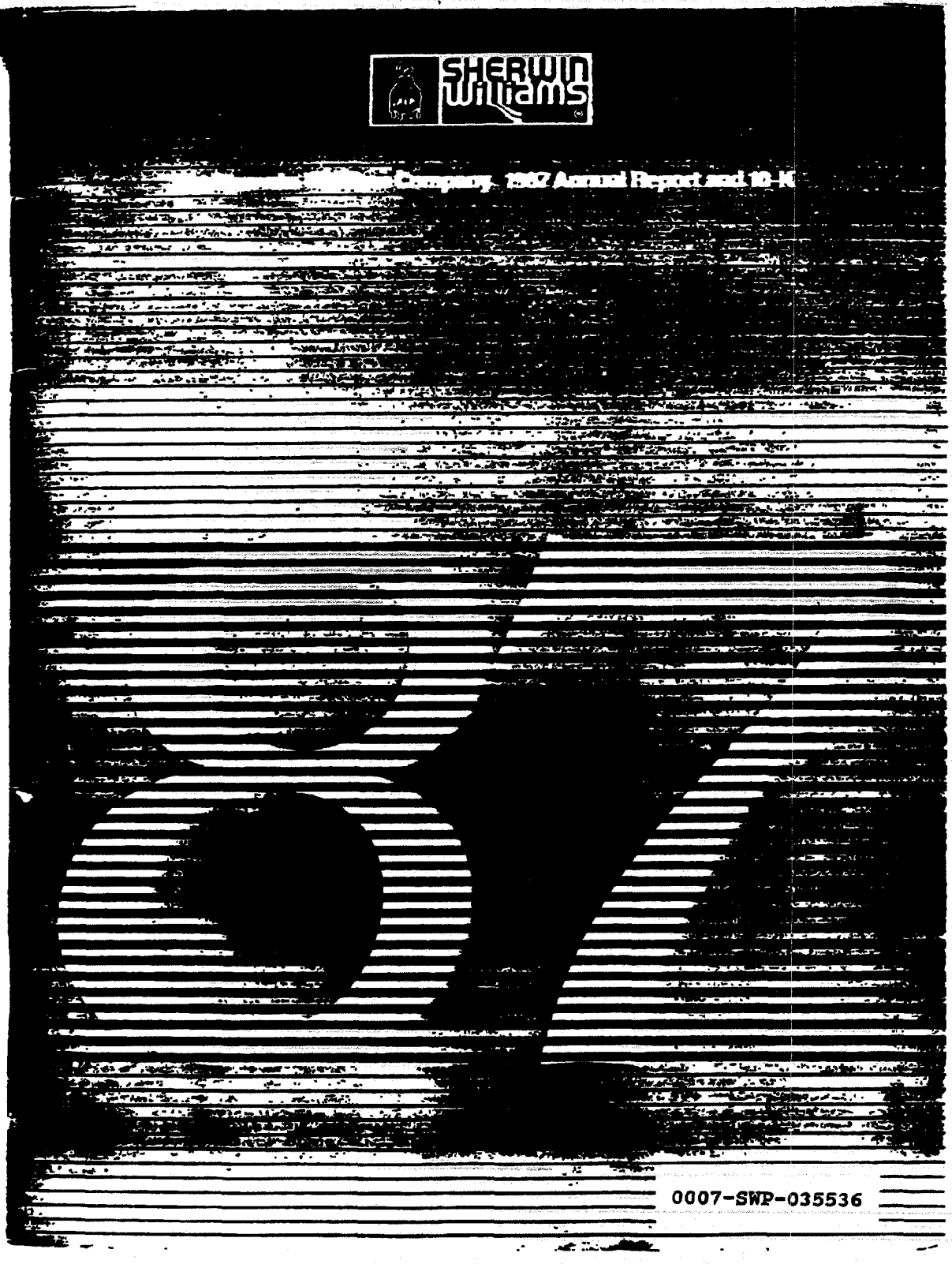
SHERWIN
Williams
Company 1987 Annual Report and 10-K
87
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Annual Meeting
The annual meeting of shareholders will be held at 10:00 a.m. April 27, 1988 at Stouffer's Tower City Plaza Cleveland, Ohio

Headquarters
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115-1075
(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 N.A.
Cleveland, Ohio

6.25% Convertible Subordinated Debentures
Society National Bank
Cleveland, Ohio

9.875% Debentures (SWDC)
Harris Trust & Savings Bank
Chicago, Illinois

Transfer Agent & Registrar
AmeriTrust Company N.A.
Cleveland, Ohio

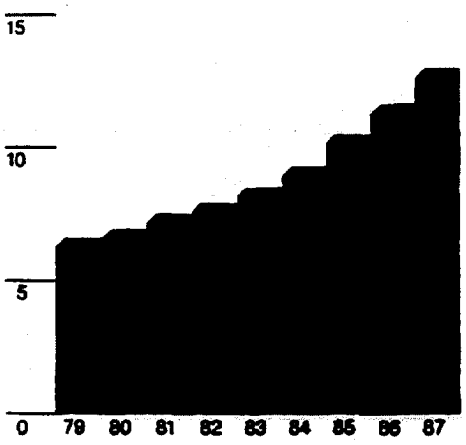
Independent Auditors
Ernst & Whinney
Cleveland, Ohio

Investor Relations
Dianne B. McCormick
The Sherwin-Williams Company
101 Prospect Ave., N.W.
Cleveland, Ohio 44115-1075

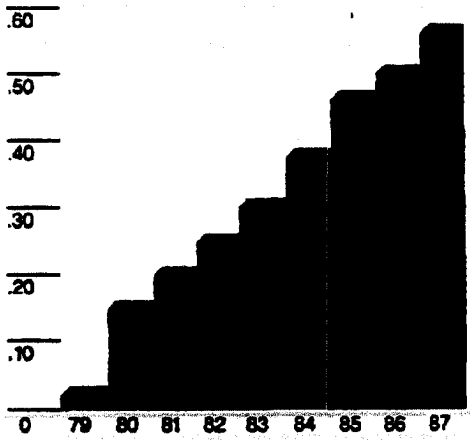
Dividend Reinvestment Program
A dividend reinvestment program is available to shareholders of common stock. For information, contact Investor Relations office as described above

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.

Book Value Per Common Share
Dollars



Dividends Per Common Share
Dollars



Common Stock Trading Statistics

	1987	1986	1985	1984	1983	1982	1981	1980	1979
High	$38¾	$32¼	$23½	$16⅝	$15⅝	$12¾	$ 5⅞	$ 5⅛	$ 3¼
Low	20¾	21¼	13⅜	11⅛	9⅝	4½	4⅛	2⅜	2¼
Close December 31	34⅜	27⅛	22⅛	14	13⅛	11	5½	4⅜	3⅛
Shares traded (thousands)	27,430	28,896	19,910	23,813	29,267	24,033	14,085	21,456	19,724
% of average outstanding shares	62%	64%	43%	52%	64%	57%	36%	55%	47%
Shareholders of record	12,227	11,936	11,384	9,777	9,541	8,590	8,858	8,688	9,796

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Highlights

Thousands of dollars except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31	1987	1986	1985
Net sales**	$1,792,736	$1,552,931	$1,522,348
Income from continuing operations	93,805	76,366*	68,662
Income per share			
From continuing operations	2.09	1.66*	1.48
From discontinued operations	.06	.22	.13
Net income	2.15	1.88*	1.61
Cash dividends per share	.56	.50	.46
Book value per share	12.57	11.15	10.10
Average shares and equivalents (thousands)	44,838	45,785	46,222
Return on sales**	5.2%	4.9%*	4.5%
Return on shareholders' equity			
From continuing operations	19.1%	16.4%*	17.0%
From total operations	19.6%	18.6%*	18.5%
Effective income tax rate**	42.0%	45.6%*	44.7%
Debt to capitalization	14.0%	19.6%	23.8%
Times interest earned**	15.1x	12.3x*	10.5x
Current ratio	2.0 to 1	1.8 to 1	2.0 to 1
Total technical expenditures	$27,500	$26,200	$23,400
Advertising expenditures**	73,275	62,300	61,851
Shareholders of record	12,327	11,936	11,384
Number of employees**	15,901	13,706	12,970

* Excludes unusual items
** Based on continuing operations only

Who We Are

Sherwin-Williams celebrated 121 years of doing business in 1987. The company's core business is the manufacture, distribution and sale of coatings and related products.

We sell Sherwin-Williams labeled architectural coatings, industrial finishes and associated supplies through 1,829 company-operated paint and wallcovering stores in 48 states. We also manufacture and sell coatings such as Dutch Boy, Martin-Senour, Kem-Tone, 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 aftermarket, industrial maintenance and traffic paint markets.

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To Our Shareholders:

1987 was another successful year for our company. Earnings per share from continuing operations rose 25.9 percent from $1.66 per share to $2.09 per share. Earnings per share from total operations, which includes $.06 per share from the Drug Stores Segment (divested June 28, 1987), were $2.15 per share, an increase of 14.4 percent over last year's comparable number of $1.88 per share. Income from continuing operations increased 22.8 percent to $93,805,000 from $76,366,000, excluding unusual items of $19,595,000 in 1986. Net sales were up 15.4 percent to $1,792,736,000 compared with 1986's $1,552,931,000. Our percentage sales gain is the largest increase in several years.



Overview of 1987

During 1987, we continued to improve both our financial and operating results. We completed the sale of the Drug Stores Segment to The Rite Aid Corporation for $165 million in cash, a slight premium to book value.

As a result of the divestiture, the company's balance sheet was further strengthened, giving us significant financial flexibility. We have cash available to grow our coatings business internally or through acquisitions or for the purchase of our common stock. Our total debt-to-capital ratio improved dramatically from 19.6 percent in 1986 to 14.0 percent in 1987, and the company's credit rating was raised by Standard & Poor's. Return on shareholders' equity improved to 19.1 percent for 1987, bringing us a step closer to our stated goal of 20 percent.

We also restructured certain divisions in 1987 to capitalize on management strengths and to focus their business mission. The Transportation Services Division was established in 1987. Formerly part of our Consumer Division, it was created to pull together our distribution and transportation services across the company. We have operated a successful contract transportation company for many years. Deregulation allowed us to backhaul, which enhanced revenues and improved efficiency. We acquired Lyons Group, Inc. to give us LTL (less-than-truckload) capability to more effectively service stores and external accounts. In spite of extremely competitive pricing in the trucking industry, the division was more profitable in 1987 than in 1986.

The company's applicator business was transferred to the Sprayon Division so that management of our Consumer Division could concentrate all of its resources on paint. We believe this division realignment will strengthen our efforts in each area in 1988.

The Paint Stores Group exceeded 1986 results for both sales and operating income. Despite strong competition, our five Paint Stores Divisions continued to gain market share, as paint gallonage increases outperformed the coatings industry. We have been able to increase market share by improving our sales representative productivity and expanding distribution by opening new stores.

The Consumer Division's sales and operating income surpassed 1986. The Division continues working hard to improve their quality and service levels. External gallonage led by Dutch Boy's

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Kem-Tone and private label exceeded industry performance

The Automotive Division was dealt an unexpected blow in May, 1987 that would have crippled many businesses Approximately two-thirds of the Division s entire finished goods inventory was lost in a fire at the Dayton Distribution Center An enormous effort was made by the division staff and the Richmond plant to immediately increase production Distribution was re-established at other divisions sites and temporary locations

We are extremely proud of the teamwork displayed by all our personnel in getting the Automotive Division back on track As a result, in spite of this crisis the Automotive Division's sales for 1987 increased from 1986 levels

The Chemical Coatings Division's sales and operating income performance was better than last years This is a result of continuing progress in supplying the Paint Stores Divisions, as well as increasing our sales externally to original equipment manufacturers

The Sprayon Division's aerosol and Dupli-Color business, exceeded results in 1986 for both sales and operating profits The lagging applicator business will receive special emphasis in 1988.

The International Group improved again this year in spite of difficult conditions in the countries where they operate

Investment In the Future

Despite the economic uncertainty facing the country, we believe investments directed at improving our company's competitive position are crucial. In 1987, each Division invested in their future.

- The Paint Stores Divisions opened 110 net new stores, added 127 new sales representatives, and hired over 300 management trainees to provide for future store and sales representative growth We plan to open 100 stores in 1988 and add over 100 sales representatives All of the Paint Stores Divisions also invested in training programs and facilities
- Training programs for in-store customer service and sales personnel were implemented by the Consumer Division to ensure consistent quality sales and service on a nationwide basis The Division invested in our Dutch Boy, Kem-Tone and Martin-Senour brands by creating separate dedicated sales organizations A centralized customer service organization was established to handle customer inquiries Two small batch operations were begun in 1987 to help the Paint Stores Divisions more effectively meet their competition
- The Automotive Division acquired two jobbers with seven stores; opened 10 new branches and three training centers. Plans are in place to open 15 branches in 1988 In addition, three new distribution centers will be built and become operational in 1988. They will be located in LaGrange, Georgia; York, Pennsylvania; and Greencastle, Indiana.
- The Automotive Development Center, opened by the Chemical Coatings Division, allows us to test, evaluate and demonstrate a variety of different coatings and application techniques for the auto industry. Our patented high pressure injection process used to in-mold coat plastic parts is of particular importance. The Division began construction of a new small batch manufacturing facility in 1987 to improve service to the Paint Stores Divisions
- The Sprayon Division has invested in expanding aerosol capacity and to improve productivity We will also be investing in the applicator business to improve product quality and bring these results up to our expectations

There is continued uncertainty regarding the outlook for the economy in 1988 given the turmoil in the financial markets We have to focus on strengthening our ability to compete and guarantee top quality products and service In an economy that s not growing rapidly, consumers are going to be more discriminatory in their purchases Consequently the determination of our people to provide quality products and service will be the key factor for success

1987 was a good year for our company We are stronger financially and managerially This gives us confidence to face the future We expect 1988 to be another tough year but fully expect our results to be better than in 1987



John G. Breen
Chairman and
Chief Executive Officer



Thomas A Commes
President and
Chief Operating Officer

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Sherwin-Williams at a glance by segment

		Principal Products	Major Markets
Paint Stores	Stores Group	Sherwin-Williams branded architectural coatings, paint sundries and industrial finishes, wallcoverings floorcoverings window treatments spray equipment and other associated products and tools	Professional painters contractors industrial maintenance home builders property managers architects do-it-yourselfers small-to-medium-sized manufacturers of products requiring a factory finish
Coatings	Consumer Division	Architectural finishes under Sherwin-Williams, Dutch Boy Martin-Senour Kem-Tone and private label brands *industrial maintenance products*, labels adhesives and color cards	Retail do-it-yourselfers industrial and commercial maintenance accounts and painting contractors
	Automotive Division	Motor vehicle finish and refinish products marketed under the Sherwin-Williams, Martin-Senour, Acme and Rogers labels	Independent automotive body shops dealerships fleet refinishers body builders, truck OE, and marine aftermarket accounts
	Chemical Coatings Division	Sherwin-Williams labeled industrial finishes for original equipment manufacturers of metal, plastic and wood products	Automotive coil-coated building products communications equipment construction and farm machinery, metal and wood furniture and fixtures farm and off-road equipment
	Sprayon Division	Custom and industrial aerosols for paint and coatings, automotive sanitary supply, institutional, pest control and industrial products Paint applicators for consumer and contractor markets Dupli-Color touch-up paints and associated products primarily for motor vehicles	Retail and/or wholesale paint automotive institutional sanitary, supply, insecticides and industrial markets
	Transportation Services Division	Distribution and warehousing, truckload and less-than-truckload transportation, pool assembly and consolidation service.	All manufacturing and retail divisions of Sherwin-Williams and 1 800 external manufacturers and distributors
	International Group *Sherwin-Williams Canada* *Sherwin-Williams Mexico** *Sherwin-Williams West Indies* *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—Effective June 28 1987, the company disposed of the Drug Stores Segment Also effective January 23, 1987, a wholly-owned subsidiary of the company purchased all of the outstanding stock of Lyons Group Inc as part of our Transportation Services Division

Raw materials and fuel supplies for all segments are generally available in sufficient quantities and from a variety of sources

Environmental affairs—The company will continue to comply with governmental regulations concerning the environment However, the company does not believe that future compliance will have a significant effect on the company's expenditures, earnings, or competitive position in the industry

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 Group 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 1 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 1987

Research and development expenditures are described on page 20 Virtually all such activities were sponsored by the company rather than by customers

Legal—Other than ordinary routine litigation incident to its business, the company is not a party to any legal proceedings material to its business-financial condition

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Distribution	Competition	Seasonality
Through 1 829 company-coerated stores in 48 states	Paint and wallpaper stores, mass merchandisers, home centers independent hardware stores, hardware chains and *manufacturer operated outlets* Market is highly fragmented and service, price and quality competitive	Seasonal with approximately 57 percent of sales occurring in the second and third quarters
The Paint Stores Group mass merchandisers independent dealers distributors home center chains	More than 1 000 coatings manufacturers at regional and national level Brand recognition quality, price, product innovation, distribution and service are main competitive factors	Seasonal with major portion of sales occurring in the second and third quarters
117 Sherwin-Williams automotive branches, jobbers and wholesale distribution centers	Four major competitors with broad product offerings and several small companies with niche products Strong distribution, product quality, technology and service are key competitive factors	Moderately seasonal
The Paint Stores Group and direct to *manufacturers*	Major competitors both national and regional Key competitive factors include technical capability for custom formulation service, technical support, product innovation and price	No significant seasonality
Retail mass merchandisers automotive chains sanitary supply marketers, electrical construction and general maintenance distribution channels	Seven primary competitors Technical know-how, quality, service and price are main competitive factors	No significant seasonality
Direct sales force, six distribution centers, 40 trucking terminals, 650 road tractors and 2 450 trailers	Many competitors in both the truckload and less-than-truckload business segments Price and service bear equal weight with the customer base	Moderately seasonal with majority of sales occurring in the second and fourth quarters
Direct sales force distributors and jobbers. Company-operated stores as follows Mexico 78, Jamaica 16, Trinidad 8, Puerto Rico 12 Panama 6	Many competitors in each foreign market. Sherwin-Williams' competitive position is significant only in Mexico and the West Indies. Price, service and quality sensitive.	No significant seasonality

Ask Sherwin-Williams

The "Ask Sherwin-Williams" advertising and promotion program for our paint stores is targeted at homeowners, do-it-yourselfers, and the professional trade — painting contractors, builders, plant owners, architects and chemical coatings users The campaign emphasizes that Sherwin-Williams offers a full line of paint floorcovering, wallcovering and window treatments along with knowledgeable service that both the professional and retail customer cannot find in competitive outlets

"THE LOOK" That Gets The Looks

The heaviest purchasers of paint are young adults Research shows they care most about color, style, and how paint will look Therefore, in 1988, a unique lifestyle series of commercials will reinforce "The Look" of Dutch Boy Specifically targeted to young paint buyers, Dutch Boy will establish early brand loyalty and preference among these younger consumers in order to assure sales today and in the future This campaign reinforces Dutch Boy's consumer promise "he works hard for your money"

We Cover Your Automotive World

The Automotive Division's advertising and promotions program theme "We Cover Your Automotive World" has been consistently aimed at the professional body shop refinisher Aggressive industry advertising, public relations and trade show programs, position Sherwin-Williams as the market's complete supplier of automotive refinishing products Sherwin-Williams maintains the industry's largest product distribution network and sales force The professional body shop refinisher can trust Sherwin-Williams to provide the products and service they need to cover their automotive world.

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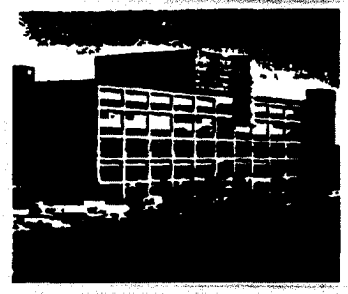
1987 Operating Review by Segment











Operating Highlights for 1987

Paint Stores
Stores Group

- Sales rose 14 7 percent and operating profits 17 6 percent Existing store sales increased 13 percent
- Paint Stores Group gained market share in 1987 All product lines reported double digit sales gains
- Added 127 sales representatives, remodeled 28 stores, opened 113, relocated 51, closed 3

Coatings
Consumer Division

- Sales and operating income exceeded year ago levels. Dutch Boy Martin-Senour and Kem-Tone established dedicated sales organizations and gallonage increases outperformed the industry
- Restructured division to allow greater focus on architectural coatings

Automotive Division

- Sales surpassed last year, despite a substantial inventory loss as a result of a fire at the Dayton, Ohio distribution facility
- Expanded distribution through the addition of 17 net new Sherwin-Williams branches
- Introduced UltraBase 7™, a premium quality acrylic urethane basecoat/clearcoat system, for the automotive spot repair market

Chemical Coatings Division

- External and internal sales outperformed OEM coatings industry data Areas of strength included office products, coil products and general products
- Awarded single supplier status with several market-leading national accounts.

Sprayon Division

- External sales increased through addition of new customers in the coatings market
- Integrated applicator business into divisional structure

Transportation Services Division

- Established as a division in 1987 with responsibility for all transportation and distribution activities.
- Acquired a less-than-truckload common carrier to improve service levels for internal customers and guarantee freight price stability.

FACILITIES
Left, top to bottom
Sherwin-Williams markets paint, wallcoverings, floorcoverings, window treatments, spray equipment and associated products to DIY'ers, professional, commercial and OEM accounts.
Architectural product research center places emphasis on polymer development, color matching, product analysis and characterization.
Automotive branches distribute Sherwin-Williams labeled products direct to body shops, car dealers, fleets, OEM accounts and through jobbers.
The A. W. Staudel Technical Center is equipped with state-of-the-art laboratory and applications equipment for developing and testing industrial and automotive refinish coatings.
At this aerosol filling plant in Bedford Heights, Ohio, most aerosol products are produced on high speed automated lines to ensure prompt customer service.

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Developments for 1988

Paint Stores
Stores Group

- Execute regional product development plan necessary to gain market share from regional competitors
- Simplify store level day-to-day operations through use of new management information systems
- Remodel 20 stores, open 107, relocate 55, close 8

Coatings
Consumer Division

- Implement centralized customer service to handle all customer questions and issues
- Introduce new aggressive Dutch Boy advertising campaign "The Look"

Automotive Division

- Add 15 Sherwin-Williams automotive branches and increase external brand distribution
- Schedule start-up of three new distribution centers to ensure complete product line availability and service to customers
- Open new training centers and develop product training programs for branches/sales representatives and customers

Chemical Coatings Division

- Increase product/technical support for the Paint Stores Group by providing satellite manufacturing units
- Increase emphasis on process and application engineering.

Sprayon Division

- Utilize manufacturing, technical and materials management strengths to grow custom, industrial and Dupli-Color sales.
- Execute new marketing programs developed for each aerosol segment.

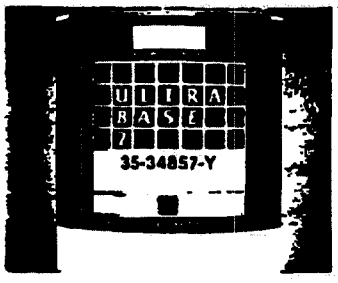
Transportation Services Division

- Expand the less-than-truckload delivery service area to more effectively service internal and external customers.
- Increase profitable accounts through an aggressive national account marketing program.

PRODUCTS
Right, top to bottom
A-100 Exterior Flat Latex & Trim Paint. Our best selling exterior latex offers superior hiding, long-term durability, excellent washability and scrubbability.
Dutch Boy SUPER one coat exterior latex satin paint is specially formulated for maximum protection and durability.
UltraBase 7™, a premium quality acrylic urethane basecoat/clearcoat system, offers painters a durable, fast system with high quality color matches.
Permaclad, a high solids, baking enamel, complies with EPA emission regulations and meets the performance specifications of quality-conscious metal finishers.
SuperAcrylic CONTROLS RUST Spray Enamel is a full line of aerosol acrylic paints with fast dry, excellent durability and superior corrosion resistance.











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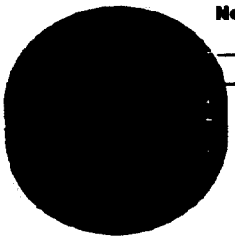
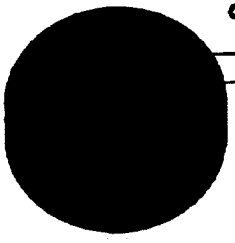
Business Segments



Net External Sales

64.6%

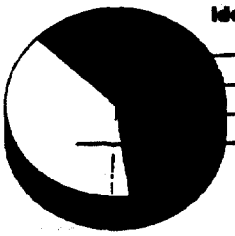
35.4%



Operating Profits

44.1%

55.9%



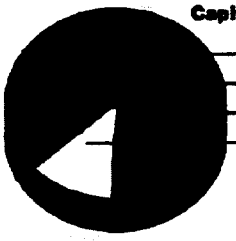
Identifiable Assets

29.2%

34.9%

1%

35.8%



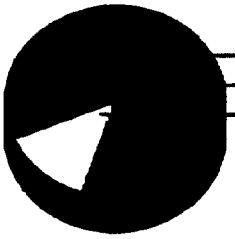
Capital Expenditures

29.4%

57.7%

3.5%

9.4%



Depreciation

34.1%

53.7%

12.2%

Thousands of dollars

Years ended December 31	1987	1986	1985
Net External Sales			
Paint Stores	$1,157,637	$1,008,941	$ 931,302
Coatings	635,099	543,990	555,748
Other	—	—	35,298
Segment totals	$1,792,736	$1,552,931	$1,522,348
Operating Profits			
Paint Stores	$ 82,089	$ 90,996*	$ 64,266
Coatings	104,216	129,136*	93,660
Other	—	—	3,509
Segment totals	186,305	220,134	161,435
Corporate expenses—net	(13,115)	(33,679)*	(24,246)
Interest expense	(11,464)	(12,381)	(13,057)
Income from continuing operations before income taxes	$ 161,726	$ 174,074*	$ 124,132
Identifiable Assets			
Paint Stores	$ 332,475	$ 290,118	$ 257,571
Coatings	398,242	348,828	331,103
Other	1,176	2,859	2,347
Segment totals	731,893	641,805	[illegible]
Corporate	406,103	263,556	[illegible]
Discontinued Operations	—	240,286	[illegible]
Consolidated totals	$1,138,996	$1,145,647	$[illegible]
Capital Expenditures			
Paint Stores	$ 14,754	$ 12,025	$ [illegible]
Coatings	28,987	21,006	[illegible]
Other	—	5	[illegible]
Segment totals	43,741	33,036	[illegible]
Corporate	4,748	4,239	[illegible]
Discontinued Operations	1,740	13,615	[illegible]
Consolidated totals	$ 50,229	$ 50,890	$ 58,737
Depreciation			
Paint Stores	$ 9,866	$ 8,611	$ 8,012
Coatings	16,554	12,265	10,930
Other	—	—	1,134
Segment totals	25,420	20,876	20,076
Corporate	3,528	3,683	2,190
Continuing operations totals	$ 28,948	$ 24,559	$ 22,266
Operating Margins**			
Paint Stores	7.1%	9.0%	6.9%
Coatings	16.4%	14.8%	10.8%
Other	—	—	9.9%
Segment totals	8.8%	11.7%	8.8%

*Includes net credits from the unusual items

**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.

Paint Stores

Coatings

Corporate

Other

Discontinued Operations

Intersegment Transfers

Millions of dollars	Years ended December 31: 1987	1986	1985	1984	1983	1982	[illegible]	[illegible]
Coatings	$388	$331	$314	$287	$27[illegible]	$233	$2[illegible]	[illegible]
All other segments	—	—	—	—	26	29	15	[illegible]
Segment totals	$388	$331	$314	$287	$29[illegible]	$262	$[illegible]	[illegible]

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1984	1983	1982	1981	1980	1979
$ 850 051	$ 724 370	$ [illegible]	$ 615 434	$ 582 292	$ 585 312
513 134	484 503	490 894	554 378	465 740	414 300
88 692	186 682	189 232	229 135	215 689	196 731
$1 451 877	$1 395 555	$1 311 128	$1 398 947	$1 263 721	$1 196 343
$ 55 866	$ 28 767	$ 13 842	$ 18 176	$ 7 805	$ 5 779
76 571	89 067	77 728	56 597	45 059	39 066
10 964	10 479	11 354	7 822	23 562	16 247
143 401	128 313	102 924	80 595	76 426	61 092
(10 843)	(15 569)	(21 403)	(11 437)	(9 523)	(8 290)
(13 907)	(14 035)	(15 603)	(16 896)	(18 552)	(19 366)
$ 118 651	$ 98 709	$ 66 918	$ 52 262	$ 48 351	$ 33 436
$ 228 186	$ 177 905	$ 143 665	$ 166 711	$ 159 342	$ 165 694
304 986	299 715	276 564	304 534	306 480	289 137
43 041	53 426	136 001	144 942	142 465	135 507
576 213	531 046	556 230	616 187	608 287	590 338
219 829	205 450	156 178	75 517	160 305	121 396
208 354	203 347	175 859	172 734	—	—
$1 004 396	$ 939 843	$ 888 267	$ 864 438	$ 768 592	$ 711 734
$ 16 401	$ 7 163	$ 5 766	$ 9 889	$ 5 814	$ 1 388
14 828	11 742	8 947	9 949	6 194	3 267
661	1 487	6 413	19 781	10 107	5 959
31 890	20 392	21 126	39 619	22 115	10 614
2 348	2 652	4 153	2 711	1 589	1 253
13 140	8 864	5 366	742	—	—
$ 47 378	$ 31 908	$ 30 645	$ 43 072	$ 23 704	$ 11 867
$ 6 927	$ 5 716	$ 5 518	$ 5 853	$ 5 260	$ 5 226
9 081	8 204	8 093	8 331	8 463	8 171
3 432	6 699	6 589	6 099	5 483	5 230
19 440	20 619	20 200	20 283	19 206	18 627
2 131	1 976	1 307	1 289	773	831
$ 21 571	$ 22 595	$ 21 507	$ 21 572	$ 19 979	$ 19 458
6 6%	4 0%	2 2%	2 6%	1 3%	1 0%
9 6%	11 8%	10 7%	6 9%	6 5%	6 2%
12 3%	4 9%	5 0%	3 0%	9 4%	7 1%
8 2%	7 8%	6 5%	4 8%	5 0%	4 2%

Notes to Segment Tables

The Other Segment consists of the Chemicals Division operations the majority of which were disposed of in June 1985 and the Sherwin-Williams Container Corporation which was disposed of during November 1983

Operating profit is total revenue including realized profit on intersegment transfers less operating costs and expenses During 1984 a change in intersegment transfer values resulted in increased operating profit for the Paint Stores Segment while the Coatings Segment s operating profit declined due to the effects of the reduced transfer values Corporate expenses include significant provisions for disposition and termination of operations During 1985 certain unusual items were recorded see Note 3 and distributed by segment The following summarizes operating profits by segment excluding the effect of the unusual items

	Operating Profit		
	Years ended December 31		
Thousands of dollars	1987	1986	1985
Paint Stores ..	$ 82,089	$ 69,813	$ 64,128
Coatings ...	104,216	99,113	81,660
Other	—	—	3,509
Segment totals	186,305	168,926	149,297
Corporate expenses — net	(13,115)	(16,262)	(24,048)
Interest expense ...	(11,464)	(12,381)	(13,117)
Unusual items — net	—	33,785	—
Income from continuing operations before income taxes	$161,726	$174,074	$124,132

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

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®, Dupli-Color®, ProMar® 200, Dutch Boy SUPER®, Dutch Boy DIRT FIGHTER®, and others Other quality paint products are offered under the trademark SuperPaint™

Effect of LIFO

Years of Segment	Year of Acquisition	Increase (Decrease) in Income From Continuing Operations 1987	1986	1985	1984	1983	1982	1981	1980	1979
Paint Stores	1980	$(3)	$(11)	—	$(11)	—	$ 2	$ 5	$ 9	—
Coatings	1980	3	(5)	$ 1	4	$(1)	1	(3)	(2)	—
Other	1979	—	—	—	(1)	(2)	(3)	2	5	$ 6
Segment totals		$ 1	$(16)	$ 1	$ 2	$(3)	$—	$ 4	$12	$ 6

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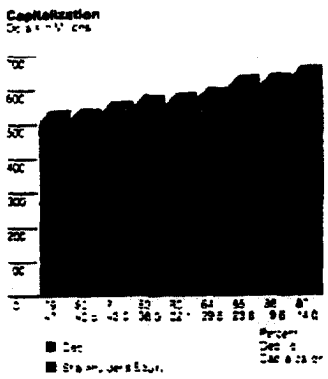

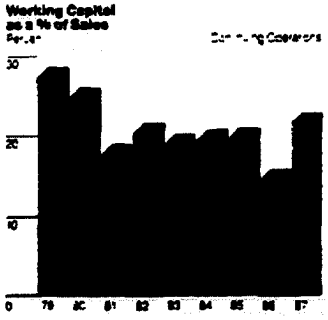

Significant Events Occurring in 1987

Effective June 28, 1987, the company sold the Drug Stores Segment for cash. The Drug Stores Segment has been reported as discontinued operations.

Effective January 23, 1987, a wholly-owned subsidiary of the company purchased the outstanding stock of Lyons Group, Inc. The results of operations for Lyons have been included in the company's consolidated operations since the date of acquisition.

During May 1987, the Dayton, Ohio Automotive Distribution Service Center was destroyed by fire.

1987

Cash Flow

- Cash increased $106.8 million over 1986 primarily due to the sale of the Drug Stores Segment offset by reductions in long-term debt, purchases of treasury stock, and the contribution to an employee benefit fund
- Net cash flow provided by operations has enabled the company to fund its capital needs without external financing
- The company uses external financing in Sherwin-Williams Development Corporation ("SWDC"), an unconsolidated real estate subsidiary, to purchase and develop properties to be leased to the Paint Stores Segment and others.

Working Capital

- The 1987 current ratio of 2.0, versus 1.8 at the end of 1986, was primarily due to the increased level of cash and effective management of working capital levels
- The LIFO method of inventory valuation results in a lower reported current ratio. The current ratio on a FIFO basis would have been 2.1 in 1987, 1.9 in 1986 and 2.2 in 1985
- The company has had no domestic short-term borrowings since 1979
- Our current cash position and anticipated future cash flow provided by operations should be sufficient to finance ongoing capital needs

Capital Expenditures/Acquisitions/Dispositions

- Capital expenditures were $50.2 million in 1987 compared to $50.9 million in 1986, excluding fixed assets acquired through acquisitions of $12.9 million in 1987 and $1.9 million in 1986
- Capital expenditures in 1987 consisted primarily of expenditures to remodel or add to the number of paint stores and to construct certain distribution facilities
- Reported capital expenditures do not include SWDC expenditures of $9.5 million
- Net property, plant and equipment decreased in 1987 as a result of the sale of the Drug Stores Segment
- External financing is not anticipated for 1988 except for SWDC's real estate development activities.

Lines of Credit

- During 1987 the company and SWDC entered into a credit agreement with a group of twelve banks to borrow on an either/or basis up to $280 million, with the company guaranteeing any borrowings by SWDC. Borrowings may be made under a two-year term loan or under a revolving credit agreement which is available for a minimum of five years and a maximum of twenty years. At December 31, 1987 there was $8 million outstanding under this agreement in the name of SWDC
- Under a credit agreement with The Sherwin-Williams Company Salaried Employees' Retirement Trust, the company may borrow up to the lesser of $65 million or 25 percent of the assets of the trust until October 9, 1992. No borrowings were outstanding under this agreement during 1987.

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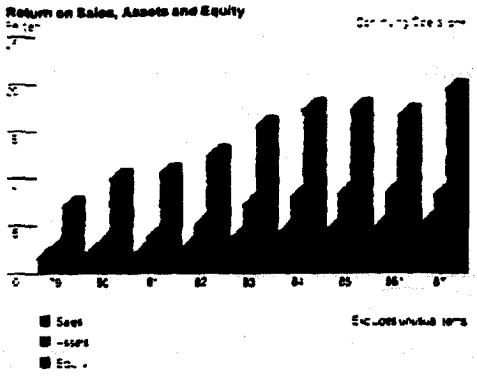

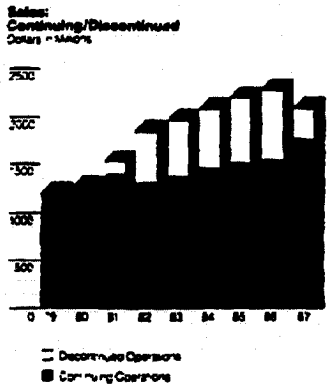

Capital Structure

- The ratio of debt (including capital leases) to total capitalization was 14 0 percent at the end of 1987 compared to 19 6 percent at the end of 1986
- This ratio has steadily improved since 1978 resulting from improved profitability, debt retirements conversions of 6.25 percent debentures into common stock, and other reductions in long-term debt, offset to some extent by purchases of stock for treasury
- Total debt (including capital leases) was $69 2 million at December 31 1987 and $119 7 million at December 31, 1986 At December 31 1978, total debt amounted to $253 1 million
- The decrease in total debt during 1987 is primarily attributable to planned reductions of long-term debt outstanding
- SWDC has outstanding $50 million of 9.875 percent debentures which have been unconditionally guaranteed by The Sherwin-Williams Company
- We purchased 922,300 shares of our stock during 1987 for general corporate purposes and, depending on our cash position and market conditions, we may purchase additional shares of stock in 1988
- As a result of the recent issuance of Financial Accounting Standards Board Statement No 94, "Consolidation of All Majority-Owned Subsidiaries", certain unconsolidated subsidiaries, primarily SWDC, may be consolidated in the future If SWDC had been consolidated, fixed assets and long-term debt would have increased significantly resulting in a debt to total capitalization ratio of 21.4 percent at December 31, 1987

Interest/Fixed Charge Coverage

- Based on continuing operations, we have improved our interest coverage to 15 1 times in 1987 from 10 5 times in 1985
- The fixed charge coverage (coverage of total rent expense and interest) for continuing operations was 2 8 times in 1987 and 2 9 times in 1985 The decrease in this ratio is primarily attributable to rent expense increases related to the paint store expansion program

Dividends

- This is the ninth consecutive year we have increased the dividend as a result of the company's improved performance The dividend has increased at a compounded rate of 48 percent since 1979
- The company's improved financial condition allowed for the reinstatement of the dividend in 1979 and subsequent increases to a quarterly rate of $.14 per share during 1987
- The board of directors, at a meeting held February 17, 1988, declared a quarterly dividend of $.16 per share.
- Our dividend payout ratio in 1987 was 29 8 percent of trailing annual earnings after adjusting for the effects of unusual items in 1986.

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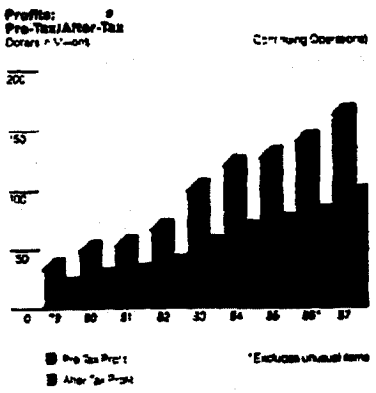

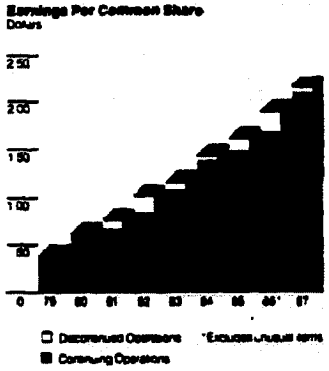

Results of Operations

1987 vs 1986

Net Sales

- Net sales of continuing operations increased 15 4 percent in 1987 Excluding the effect of the acquisition of Lyons Group, inc this increase was 11 5 percent
- The Paint Stores Segment with a sales gain of 14 7 percent, was primarily responsible for the sales increase The sales gain resulted from aggressive promotional activity as comparable store sales increased 13 0 percent The balance of the increase resulted from an increased number of stores
- The Coatings Segment s sales improved over 1986 by 16 7 percent due primarily to the acquisition of Lyons Group, Inc Excluding Lyons the Coatings Segment's basic business reported a sales gain of 5 6 percent
- The Coatings Segment s sales were adversely affected by a fire during May 1987 at the Dayton Ohio Automotive Distribution Service Center

Gross Profit

- Gross profit margins of continuing operations were 41 0 percent for both 1987 and 1986 Consolidated gross profit of continuing operations was $735 7 million in 1987 compared to $636 0 million in 1986 an increase of 15 7 percent
- Gross profits increased over 1986 by 16 1 percent in the Paint Stores Segment due to sales gains and improved gross margins and by 10 6 percent in the Coatings Segment

Selling, General and Administrative Expenses

- SG&A expenses increased as a percentage of sales to 32 7 percent from 31 8 percent in 1986
- Increased SG&A expenses relate primarily to the Paint Stores Segment which continues to achieve sales gains through increased promotional activities and the addition of new stores
- The increase in SG&A expenses over 1986 also reflects higher net pension costs as a result of the settlement gain recognized in December 1986

Investment Income/Interest Expense

- Investment income increased to $12 8 million from $9 8 million in 1986 due to higher average investment levels which more than offset lower income yields
- Interest expense declined from $12 4 million in 1986 to $11 5 million principally due to planned reductions in long-term debt

Net Income

- Income from continuing operations decreased from $96 0 million in 1986 to $93 8 million in 1987 Adjusted for the effects of unusual items in 1986, income from continuing operations in 1987 increased by $17 4 million, or 22 8 percent
- A reduced effective income tax rate for 1987 compared to 1986 as a result of the enactment of the 1986 Tax Reform Act had a favorable impact on income from continuing operations
- The company's financial position and results of operations may be affected in the future by Financial Accounting Standards Board Statement No 96 "Accounting for Income Taxes because of the lower rates adopted in the Tax Reform Act of 1986 This statement would favorably affect the company by reducing the rate at which deferred taxes would be recognized

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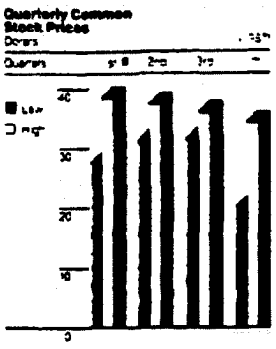

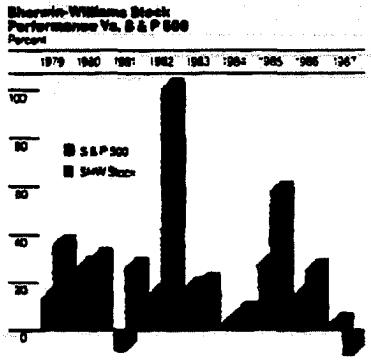

Results of Operations

1986 vs 1985

Net Sales

- Net sales of continuing operations adjusted for the 1985 Chemicals Division divestiture increased 4 4 percent primarily from the Paint Stores Segment s sales gain of 8 3 percent
- The Coatings Segment s sales decreased 2 1 percent primarily due to weak market conditions and planned sales declines in certain businesses

Gross Profit

- Gross profit margins of continuing operations increased to 41 0 percent in 1986 from 40 1 percent in 1985
- The Paint Stores Segment was largely responsible for an improved gross profit through sales gains while the Coatings Segment reduced costs and improved productivity

Selling, General and Administrative Expenses

- SG&A expenses increased as a percentage of sales to 31 8 percent from 30 3 percent in 1985
- The addition of new stores and increased promotional activities in the Paint Stores Segment were primarily responsible for the increased SG&A expenses
- The increase in SG&A expenses as a percentage of sales over 1985 also reflects the effects of the disposition of the majority of the Chemicals Division operations whose SG&A expenses were a significantly lower percentage of sales

Investment Income/Interest Expense

- Investment income decreased in 1986 primarily due to lower average investment levels and lower income yields
- Interest expense declined slightly primarily due to continued conversions of 6 25 percent convertible subordinated debentures into common stock and other planned reductions in long-term debt

Net Income

- Income from continuing operations increased to $96 0 million in 1986 from $68 7 million in 1985 Adjusted for the effects of unusual items income from continuing operations increased 11 2 percent to $76 4 million in 1986
- Income from discontinued operations increased due to higher sales levels and improved gross margins
- The adoption of Financial Accounting Standards Board Statement No 87 Employers Accounting for Pensions as of January 1 1986 increased income from continuing operations by $3 5 million

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Financial Summary

Millions of dollars except per share data

The Sherwin-Williams Company and Subsidiaries

Years ended December 31	1987	1986	1985	1984	1983	1982	1981	1980	1979
Operations									
Net sales	$ 1,793	$ 1,553	$ 1,522	$ 1,452	$ 1,396	$ 1,311	$ 1,399	$ 1,264	$ 1,196
Cost of goods sold	1,057	917	913	897	895	881	976	868	829
Selling and administrative expenses	585	494	469	429	393	356	365	344	323
Interest expense	11	12	13	14	14	16	17	19	19
Income from continuing operations before income taxes	162	140*	124	119	98	66	52	48	33
Income taxes	68	64*	55	56	47	31	24	23	16
Income from continuing operations	94	76*	69	63	51	35	28	25	17
Net income	97	86*	75	65	55	43	31	25	17
Net cash flow provided by operations	97	86	100	124	99	124	51	103	76
Financial Position									
Inventories	$ 281	$ 410	$ 367	$ 338	$ 332	$ 299	$ 335	$ 237	$ 242
Accounts receivable — net	178	180	164	157	141	133	132	131	126
Working capital	387	323	372	344	340	331	297	312	323
Property plant and equipment — net	213	235	230	221	199	228	240	211	204
Total assets	1,140	1,146	1,056	1,004	940	888	864	769	712
Long-term debt	89	120	145	169	175	196	230	213	234
Common shareholders' equity	550	492	465	404	370	334	284	263	243
Total shareholders equity	550	492	465	404	371	349	305	287	268
Per Common Share Data									
Average shares and equivalents (thousands)	44,638	45,785	46,222	45,850	47,639	41,807	39,635	39,070	42,327
Book value	$ 12.57	$ 11.15	$ 10.10	$ 8.97	$ 8.12	$ 7.59	$ 7.17	$ 6.69	$ 6.25
Income from continuing operations	2.09	1.66*	1.48	1.37	1.08	.83	.68	.61	.39
Net income	2.15	1.88*	1.61	1.42	1.16	1.01	.77	.61	.39
Cash dividends	.58	.50	.46	.38	.30	.25	.20	.15	.02
Financial Ratios									
Return on sales**	5.2%	4.9%*	4.5%	4.3%	3.7%	2.7%	2.0%	2.0%	1.5%
Asset turnover**	1.8x	1.8x*	1.9x	1.9x	1.9x	1.8x	1.8x	1.7x	1.8x
Return on assets**	8.2%	8.4%*	8.3%	7.9%	7.0%	5.0%	3.7%	3.2%	2.5%
Return on equity (A)									
From continuing operations	19.1%	16.4%*	17.0%	17.0%	15.3%	12.1%	10.3%	9.8%	6.8%
From total operations	19.6%	18.6%*	18.5%	17.6%	16.6%	14.8%	11.6%	9.8%	6.8%
Dividend payout ratio	25.7%	26.2%*	28.2%	26.5%	25.1%	25.0%	26.1%	24.6%	43%
Debt to capitalization	14.0%	19.6%	23.8%	29.5%	32.1%	36.0%	43.0%	43.5%	47.1%
Current ratio	2.0 to 1	1.8 to 1	2.0 to 1	1.9 to 1	2.0 to 1	2.2 to 1	2.0 to 1	2.3 to 1	2.9 to 1
Times interest earned (B)**	15.1x	12.3x*	10.5x	9.5x	8.0x	5.2x	4.1x	3.6x	2.7x
Working capital to sales**	21.6%	14.5%	19.4%	19.3%	18.8%	20.1%	17.4%	24.7%	27.0%
Effective income tax rate**	42.0%	45.6%*	44.7%	47.1%	47.9%	46.4%	46.5%	48.6%	47.7%
General									
Capital expenditures	$ 50	$ 51	$ 59	$ 47	$ 32	$ 31	$ 43	$ 24	$ 12
Total technical expenditures	28	26	23	26	23	24	25	23	20
Advertising**	73	62	62	57	51	42	40	29	21
Depreciation and amortization**	29	25	22	22	23	22	22	20	19
Shareholders of record									
Preferred	—	—	—	—	40	557	750	856	951
Common	12,327	11,936	11,384	9,777	9,641	8,590	8,858	8,688	9,796
Number of employees**	15,901	13,706	12,970	13,092	13,172	14,297	15,879	16,808	16,972
Sales per employee**	$112,744	$113,303	$117,376	$110,895	$105,945	$91,708	$88,098	$75,186	$70,907
Sales per dollar of assets**	1.57	1.71	1.85	1.83	1.90	1.85	1.87	1.84	1.68

* Excludes unusual items which increased income from continuing operations and net income by $19,595,000 ($.43 per share)

** Based on continuing operations only

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

(B) Ratio of pre-tax income from continuing operations before interest expense to interest expense

This summary should be read in conjunction with the financial statements and notes on pages 16-28 of this report

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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, 1987, 1986 and 1985. 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	T R Miklich	J L Ault
Chairman and Chief Executive Officer	Senior Vice President — Finance Chief Financial Officer	Vice President — Corporate Controller

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, 1987, 1986 and 1985, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis except for the change in 1986, with which we concur, in the method of accounting for pension costs as described in Note 7 to the consolidated financial statements.

Cleveland, Ohio
January 27, 1988

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	1987	1986	1985
Net sales	**$1,792,736**	$1,552,931	$1,522,348
Costs and expenses			
Cost of goods sold	**1,057,081**	916,686	912,609
Selling, general and administrative expenses	**585,470**	493,721	468,707
Interest expense	**11,464**	12,381	13,057
Interest and net investment income	**(12,803)**	(9,779)	(11,160)
Other	**(10,202)**	(567)	15,003
Unusual items — net	**—**	(33,785)	—
	1,631,010	1,378,857	1,398,216
Income from continuing operations before income taxes	**101,726**	174,074	124,132
Income taxes	**37,921**	78,113	55,470
Income from continuing operations	**63,805**	95,961	68,662
Income from discontinued operations — net of tax	**2,772**	9,991	5,976
Net income	**$ 66,577**	$ 105,952	$ 74,638
Income per share			
From continuing operations	**$ 2.09**	$ 2.09	$ 1.48
From discontinued operations	**.06**	.22	.13
Net income	**$ 2.15**	$ 2.31	$ 1.61

See notes to consolidated financial statements

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Consolidated Balance Sheets

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

December 31	1987	1986	1985
Assets			
Current assets			
Cash and short-term investments	$ 208,530	$ 101 740	$ 170 025
Accounts receivable less allowance	177,708	180 197	164 116
Inventories			
Finished goods	238,717	374 843	330 457
Work in process and raw materials	42,689	35.035	36.127
	281,406	409 878	366 614
Other current assets	89,595	61.677	47 309
Total current assets	757,237	753.492	748 064
Deferred pension assets	121,906	104.853	—
Other assets	47,857	52 363	77 581
Property plant and equipment			
Land	11,215	7 642	9 839
Buildings	95,561	91 730	97 109
Machinery and equipment	320,714	347 550	307 057
Construction in progress	11,300	8.987	12 097
	438,790	455 909	426 102
Less allowances for depreciation and amortization	225,594	220 970	195 934
	213,196	234.939	230 168
Total assets	$1,139,996	$1 145 647	$1 055 813
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	$ 145,494	$ 204 043	$ 193 620
Compensation and taxes withheld	48,756	50 201	48 224
Current portion of long-term debt	7,240	9 222	9 084
Other accruals	142,978	139 193	95 280
Accrued taxes	25,712	27 631	30 262
Total current liabilities	370,180	430 290	376 470
Long-term debt	89,227	119 716	145 437
Deferred income taxes	88,422	78 863	36 037
Other long-term liabilities	42,482	25 209	32 502
Shareholders equity			
Common stock	47,603	47 131	26 372
Other capital	127,164	118 042	153 281
Retained earnings	479,640	407 873	358 749
Cumulative foreign currency translation adjustment	(12,689)	(12 808)	(12 552)
	641,718	560 238	525 850
Treasury stock, at cost	(92,033)	(68 669)	(60 483)
Total shareholders equity	549,685	491 569	465 367
Total liabilities and shareholders' equity	$1,139,996	$1 145 647	$1 055 813

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	1987	1986	1985
Net cash flow provided by (used for) operating activities			
From continuing operations			
Income from continuing operations	$ 93,805	$ 95,961	$ 68,662
Non-cash charges (credits) to income from continuing operations			
Depreciation and amortization	28,948	24,559	22,266
Equity in (income) losses of affiliates	(7,192)	(111)	3,718
Deferred income taxes	17,633	40,321	3,356
Disposition of noncurrent assets	2,550	5,353	16,460
Increase in deferred pension asset	(17,153)	(18,492)	—
Noncurrent unusual items — net	—	(67,405)	—
From discontinued operations			
Income from discontinued operations	2,772	9,991	5,976
Non-cash charges (credits) to income from discontinued operations			
Depreciation and amortization	2,344	5,240	4,061
Deferred income taxes	(1,181)	1,968	995
Amortization of intangible assets	959	2,719	2,729
Change in current items net of business acquisitions and dispositions			
Increase in accounts receivable	(1,223)	(15,913)	(6,376)
Increase in inventories	(14,483)	(40,503)	(28,054)
(Decrease) increase in accounts payable	(22,742)	10,423	9,506
Other current items	(4,430)	29,035	2,446
Other	17,354	2,968	(5,832)
Net cash flow provided by operating activities	97,981	86,114	99,913
Cash flows provided by (used for) investing activities			
Capital expenditures	(50,229)	(50,890)	(58,737)
Increase in current items from business acquisitions	(3,617)	(2,935)	(1,071)
Increase in noncurrent assets from business acquisitions	(9,723)	(5,575)	(1,622)
Net book value of current assets associated with dispositions	110,430	—	—
Net book value of noncurrent assets associated with dispositions	52,095	—	7,433
Contribution to employee benefit fund	(33,339)	—	—
Investment in Canadian joint venture	(362)	(358)	(379)
Net book value of noncurrent items associated with sales of property to unconsolidated subsidiaries	3,089	6,757	—
Other	9,234	493	(4,915)
Net cash provided by (used for) investing activities	77,577	(52,508)	(59,291)
Cash flows provided by (used for) financing activities			
Reductions in long-term debt	(29,858)	(21,272)	(21,355)
Cash dividends	(24,810)	(22,594)	(21,064)
Purchases of stock for treasury	(24,910)	(63,135)	—
Other	10,830	5,110	5,589
Net cash used for financing activities	(68,748)	(101,891)	(36,830)
Net increase (decrease) in cash and short-term investments	106,790	(68,285)	3,792
Cash and short-term investments			
Beginning of the year	101,740	170,025	166,233
End of the year	$208,530	$101,740	$170,025

See notes to consolidated financial statements

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Statements of Consolidated Shareholders' Equity

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

	Common Stock	Other Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance at January 1 1985	$25,852	$145,402	$305,175	$(12,530)	$(59,759)
Stock issued	520	7,879	—	—	(724)
Net income	—	—	74,638	—	—
Cash dividends — $.46 per share	—	—	(21,064)	—	—
Current year translation adjustment	—	—	—	(22)	—
Balance at December 31, 1985	26,372	153,281	358,749	(12,552)	(60,483)
Two-for-one stock split	23,433	(23,433)	—	—	—
Treasury stock acquired/retired	(3,000)	(17,328)	(34,234)	—	(8,574)
Stock issued	326	5,522	—	—	388
Net income	—	—	105,952	—	—
Cash dividends — $.50 per share	—	—	(22,594)	—	—
Current year translation adjustment	—	—	—	(256)	—
Balance at December 31, 1986	47,131	118,042	407,873	(12,808)	(68,669)
Treasury stock acquired	—	—	—	—	**(24,910)**
Stock issued	**472**	**9,122**	—	—	**1,546**
Net income	—	—	**96,577**	—	—
Cash dividends — $.56 per share	—	—	**(24,810)**	—	—
Current year translation adjustment	—	—	—	**119**	—
Balance at December 31 1987	**$47,603**	**$127,164**	**$479,640**	**$(12,689)**	**$(92,033)**

See notes to consolidated financial statements

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Years ended December 31 1987 1986 and 1985

Note 1 — Significant Accounting Policies

Consolidation The consolidated financial statements include all significant subsidiaries Inter-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 business acquisitions are amortized over the expected period of benefit

Research and development costs All research and development costs are charged to continuing operations Research and development costs were $13 398 000, $12,290,000 and $11 117,000 for 1987, 1986 and 1985, respectively

Net income per share Net income per share was computed based on the average number of shares and share equivalents outstanding during the year

Reclassification Certain amounts in the 1986 and 1985 financial statements have been reclassified to conform with the 1987 presentation

Note 2 — Inventories

Inventories are stated at the lower of cost or market Cost is determined principally on the last-in, first-out (LIFO) method which provides a better matching of current costs and revenues. The following presents the effect on inventories net income and net income per 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 1987	1986	1985
Percentage of total inventories on LIFO	96%	98%	97%
Excess of FIFO and average cost over LIFO	$38 012	$64 423	$65 112
Increase (decrease) in net income due to LIFO			
From continuing operations	(703)	3 042	750
From discontinued operations	1 583	(2 682)	2 455
Increase (decrease) in net income per share due to LIFO			
From continuing operations	(.02)	[illegible]	[illegible]
From discontinued operations	.04	[illegible]	[illegible]

During 1986 and 1985 certain inventories were reduced These reductions resulted in liquidations of LIFO inventories carried at the lower costs of prior years as compared with current year costs The effect of these liquidations, which increased income from continuing operations, was immaterial for both years The 1987 reduction in the excess of FIFO and average cost over LIFO is primarily due to the sale of the Drug Stores Segment

Note 3 — Unusual Items

During the fourth quarter of 1986, the company recognized a gain from the settlement of obligations for one of its defined benefit pension plans (see Note 7) In addition management's evaluation of certain long-term commitments resulted in provisions for anticipated losses or expenses Provisions were made for the anticipated costs of terminating certain long-term contracts the reduction in book value of various long-term assets the need for initiating a program to ensure environmental protection and control at operating facilities and the expenses of positioning certain manufacturing processes and other items to enhance future growth A summary of the net gain recognized of $33,785,000 ($.43 per share) is as follows:

Thousands of dollars	Year ended December 31 1986
Gain on settlement of pension obligation	$90 956
Termination of contracts	(20 950)
Reduction in book value of long-term assets	16 371
Environmental protection and control at operating facilities	10 600
Other nonrecurring items	(9 250)
	$33 785

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Note 4 — Income Taxes

Thousands of dollars	Years ended December 31 1987	1986	1985
The components of income from continuing operations before income taxes consist of the following			
Domestic	$150,540	$162,031	$117,947
Foreign	11,186	12,043	6,185
Total income from continuing operations before income taxes	$161,726	$174,074	$124,132
The components of income tax expense of continuing operations are as follows			
Current			
Federal	$ 46,386	$ 49,492	$ 42,491
State and local	8,942	6,203	5,140
Foreign	3,100	2,433	4,483
	58,428	58,128	52,114
Deferred	9,493	19,985	3,356
Total income tax expense of continuing operations	$ 67,921	$ 78,113	$ 55,470

The company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting, relating primarily to depreciation, deferred employee benefit items 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, 1987, such undistributed earnings amounted to $2,618,000.

Investment tax credits from continuing operations (accounted for by the flow-through method) aggregated $(193,000), $1,142,000 and $3,014,000 for 1987, 1986 and 1985, respectively.

The source and deferred tax effect of timing differences for continuing operations are as follows:

Thousands of dollars	Years ended December 31 1987	1986	1985
Depreciation	$ 2,622	$ 3,378	$ 4,222
Dispositions, terminations and other similar items	(423)	(32,141)	(5,450)
Deferred employee benefit items	18,444	51,415	3,029
Other items (each less than 5% of the computed expected tax amount)	(11,150)	(2,667)	1,555
	$ 9,493	$19,985	$ 3,356

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

	Years ended December 31 1987	1986	1985
Statutory tax rate	40.0%	46.0%	46.0%
Effect of			
State and local taxes	3.3	1.9	2.2
General business tax credits	(1.1)	(1.8)	(2.7)
Other — net	(1.4)	(2.2)	(1.8)
Effective tax rate	42.0%	43.9%	44.7%

Note 5 — Discontinued Operations

During 1987, the Company sold for cash the Drug Stores Segment at approximately net book value. Assets and liabilities of the discontinued operations which are included in the consolidated balance sheets are summarized as follows:

Thousands of dollars	December 31 1986	1985
Inventories	$158,126	$144,681
Other current assets	17,443	22,293
Current liabilities	(76,851)	(90,868)
	98,718	76,086
Property, plant and equipment — net	43,848	46,264
Long-term debt	(9,180)	(17,292)
Other assets and liabilities — net	12,274	10,986
Net assets of discontinued operations	$145,660	$116,044

Summarized operating results for the discontinued operations are as follows:

Thousands of dollars	Twenty-six weeks ended June 27 1987	Years ended December 31 1986	1985
Net sales	$302,020	$700,258	$672,577
Operating profit	469	10,072	9,533
(Loss) income before income tax benefit	(1,082)	8,448	4,306
Income tax benefit	1,725	1,543	1,370
Income from operations — net of tax	$ 643	$ 9,991	$ 5,676

Note 6 — Acquisitions

During 1987 a wholly-owned subsidiary of the company purchased Lyons Group, Inc., a less-than-truckload common carrier. The assets acquired consisted primarily of land, buildings, and machinery and equipment. The results of operations for Lyons Group, Inc. have been included in the company's consolidated operations since the date of acquisition.

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Note 7 — Employee Benefits

Substantially all employees of the company participate in noncontributory defined benefit or defined contribution pension plans. Defined benefit plans covering salaried employees provide pension benefits that are based primarily on years of service and employees' compensation. Defined benefit plans covering hourly employees generally provide benefits of stated amounts for each year of service. Multiemployer plans are primarily defined benefit plans which provide benefits of stated amounts for each year of service for union employees. The company's funding policy for defined benefit plans is to fund the minimum annual contribution required by applicable regulations.

Based on the latest actuarial information available, the following table sets forth the funded status and amounts recognized in the company's consolidated balance sheets for the defined benefit pension plans:

Thousands of dollars	December 31, 1987	1986	1985
Actuarial present value of benefit obligations			
Vested benefit obligation	$ (58,428)	$ (67,771)	$(196,196)
Accumulated benefit obligation	$ (61,276)	$ (70,665)	$(202,359)
Projected benefit obligation	$ (83,378)	$ (99,004)	$(222,446)
Plan assets at fair value	211,831	218,970	367,659
Plan assets in excess of projected benefit obligation	128,453	119,966	145,213
Unrecognized net asset at January 1, 1986, net of amortization	(33,238)	(37,625)	(153,543)
Unrecognized prior service cost	101	—	—
Unrecognized net loss	25,376	21,036	—
Net pension assets (liabilities)	120,692	103,377	$ (8,330)
Pension liability included in current liabilities	1,214	1,476	
Deferred pension assets	$ 121,906	$ 104,853	
Assumptions used in determining actuarial present value of plan benefit obligations			
Discount rate	9.25%	8.0%	10.0%
Weighted-average rate of increase in future compensation levels	7.0%	7.0%	7.0%
Assumed long-term rate of return on plan assets	10.5%	10.0%	10.0%

Plan assets consist primarily of cash, equity and fixed income securities.

Pension expense (credit) for defined benefit plans of continuing operations was $(12,338,000), $(16,890,000) and $(5,028,000) for 1987, 1986 and 1985, respectively. Effective January 1, 1986 the company adopted Financial Accounting Standards Board Statement No. 87, Employers' Accounting for Pensions. The effect of this change in accounting principle increased the pension credit by $6,407,000 and increased income from continuing operations by $3,460,000 ($.08 per share) in 1986. The pension credit for 1985 has not been retroactively restated. The components of net pension expense (credit) for the defined benefit plans for 1987 and 1986 were as follows:

Thousands of dollars	Years ended December 31, 1987	1986
Service cost	$ 3,999	$ 3,348
Interest cost	7,117	15,970
Actual return on plan assets	(1,189)	(36,159)
Net amortization and deferral	(22,265)	(139)
Net pension credit	$(12,338)	$(16,890)

The company's annual contribution for its defined contribution pension plans, which is based on a level percentage of compensation for covered employees, offset the pension credit for defined benefit plans by $9,000,000 for 1987, $8,550,000 for 1986 and $8,000,000 for 1985.

The cost of multiemployer and foreign plans charged to income from continuing operations was immaterial for the three years ended December 31, 1987.

During December 1986, the company effected a settlement of $169,000,000 of the accumulated benefit obligation for one of its defined benefit pension plans by purchasing annuity contracts. As a result, a settlement gain of $90,956,000, pursuant to Financial Accounting Standards Board Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, was recognized by the company.

In addition to providing pension benefits, the company provides certain health care and life insurance benefits under company-sponsored plans for retired employees. Substantially all of the company's employees who are not members of a collective bargaining unit are eligible for these benefits upon retirement. The cost of these benefits for both active and retired employees of continuing operations is recognized as claims are incurred and amounted to $21,699,000, $20,068,000 and $20,147,000 for 1987, 1986 and 1985, respectively. There were 11,886, 11,042 and 10,781 active employees and 4,199, 3,937 and 3,851 retired employees entitled to receive benefits under these plans as of December 31, 1987, 1986 and 1985, respectively.

During 1987, a fund was established in the amount of $33,339,000 to provide for payment of health care benefits for certain qualified employees.

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Note 8—Long-Term Debt

Thousands of dollars	Due Date	Sinking Fund/ Prepayments Amount	Sinking Fund/ Prepayments Commence	Amount in Treasury December 31 1987	Amount in Treasury December 31 1986	Amount in Treasury December 31 1985	Amount Outstanding Net of Treasury December 31 1987	Amount Outstanding Net of Treasury December 31 1986	Amount Outstanding Net of Treasury December 31 1985
5 45% Debentures	1992	$ 2,000	Payable currently	$ 8,894	$ 8,894	$ 7,896	$13,106	$ 13,106	$ 16,104
6 25% Convertible Subordinated Debentures (Convertible into common stock at $5 75 a share)	1995	2,000	Payable currently	9,521	9,521	9,521	571	882	1,248
9 45% Debentures	1999	2,000	Payable currently	6,798	3,665	4,665	27,202	32,335	33,335
9 375% Promissory Notes	1995	3,325	Payable currently	—	—	—	20,075	26,725	33,375
10 50% Promissory Notes	1997	2,997	Payable currently	—	—	—	24,021	30,015	36,009
5 90% to 11 875% Industrial Revenue Bonds	Through 2002	Varies	Payable currently	—	—	—	2,340	7,293	7,418
8 90% Promissory Notes, $12,000 principal amount less unamortized discount based on imputed interest rate of 16 5%	—	—	—	—	—	—	—	3,827	4,653
8 125% Mortgage Note $6,225 principal amount less unamortized discount based on imputed interest rate of 16% monthly payments of $53	—	—	—	—	—	—	—	—	2,706
Obligations under capital leases—less current portion of $504 in 1987 $956 in 1986 and $1,349 in 1985							1,912	5,533	3,189
				$23,213	$22,080	$22,082	$89,227	$119,715	$145,437

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 any outstanding shares of preferred stock under the terms of the note agreements. At December 31, 1987, $179,379,000 was available for cash dividends on common stock.

The company has sufficient debentures in treasury to satisfy most sinking fund requirements on public debenture issues through 1990. 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:

1988—$ 6,736,000
1989—$ 6,392,000
1990—$ 6,392,000
1991—$ 8,700,000
1992—$22,452,000

Interest expense on long-term debt of continuing operations amounted to $10,187,000, $11,837,000 and $12,684,000 for 1987, 1986 and 1985, respectively. There were no interest charges capitalized during the periods presented.

Under a credit agreement with a group of twelve banks the company may borrow up to $280,000,000 on an either, or basis with Sherwin-Williams Development Corporation until June 22, 1992. Amounts outstanding under the agreement may be converted into two-year term loans at any time. The credit agreement includes certain restrictive covenants regarding the working capital ratio. There are no compensating balance requirements.

Under a credit agreement with The Sherwin-Williams Company Salaried Employees' Retirement Trust, the company may borrow up to the lesser of $65,000,000 or 25% of the assets of the trust until October 9, 1992. Revolving credit amounts outstanding can be converted into five-year term, ten-year term or six-year installment loans at any time. The credit agreement includes certain restrictive covenants regarding working capital levels and the working capital ratio.

At December 31, 1987 the company had no borrowings outstanding under either of the above credit agreements.

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Note 9—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

	December 31		
Thousands of dollars	1987	1986	1985
Buildings	$ 7,853	$ 7 853	$ 7 979
Machinery and Equipment	245	355	1,251
	8 098	8.208	9.230
Less allowance for amortization	6 710	6 505	6 856
	$ 1 388	$ 1 703	$ 2 374

Rental expense of continuing operations for operating leases was $77 896 000 $61 357 000 and $52 153.000 for 1987, 1986 and 1985, respectively Contingent rentals included in rent expense of continuing operations were $6,812,000 in 1987, $5,106 000 in 1986 and $4 888 000 in 1985 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 1987

Thousands of dollars	Capital Leases	Operating Leases
1988	$ 719	$ 42 068
1989	684	36 102
1990	679	30 100
1991	628	24 435
1992	304	18 571
Later years	552	43 073
Total minimum lease payments	3 566	$194 349
Amount representing interest	(729)	
Executory costs	(422)	
Present value of net minimum lease payments	$ 2 416	

Note 10—Capital Stock

	$1 00 Common Stock	
	Shares in Treasury	Shares Outstanding Net of Treasury
Balance at January 1 1985	6 661 400	45 042 390
Stock issued upon		
Exercise of stock options	81 308	535 349
Conversion of 6 25% Convertible Subordinated Debentures	—	362 562
Contribution to PAYSOP	(70 350)	70 350
Treasury stock acquired	16	(16)
Balance at December 31 1985	6 672 374	46 071 826
Stock issued upon		
Exercise of stock options	22 779	300 851
Conversion of 6 25% Convertible Subordinated Debentures	—	53 626
Contribution to PAYSOP	(53 533)	53 533
Treasury stock acquired, retired	(3 589 992)	(2 410 008)
Balance at December 31 1986	3 051 628	44 079 828
Stock issued upon		
Exercise of stock options	57 140	360 511
Conversion of 6 25% Convertible Subordinated Debentures	—	54 077
Treasury stock		
Acquired	922 300	922 300
Contributed to Employee Stock Purchase and Savings Plan	(150 944)	150 944
Balance at December 31 1987	3 880 124	43 723 060

An aggregate of 2 437 675 2 909 413, and 3,296,694 shares of stock at December 31, 1987, 1986 and 1985, respectively were reserved for conversion of convertible subordinated debentures and exercise and future grants of stock options At December 31 1987, there were 200 000 000 shares of common stock and 30,000 000 shares of serial preferred stock authorized for issuance

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Note 11—Stock Purchase and Stock Option Plans

Currently 7,724 employees participate through regular payroll deductions in the company's Employee Stock Purchase and Savings Plan. The company's contribution charged to continuing operations amounted to $11,867,000, $8,431,000 and $8,059,000 for 1987, 1986 and 1985, respectively. Additionally, the company made contributions on behalf of participating employees of continuing operations, which represent salary reductions for income tax purposes, amounting to $4,560,000 in 1987, $3,933,000 in 1986 and $3,590,000 in 1985.

At December 31, 1987 there were 6,694,786 shares of the company's stock being held by this plan, representing 15% of the total number of shares outstanding. Shares of company stock credited to each member's account under the plan are voted by the trustee under confidential instructions from each individual plan member. Shares for which no instructions are received are voted by the trustee in the same proportion as those for which instructions are received.

Non-qualified and incentive stock options have been granted to certain officers and key employees under the company's stock option plans, at prices not less than fair market value of the shares at the 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 generally expire ten years after the date of grant.

A stock appreciation rights plan and a plan providing for purchases of restricted stock by eligible employees were approved by the shareholders in 1984; however, no rights have been granted under these plans.

	1987		1986		1985	
	Shares	Aggregate Price	Shares	Aggregate Price	Shares	Aggregate Price
Stock Option Plans						
Options outstanding beginning of year	2,022,208	$37,263,000	1,088,848	$11,942,000	1,461,514	$[illegible]
Granted	289,400	9,567,200	1,352,800	30,422,000	329,000	5,250,000
Exercised	(417,651)	(5,855,407)	(323,630)	(3,173,000)	(603,048)	(3,463,000)
Canceled	(194,553)	(4,229,613)	(95,810)	(1,928,000)	(98,618)	(1,089,000)
Options outstanding end of year	1,699,404	$36,745,180	2,022,208	$37,263,000	1,088,848	$11,940,000
Exercisable	621,071		457,109		481,194	
Reserved for future grants	638,909		733,756		1,990,746	
Employee contracts						
Options outstanding beginning of year	—	—	—	—	74,200	$ 195,000
Exercised	—	—	—	—	(74,200)	(195,000)
Options outstanding end of year	—	—	—	—	—	$ —

Note 12—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. Operating facilities 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 1989.

Thousands of dollars	1987	1986	1985
Beginning accrual — January 1	$42,212	$29,195	$30,704
Provision included in cost of goods sold	3,200	17,587	4,288
Provision included in costs and expenses — other	4,000	3,981	11,583
Total provision	7,200	21,568	15,871
Actual costs incurred and adjustments to prior accruals	(11,594)	(8,551)	(17,380)
Ending accrual — December 31	$37,818	$42,212	$29,195
Net after-tax provision from continuing operations	$ 4,320	$11,647	$ 8,570
Net after-tax provision per share from continuing operations	$ .10	$ .25	$ .19

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Note 13 — Quarterly Data (Unaudited)

Quarterly Stock Prices and Dividends

1987	Quarter	High	Low	Dividend	1986	Quarter	High	Low	Dividend
	1st	$38⅛	$27⅞	$.14		1st	$29⅝	$21⅞	$.125
	2nd	37⅝	31¾	.14		2nd	32¼	25⅛	.125
	3rd	36¼	31¼	.14		3rd	28⅛	22¼	.125
	4th	34¾	20¼	.14		4th	30	22⅝	.125

Summary of Quarterly Results of Operations

Thousands of dollars, except per share data						Per Share	
		Continuing Operations				Income	
Year	Quarter	Net Sales	Gross Profit	Income	Net Income	From Continuing Operations	Net Income
1987	1st	$380,539	$142,612	$ 7,685	$ 8,175	$ .17	$ .18
	2nd	491,536	203,175	30,123	32,405	.67	.72
	3rd	512,301	213,445	36,423	36,423	.81	.81
	4th	408,358	176,423	19,574	19,574	.44	.44
1986	1st	$332,274	$124,760	$ 5,322	$ 6,877	$ .11	$ .15
	2nd	431,966	174,092	27,427	30,492	.58	.65
	3rd	438,203	180,402	29,869	32,289	.66	.71
	4th	350,488	156,791	33,343	36,294	.75	.81

1987

During the third quarter, the settlement of certain insurance claims for the Dayton, Ohio distribution center fire increased income from continuing operations by $1,740,000 ($.04 per share) which was more than offset by provisions for the disposition and termination of certain operations amounting to $2,400,000 ($.05 per share).

Fourth quarter adjustments increased income from continuing operations by $9,247,000 ($.21 per share). This increase was primarily due to year-end inventory adjustments of $13,166,000 ($.30 per share) offset by other year-end adjustments of $2,000,000 ($.05 per share) and by provisions of $1,920,000 ($.04 per share) for the disposition and termination of certain operations.

1986

Effective January 1, 1986, the Company adopted Financial Accounting Standards Board Statement No. 87, Employers Accounting for Pensions. The effect of this change in accounting principle increased income from continuing operations by $1,188,000 ($.03 per share), $1,134,000 ($.02 per share), and $324,000 ($.01 per share) in the first, second and third quarters, respectively.

Fourth quarter adjustments increased income from continuing operations by $29,485,000 ($.64 per share). This increase was primarily due to year-end inventory and other year-end adjustments of $17,510,000 ($.37 per share), the change in accounting for pensions of $814,000 ($.02 per share) and the recording of unusual items of $19,595,000 ($.43 per share). The increase was partially offset by provisions of $8,434,000 ($.18 per share) for the disposition and termination of certain operations.

Note 14 — Business Segments

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

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Note 15 — Unconsolidated Real Estate Subsidiary

Sherwin-Williams Development Corporation ("SWDC") is a wholly-owned unconsolidated subsidiary carried on the equity basis. This subsidiary and its wholly-owned affiliates own, develop and lease real estate for the company and others. The majority of the square footage owned by SWDC is leased to unrelated parties. Under a revolving credit agreement, the subsidiary may borrow up to $280,000,000 on an either/or basis with The Sherwin-Williams Company until June 22, 1992. Amounts outstanding under the agreement may be converted into two-year term loans at any time. There are no compensating balance requirements. At December 31, 1987, there was $8,000,000 in the name of SWDC, outstanding under this agreement.

During July 1986 SWDC issued $50,000,000 of 9.875% debentures which are due in 2016 and have been unconditionally guaranteed by The Sherwin-Williams Company.

Summarized consolidated financial data for SWDC and its affiliates is as follows:

	December 31.		
Thousands of dollars	1987	1986	1985
Property, plant and equipment — net	$75,866	$82,796	$81,153
Current assets	1,536	1,881	1,469
Other noncurrent assets	818	1,159	475
Total assets	$78,120	$85,836	$83,097
Long-term debt	$52,160	$57,791	$45,431
Current liabilities	15,365	24,038	14,570
Other noncurrent liabilities	4,173	3,146	2,171
Equity	6,422	861	925
Total liabilities and equity	$78,120	$85,836	$83,097
Total revenues	$14,884	$11,113	$ 8,253
Total expenses — net	9,837	11,381	9,172
Net income (loss)	5,561	(64)	(487)
Funds provided by operations	3,386	3,453	2,274

Note 16 — Financial Schedules

Marketable Securities — Other Investments (10-K, Schedule I)

The short-term investments at December 31, 1987 consist of:

Thousands of dollars	
Bank time certificates	$ 92,964
Municipal securities	60,104
Variable rate preferred stock	30,500
Other securities	24,962
Total	$208,530

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

Included in other assets were the following 5% promissory notes receivable from certain officers of the company:

Thousands of dollars				
Debtor	Beginning Balance	Additions	Deductions	Ending Balance
1987				
T. A. Commes	$ 160	—	$ 160	—
C. A. Bellin	882	—	882	—
	$1,042	—	$1,042	—
1986				
T. A. Commes	$ 160	—	—	$ 160
C. A. Bellin	160	$722	—	882
	$ 320	$722	—	$1,042
1985				
J. G. Breen	$ 560	—	$ 560	—
T. A. Commes	160	—	—	$ 160
C. A. Bellin	160	—	—	160
	$ 880	—	$ 560	$ 320

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Note 16 — Financial Schedules (continued)

Property, Plant and Equipment (10-K, Schedules 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 1987	1986	1985
Balance — beginning of year	$455,909	$426,102	$438,838
Total additions at cost	50,229	50,890	58,737
Assets acquired through acquisitions	12,865	1,949	1,174
Total retirements at cost	(15,600)	(8,097)	(6,547)
Reductions due to dispositions	(60,854)	—	(63,325)
Other changes	(3,959)	(14,935)	(2,575)
Balance — end of year	$438,790	$455,909	$426,102

Other changes consist primarily of sales of property to an unconsolidated subsidiary in 1987 and 1986 and capitalized leases in 1985.

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

Thousands of dollars	Years ended December 31 1987	1986	1985
Balance — beginning of year	$220,970	$195,934	$217,493
Total charged to expense	31,292	29,799	26,327
Retirements	(8,757)	(6,610)	(4,742)
Reductions due to dispositions	(18,259)	—	(56,368)
Other changes	1,348	1,847	13,224
Balance — end of year	$225,594	$220,970	$195,934

Other changes for all years presented consist primarily of 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 1987	1986	1985
Beginning balance	$ 2,849	$ 3,796	$ 3,759
Bad debt expense	7,589	6,055	9,136
Net uncollectible accounts written off	(7,844)	(7,002)	(9,099)
Ending balance	$ 2,594	$ 2,849	$ 3,796

Activity related to other assets:

Thousands of dollars	Years ended December 31 1987	1986	1985
Beginning balance	$52,363	$77,581	$73,739
Charges to expense	(4,169)	(23,411)	(9,360)
Asset (deductions) additions	(537)	(1,807)	13,202
Ending balance	$47,657	$52,363	$77,581

Charges to expense consist primarily of amortization of intangibles, unusual items in 1986, and, for 1985, adjustments to pension assets. Asset (deductions) additions consist primarily of balance sheet reclassifications and, for 1987, assets sold with the Drug Stores Segment offset by the noncurrent portion of a contribution to an employee benefit fund.

Activity related to other long-term liabilities:

Thousands of dollars	Years ended December 31 1987	1986	1985
Beginning balance	$25,209	$32,502	$36,636
Charges (credits) to expense	3,554	7,257	(1,914)
Reserve additions (deductions)	13,719	(14,550)	(2,214)
Ending balance	$42,482	$25,209	$32,502

Charges (credits) to expense consist primarily of adjustments to estimated liabilities, deferred compensation and, in 1986, unusual items. Reserve additions (deductions) consist primarily of balance sheet reclassifications.

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

Thousands of dollars	Years ended December 31 1987	1986	1985
Notes payable to banks at December 31	$ 307	$ 252	—
Weighted average interest rate at December 31	19.5%	23.0%	—
Maximum amount outstanding at any month-end	$ 492	$ 598	$ 99
Average amount outstanding during the period	$ 270	$ 329	$ 32
Weighted average interest rate during the period	24.0%	25.3%	15.3%

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.

The weighted average interest rate is the actual interest on short-term debt divided by average short-term debt outstanding.

Supplementary Income Statement Information (10-K, Schedule X)

Thousands of dollars	Years ended December 31 1987	1986	1985
Maintenance and repairs	$24,893	$19,374	$20,379
Advertising costs	73,275	82,300	51,851

Amounts above relate to continuing operations only and exclude $1,185,000, $2,994,000 and $1,992,000 for maintenance and repairs and $4,139,000, $10,818,000 and $13,468,000 for advertising costs associated with discontinued operations in 1987, 1986 and 1985, respectively.

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.

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0007-SWP-000116987

Exhibit Index

Number		Page
3	Articles of Incorporation as amended filed herewith and regulations filed as Exhibit 4(b) to Form S-3 dated May 17 1982 and incorporated herein by reference	
4	Not applicable	
9	Not applicable	
10	Material Contracts-Incorporated by reference to pages 10-11 from the definitive Proxy Statement dated March 8, 1988	
11	Computation of Net Income Per Share.	29
12	Not applicable	
13.	Not applicable	
18	Not applicable	
19.	Not applicable	
22	Subsidiaries of the registrant	31
23	Not applicable.	
24	Consent of Independent Auditors.	32
25	Power of Attorney on file with the Securities and Exchange Commission	
28.	Not applicable.	
29.	Not applicable.	

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

Thousands of dollars except per share data

	December 31 1987	1986	1985
Fully Diluted			
Average shares outstanding	44,287,459	45,219,324	45,783,680
Options—treasury stock method	550,390	582,189	457,590
Assumed conversion of 6.25% Convertible Subordinated Debentures	135,363	176,841	317,810
Average fully diluted shares	44,973,212	45,978,354	46,559,080
Income from continuing operations	$93,805	$ 95,961	$68,662
Add 6.25% Convertible Subordinated Debentures interest net of tax	24	31	51
Income from continuing operations applicable to fully diluted shares	93,829	95,992	68,713
Income from discontinued operations	2,772	9,991	5,976
Net income applicable to fully diluted shares	$96,601	$105,983	$74,689
Income per share			
From continuing operations	$2.09	$2.09	$1.47
From discontinued operations	.06	.22	.13
Net income	$2.15	$2.31	$1.60
Primary			
Average shares outstanding	44,287,459	45,219,324	45,783,680
Options—treasury stock method	550,390	585,456	438,216
Average shares and equivalents	44,837,849	45,784,780	46,221,896
Income from continuing operations	$93,805	$ 95,961	$68,662
Income from discontinued operations	2,772	9,991	5,976
Net income applicable to shares and equivalents	$96,577	$105,952	$74,638
Income per share			
From continuing operations	$2.09	$2.09	$1.48
From discontinued operations	.06	.22	.13
Net income	$2.15	$2.31	$1.61

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Board of Directors

James A. Attwood, 60
Chairman, President and Chief Executive Officer
MONY Financial Services

James M. Bigger, 59
Chairman and Chief Executive Officer
Nestle Enterprises Inc

John G. Breen, 53
Chairman and Chief Executive Officer
The Sherwin-Williams Company

D. Wayne Calloway, 52
Chairman and Chief Executive Officer
PepsiCo Inc

Leigh Carter, 62
President and Chief Operating Officer
The BFGoodrich Company

Thomas A. Commes, 45
President and Chief Operating Officer
The Sherwin-Williams Company

Dr. Robert C. Doban, 64
Senior Vice President Science and Technology
Owens-Corning Fiberglas Corporation

Allen C. Holmes, 67
Retired, former Senior Partner
Jones, Day, Reavis & Pogue

J. Robert Killpack, 65
Retired former Chairman
National City Corporation

William G. Mitchell, 56
Retired former Vice Chairman
Centel Corporation

Ralph E. Schey, 63
Chairman and Chief Executive Officer
The Scott & Fetzer Company

Executive Officers

John G. Breen, 53
Chairman and Chief Executive Officer

Thomas A. Commes, 45
President and Chief Operating Officer

Dr. F. Thomas Krotine, 46
Senior Vice President Corporate Research and Development

Thomas R. Miklich, 40
Senior Vice President-Finance and Chief Financial Officer

William B. Eldredge, 59
President International Group

Robert B. Venick, 40
President Paint Stores Group

John L. Ault, 42
Vice President Corporate Controller

Conway G. Ivy, 46
Vice President, Corporate Planning and Development

Thomas Kroeger, 38
Vice President Human Resources

Larry J. Pilorak, 41
Vice President Secretary-Treasurer and General Counsel

Leonard A. Ward, 61
Vice President Administration

Francis C. Piccirillo, 38
Assistant Secretary and Corporate Director of Taxes

Division Managers

Frank E. Butler, 51
President & General Manager
Consumer Division

Christopher M. Connor, 31
President & General Manager
Western Division

Robert E. Kinney, 52
President & General Manager
Transportation Services Division

Rolan D. Kloosn, 51
President & General Manager
Chemical Coatings Division

James W. Krause, 43
President & General Manager,
Automotive Division

Theodore R. Kreuzer, 40
President & General Manager
Mid Central Division

John C. Macatee, 36
President & General Manager,
South Central Division

James E. Renshaw, 40
President & General Manager
Eastern Division

Joseph M. Scaminace, 34
President & General Manager
Sprayon Division

Richard M. Wilson, 35
President & General Manager
Southeastern Division

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Subsidiaries

Brazil—Sherwin-Williams do Brasil Industria e Comercio Ltda., São Paulo*
Canada—Sherwin-Williams Canada Inc., Gravenhurst
—Sherwin-Williams Automotive Finishes Inc., Mississauga
—147926 Canada Inc. Gravenhurst
Mexico—Compania Sherwin-Williams, S.A. de C.V. Mexico City*
Panama—Sherwin-Williams de Panama S.A. Panama City*
United Kingdom—Lyons Technological Products Ltd.
West Indies—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
West Indies—Sherwin-Williams (Barbados) Ltd. Bridgetown, Barbados
—Sherwin-Williams Foreign Sales Corporation Limited, Charlotte Amalie, Virgin Islands
USA—Sherwin-Williams Development Corporation*
—SWDC (Ohio), Inc.*
—Contract Transportation Systems Co.
—Dupli-Color Products Company
—Lyons Transportation Lines, Inc.
—P-Y Transport, Inc.
—Certified Distribution Services, Inc.
—Ress Realty Company*
—The Terminal Garage Company*

*Unconsolidated

Joint Ventures

Canada—BAPCO, Toronto.
—128639 Canada Inc., Toronto
Ecuador—Sherwin-Williams del Ecuador Fábrica Nacional de Pinturas, S.A., Guayaquil
Ireland—F.S.W. Coatings Limited, Dublin
F.S.W. Paints Ltd., Dublin
Japan—Nippon Sherwin-Williams Chemicals Co. Ltd., Osaka
Saudi Arabia—Sherwin-Williams Saudi Arabia Ltd., Jeddah
United Kingdom—F.S.W. Ltd., Bradford

Licensees

Argentina—Sherwin-Williams Argentina Industrial y Comercial, S.A.
—National Lead, S.A.
Belgium—Stariac N.V.
Bolivia—Fabrica de Pinturas "Espintbol" S.A.
Chile—Pinturas Andina S.A.
China—(P.R.C.)—China National Construction Corporation
—Tianjin Paint General Factory
Colombia—Fabrica Nacional de Pinturas Sherwin-Williams de Colombia S.A.
Costa Rica—Sherwin-Williams de Costa Rica, S.A.
Dominican Republic—Acabados Automotrices, S.A.
El Salvador—Sherwin-Williams de Centro America, S.A. de C.V.
Haiti—Peintures Ideales S.A.
Honduras—Sherwin-Williams de Honduras, S.A. de C.V.
India—Garware Paints Ltd.
Italy—Colorificio Toscano S.p.A.
Japan—Kansai Paint Co. Ltd.
—Nippon Paint Company Ltd.
—Dai Nippon Toryo Co. Ltd.
Jordan—National Paints Factories Co.
Korea—Dahan Ink and Paint Manufacturing Company
Lebanon—Amer Paints Trading Establishments
—Universal Paint and Chemical Industries S.A.R.L. "CHEMIPAINT"
Peru—Sherwin-Williams Peruana S.A.
Philippines—Globesco, Inc.
Puerto Rico—Enco Manufacturing Corporation
Spain—Pinturas Duraval S.A.
Taiwan (R.O.C.)—Yung-Kao Paint & Varnish Mfg. Co. Ltd.
Thailand—Bangkok China Paint Mfg. Co. Ltd.
—Advance Paint & Chemical Ltd.
Venezuela—C.A. Quimica Integrada
—C.A. Venezolana de Pigmentos
—C.A. Venezolana de Pinturas
West Germany—Herbert GmbH

Plants

PAINT			OTHER		INTERNATIONAL
Baltimore, MD	Garland, TX		Anaheim, CA	Elk Grove, IL	Guayaquil, Ecuador
Chicago, IL	Greensboro, NC		Bedford Hts., OH	Fountain Inn, SC	Jeddah, Saudi Arabia
Emeryville, CA	Morrow, GA		Coffeyville, KS	Gravenhurst, Canada	Kingston, Jamaica
	Newark, NJ		Crisfield, MD	Scarborough, Canada	Mexico City, Mexico
Paint Stores	Richmond, KY		Deshler, OH		Montreal, Canada
Eastern 367					Panama City, Panama
Mid-Central 370					Port of Spain, Trinidad
South Central 325					São Paulo, Brazil
Southeastern 335					Toronto, Canada
Western 298					Virginia, Ireland
Floor World 4					
1,829					

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0007-SWP-000116990

Consent of Independent Auditors

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

We consent to the incorporation by reference in Post-Effective Amendment Number 1 dated April 27 1987 to Registration Statement No 2-80510 and Registration Statement Number 2-91401 on Form S-8 dated May 25 1984 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 1987

Ernst & Whinney

Cleveland Ohio
March 8 1988

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 8th day of March, 1988

THE SHERWIN-WILLIAMS COMPANY

by L J PITORAK
L J Pitorak, 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 8 1988

Officers and Directors of The Sherwin-Williams Company

J G BREEN J G Breen	*Chairman, Chief Executive Officer, Director*
T A COMMES T. A Commes	*President, Chief Operating Officer, Director*
J A ATTWOOD J A Attwood	*Director*
J M BIGGAR J M Biggar	*Director*
D W CALLOWAY D W Calloway	*Director*
L CARTER L Carter	*Director*
R C DOBAN R C Doban	*Director*
A C HOLMES A C Holmes	*Director*
J R KILLPACK J R Killpack	*Director*
W G MITCHELL W G Mitchell	*Director*
R E SCHEY R E Schey	*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 L J PITORAK
L J Pitorak, Attorney-in-fact March 8 1988

0007-SWP-035569

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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 1987
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 44115-1075
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
6 25% Convertible Subordinated Debentures Due 1995	New York Stock Exchange
5 45% Debentures Due 1992	New York Stock Exchange
Common Stock, Par Value $1 00	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 43,781,168 shares of common stock, par value $1 00, outstanding, net of treasury shares, at January 31, 1988. These shares were held by 12,338 holders of record on this date The stock's price per share at January 31, 1988 was $28⅛

The aggregate market value of the voting stock at January 31, 1988 was $1 231 365 160 excluding the voting stock held by the directors.

Index-Form 10-K Report

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	b Financial Information About Business Segments	8-9
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	d Foreign and Domestic Operations and Export Sales	9
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5	Market for the Registrant's Common Equity and Related Stockholder Matters	Inside Front Cover & 26
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7	Management's Discussion and Analysis of Financial Condition and Results of Operations	10-13
8	Financial Statements and Supplementary Data The response to this item is submitted in item 14 of this report	
14	Exhibits, Financial Statement Schedules and Reports on Form 8-K	
	a Statements of Consolidated Income for the Years Ended December 31, 1987, 1986 and 1985	16
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	Statements of Changes in Consolidated Financial Position for the Years Ended December 31, 1987, 1986 and 1985	18
	Statements of Consolidated Shareholders' Equity for the Years Ended December 31, 1987, 1986 and 1985	19
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	Financial Schedules Nos I, II, V, VI, VIII, IX and X for the Years Ended December 31, 1987, 1986 and 1985	27-28
	b Reports on Form 8-K Form 8-K filed on June 22, 1987 reporting that the registrant and its subsidiary entered into a credit agreement with twelve banking institutions	
	c Exhibits Exhibit Index	29

Items Number 10, 11, 12 and 13 are incorporated by reference from the definitive Proxy Statement dated March 8, 1988 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 and XIV) 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

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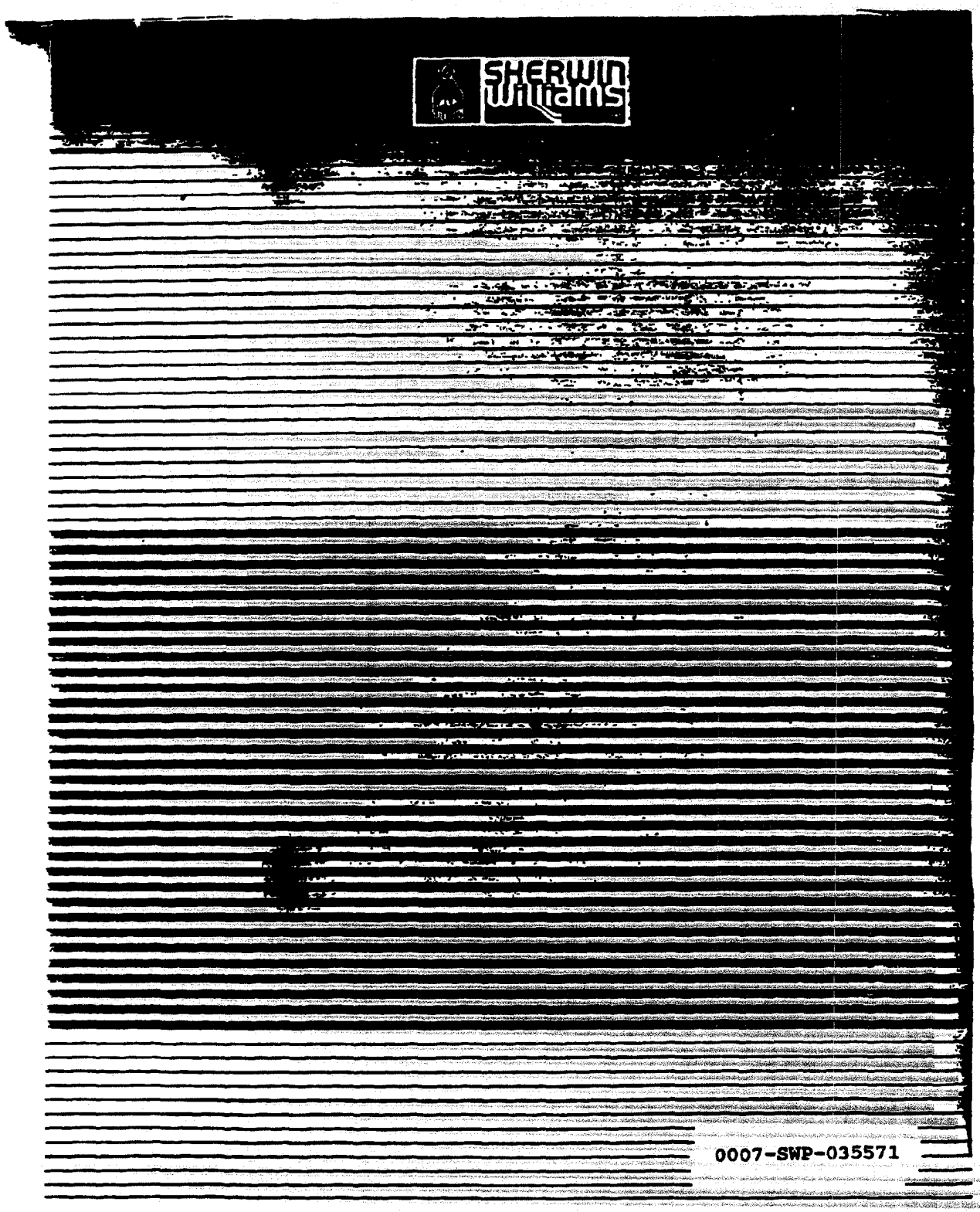
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