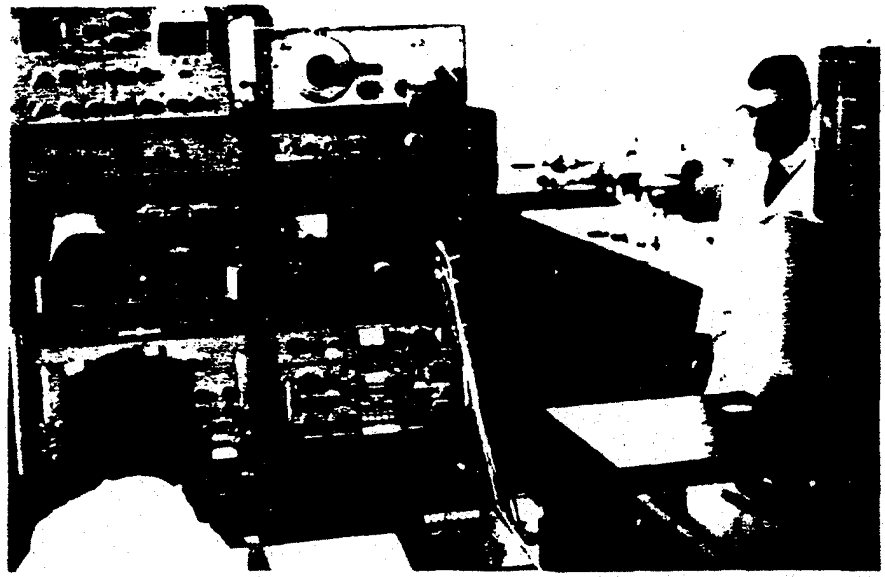
[redacted]

Sophisticated instruments like this nuclear magnetic resonance spectroscope at the Chicago Research Center enable scientific personnel to probe the fundamental nature of materials. The NMR spectroscope reveals the chemical structure of organic compounds.



Financial Highlights

	August 31 1968	August 31 1967 As Restated
Net sales	$452.526.660	$417.409.220
Income before income taxes	36.271.098	36.526.914
Income taxes — United States and foreign	17.281.235	17.161.621
Net income	18.989.863	19.365.293
Cash dividends declared:		
Preferred	299.444	278.057
Common	10.616.510	10.585.957
Per Common Share:		
Net income	3.36	3.44
Cash flow	5.11	4.88
Dividends paid	2.00	2.00
Working capital	158.043.324	144.221.514
Ratio of current assets to current liabilities	[illegible].31 to 1	4.77 to 1
Capital expenditures	3[illegible]3.399	26.998.256
Provisions for depreciation	7.885.271	6.578.007

S-W 000451

To Our Shareholders

Nineteen sixty-eight for Sherwin-Williams was a year of both accomplishment and problems. Sales were the highest in the Company's history. However, earnings were down slightly from 1967 levels as a result of the recently enacted surtax and start-up costs incident to the Company's capital expenditure program.

After giving effect to the recent acquisition of The Osborn Manufacturing Company, consolidated sales were $452,526,660, an 8.4% increase over 1967 sales of $417,409,220. After-tax profits were $18,989,863 as compared to $19,365,293. After provision for dividends on preferred stock, each common share earned $3.36 compared to the restated figure of $3.44 for 1967. Previously reported figures for 1967 were $18,051,350, which resulted in earnings per common share of $3.35. Cash flow per common share rose in 1968 over 1967 to $5.11 from $4.88. The effect of the surtax on 1968 earnings amounted to $1,115,298 or $0.21 per common share.

In the main stream of our business, our basic strength was again evident. Sales and profits were very satisfactory in the large paint, varnish and lacquer areas of our business and in metal containers. The pigments, colors and chemicals portion suffered from intense competition, both foreign and domestic, and from rising costs, which resulted in lower earnings from that segment of our business.

Aside from the surtax, the major depressants on total earnings were those start-up costs related to the current modernization and expansion program. In several of the newest facilities, start-up costs were higher and the lag in production greater than had been anticipated. These factors affected pretax profits adversely by approximately $2,000,000. While much of this was expected, a substantial portion of the increase resulted from delays in equipment delivery and shortage of skilled labor, both of which were beyond our control.

These abnormal costs should decline in fiscal 1969, even with the addition of the important $20,000,000 titanium dioxide plant and the $8,000,000 alkali blue plant. Our best calculation for 1969 of the combination of start-up costs and profits in new facilities, indicates a modest contribution from these facilities, in contrast to the adverse effect on profits experienced in 1968. In fiscal 1970, start-up costs should be further reduced and profit contribution materially increased.

Net interest expense on borrowings, required largely to finance the capital expenditure program, increased in 1968 by approximately $1,400,000 over 1967. This item of expense will be larger again in 1969 and, based on present plans and forecasts, the increase could be as much as $2,000,000 over 1968

Our current forecast for 1969, which assumes a favorable economic climate, indicates a significant increase in sales. If sales goals are reached, 1969 should be a satisfactory year. In fiscal 1970 and beyond, the prospect for growth in sales and earnings appears bright.

These optimistic expectations for the early seventies are quite realistic as we see it. Potentials in the marketplace should be excellent; our plants will be larger and more efficient; and our entire organization stronger than it has ever been. On the latter point much has been done in the last four to five years. Most careful study and attention has been given to the age and quality of our management group. Talented young men have been and are being assigned positions of much greater responsibility. Additional and specialized education is being provided them through our Tuition Aid Program. The enthusiastic response to these moves and challenges assures us of management competence in depth for years to come.

We extend a hearty welcome to The Osborn Manufacturing Company — the newest addition to our organization. Bright days are ahead for this fine company and its many capable people.

Since our last report, three outstanding Directors have been added to our Board. As announced through the press following our shareholders' meeting in December 1967, Messrs. Willis B. Boyer, President of Republic Steel Corporation; John A. Hill, President of Aetna Life & Casualty Company; and Victor Holt, Jr., President of Goodyear Tire & Rubber Company, were at that time elected for three-year terms. Those of us responsible for the day-to-day management of the business welcome their wise counsel and assistance.

Again the Directors wish to express their sincere gratitude to the Company's employees, shareholders, customers and suppliers for their continued support.

E. C. Baldwin

President

S-W 000453

Our Company and Fiscal 1968 in Perspective

To understand better the position of The Sherwin-Williams Company in 1968, the year should be viewed in the perspective of the Company's approach to research, manufacturing, marketing and financial goals. Accordingly, in the pages that follow, the diverse nature of the business is examined in some detail, with particular emphasis on the operations and results of fiscal 1968.

Construction of new plants and the expansion and improvement of existing plants, together with increased aggressiveness in the marketing area, were the outstanding features of the fiscal year just ended.

The current expansion and improvement program began in 1966, moved into high gear in 1967, continued at an accelerated rate last year, and is expected to be largely completed within the next year or two. By that time, we will have invested approximately $100,000,000 in new plants and in modernizing existing facilities. The triple aim of this program is to provide needed additional capacity, achieve all possible cost efficiencies, and improve service to customers. From its inception, the program has been oriented to the future, but realistically scaled to meet both short and long-term goals.

Last year we also devoted major efforts to consolidating management controls, achieving improved balance between production and distribution, expanding research and development activities and introducing new products.

Paint, Varnish and Lacquer

Paint, varnish and lacquer accounted for 64.5% of sales. Increased production of these products was achieved through continuing plant modernization and improvement programs, carried forward without interfering with pre-established production schedules. The Morrow, Georgia plant, completed in July 1967, contributed substantially to the increased production during the 1968 fiscal year. The same was true of the Friendship Furniture Service Center near Greensboro, North Carolina. This is a specialized plant producing a wide variety of furniture finishes. At this plant, production schedules are currently being revised upward to meet the increasing need for such finishes.

At Oakland, California the productive capacity for polyester resins and resins for paint was doubled in 1968. A long-range expansion program was initiated at the plant of The Lowe Brothers Company Division at Dayton, Ohio.

We are continuing to improve our physical distribution methods through increased use of computer control on inventories. Effective balancing of inventories with demand is particularly important in the paint, varnish and lacquer field, where Sherwin-Williams produces thousands of products in a wide color range to meet requirements.

The large markets for paints, varnishes and lacquers are reached through a network of 1,968 branches and by 290 leased departments which we also operate. Additionally, products of our manufacture are distributed through the largest jobber organization in the industry and by thousands of individual merchants operating such outlets as paint stores, hardware stores and building material dealerships. The highly specialized segments of the market are served by a staff of over 200 direct sales representatives through zone sales offices.

During fiscal 1968 we established 36 new branches, closed or consolidated 25, and relocated or expanded 113 others to keep pace with changing market patterns. All of the branches are well equipped to serve retail customers, painting contractors, dealers and large-scale commercial and industrial paint users with complete and immediately-available painting and decorating supplies, including wallpaper, floor coverings and paint application equipment. As part of a continuing effort to broaden our decorating services and increase sales and profits, we are currently offering additional items such as carpeting, draperies, unpainted furniture and related items in an increasing number of branches. These miscellaneous items for paint application and home decoration accounted for 17.5% of sales.

In late May of 1968 we launched a noteworthy innovation in paint merchandising called the "Color Boutique." This dispenser-display provides color samples nine inches wide and of sufficient length to answer effectively the buyers' perennial question: "How will it look on the walls?" The generous samples enable the user to visualize more accurately how the selected color will coordinate with draperies, floor coverings and furnishings.

Among the new products which completed their first full sales year was Kem-1-Coat house paint. This premium product sells at a higher price per gallon than regular house paints, but has such excellent hiding and durability that it actually results in a lower applied cost and longer life. Kem-1-Coat has established itself solidly along with Super Kem-Tone wall paint and Kem-Glo enamel on the nation's best-selling list of paint products. Kem-Gard, a fire-retardant paint, designed to fill a real need in the residential, commercial and institutional fields, is being tested in selected markets. Results thus far point to a promising future.

Another facet of our expanding paint, varnish and lacquer sales is the automotive market, particularly the refinishing field. With more automobiles in use, the demand for products in the "after market" showed healthy increases in 1968. Continued gains seem assured.

The exterior of the new block-long A. W. Steudel Technical Center reflects the functional planning of the interior. The Center, adjacent to the Chicago paint plant, is scheduled for completion by the end of 1968.

This scene is repeated daily in company-operated branches where customers can select paints, paint application equipment and related decorative materials such as wallpaper, draperies and carpeting.

Aerosol cans for automotive touch-up paints on the production line of our new Elgin, Illinois container plant. This facility, completed in June 1968, increases to four the number of metal container plants now in operation.

Our sales in the growing field of specialized product finishes, known as chemical coatings, also showed encouraging gains. New and changing methods of applying chemical coatings to many types of materials, particularly wood and metal, present technical challenges which require extensive research and development.

Sustained growth was maintained in the sale of coil coatings, specialized materials used to coat metal before it is formed into the shapes in which it will ultimately be used, such as aluminum siding, metal roof decking, appliance parts and similar manufactured metallic items. Our advanced know-how in the coil coatings field became an export item in 1966, when we licensed a paint producer in Sweden to manufacture coatings in accordance with our formulas. During this year we licensed paint manufacturers similarly in Great Britain, France and Italy. We expect considerable expansion in this area of licensing.

We also provide finishes for wood products used for the exterior siding of homes and interior paneling. These finishes are applied at the factory, thus eliminating finishing at the construction site.

The advances made in coil coatings and wood prefinishes put us in an excellent position to capitalize on the expanding construction market where many of these products are used. This holds promise of an extremely bright future for the years immediately ahead.

One of the newest methods of applying chemical coatings is electro-deposition, a method comparable to that of electroplating. Using this method, a completely uniform coating can be applied to all sections of the item being coated, including sharp edges and inaccessible areas. While sales to date in this area are not significantly large because of the newness of the process, the potential is impressive.

Multi-million dollar advertising expenditures were made to create and support the demand for our products. Major expenditures were for national TV, magazines and newspapers. A substantial sum was expended for point-of-sale display material. The advertising budget for fiscal 1969 will continue to promote our products vigorously.

Pigments, Colors and Chemicals

The Pigment, Color and Chemical Department markets the products of our colors and chemicals plants and shares in the marketing of the products of our subsidiary, The Maumee Chemical Company. This department accounted for 10.2% of sales. Despite certain soft areas in the markets served, the department reached most of its marketing goals during the year.

Products marketed by the department cover wide and diversified fields. They include a group of barium chemicals used in ceramics, brick and clay products, gasoline and diesel fuel additives and diesel fuel smoke suppressants; para cresol, a basic building block chemical for various items used by food and chemical industries; alkali blue used in printing inks; phthalocyanine and other organic pigments for the paint, printing ink, plastics and other industries; zinc oxide, an important raw material in tire manufacturing and agricultural chemicals; and Sherdye pigment dyes for textiles. The department also markets a broad spectrum of other products ranging from pharmaceutical chemicals to soil micronutrients.

The Maumee Chemical Company markets a number of products for industrial application such as saccharine, widely used as a synthetic sweetener in beverages and foods; and benzotriazole, which has found broad application in detergents, anti-freeze and in the protection of copper products.

New plants for production of pigments, colors and chemicals now under construction are proceeding on schedule. The largest of these are:

The new 2.2 million pounds per year alkali blue plant at Chicago, representing an investment of approximately $8,000,000. It is scheduled to go on stream late in 1968.

The new titanium dioxide pigment facility at our chemical complex at Ashtabula, Ohio, which will cost over $20,000,000. This plant is expected to be operational by late fall of 1969. We plan to use the output mainly for our own paint manufacturing operations.

Metal Containers

Metal containers made a larger contribution to our total sales volume and to earnings in 1968 than in any previous year. Sales were 4.3% of the total.

Originally developed to produce containers only for our own use, this operation has expanded so that 59.1% of its products were sold to customers outside the Company in the year just ended. This compares with external sales of 45% only three years ago.

With the opening of the new Elgin, Illinois plant in June 1968, our four container plants now have the capacity to produce 700 million containers annually. For improved distribution, we have coupled expansion of container manufacturing facilities with the addition of warehouse space for containers at strategic locations.

In addition, we have made a sustained effort to increase our technical competence in the container field.

Prospects for future profitable expansion of our metal container business are good. In the immediate future we expect to reap the economies inherent in the use of coil tin plate instead of flat tin plate. A coil line is now operative at Elgin and substantial savings are already evident.

Mechanization of order handling insures improved service to customers. This extension fork lift truck in our Newark, N.J. warehouse is one of a fleet used in assembling shipments for delivery.

Other Operations

Other operations important to the overall sales and earnings picture include three subsidiaries whose products give us broader penetration of our markets. These are the Rubberset Company, Sprayon Products, Inc. and the Deshler Products Division.

Rubberset is a large manufacturer of paint brushes. In addition to supplying the needs of our Company-operated branches and of our dealers, this subsidiary also markets brushes through jobbers and dealers.

Operations were moved from a leased factory at East Newark, New Jersey to a new plant at Crisfield, Maryland during the year. This created some dislocations in production, but these have now been corrected and output is at the highest level ever achieved.

The consolidated, wholly-owned Rubberset Co. (Canada), Ltd. achieved record sales and very satisfactory earnings in 1968.

Sprayon Products, Inc. is a custom filler of aerosol-packaged paints and also markets a line of aerosol-packaged maintenance materials for industry. Sales and profits have grown consistently since we acquired the company two years ago and a sizable increase is projected for next year. In anticipation of further rapid growth, a feasibility study for added capacity is under way.

The Deshler Products Division at Deshler, Ohio produces a well-rounded line of painting accessories. It includes: paint rollers; painting trays; colorant-additive machines for tinting paints at the point of sale; paint shakers used to condition paint for immediate application at the time of purchase; power-driven turbo agitators for paint packaged in five-gallon containers; and tack rags, treated wiping cloths that assure a dust-free painting surface.

The recently acquired Osborn Manufacturing Company is engaged in the manufacture and distribution of industrial power-driven and maintenance brushes and finishing machinery used in conjunction therewith; of foundry machinery for making sand molds and cores of all types; and of molding and core handling equipment. It accounted for 3.5% of sales.

Research and Development

Maintenance of our position as "paintmaker plus" is becoming increasingly dependent upon our ability to keep pace with innovations in science and technology. Hence, our Company is continuing to devote increasing manpower and funds to research and development activities.

In 1968, our total research, development and testing expenditures rose to $13,500,000, up from the $11,900,000 in 1967. The number of people involved in all types of research, development and testing operations increased to 1,266 at the end of the fiscal year.

We were granted a number of patents during the year, covering a variety of products and processes. These included a molybdated zinc oxide, an advanced rust inhibitor, used in paint; a liquid developer toner applicable in the office copier field; and, as previously referred to, a process for forming metal containers. Additionally, a number of patent applications on which action is awaited, were filed in 1968.

A notable move in the research and development area will take place late this year when 150 of our development and other technical personnel will move into the new block-long, 70,000-square-foot A. W. Steudel Technical Center adjacent to the Chicago paint manufacturing facility. The Center is named in honor of Mr. Steudel, who, for many years, was President and Chairman of the Board. Approximately $4,000,000 is being invested in the structure and equipment. The construction was largely completed in fiscal 1968.

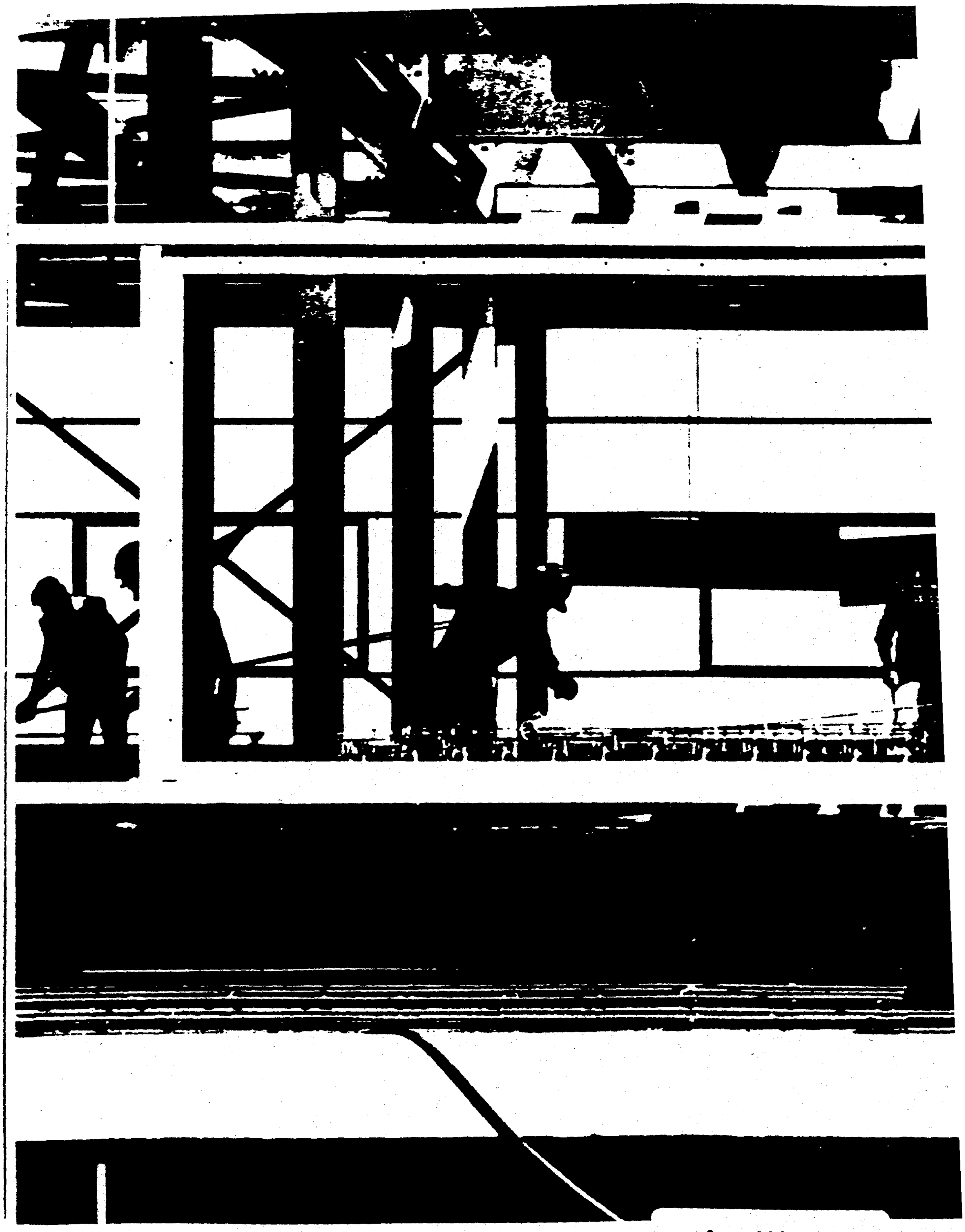
Major functions at the new Center will be in the area of development, with basic research continuing at the Chicago Research Center. The transfer of some personnel from the latter location to the new building will make more space available for basic research. At the same time, the new Center will enable us to consolidate many technical services and development activities in a single structure. This is expected to result in greater efficiency.

Among the laboratories that will be housed in the Center are those devoted to automotive and industrial lacquers, technical services for chemical coatings, development of varnishes and resins, including those for the electrical industry, and a laboratory to develop and test finishes for furniture and other forest products.

Now under construction also is a new technical center for the metal container department at Countryside, Illinois, midway between the Elgin and Chicago container plants. We expect to occupy these larger, better-equipped facilities for research, development and engineering early in 1969.

International Operations

Our international operations cover the sales of Sherwin-Williams paint products in all areas other than the domestic market. They consist of exports and sales by foreign subsidiaries and licensees. International sales rose slightly over the previous year and income from operations also increased.



S-W 000462

Construction under way on the new [illegible] plant in Chicago. When completed [illegible] 1968 this new [illegible] will contribute [illegible] expanded [illegible]

We now have five wholly-owned foreign subsidiaries, including Rubberset Co. (Canada), Ltd. Two of these—Brazil and Mexico—produce a broad and growing range of trade, maintenance and industrial paints. At present the Brazilian subsidiary's production facilities expansion program is nearing completion. The subsidiary in Mexico is expanding its market through additional Company-operated branches patterned after those in the United States.

Sherwin-Williams Co. (Europe) S. A. and The Sherwin-Williams Co. (West Indies) Ltd. distribute in Europe and the West Indies respectively.

In Latin America, besides our own companies in Brazil and Mexico, Sherwin-Williams paints are manufactured by licensees in El Salvador (Central American Common Market), Colombia, Venezuela, Ecuador, Argentina and Peru. Sherwin-Williams Venezolana, C. A. is presently in the process of expanding its sales territories to include the Dutch islands of Aruba and Curacao. Similarly, our El Salvador licensee is extending sales activities to include the Republic of Panama.

Our licensee in the Philippines continues to make profitable and steady progress and has begun to export to some countries in Southeast Asia.

In Spain, the progress in sales and profitability of our Spanish licensee is accelerating rapidly.

We are continually seeking to expand our overseas operations through the addition of new licensees and the establishment of wholly- or partly-owned companies in other countries.

As our Company progresses in the development of specialized coatings, we have begun to license well-established paint manufacturers overseas to produce these products. As previously mentioned, there are such licensees in Sweden, Great Britain, France and Italy. Contracts in several other countries are being actively negotiated.

Canada and Puerto Rico

The results of Canadian operations appear in the statements of Consolidated Income and Earned Surplus and the Consolidated Balance Sheet beginning on page 20 of this report.

The Sherwin-Williams Co. of Puerto Rico, Inc., in which we hold a majority interest, was organized in 1962. It is a joint venture with Sucs. de A. Mayol & Co., which has distributed our products in the Commonwealth for more than sixty years. The operation in Puerto Rico consists of a paint manufacturing plant whose products are sold by the Mayol organization.

Sales and profits of the operation fell somewhat below expectations in fiscal 1968. This was due directly to the changing buying habits emerging in the Commonwealth, which require some alteration in marketing practices.

Marketing changes began to be implemented in August of 1968, when our distributor opened a new, more conveniently located warehouse which should enable the organization to serve more markets more efficiently. We expect, in the year ahead, a substantial sales increase. As this materializes, the plant will be operating at close to capacity, which will have a markedly favorable effect on earnings.

Labor Relations and Manpower Development

During the fiscal year just ended our total work force increased from [illegible] to 19,403.

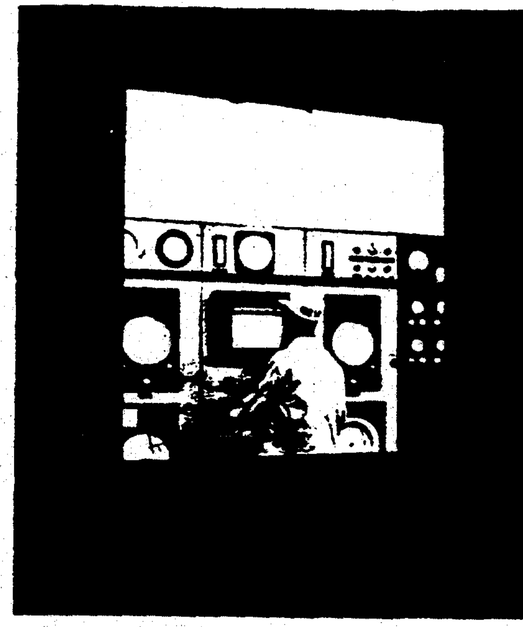
We are pleased to report that our labor relations continued on a satisfactory basis. There were brief strikes at two plants while union contracts were being negotiated, but these were settled without noticeable effects upon operations. All major union contracts presently in effect will continue through June 1970.

We have intensified our recruiting programs for future management talent and for scientifically trained personnel to meet our increasing research, development and engineering needs. Our training programs for employees at all levels, including our long established Tuition Aid program, are being stepped-up. Participants include not only non-degree employees training themselves for advanced assignments in research and development, but also highly-trained personnel seeking increased competence in particular fields.

We take pride that our Company, a leader among equal opportunity employers, is taking an active part in the National Alliance of Businessmen (NAB) Jobs Program. We are currently working with the Manpower Administration and are committed to hire 169 hard-core unemployed as trainees at various facilities under the permanent part of the NAB program. This commitment is now being implemented. In addition, we carried out successfully a commitment to the NAB Summer Youth Program for 80 jobs.

These commitments are in addition to our long-stated policy of providing full equality of employment opportunities wherever we have operations.

Financial Review



Automatic controls are used extensively in the production of colors and chemicals. Control panels like this one at Chicago monitor every processing step.

Sales

Consolidated net sales for the year ended August 31, 1968 amounted to $452,526,660. This is a record high and represents an 8.4% increase over fiscal 1967.

With minor exceptions, all divisions of the business contributed to the sales increase. Particularly gratifying were the sales increases through branches and leased departments, in metal containers and by Sprayon Products, Inc. and Compania Sherwin-Williams, S. A. de C. V. in Mexico.

Sales of the recently acquired Osborn Manufacturing Company are included in fiscal 1968 and in the restated sales figure for 1967.

Net Earnings

Consolidated net earnings totalled $18,989,863. After preferred dividends, this is equivalent to $3.36 per common share as compared to $3.44 last year. The decline of $.08 per common share resulted from a drop of $.04 in Sherwin-Williams' operations before "pooling" and $.04 in Osborn's operations in 1968.

The impact of the surtax on total consolidated earnings in fiscal 1968 amounted to $.21 per common share.

Income Taxes

The provision for Federal income taxes for 1968 amounted to $16,220,000 and includes $1,420,000 deferred income taxes arising from the difference between financial and tax depreciation.

In determining the tax provision, the investment tax credit of $1,038,953 was deducted.

Financial Position

Our Company continues to maintain a strong financial position. During the year we entered into a $25,000,000 Revolving Credit and Term Loan Agreement with a group of banks. This, together with long-term debt and internally generated funds, will provide the financing in connection with our expansion and improvement program referred to elsewhere in this report. We do not foresee any need for additional financing during the 1969 fiscal year, except for seasonal borrowings.

Long-term debt at August 31, 1968 consisted of $50,000,000 in debentures and $3,000,000 bank debt under our Revolving Credit and Term Loan Agreement. Ratio of net worth to long-term debt at August 31, 1968 was 4.17 to 1.

Working capital at August 31, 1968 amounted to $158,043,324. The ratio of current assets to current liabilities was 4.81 to 1.

Inventories at year end were somewhat higher than immediate sales prospects required. A substantial portion of the increase resulted from hedge buying of tin plate and the purchase of certain basic raw materials in anticipation of price increases which have subsequently occurred.

Cash flow from operations, which includes net income, depreciation and deferred Federal taxes, increased to $28,295,134 or $5.11 per common share in fiscal 1968, from $26,988,300 or $4.88 per common share in fiscal 1967.

Our financial strength provides the base for continued growth and flexibility in financing future opportunities.

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Statements of Consolidated Income and Retained Earnings

THE SHERWIN-WILLIAMS COMPANY
And Consolidated Subsidiaries

	Year Ended August 31		
		1967	
Income	1968	As Restated (Note A)	As Reported Previously
Net sales	$452.526.660	$417.409.220	$401.714.376
Dividends, interest, and miscellaneous	2.114.418	1.789.426	1.504.750
	454.641.078	419.198.646	403.219.126
Costs and expenses (including depreciation of $7.885.271 in 1968 and $6.578.007 in 1967 restated):			
Cost of products sold	278.692.052	255.690.442	245.647.333
Selling, general, and administrative expenses	132.161.993	121.666.251	118.378.594
Pensions—Note G	3.699.458	3.412.994	3.119.119
Interest	3.352.065	1.488.140	1.488.054
Miscellaneous	464.412	413.905	443.055
	418.369.980	382.671.732	369.076.155
Income Before Income Taxes	36.271.098	36.526.914	34.142.971
Income taxes:			
United States:			
Payable currently	14.800.000	15.087.000	14.050.000
Deferred	1.420.000	1.045.000	1.045.000
Foreign	1.061.235	1.029.621	996.621
	17.281.235	17.161.621	16.091.621
Net Income	$ 18.989.863	$ 19.365.293	$ 18.051.350
Net income per common share	$ 3.36	$ 3.44	$ 3.35
Retained Earnings			
Balance at beginning of year	$170.513.115	$151.996.944	$151.996.944
Retained earnings of Osborn at September 1, 1966—Note A	—0—	10.805.508	—0—
	170.513.115	162.802.452	151.996.944
Net income for the year	18.989.863	19.365.293	18.051.350
	189.502.978	182.167.745	170.048.294
Cash dividends declared			
Series A Preferred Stock	299.444	278.057	278.057
Common—$2.00 a share	10.616.510	10.585.957	10.585.957
Osborn dividends—prior to merger	753.493	790.616	—0—
	11.669.447	11.654.630	10.864.014
Balance at end of year	$177.833.531	$170.513.115	$159.184.280

See notes to financial statements on page 16.

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Consolidated Balance Sheets

Assets

	August 31		
		1967	
	1968	As Restated (Note A)	As Reported Previously
Current Assets			
Cash	$ 12.827.350	$ 11.256.457	$ 10.498.790
Short-term investments—at cost	1.216.860	8.083.771	6.975.462
Trade accounts receivable, less allowances of $642.000 in 1968 and $628.000 in 1967 as restated	52.068.837	47.445.960	45.659.685
Inventories — at lower of cost (average or first-in, first-out method) or market:			
Finished merchandise	90.978.001	80.606.711	78.846.538
Work in process, raw materials, and supplies	42.419.662	35.122.529	32.082.809
	133.397.663	115.729.240	110.929.347
Total Current Assets	199.510.710	182.515.428	174.063.284
Investment and Other Assets			
Common shares of The Sherwin-Williams Company of Canada, Limited—at cost—Note A	4,182,766	4,182,766	4,182,766
Receivables, advances, and miscellaneous other assets	2.709.737	2.656.716	1.796.049
	6.892.503	6.839.482	5.978.815
Property, Plant, and Equipment — on the basis of cost			
Land	4.860.145	4.444.656	3.587.323
Buildings	50.827.651	48.135.696	43.517.232
Machinery and equipment	131.235.513	106.149.374	98.952.911
Less allowances for depreciation	74.275.950	68.739.467	61.708.628
	112.647.359	89 990.259	84.348.838
Short-term investments allocated for plant and equipment additions	— 0 —	25.000.000	25.000.000
	112.647.359	114.990.259	109.348.838
Deferred Charges			
Advertising stock and supplies	2.017.811	2.133.390	2.125.006
Prepaid insurance and other items	3.027.871	2.395.235	2.305.487
	5.045.682	4.528.625	4.430.493
	$324.096.254	$308.873.794	$293.821.430

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THE SHERWIN-WILLIAMS COMPANY
And Consolidated Subsidiaries

Liabilities and Shareholders' Equity

	August 31		
		1967	
	1968	As Restated (Note A)	As Reported Previously
Current Liabilities			
Trade accounts payable	$ 15.666.848	$ 10.685.696	$ 10.248.441
Payrolls, compensation, and other accruals	18.735.074	16.649.255	16.003.569
Dividend payable on Preferred Stock	74.600	74.948	74.948
Taxes, other than income taxes	2.576.098	2.369.426	2.196.696
Income taxes	4.414.766	8.514.589	7.964.330
Total Current Liabilities	41.467.386	38.293.914	36.487.984
Long-Term Debt			
5.45% Debentures due in 1992 with annual payments of $2.000.000 commencing in 1973	50.000.000	50.000.000	50.000.000
Revolving credit note payable—Note B	3.000.000	— 0 —	— 0 —
	53.000.000	50.000.000	50.000.000
Reserves			
For deferred United States income taxes	7.043.100	5.623.100	5.623.100
For pensions and other items	1.635.981	1.690.043	1.690.043
	8.679.081	7.313.143	7.313.143
Shareholders' Equity			
Capital stock—Notes C, D, and E:			
Serial Preferred—without par value	9.344.360	9.377.960	7.494.800
Common—$6.25 par value	33.210.756	33.148.450	33.148.450
Other capital—Note F	600.173	227.212	192.773
Retained earnings	177.833.531	170.513.115	159.184.280
	220.988.820	213.266.737	200.020.303
Less cost of 600 common shares in treasury	39.033	— 0 —	— 0 —
	220.949.787	213.266.737	200.020.303
	$324.096.254	$308.873.794	$293.821.430

See notes to financial statements on page 16

Notes to Financial Statements

August 31, 1968

Note A — Principles of Consolidation

The consolidated financial statements include all subsidiaries except The Sherwin-Williams Company of Canada Limited (74% owned). The Company's equity in the consolidated net assets of that subsidiary amounted to $7,408,279 at August 31, 1968 which includes undistributed earnings since acquisition of $4,922,157. For the year ended August 31, 1968, the Company's equity in the undistributed earnings amounted to $235,385.

On September 3, 1968, pursuant to an agreement dated in May, 1968, The Osborn Manufacturing Company was merged into the Company by the issuance of 188,436 shares of $4.40 Cumulative Convertible Preferred Stock, Series B. This transaction has been accounted for as a pooling of interests and accordingly, the accounts of Osborn have been included in the consolidated financial statements for 1968 and 1967 as restated. Net sales and net income of Osborn were $16,000,225 and $1,099,435 in 1968, and $15,694,844 and $1,313,943 in 1967.

Note B — Revolving Credit:

Under the terms of a Credit Agreement, a group of banks have made available to the Company until December 31, 1970, a revolving credit in the aggregate amount of $25,000,000. On or before December 31, 1970, the Company may replace any outstanding revolving credit notes with term notes payable in six equal semiannual installments. The Credit Agreement requires the Company to maintain consolidated net current assets of not less than $100,000,000.

Note C — Capital Stock:

The following table sets forth the authorized and issued shares of the various classes of stock at August 31, 1968:

	Shares	
	Authorized	Issued
Serial Preferred Stock	500,000	
$4.00 Cumulative Convertible Preferred Stock, Series A		74,600
$4.40 Cumulative Convertible Preferred Stock, Series B		188,436
Common Stock	7,500,000	5,313,721

The shares of Series A and Series B Preferred Stock are convertible at base conversion prices of $60.00 and $62.50 per share of Common Stock respectively, taking each share of Preferred Stock at $100 for this purpose. During the year, 348 shares of Series A Preferred Stock were converted into 580 common shares. The holders of the Preferred Stock are entitled to one vote for each share.

The Company may redeem the Series A Preferred Stock commencing in 1972 at $104 per share and at a declining amount each year to $100 per share in 1980 and thereafter, and the Series B Preferred Stock commencing in December 1968, at $112 and declining amounts to $100 in 1981 and thereafter.

The aggregate preference of the Serial Preferred Stock in involuntary liquidation is $26,303,600.

Note D — Reservation of Common Shares:

At August 31, 1968, an aggregate of 508,098 common shares were reserved for conversion privileges of the Preferred Stock and exercise of outstanding stock options.

The potential dilution in net income per common share assuming the aforementioned conversion and exercise of options, would amount to $0.10 per share in 1968 and 1967 as restated.

Note E — Stock Options:

At August 31, 1968, there were 151,421 common shares reserved for issuance to officers and key employees under a stock option plan. Options are granted at prices not less than the fair market value of the shares at date of grant. In general, the options are exercisable to the extent of one-half or one-fifth of the optioned shares for each full year of employment following the date of grant, and expire five or ten years after date of grant.

A summary of the option transactions during the year is shown below.

In addition, options assumed in connection with the Osborn merger are outstanding for 1,000 shares of the $4.40 Cumulative Convertible Preferred Stock, Series B, at $73.50 per share. At August 31, 1968 750 shares were exercisable of which 250 became exercisable during the year. These options expire in 1970.

Note F — Other Capital:

Other Capital at August 31, 1968, consists principally of the excess of proceeds over par value of common shares issued under the stock option plan.

Note G — Retirement Plans:

Substantially all employees of the Company and its domestic subsidiaries, who meet certain requirements as to age and length of service, participate in non-contributory pension plans. The Company's policy is to accrue contributions for its pension funds representing normal cost, amortization of unfunded prior service costs over 30 years, and interest on unfunded prior service cost. At the most recent actuarial determination dates, the assets of the pension funds and the balance sheet accrual exceeded the actuarially computed value of vested benefits.

Note H — Leases:

Branches, offices and certain warehouses and plants are leased for various periods. The rental expense of leased premises for the year ended August 31, 1968, aggregated approximately $12,700,000. Approximately 85% of these rentals relates to leases expiring in five years or less.

	Shares	Option Prices: Per Share	Option Prices: Total	Market Prices
At beginning of year:				
Options outstanding	105,890	$40.25 to $49.50	$4,864,421	
Reserved for future options	54,920			
Changes during the year:				
Options granted	39,000	45.625	1,779,375	$1,779,375
Options becoming exercisable	41,070	40.25 to 49.50	1,924,692	2,238,850
Options exercised	9,389	40.25 to 49.50	396,822	487,179
Options cancelled	800	45.625 to 49.50	38,438	
At end of year:				
Options outstanding	[illegible]	40.25 to 49.50	6,208,536	
Options exercisable	[illegible]	40.25 to 49.50	4,237,536	
Reserved for future options	[illegible]			

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