Total current liabilities	336,859	286,417	284,477
Long-term debt	176,307	196,220	230,101
Deferred income taxes	26,069	29,824	29,790
Other long-term liabilities	30,638	26,974	15,050
Shareholders' equity			
Capital stock:			
Serial preferred	386	5,521	7,545
Common	158,364	73,552	69,806
Other capital	6,220	12,728	2,393
Retained earnings	257,527	279,103	247,485
Cumulative foreign currency translation adjustment	(11,741)	(9,987)	(2,922)
	410,756	360,917	324,307
Less treasury stock, at cost	39,786	12,085	19,287
Total shareholders' equity	370,970	348,832	305,020
Total liabilities and shareholders' equity	$939,843	$888,267	$864,438

See notes to consolidated financial statements.

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Statements of Changes in Consolidated Financial Position

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

Years ended December 31	1983	1982	1981
Cash provided by (used for) operations			
Net income	$ 55,412	$ 42.931	$ 31 385
Non-cash charges (credits) to net income			
Depreciation and amortization	24,220	22.395	21.668
Noncurrent deferred income taxes	(3,755)	34	3.425
Gain from exchange of common stock for debentures	—	(5,091)	—
Disposition of noncurrent assets	5,044	9.157	6.347
Amortization of intangible assets	2,325	1.860	403
Decrease (increase) in current items	17,036	36.512	(12.167)
Capital expenditures	(31,908)	(30;645)	(43.072)
Obligations under capital leases	(4,158)	(4,320)	(2.489)
Other	(8,528)	11,029	1.614
Net cash flow provided by operations	55,688	83.862	7 114
Cash invested, distributed and other			
Decrease (increase) in current items from business acquisitions	(4,567)	(8.646)	(44 370)
Noncurrent assets from business acquisitions	(6,190)	(6.911)	(9.406)
Cash dividends	(14,077)	(11.313)	(8 907)
Sales (repurchases) of treasury stock	(28,013)	2,262	(3.234)
Net book value of noncurrent assets associated with disposal of subsidiary	17,336	—	—
Sales of property to unconsolidated subsidiary	—	10,070	—
Common stock issued in exchange for debentures	—	8,622	—
Debentures acquired from exchange of common stock, net of gain	—	(8,243)	—
Purchase of debentures	—	—	(11.856)
Other	1,758	(7,769)	(541)
Cash invested, distributed and other	(34,746)	(21,928)	(78.314)
Net increase (decrease) in cash and short-term investments	20,943	61.934	(71.200)
Cash and short-term investments:			
Beginning of the year	139,464	77.530	148.730
End of the year	$160,407	$139,464	$ 77.530
Decrease (increase) in current items:			
Accounts receivable	$ (8,096)	$ (1,086)	$ (909)
Inventories	(32,597)	35,582	(97.491)
Other current assets	2,730	(8.570)	(11.277)
Accounts payable	23,810	(15.539)	40.035
Compensation and taxes withheld	4,567	3.616	25
Current portion of long-term debt	3,072	4.428	2.480
Other accruals	17,091	(2.835)	20.636
Accrued taxes	2,262	12.270	(10.036)
Decrease (increase) in current items	$ 12,479	$ 27.866	$ (56.537)

See notes to consolidated financial statements

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Statements of Consolidated Shareholders' Equity

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance at January 1 1981	$ 8,583	$34,162	$ 6,000	$254,184	$ —	$(16,053)
Cumulative translation adjustment	—	—	—	—	(1,548)	—
Two-for-one stock split	—	34,537	(5,360)	(29,177)	—	—
Treasury stock acquired	—	—	—	—	—	(3,234)
Common stock issued	(1,038)	1,107	1,753	—	—	—
Net income	—	—	—	31,385	—	—
Cash dividends declared:						
Series A preferred stock — $4.00 per share	—	—	—	(271)	—	—
Series B preferred stock — $4.40 per share	—	—	—	(700)	—	—
Common stock — $.40 per share	—	—	—	(7,936)	—	—
Current year translation adjustment	—	—	—	—	(1,374)	—
Balance at December 31, 1981	7,545	69,806	2,393	247,485	(2,922)	(19,287)
Treasury stock sold	—	—	582	—	—	1,401
Common stock issued	(2,024)	3,746	6,932	—	—	—
Net income	—	—	—	42,931	—	—
Cash dividends declared:						
Series A preferred stock — $4.00 per share	—	—	—	(249)	—	—
Series B preferred stock — $4.40 per share	—	—	—	(552)	—	—
Common stock — $.50 per share	—	—	—	(10,512)	—	—
Exchange of stock for debentures	—	—	2,821	—	—	5,801
Current year translation adjustment	—	—	—	—	(7,065)	—
Balance at December 31, 1982	5,521	73,552	12,728	279,103	(9,987)	(12,085)
Two-for-one stock split	—	74,782	(12,824)	(61,968)	—	—
Treasury stock acquired/retired	(78)	—	—	(30)	—	(28,905)
Common stock issued	(5,057)	10,030	6,316	(923)	—	1,204
Net income	—	—	—	56,412	—	—
Cash dividends declared:						
Series A preferred stock — $4.00 per share	—	—	—	(102)	—	—
Series B preferred stock — $1.10 per share	—	—	—	(107)	—	—
Common stock — $.60 per share	—	—	—	(13,868)	—	—
Current year translation adjustment	—	—	—	—	(1,754)	—
Balance at December 31, 1983	$ 386	$158,364	$ 6,220	$257,827	$(11,741)	$(39,786)

See notes to consolidated financial statements

0007-SWP-035411

0007-SWP-000116833

Years ended December 31, 1983 1982 and 1981

Note 1 — Significant Accounting Policies

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

Short-term investments. Short-term investments are stated at the lower of aggregate cost or market value

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% - 6⅔%
Machinery and Equipment	4% - 20%
Furniture and Fixtures	5% - 20%
Automobiles and Trucks	10% - 33⅓%

Intangibles. Intangible assets purchased in acquisitions are amortized over the expected period of benefit.

Research and development costs. All research and development costs are charged to operations and were $10,136,000, $9,135,000, and $9,766,000 for 1983, 1982 and 1981, respectively.

Net income per common share. Fully diluted net income per common share was computed based on the average number of shares outstanding and assumed the conversion of the 6.25% Convertible Subordinated Debentures (after adding to net income interest on the debentures net of income taxes) and preferred stock, and the exercise of dilutive stock options. Primary net income per common share was computed based on the average number of common shares and common share equivalents outstanding during the year after adjusting net income for dividend requirements of the preferred stock.

Foreign Currency Translation. The financial statements of foreign entities have been translated to U.S. dollars in accordance with FASB Statement No. 52, "Foreign Currency Translation." Under that Statement, for certain foreign operations, all balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of shareholders' equity.

Reclassification. Certain amounts in the 1982 and 1981 financial statements have been reclassified to conform to the 1983 presentation.

Note 2 — Stock Splits

During February, 1983 and February, 1981, the company's board of directors authorized two-for-one splits of the common stock outstanding effected in the form of 100% stock dividends. These dividends were distributed during March of each respective year. The par value of the additional shares of common stock issued in connection with these stock splits was credited to common stock and a like amount charged to other capital and retained earnings

Note 3 — Inventories

Inventories are stated at the lower of cost or market Cost is determined principally on the last-in, first-out (LIFO) method The following presents the effect on inventories, net income and net income per common share had the company used the FIFO and average cost methods of inventory valuation adjusted for income taxes at the statutory rate and assuming no other adjustments. This information is presented to enable the reader to make comparisons with companies using the FIFO method of inventory valuation.

Thousands of dollars, except per share data	Years ended December 31, 1983	1982	1981
Percentage of total inventories on LIFO	99%	95%	94%
Excess of FIFO and average cost over LIFO	$56,425	$56,953	$55 949
Effect of LIFO on net income	1,218	2 148	*2 703
Effect of LIFO on net income per common share	06	10	64

During 1983 and 1982 certain inventories were reduced resulting in liquidations of LIFO inventories carried at the lower costs of prior years. The effect of these liquidations increased net income by approximately $2,208,000 ($.10 per common share) and $3,144,000 ($.15 per common share) in 1983 and 1982, respectively. The disposal of the wholly-owned subsidiary reduced the excess of FIFO and average cost over LIFO in 1983.

Note 4 — Disposition of Wholly-Owned Subsidiary

During November, 1983, the company received for its wholly-owned subsidiary, Sherwin-Williams Container Corporation, cash and other securities approximating net book value. This subsidiary, whose operations have been included in the company's Coatings segment, was engaged in the manufacture of round paint cans, as well as oblong and aerosol cans. A summary of the assets and liabilities transferred is as follows:

Thousands of dollars	
Current assets	$26,356
Property, plant and equipment — net	35 885
Current liabilities	(10 148)
Other assets and liabilities — net	(48)
	$52 045

Operating results of this subsidiary have been included in the company's statements of consolidated income The following data reflect the subsidiary's results of operations which have been included in each of the three years ended December 31.

Thousands of dollars	Eleven months ended November 30, 1983	Years ended December 31 1982	1981
Net sales	$92,809	$103,211	$112 170
Operating income	1,829	3,086	11 555
Net income	1,000	1 734	6 286

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Note 5 — Acquisitions

Throughout 1983 and 1982 the company purchased various retail drug and paint stores at a cost of approximately $10,747,000 and $15,807,000, respectively. The assets acquired consisted primarily of inventory and other assets. The results of operations of these stores since the dates of acquisition were not material to consolidated results.

Effective October 3, 1981, the company acquired for $55,079,000, through a wholly-owned subsidiary, the outstanding stock of Gray Drug Stores, Inc. ("Gray"). The acquisition was accounted for under the purchase method and, accordingly, in 1981 the operations of Gray since the date of acquisition (net sales of $137,860,000 and net income of $3,444,000 or $.17 per share) were reflected in the statement of consolidated income. Following is a summary of assets acquired and liabilities assumed (excluding net current assets of $45,673,000).

Thousands of dollars	
Property, plant and equipment	$14,504
Other non-current assets	28,596
Long-term debt and other liabilities	(33,694)
	$ 9,406

Pro forma financial information was prepared in accordance with Accounting Principle Board Opinion No. 16 and was based upon the assumption that Gray was acquired as of January 1, 1981, at the same purchase price. In management's opinion, the pro forma financial information is not indicative of results of operations that may have occurred had the acquisition of Gray taken place January 1, 1981 or of future results of operations of the combined companies under the ownership and operation of the company.

The following pro forma data for the year ended December 31, 1981 reflects adjustments for interest income on short-term investments and gives effect to adjustments resulting from the acquisition:

Thousands of dollars, except per share data	
Net sales	$1,907,000
Net income	24,300
Net income per common share:	
Fully diluted	.99
Primary	1.18

Note 6 — Income Taxes

Thousands of dollars	Years ended December 31, 1983	1982	1981
The components of income before income taxes consist of the following:			
Domestic	$ 96,798	$67,978	$50,364
Foreign	4,414	8,453	7,357
Total income before income taxes	$101,212	$76,431	$57,721
The components of income tax expense are as follows:			
Current:			
Federal	$ 41,024	$27,597	$14,264
State and Local	7,200	4,600	2,600
Foreign	1,573	6,014	3,041
	49,797	38,211	19,905
Deferred:			
Federal	(3,973)	(4,471)	6,511
Foreign	(24)	(240)	(80)
	(3,997)	(4,711)	6,431
Total income tax expense	$ 45,800	$33,500	$26,336

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, 1983, such undistributed earnings amounted to approximately $3,990,000.

Investment tax credits (accounted for by the flow-through method) aggregated $1,641,000, $3,102,000, and $2,837,000 for 1983, 1982 and 1981, respectively.

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

Thousands of dollars	Years ended December 31, 1983	1982	1981
Depreciation	$ 4,640	$ 3,921	$ 3,184
Provision for disposition and termination of operations	(2,609)	(7,090)	(3,545)
Revenue recognized on installment sale basis	(4,063)	(72)	69
Accrued vacation pay	(347)	(727)	6,786
Other items (each less than 5% of the computed "expected" tax amount)	(1,618)	(743)	(63)
	$ (3,997)	$ (4,711)	$ 6,431

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

	Years ended December 31, 1983	1982	1981
Statutory tax rate	46.0%	46.0%	46.0%
Effect of:			
State and local taxes	3.6	3.3	2.4
Investment tax credit	(1.6)	(4.1)	(4.9)
Foreign tax credit	(.1)	(3.2)	(1.1)
Foreign operations subject to varying income tax rates	(.4)	5.5	1.1
Permanent differences where the tax bases of certain assets and liabilities differ from their bases for financial reporting purposes	(2.3)	(2.5)	—
Gain from the exchange of common stock for debentures	—	(3.1)	—
Other — net	(.1)	1.9	2.1
Effective tax rate	45.3%	43.8%	45.6%

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Note 7 — Pensions

Substantially all employees of the company who meet certain requirements as to age and service participate in noncontributory pension plans. The company generally funds pension costs accrued.

Pension expense which represents normal cost, interest on unfunded prior service costs and amortization of unfunded prior service cost over 30 years was $13 248,000, $15,713,000 and $14 546,000 for 1983, 1982 and 1981, respectively. The reduction in pension expense during 1983 resulted primarily from favorable fund management experience and a reduction in the number of employees. Increased benefits and additional employees related to business acquisitions resulted in an increase in 1982 of approximately $2,400,000 which was partly offset by decreases attributable to certain actuarial assumption changes and plan amendments.

In addition, the company contributed approximately $1,166,000, $1,095,000 and $174,000 to various multiemployer union retirement plans in 1983, 1982 and 1981 respectively. The company is presently unable to determine its respective share of either the accumulated plan benefits or net assets available for benefits under the union plans.

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

Thousands of dollars	January 1 1983	1982	1981
Actuarial present value of accumulated plan benefits.			
Vested	$214 912	$201 290	$19' 756
Non-Vested	13 169	11,965	'4 936
	$228,081	$213,255	$206 692
Net assets available for benefits	$300,070	$247 876	$24' 54'
Weighted average assumed rate of return on accumulated plan benefits	8%	8%	8%

Note 8 — Capital Stock

	Shares in Treasury: Cumulative Convertible Preferred Stock $4.00 Series A	Shares in Treasury: Cumulative Convertible Preferred Stock $4 40 Series B	Shares in Treasury: $6.25 Common Stock	Shares Outstanding Net of Treasury: Cumulative Convertible Preferred Stock $4 00 Series A	Shares Outstanding Net of Treasury: Cumulative Convertible Preferred Stock $4 40 Series B	Shares Outstanding Net of Treasury: $6 25 Common Stock
Balance at January 1, 1981	281	2,200	2,210,004	68,370	170,756	19,654,352
Stock issued upon:						
Exercise of stock options	—	—	—	—	—	277 676
Conversion of preferred stock	—	—	—	(1,176)	(28,042)	187 584
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	—	—	8,684
Treasury stock acquired	—	—	328,088	—	—	(328,088)
Balance at December 31, 1981	281	2,200	2,538,092	67,194	142,713	19,799 888
Stock issued upon:						
Exercise of stock options	—	—	—	—	—	218,160
Conversion of preferred stock	—	—	—	(9,444)	(47 532)	369,346
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	—	—	611 118
Treasury stock sold	—	—	(959,724)	—	—	959,724
Balance at December 31, 1982	281	2,200	1,578,368	57,750	95,181	21 958,236
Stock issued upon:						
Exercise of stock options	—	—	(143,000)	—	—	342,262
Redemption of preferred stock	—	—	—	—	(5,155)	—
Conversion of preferred stock	—	—	—	(47,157)	(90,026)	901 659
Conversion of 6.25% Convertible Subordinated Debentures	—	—	—	—	—	700 763
Treasury stock acquired/retired	90	(2,200)	1,123,074	(90)	—	(1 123,074)
Balance at December 31 1983	371	—	2,558,442	10,503	—	22 779 846

Effective April 15, 1983, the company called for redemption all outstanding shares of its $4.40 Cumulative Convertible Preferred Stock, Series B. The redemption price was $100 per share plus accrued dividends. Substantially all outstanding shares were converted into common stock by the redemption date. Shares of the Series B preferred stock were convertible at a base conversion price of $15.625 per share of common stock. The aggregate preference of the Series B preferred stock in involuntary liquidation was approximately $9,518,000 and $14,271,000 at December 31, 1982 and 1981, respectively.

The shares of Series A preferred stock are convertible at a base conversion price of $14 4827 per share of common stock based on a value of $100 per share of preferred stock for this purpose. The holders of the Series A preferred stock are entitled to one vote for each share. The company may redeem the Series A preferred stock at $100 per share. The aggregate preference of the Series A preferred stock in involuntary liquidation was approximately $1,050,000, $5,775,000 and $6,720,000 at December 31, 1983, 1982 and 1981 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.

An aggregate of 2,125,157, 4,103,678 and 5,302,472 shares of common stock at December 31, 1983, 1982 and 1981, respectively, were reserved for conversion of preferred stock and convertible subordinated debentures, and for the company's stock option plan. At December 31, 1983, there were 1,500,000 shares of serial preferred stock and 50,000,000 shares of common stock authorized for issuance.

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Note 9 — Stock Purchase and Stock Option Plans

Approximately 6,321 employees currently are participating through regular payroll deductions in the company's Employee Stock Purchase and Savings Plan. In this employee fund at December 31, 1983 there were 3,947,509 shares of common stock, representing approximately 17% of the total number of common shares outstanding. The company's contribution charged to operations during 1983 amounted to approximately $5,921,000.

During 1983 the company established The Sherwin-Williams Company Payroll Based Stock Ownership Plan ("PAYSOP"). Under this PAYSOP substantially all company employees not covered by a collective bargaining agreement are eligible to participate equally in the Plan. The company's contribution to the PAYSOP of approximately $1 204,000 for 1983 resulted in a corresponding reduction of applicable income tax liabilities.

Shares of company stock credited to each member's account under these employee stock ownership plans are voted by the trustee under confidential instructions from each individual plan member.

Non-qualified and incentive 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. The options generally become exercisable to the extent of one-third of the optioned shares for each full year of employment following the date of grant and expire ten years after date of grant. Options granted to certain officers in 1979 under related employment contracts carry substantially the same terms as options granted under the stock option plan.

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

	1983		1982		1981	
	Shares	Aggregate Price	Shares	Aggregate Price	Shares	Aggregate Price
Stock Option Plan						
Options outstanding beginning of year	1 076,240	$9,031 000	1,103,200	$8,141,000	1,279,200	$8 6'8 000
Granted	217 850	4,631,000	346,000	3,518,000	176,000	1 727 000
Exercised	(220,762)	(1,845,000)	(218,160)	(1,484,000)	(227 676)	(1 407 000)
Canceled	(156,876)	(1,886,000)	(156,800)	(1,144,000)	(124,324)	(797 000)
Options outstanding end of year	916,452	$10,331 000	1,076,240	$9,031,000	1,103,200	$8,'41 000
Exercisable	223,198		154,640		179,200	
Reserved for future grants	605,856		666,632		858,032	
Employee contracts						
Options outstanding beginning of year	194,000	$1,012,000	194,000	$1,012,000	244,000	$1,270 000
Exercised	(121,500)	(632,000)	—	—	(50,000)	(258,000)
Options outstanding end of year	72,500	$380,000	194,000	$1,012,000	194,000	$1,012,000

Note 10 — 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, 1983	1982	1981
Buildings	$11 790	$15 703	$16,753
Machinery and Equipment	12 371	12,662	14,541
	24 161	28,365	31 294
Less allowance for amortization	16,174	16 556	15,755
	$ 7,987	$11 809	$15,539

Rental expense for all operating leases was $61,425,000, $52,244,000 and $38,472,000 for 1983, 1982 and 1981, respectively. Contingent rentals included in rent expense were $10,975,000 in 1983, $8,745,000 in 1982, and $2,675,000 in 1981. Sublease rental income for all years presented was 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, 1983.

Thousands of dollars	Capital Leases	Operating Leases
1984	$ 6 484	$ 34 580
1985	5,686	28 952
1986	3 707	23 671
1987	2 667	17 512
1988	2 443	13 009
Later years	13 948	48 353
Total minimum lease payments	34 935	$166 077
Amount representing interest	(13,407)	
Executory costs	(2 098)	
Present value of net minimum lease payments	$19 430	

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Note 11 — Long-Term Debt

Thousands of dollars	Due Date	Sinking Fund Prepayments		Amount in Treasury December 31			Amount Outstanding Net of Treasury December 31		
		Amount	Commence	1983	1982	1981	1983	1982	1981
5.45% Debentures	1992	$2,000	Payable currently	$11,896	$13,896	$ 9,896	$ 16,104	$ 16,104	$ 22,104
6.25% Convertible Subordinated Debentures (Convertible into common stock at $11.50 a share	1995	2,000	Payable currently	13,521	15,521	17,521	5,265	13,325	20,354
9.45% Debentures	1999	2,000	Payable currently	8,665	10,665	5,331	33,335	33,335	40,669
9.375% Promissory Notes	1996	3,325	Payable currently	—	—	—	40,025	43,350	50,000
10% Promissory Notes	1998	2,997	Payable currently	—	—	—	42,003	45,000	45,000
5.25% to 11.875% Industrial Revenue Bonds	Through 2002	Varies	Payable currently	—	—	—	8,629	8,989	9,323
9.25% Promissory Notes $6,500 principal amount less unamortized discount based on imputed interest rate of 16.5%	1986	1,300	Payable currently	—	—	—	2,384	3,427	4,523
8.90% Promissory Notes $12,000 principal amount less unamortized discount based on imputed interest rate of 16.5%	1992	1,200	Payable currently	—	—	—	7,597	8,478	9,470
8.125% Mortgage Note, $6,225 principal amount less unamortized discount based on imputed interest rate of 16%, monthly payments of $53	2002	—	—	—	—	—	4,281	4,350	4,476
Obligations under capital leases — less current portion of $3,728 in 1983, $3,851 in 1982 and $4,099 in 1981							15,704	19,862	24,182
				$34,082	$40,082	$32,748	$175,307	$198,220	$230,101

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, 1983, approximately $89,193,000 was available for cash dividends on common stock.

During 1982 the company exchanged 786,450 common shares held in treasury for $13,334,000 principal amount of 5.45% and 9.45% debentures, resulting in a gain of approximately $5,091,000 ($.25 per common share).

The company has sufficient debentures in treasury to satisfy most sinking fund requirements on public debenture issues through 1988. 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.

1984 — $9,363,000
1985 — $9,346,000
1986 — $9,061,000
1987 — $8,116,000
1988 — $9,631,000

Interest expense on long-term debt amounted to $16,812,000, $18,274,000 and $17,147,000 for 1983, 1982 and 1981, respectively. There were no interest charges capitalized during the periods presented.

Under a credit agreement with a group of eleven banks, the company may borrow up to $150,000,000 until August 31, 1988. Amounts outstanding under the agreement may be converted into five-year term loans at any time. The credit agreement includes certain restrictive covenants regarding working capital levels and the working capital ratio. There are no compensating balance requirements. Sherwin-Williams Canada, Inc. had certain lines of credit available to it from the Bank of Montreal during the year in the amount of C$11,000,000. At December 31, 1983 there were no borrowings outstanding under these lines of credit.

Note 12 — Business Segments

Business segment information appears on pages 4, 5, 8 and 9 of this report

Note 13 —
Disposition and Termination of Operations

The company is continually reevaluating its operating facilities with regard to the long-term strategic goals established by management and the board of directors Operations which are not expected to contribute to the company's future plans are discontinued

Summarized below is the financial data related to the decision to close or sell certain plants and operating units Inventory, property, plant and equipment, and other assets have been reduced to their net realizable values, while the related costs for severance pay, shutdown expenses and estimated future operating losses to disposal date are included in current liabilities The company expects to complete the closing and sale of the facilities at various dates through 1985

Thousands of dollars	1983	1982	1981
Beginning accrual — January 1	$33,738	$19,773	$ 7,798
Provision included in cost of goods sold	4,520	16,371	9,178
Provision included in costs and expenses — other	3,951	7,892	6,084
Total provision	8,471	24,263	15,262
Actual costs incurred and adjustments to prior accruals	(10,670)	(10,298)	(3,287)
Ending accrual — December 31	$31,539	$33,738	$19,773
Net after-tax provision	$ 4,574	$13,102	$ 8,241
Net after-tax provision per common share	$ 19	$ 63	$ 42

Note 14 — 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 adjustments for the changing prices of inventory, property, plant and equipment, and 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 The supplemental statement also does not reflect the operating efficiencies expected to be generated from new assets which would at least partially offset the increased depreciation expense In addition, the company would not necessarily replace the productive capacity which currently exists

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 We believe the results may be a reasonable approximation insofar as they express overall trends in costs and reduced purchasing power, however the data is experimental and imprecise and is not indicative of the present or future economic condition of 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 This data is not currently used for internal management evaluations and decisions.

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 cost for the 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 goods sold approximates that used in the primary financial statements under the LIFO inventory method.

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 shareholders, 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 Income

For the year ended December 31, 1983 in average 1983 dollars *Thousands of dollars, except per share data*	Conventional Historical Cost	Constant Dollar Data	Current Cost Data
	1983	1983	1983
Net Sales	$1,973,485	$1,973,485	$1,973,485
Costs and expenses			
Cost of goods sold	1,308,712	1,317,810	1,318,420
Selling, general and administrative expenses	567,643	563,065	564,657
Interest expense	17,385	17,385	17,385
Interest and net investment income	(10,361)	(10,361)	(10,361)
Other	894	894	894
Income before income taxes	101,212	84,692	82,490
Income taxes	45,800	45,800	45,800
Net income	$ 55,412	$ 38,892	$ 36,690
Net income per common share	$ 2.32	$ 1.63	$ 1.53
Gain from decline in purchasing power of net amounts owed			$ 6,370
Increase in specific prices of inventories and property, plant and equipment held during the year			$ 15,975
Effect of increase in general price level			(27,138)
Increase in the general price level over increase in specific prices			$ 11,163

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

Cost of goods 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, 1983 was approximately $393,951,000 and $314,007,000 respectively. The current cost of inventory exceeded the LIFO cost of inventory at December 31, 1983 by $62,046,000.

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Five-Year Comparison of Selected Financial Data
Adjusted for the Effects of Changing Prices

Average 1983 dollars except historical data *Thousands of dollars except per share data*	1983	1982	1981	1980	1979
	Years Ended December 31				
Net sales					
Historical cost	$1 973 485	$1 851 776	$1 536 807	$1 263 721	$1 196 343
Constant dollar	1 973 485	1 911 403	1 683,532	1 527 971	1 642 121
Dividends declared per common share					
Historical cost	60	50	40	30	2375
Constant dollar	60	52	44	36	36
Market price per common share at year-end					
Historical cost	26.25	22 00	11 00	8 88	6 66
Constant dollar	25 81	22 46	11 86	10 26	8 65
Average consumer price index	298 4	289 1	272 4	246 8	217 4
Net income (loss)					
Historical cost	$55,412	$42,931	$31,385	$24,864	$17 493
Constant dollar	39,092	19,880	12,041	9 605	(21 702)
Current cost	36,690	18,611	9,475	6 451	(25 480)
Net income (loss) per common share					
Historical cost	2 32	2 02	1 53	1 22	78
Constant dollar	1 63	92	56	43	(1 39)
Current cost	1 53	86	42	27	(1 26)
Total net assets					
Historical cost	370,970	348,832	305,020	286,876	268 107
Constant dollar	536,988	557,328	570,338	551 929	525 938
Current cost	538,937	575,460	562,607	555 539	530 509
Shareholders equity per common share					
Historical cost	16.24	15 19	14 34	13 38	12 50
Constant dollar	23.53	24.86	27 64	26 62	25 47
Current cost	23.61	25.49	27.26	26 80	25 71
Total depreciation and amortization expense					
Historical cost	24,220	22,395	21,688	19,979	19 458
Constant dollar	37,128	38,395	41,509	39,902	40,144
Current cost	40,917	42,538	44,919	43,142	45 493
Effective tax rate					
Historical cost	46.3%	43 8%	45.6%	48 6%	47 7%
Constant dollar	54 0%	63.5%	70 6%	74 7%	-100 0%
Current cost	55.5%	65 0%	75.3%	81 5%	-100 0%
Increase in the general price level over (under) increase in specific prices	$11,163	$ 4,652	$ 7,749	$(3,098)	$ 3,948
Gain from decline in purchasing power of net amounts owed	8,370	9,751	17,083	23 701	29 409

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Note 15 — Quarterly Data (Unaudited)

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS

Thousands of dollars, except per share data					Per Common Share	
Year	Quarter	Net Sales	Gross Profit	Net Income	Fully Diluted	Primary
1983	1st	$438,656	$129,743	$ 2,219	$.09	$.09
	2nd	535,254	179,957	22,788	.91	.93
	3rd	530,172	183,521	23,114	.93	.95
	4th	489,393	173,552	7,310	.31	.31
1982	1st	402,556	121,609	1,024	.04	.04
	2nd	523,198	162,515	18,015	.75	.88
	3rd	491,428	182,290	18,819	.77	.89
	4th	434,594	144,830	5,073	.21	.21

The quarterly common stock price ranges and dividends for 1983 and 1982 are provided on the Shareholders' Information Page inside the front cover of this report.

1983

The actuarial valuation determining pension plan contributions for the 1983 plan year was received during the third quarter. This valuation resulted in a reduction of the estimated 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 by $1,275,000 ($.05 per common share).

Fourth quarter adjustments increased net income by approximately $2,916,000 ($.12 per common share). The adjustments included a provision of $4,178,000 ($.18 per common share) for the disposition and termination of certain operations offset primarily by inventory adjustments and other adjustments related to higher-than-estimated gross margins.

1982

Net income for the three months ended March 31, 1982 included a gain of $702,000 ($.04 per common share) from the sale of property.

During the second quarter, the company decided to close certain manufacturing operations. Accordingly, net income included a provision of $5,230,000 ($.26 per common share) for costs associated with these closings. In addition, the second quarter included a gain of $5,091,000 ($.25 per common share) from the exchange of common stock for debentures.

The actuarial valuation determining pension plan contributions for the 1982 plan year was received during the third quarter. This valuation resulted in a reduction of the estimated 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 by $649,000 ($.03 per common share).

Fourth quarter adjustments increased net income by approximately $1,877,000 ($.09 per common share). The adjustments included a provision of $8,574,000 ($.41 per common share) for the disposition and termination of certain operations offset primarily by higher-than-estimated gross margins and other inventory adjustments.

Note 16 —
Unconsolidated Real Estate Subsidiary

Sherwin-Williams Development Corporation ("SWDC") is a wholly-owned unconsolidated subsidiary carried on the equity basis. This subsidiary owns, develops and leases real estate for the company and others. At December 31, 1983 and 1982, a majority of the square footage owned by SWDC was leased to unrelated parties. Under a revolving credit agreement, the subsidiary may borrow up to $50,000,000 until December 22, 1989. Borrowings under this agreement may be converted to a six-year term loan at any time on or before December 22, 1989. The Sherwin-Williams Company has not guaranteed this debt, however, the company and SWDC have a maintenance agreement that requires the company to make payments to SWDC in amounts sufficient to maintain SWDC's fixed charge coverage at specified minimum levels. At December 31, 1983 and 1982, SWDC had property, plant and equipment totalling $36,458,000 and $17,247,000, respectively. Long-term debt, including capital leases, amounted to $29,932,000 and $13,020,000 at December 31, 1983 and 1982, respectively.

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Note 17 — Financial Schedules

Marketable Securities (10-K, Schedule I)

The marketable securities at December 31, 1983, consist of:

Thousands of dollars	
Certificates of deposit	$ 27,000
Repurchase agreements	96,200
Variable rate preferred stock	21,008
Other securities	16,199
Total	$160,407

Amounts Receivable From Related Parties (10-K, Schedule II)

Included in other assets at December 31, 1983 were the following notes receivable from certain officers of the company:

Thousands of dollars

Debtor	Beginning Balance	Additions	Deductions	Ending Balance
J G Breen	$ —	$ 580	$ —	$ 580
T A Commes	—	180	—	180
C A Bellini	—	180	—	180
	$ —	$ 880	$ —	$ 880

Each of these outstanding amounts represent 5.0% Promissory Notes, due July 28, 1988, with interest payable annually. There were no amounts reportable under this Schedule for 1982 and 1981.

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:

Thousands of dollars	Years ended December 31, 1983	1982	1981
Balance — beginning of year	$448,726	$436,929	$393,759
Total additions at cost	31,908	30,645	43,072
Assets acquired through acquisitions	1,733	2,960	14,504
Total retirements at cost	(9,326)	(5,873)	(10,490)
Sales to unconsolidated subsidiary	—	(10,439)	—
Disposal of wholly-owned subsidiary	(56,909)	—	—
Other changes	(4,701)	(5,488)	(3,916)
Balance — end of year	$408,431	$448,726	$436,929

The above changes in property, plant and equipment, except for the disposal of a wholly-owned subsidiary, each constitute less than 10% of the ending balance of the period.

Other changes for all years presented consist primarily of capitalized leases and the translation of foreign assets to U.S. dollars.

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

Thousands of dollars	Years ended December 31, 1983	1982	1981
Balance — beginning of year	$220,322	$196,661	$183,005
Total charged to expense	24,220	22,395	21,668
Sales to unconsolidated subsidiary	—	(369)	—
Retirements	(6,590)	(4,442)	(7,043)
Disposal of wholly-owned subsidiary	(24,024)	—	—
Other changes	(4,380)	6,077	(969)
Balance — end of year	$209,548	$220,322	$196,661

Other changes for all years presented consist primarily of 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:

Thousands of dollars	Years ended December 31 1983	1982	1981
Beginning balance	$2,556	$2,422	$2,025
Bad debt expense	4,900	3,658	3,640
Net uncollectible accounts written off	(4,106)	(3,524)	(3,243)
Ending balance	$3,350	$2,556	$2,422

Activity related to other long-term liabilities:

Thousands of dollars	Years ended December 31, 1983	1982	1981
Beginning balance	$26,974	$15,050	$11,080
Addition to reserve	7,508	12,155	4,127
Deductions from reserve	(3,644)	(231)	(157)
Ending balance	$30,838	$26,974	$15,050

Changes to other long-term liabilities consist primarily of adjustments to the estimated year-end liability for pensions, deferred compensation, and other items, as well as reclassifications of certain items to current liabilities.

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

Thousands of dollars	Years ended December 31, 1983	1982	1981
Notes payable to banks at December 31	—	$ 168	—
Weighted average interest rate at December 31	—	51.0%	—
Maximum amount outstanding at any month-end	—	$1,996	$10,576
Average amount outstanding during the period	—	$ 248	$ 3,888
Weighted average interest rate during the period	—	20.0%	16.5%

Short-term borrowings are included in accounts payable on the balance sheet and pertain solely to foreign subsidiaries.

The average amount outstanding is the total of month-end outstanding balances divided by twelve months.

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, 1983	1982	1981
Maintenance and repairs	$29 593	$28 000	$31,265
Advertising costs	61 358	51 764	43 029

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 each less than 1% of total net sales

Exhibit Index

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

Thousands of dollars, except per share data

	December 31, 1983	1982	1981
Fully Diluted			
Average shares outstanding	23,121,282	20,903,326	19,817,338
Options — treasury stock method	718,899	792,628	447 616
Assumed conversion of			
Series A preferred stock	183,489	425,598	466,812
Series B preferred stock	127,822	780,390	1,004,966
6 25% Convertible Subordinated Debentures	627,471	1,625,904	1,920,628
Average fully diluted shares	24,738,768	24,527,846	23,857 360
Net Income	[illegible],412	$42,931	$31,385
Less preferred dividend requirements	(A)	(A)	(A)
Add 6.25% Convertible Subordinated Debentures interest net of tax	[illegible]	619	764
Net income applicable to fully diluted shares	[illegible],794	$43,550	$32 149
Net income per common share	[illegible]	$1 78	$1 36
Primary			
Average shares outstanding	23,121,282	20,903,326	19,817,338
Options — treasury stock method	[illegible],417	(B)	(B)
Average shares and equivalents	23,819,619	20,903,326	19,817,338
Net income	[illegible],412	$42,931	$31,385
Less preferred dividend requirements	[illegible]	801	971
Net income applicable to common shares	[illegible]	$42,130	$30,414
Net income per common share	[illegible]	$2 02	$1 53

(A) Assumed conversion of preferred into common shares.

(B) Inclusion would not cause significant dilution

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Directors and Officers

Board of Directors

James A. Attwood, 56
Chairman and Chief
Executive Officer
The Mutual Life Insurance
Company of New York

Keith S. Benson, 65
Retired, formerly Executive
Vice President
Administration and Finance
Oglebay Norton Company

John G. Breen, 49
Chairman, President and
Chief Executive Officer
The Sherwin-Williams Company

D. Wayne Calloway, 48
Executive Vice President
and Chief Financial Officer
Pepsico, Incorporated

Thomas A. Commes, 41
Senior Vice President, Finance
The Sherwin-Williams Company

William J. De Lancey, 67
Retired, formerly Chairman and
Chief Executive Officer
Republic Steel Corporation

Robert C. Dolan, 59
Senior Vice President
Science and Technology
Owens-Corning
Fiberglas Corporation

Allen C. Holmes, 63
National Managing Partner
Jones, Day, Reavis &
Pogue, attorneys

J. Robert Killpack, 61
President National City Bank
and National City Corporation

William G. Mitchell, 53
President
Centel Corporation

Patrick S. Parker, 54
Chairman of the Board
and Chief Executive Officer
Parker-Hannifin Corporation

Executive Officers

John G. Breen, 49
Chairman, President and
Chief Executive Officer

Thomas A. Commes, 41
Senior Vice President, Finance

F. Thomas Krotine, 42
Senior Vice President,
Corporate Research and
Development

Carl A. Bellini, 50
Group Vice President

William B. Eldredge, 55
Group Vice President

Alan D. Childs, 53
Vice President and
General Counsel and
Corporate Secretary

Conway G. Ivy, 42
Vice President, Corporate
Planning and Development

Arthur D. Maine, 44
Vice President,
Human Resources

Robert A. Tschannen, 61
Vice President, Facilities and
Administrative Services

James E. Wallace, 50
Vice President,
Corporate Controller

Thomas R. Mikich, 36
Treasurer

Francis C. Piccirillo, 34
Assistant Secretary and
Director of Taxes

Division Managers

Thomas N. Bird, 39
President & General Manager,
Consumer Division

Joseph M. DeVittorio, 49
President & General Manager,
Chemical Coatings Division

Maximiliano Duarte, 50
Vice President,
International Group

David L. Fuente, 38
President & General Manager,
Stores Division

Ashok K. Nanda, 41
President & General Manager,
Chemicals Division

Leonard A. Ward, 57
President & General Manager,
Automotive Aftermarket
Division

Directory of Operations

RUBBERSET COMPANY CANADA (1980) INC.

Subsidiaries

Brazil — Sherwin-Williams do Brasil Industria e Comercio Ltda., São Paulo*
Canada — Sherwin-Williams Canada Inc., Montreal
Mexico — Compañía Sherwin-Williams, S.A. de C.V., Mexico City*
Caribbean — Sherwin-Williams Cayman Islands Ltd., Grand Cayman
— The Sherwin-Williams Co. Resources Limited, Kingston, Jamaica
— Sherwin-Williams (Caribbean) NV., Curaçao
— Sherwin-Williams (West Indies) Ltd., Kingston, Jamaica
— Sherwin-Williams (Barbados) Ltd., Bridgetown, Barbados

USA — Sherwin-Williams Development Corporation*
— Contract Transportation Systems Co.
— Gray Drug Fair, Inc.
— The Marshall Drug Company
— Gray Drug Stores, Inc.
— GDF, Inc.
— Drug Way Stores, Inc.
— Drug Fair, Inc.
— Drug Fair of Pa., Inc.
CTS BROKERAGE, INC.
CALUMET PAINT COMPANY

*Unconsolidated

Joint Ventures

Canada — BAPCO, Toronto, Canada
Ireland — F.S.W. Coatings Limited, Dublin
— F.S.W. Paints Ltd., Dublin
Japan — Nippon Sherwin-Williams Chemicals Co., Ltd., Osaka
Panama — Sherwin-Williams de Panamá S.A., Panama City
Saudi Arabia — Sherwin-Williams Saudi Arabia Ltd., Jeddah

ECUADOR - SHERWIN-WILLIAMS DEL ECUADOR FABRICA NACIONAL DE PINTURAS, S.A., GUAYAQUIL

Licensees

Argentina — Sherwin-Williams Argentina Industrial y Commercial, S.A.
— National Lead, S.A.
Bolivia — Fábrica Nacional de Pinturas "Espintbol," S.A.
Chile — Pinturas Andina, S.A.
Colombia — Fábrica Nacional de Pinturas, S.A.
Costa Rica — Sherwin-Williams de Costa Rica, S.A.
Dominican Republic — Acabados Automotrices, S.A.
~~Ecuador — Sherwin-Williams del Ecuador Fabrica Nacional de Pinturas, S.A.~~
El Salvador — Sherwin-Williams de Centro America, S.A. de C.V.
France — Astral, S.A.
— Corsam, S.A.
Haiti — Peintures Idéales, S.A.
Honduras — Sherwin-Williams de Honduras, S.A. de C.V.
India — Garware Paints, Ltd.
Italy — Vercolac, S.p.A.
Japan — Atom Chemical Paint, Ltd.
— Nippon Paint Company, Ltd. → DAI NIPPON TOKYO CO., LTD.

Lebanon — Amer Paints Trading Establishments
— Universal Paint and Chemical Industries S.A.R.L. "CHEMIPAINT"
Netherlands — Sikkens Groep, N.V.
Peru — Sherwin-Williams Peruana, S.A.
Philippines — Sherwin-Williams, Philippines, Inc.
Puerto Rico — ~~Gleem Paints of Puerto Rico, Inc.~~ ENCO MANUFACTURING CORP.
South Africa — Advanced Coatings PTY, Ltd.
Spain — Industrias Quimicas Procolor, S.A.
— Coatings Caribbean, S.A.
— Barnices Valentine, S.A.
Switzerland — Kurt Vogelsang, A.G.
Taiwan (R.O.C.) — Eastern Paint Co., Ltd.
Thailand — Bangkok China Paint Mfg. Co. Ltd.
United Kingdom — Ault & Wiborg Group
Macpherson Industrial Coatings, Ltd.
Venezuela — C.A. Quimica Integrada
— C.A. Venezolana de Pigmentos
— C.A. Venezolana de Pinturas
West Germany — Deutsche Akzo Coatings GmbH

Plants

COATINGS

Anaheim, CA
Baltimore, MD
Bedford Heights, OH
Chicago, IL
Crisfield, MD
Deshler, OH
Garland, TX
Gravenhurst, Canada
Greensboro, NC
Morrow, GA
ELK GROVE, IL.
Newark, NJ
North Olmsted, OH
Oakland, CA
Richmond, KY

CHEMICALS

Chicago, IL
Cincinnati, OH
Coffeyville, KS
Fords, NJ
~~Hillsboro, IL~~

INTERNATIONAL

Jeddah, Saudi Arabia
Kingston, Jamaica
Mexico City, Mexico
Montreal, Canada
Panama City, Panama
São Paulo, Brazil
Toronto, Canada
Virginia, Ireland
GUAYAQUIL, ECUADOR

Paint Stores		
Eastern	317	331
Mid-Central	364	405
Southeastern	357	380
South Central	261	276
Western	124	143
	1,417	1535

Gray Drug Fair	
Atlantic	190
Northern	153
Southern	59
	402

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

0007-SWP-035424

0007-SWP-000116846

Consent of Independent Auditors

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

We consent to the incorporation by reference in Registration Statement Number 2-82077 on Form S-3 dated February 23, 1983 and Post-Effective Amendment Number 3 to Registration Statement No 2-64247 dated July 29 1982 of our report on the consolidated financial statements included in the annual report on Form 10-K of The Sherwin-Williams Company for the year ended December 31, 1983

Ernst & Whinney

Cleveland, Ohio
March 12 1984

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 12th day of March, 1984

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 March 12 1984

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 Chief Financial Officer, Director*
J E. WALLACE J. E. Wallace	*Vice President, Corporate Controller, Chief 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*
A. C HOLMES A. C Holmes	*Director*
J R. KILLPACK J R. Killpack	*Director*
P S PARKER P S. Parker	*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

March 12 1984

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 1983
Commission File Number 1-4851
Securities and Exchange Commission
Washington, D C 20549

THE SHERWIN-WILLIAMS COMPANY
AN OHIO CORPORATION
IRS EMPLOYER IDENTIFICATION NO. 34-0526850
101 Prospect Avenue, N W
Cleveland, Ohio 44115
Telephone (216) 566-2000

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
8 25% Convertible Subordinated Debentures Due 1995	New York Stock Exchange
5 45% Debentures Due 1992	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 22,945,508 shares of common stock, par value $6.25, outstanding at January 31, 1984. These shares were held by 9,739 holders of record on this date

The aggregate market value of the voting stock at January 31, 1984, is $569 999 317 excluding the voting stock held by certain executive officers

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Items Number 10, 11 12 and 13 are incorporated by reference from the definitive Proxy Statement dated March 1 1984 filed with the Securities and Exchange Commission pursuant to Regulation 14A

Items Number 4 and 9 and all other schedules (Nos. 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

0007-SWP-035426

0007-SWP-000116848

0007-SWP-035427