The Sherwin-Williams Company [illegible] Annual Report and 10-K

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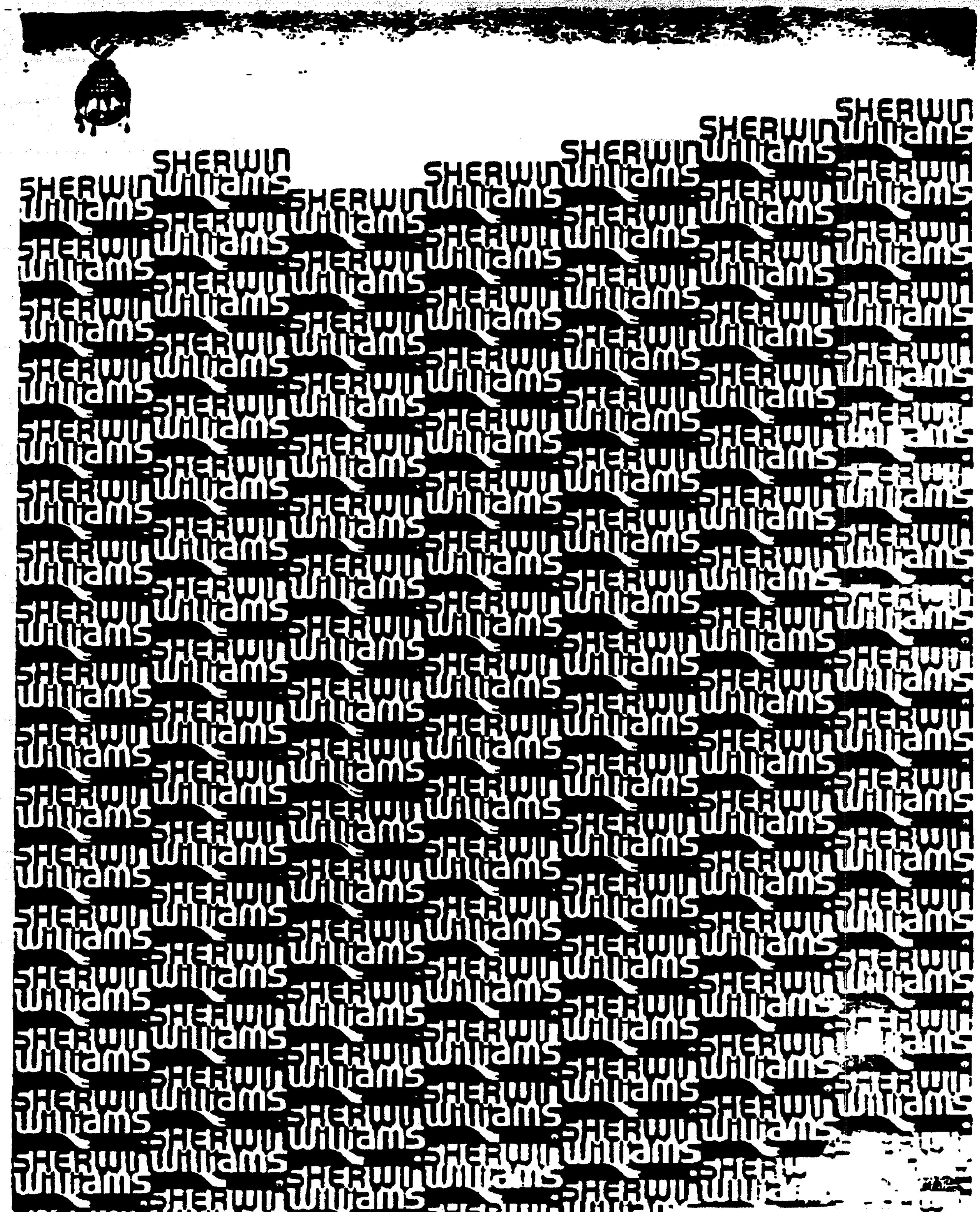
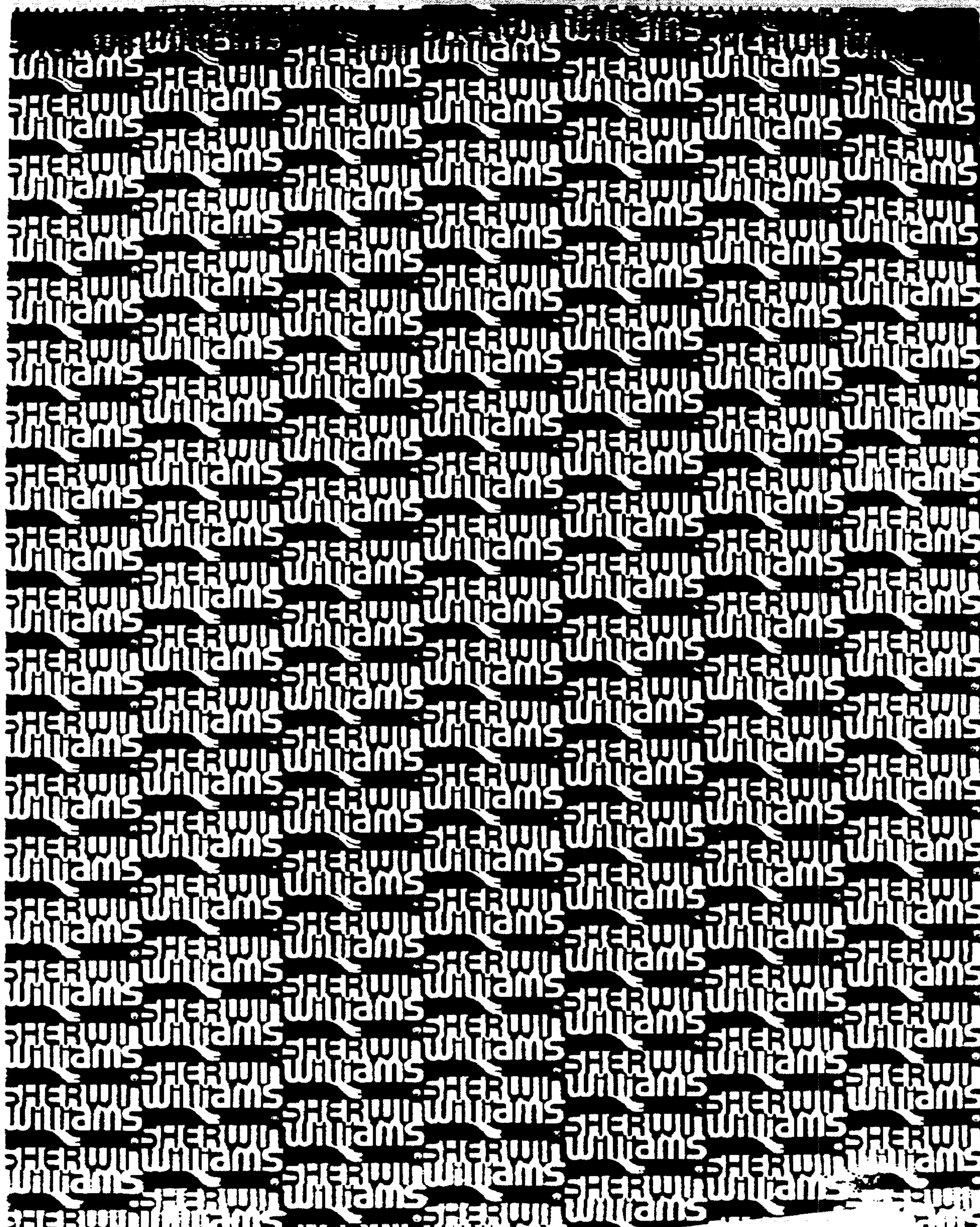

SHERWIN
Williams



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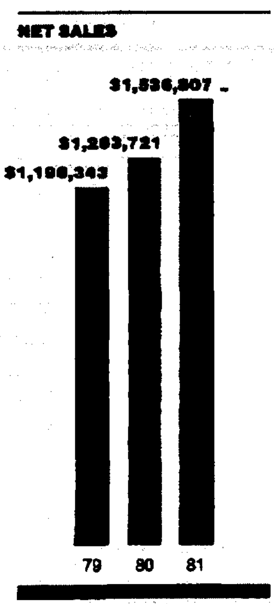
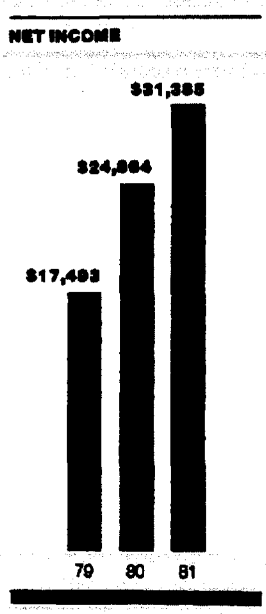
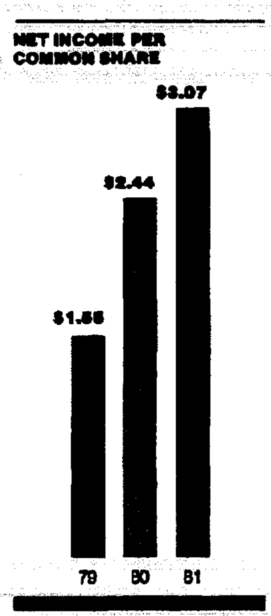
Highlights

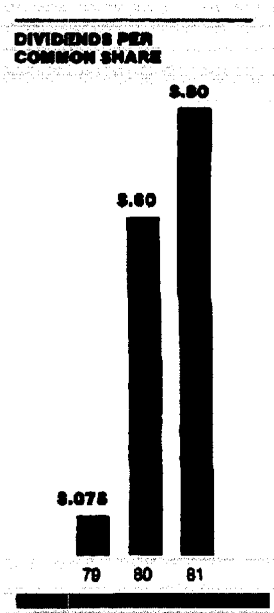
Thousands of dollars, except common share data

Years ended December 31,	1981	1980	1979
Net sales	$1,536,807	$1,263,721	$1,196,343
Pre-tax income	57,721	48,351	33,436
Net income	31,385	24,864	17,493
Per common share:			
Net income	3.07	2.44	1.55
Cash dividends	.80	.60	.075
Book value	28.69	26.76	25.00
Average shares outstanding	9,908,669	9,767,608	10,581,750
Return on sales	2.0%	2.0%	1.5%
Return on common shareholders' equity	11.6%	9.8%	6.8%
Effective income tax rate	45.6%	48.6%	47.7%
Debt to capitalization	43.0%	43.5%	47.1%
Times interest earned	4.2 x	3.6 x	2.7 x
Current ratio	2.0 to 1	2.3 to 1	2.8 to 1
R&D expenditures	$9,766	$8,854	$7,100
Number of common shareholders of record	8,858	8,688	9,796
Number of employees	23,507	16,808	16,872









Who We Are

In 1981, Sherwin-Williams celebrated 115 years of doing business. Our core business is the manufacturing, selling and distribution of coatings, related products and specialty chemicals During 1981, we acquired Gray Drug Stores, Inc , a regional chain drug company with sales of approximately $500 million. (We now call it the Gray Drug Fair Division.)

We sell Sherwin-Williams labeled architectural coatings and industrial finishings through 1,410 company-owned paint and wallcovering stores in 48 states. We also manufacture and sell coatings such as Kem, Martin-Senour, Dutch Boy and Baltimore 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 and traffic paint market.

Annual Meeting
The annual meeting of shareholders will be held at 10.00 a.m , April 28, 1982, at Stouffer's Inn on the Square, Public Square, Cleveland, Ohio

Transfer Agent & Registrar
AmeriTrust Company
Cleveland, Ohio

Investor Relations
Pamela A Jameson
The Sherwin-Williams Company
101 Prospect Ave , N W.
Cleveland, Ohio 44115

Independent Auditors
Ernst & Whinney
Cleveland, Ohio

Trustees
5.45% Debentures: 9 45% Debentures
AmeriTrust Company
Cleveland, Ohio

6 25% Convertible
Subordinated Debentures
Central National Bank of Cleveland
Cleveland, Ohio

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

Common Stock
Symbol: SHW

Exchange Listing
New York Stock Exchange

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.

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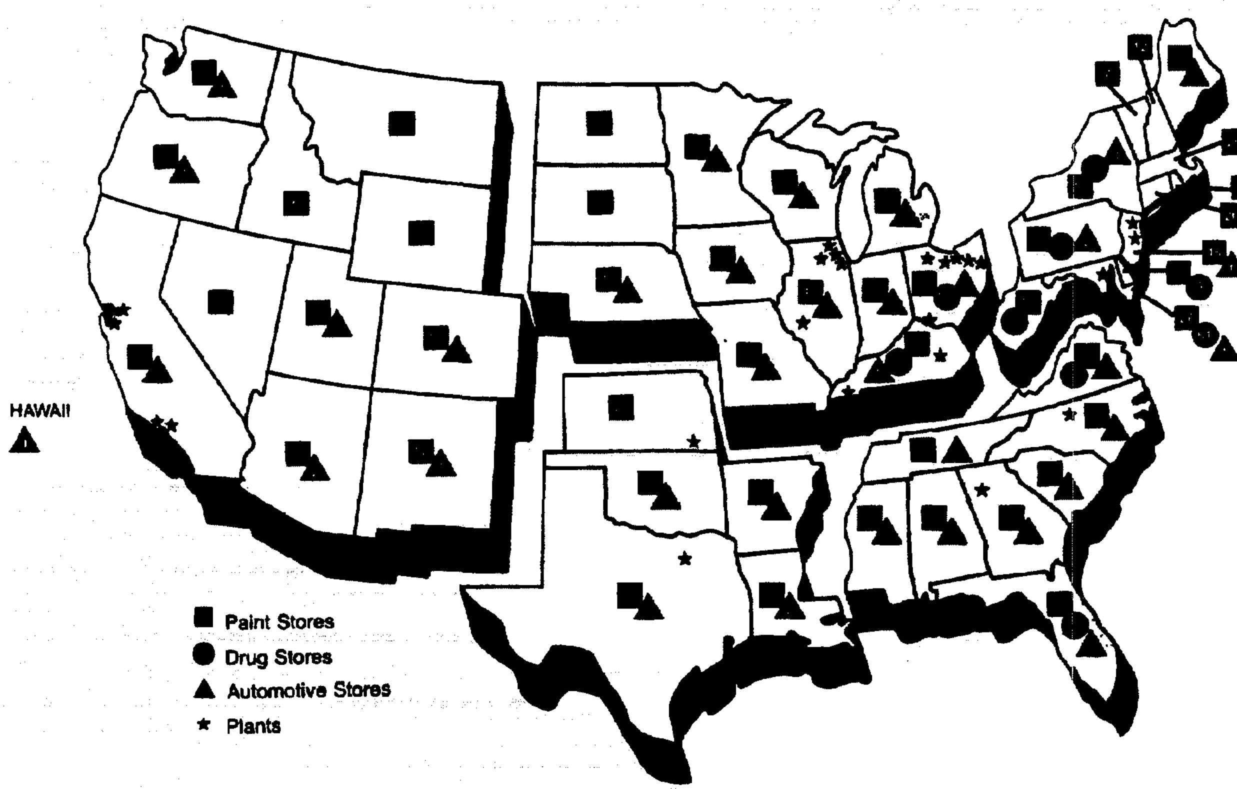
Domestic Operations
(Symbols contain number of facilities per state)



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Our earnings per share in 1981 increased to $3.07 from 1980's $2.44. Net income increased 26 percent to $31,385,000, compared to $24,864,000 in 1980. The return on common shareholder's equity was 11.6 percent, compared to 9.8 percent in 1980.

Like most U. S. companies, we operated in a difficult and declining economy for most of the year. Both new housing starts and residential housing resales fell to severe cyclical lows, caused by continuing high interest rates and the double dip recession. Durable goods, particularly autos, continued on the downward slide that started in early 1980.

Despite the poor economic environment, most of our divisions improved their performance. Stores Division operated profitably for the third consecutive year. We expanded our in-stock wallpaper program to 700 stores and continued remodeling, relocating, and opening new stores. We also introduced SuperPaint®, a premium line of residential products which achieved reasonably good sales in a difficult market.

Our Consumer Division continued integrating Dutch Boy into its operations and distribution network. In addition, cost reduction and operating efficiencies favorably affected the division's performance. Our Chemical Coatings Division also improved its results despite slowdowns in the residential siding, railroad, and transportation markets. Automotive Aftermarket Division benefited from an increase in the car-miles driven, which brought the miles-driven back to previous levels. In addition, the division increased sales to the fleet and U. S. foreign car market.

Specialty Products Division increased market share and margins in aerosol filling, brushes, and rollers. This division made a turnaround in 1981, and with the major problems behind it, we decided to consolidate it into the Consumer Division to take advantage of the synergy in distribution and marketing between the two divisions.

Lower demand for containers from the coatings industry and severe competitive pricing adversely affected the Container Division. Our Chemicals Division was particularly hard hit by declines in several of its end-use markets, especially rubber and plastics. We made cost reductions to stem these losses and, at the same time, concentrated on more promising markets such as energy field chemicals.

All of our international operations showed modest improvement in 1981, with the exception of Canada where our efforts to improve sales have not been successful. We have recently made management changes in Canada to turn this operation around.

In October 1981, we successfully tendered for the outstanding shares of Gray Drug Stores, Inc. Gray had acquired Drug Fair Inc. in May 1981. Both of these companies have been marginally profitable for several years in an industry that has experienced significant profitable growth relative to overall retailing. We saw this acquisition as an opportunity to use our management capability in related areas to improve Gray Drug Fair's profitability. To concentrate on improving the management of this operation, we promoted Carl A. Bellini to group vice president responsible for Gray Drug

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Fair and Sherwin-Williams Stores. Richard R. Anglin was promoted to president and general manager of the Stores Division, and Alvin F. Towle was recruited to become president and general manager of Gray Drug Fair.

At the same time, Edward D. Hopkins was promoted to group vice president responsible for our coatings divisions and the Container and Chemicals Divisions. Subsequently, Thomas N. Bird was promoted to president and general manager of the Consumer Division, and Frank E. Butler was promoted to president and general manager of the Chemicals Division.

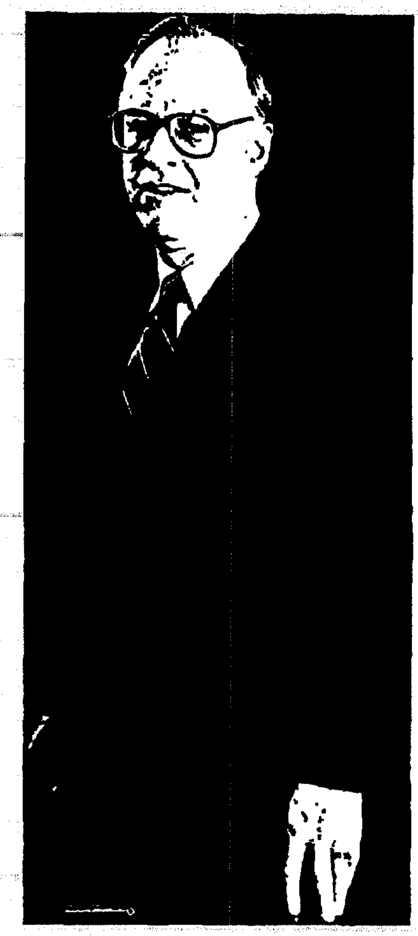
In the international group, Gerald B. Blouch was promoted to president and general manager of Sherwin-Williams Canada and Jesus M. Caravia was promoted to general manager — Caribbean Area.

It is unlikely that we will see significant improvement in housing or automotive markets in 1982. The general economy will stay under the pressure of a deepening recession, high unemployment, and high interest rates caused by government deficit spending. Consequently, we expect to be operating in an extremely difficult environment for all of 1982.

We plan to continue improvements in our Stores Division and our other operating divisions. We will concentrate particularly on turning Gray Drug Fair around and on developing a long-term strategy for this new segment of our company. Gray Drug Fair aided our fourth quarter results, and we are expecting that it will favorably affect all of 1982.

The national economy is going through a process of correction and some economic signs are now turning positive. We hope that our government leaders will maintain their commitment to bring down inflation. All levels of government must continue to help rebuild the private sector to restore the country's competitive posture and our overall economic health.

We are by no means satisfied with our 1981 results. We do, however, feel we ended 1981 as a stronger company with a commitment from our people to face up to economic adversity and to continue the successful turnaround of the company. In spite of the difficult economic environment we anticipate for 1982, we are confident of showing continuing improvement of our financial results.



John G. Breen

John G. Breen,
Chairman,
President,
Chief Executive Officer
February 17, 1982

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Sherwin-Williams at a glance

Segment	Division	Principal Products	Major Markets
Paint Stores	Stores Division	Sherwin-Williams labeled architectural coatings and industrial finishes, wallcoverings, floor coverings, window treatments, paint sundries, spray equipment.	Do-it-yourself consumers, professional painters and contractors, commercial and industrial maintenance accounts, small to medium sized manufacturers of products requiring factory finish.
Drug Stores	Gray Drug Fair Division *Gray Drug Stores, Inc.* *Drug Fair Inc.*	Prescriptions, health and beauty aids, cosmetics, general merchandise.	General public.
Coatings	Consumer Division	Manufactures architectural finishes (under the Sherwin-Williams, Martin-Senour, Dutch Boy, Baltimore, Kem and private brand labels), brushes, rollers, adhesives.	Industrial and commercial maintenance accounts, do-it-yourselfers, painting contractors.
	Automotive Aftermarket Division	Automotive refinish products under Sherwin-Williams, Acme, Rogers, and private brand labels.	Automotive body shops, fleets, automotive parts stores.
	Chemical Coatings Division	Sherwin-Williams labeled industrial finishes for original equipment manufacturers.	Manufacturers of coil coating, siding, wood products, metal furniture, rail and off-road equipment, business machines.
	Container Division	Paint cans, oblong cans, aerosols.	Manufacturers of paint (including Sherwin-Williams), and of consumer, personal and household products.
Chemicals	Chemicals Division	Para cresol, saccharin, triazoles, Isatoic anhydride, alkali blue, barite, BHT, zinc oxide products.	Para cresol: manufacturers of antioxidants for plastics, food and rubber. Triazoles: manufacturers of corrosion inhibitors for antifreeze, water treatment and related industrial processes. Saccharin: beverage and food industries. Alkali blue: printing ink manufacturers. Barite: mud service companies.
International	International Division *Sherwin-Williams Canada* *Sherwin-Williams Mexico* *Sherwin-Williams West Indies* *Sherwin-Williams Brazil (unconsolidated)*	Architectural coatings, industrial finishes, and automotive repaint finishes, paint sundries and various home decorative items.	Painting contractors, do-it-yourselfers, independent paint dealers, commercial and industrial maintenance accounts, automotive body shops, original equipment manufacturers.

General Business development — the acquisition of Gray Drug Stores, Inc discussed in Note 6, was the only material change in the business conducted by the company during the latest fiscal year.

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

Environmental affairs — the company believes it is in substantial compliance with federal, state and local provisions regulating the discharge of materials into the environment. There are no material capital expenditures anticipated for environmental control facilities during the next year.

Customers and backlog — the loss of any single customer would not have a materially adverse effect on the business of the company or any segment. Backlog of orders is not significant in the business of any segment of the company

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Distribution	Competition	Seasonality
Through 1,410 company-owned stores in 48 states.	Paint and wallpaper stores, mass marketers, home centers, independent hardware stores, hardware chains. Market fragmented and highly price, quality and service competitive.	Approximately 57% of sales generated in the second and third quarters. January and February smallest sales months.
358 retail stores in Delaware, Florida, Kentucky, Maryland, New York, Ohio, Pennsylvania, Virginia, West Virginia, and the District of Columbia.	Drug chains, food stores and mass marketers. Reacts to convenience, pricing, and merchandising.	Seasonal with approximately 28% of sales occuring in the fourth quarter.
The Stores Division, independent dealers, mass merchandisers, home centers.	1,100 coatings manufacturers at regional and national level. Quality, service, price, main competitive factors.	Seasonal with the major portion of sales occuring in the second and third quarters.
64 Sherwin-Williams automotive branches, direct sales representatives, distributors and jobbers.	Division ranks among four major market leaders. Quality and service competitive.	Moderately seasonal.
Direct sales and Sherwin-Williams stores.	Four major competitors with broad product offerings and several small companies with niche products. Product technology, quality and service key competitive factors.	No significant seasonality.
Direct sales representatives.	Five container manufacturers. Price and service factors in competing.	Sales flow fairly evenly through the four quarters — the fourth quarter the lowest.
Direct sales representatives, distributors, warehouses.	Major domestic and foreign chemical manufacturers. Business technology and price competitive.	Not considered seasonal.
Direct sales force, distributors, jobbers. Company-owned stores as follows: Canada 96; Mexico 74; Brazil 13.	Many competitors in each foreign market. Sherwin-Williams competitive position significant only in Mexico, Canada, and the West Indies. Price, service and quality sensitive.	Canadian operation seasonal with majority revenues generated in second and third quarters; other operations not significantly seasonal.

Patents and licenses are not of material importance in the business of the company. However, a substantial part of the income of the International segment is derived from the license of technology, trademarks and trade names to other foreign companies.

Financial results of these segments are included on page 24 of this report.

Legal — the company has been cited by the U. S. Occupational Safety and Health Administration at the Chicago, Illinois container plant. While the company's position has been upheld by an administrative law judge, the matter is being appealed by federal authorities. Also, the company has been cited at the Chicago plant site by the Metropolitan Sanitary District of Greater Chicago. The company has engaged in discussions with the sanitary authorities in an effort to resolve this issue.

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 1981.

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

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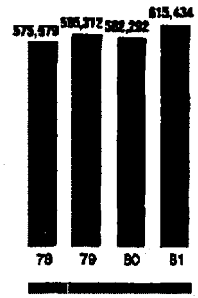
1981 Operating Review

Segment | **1981 Operating Highlights** | **Net Sales**

Thousands of Dollars

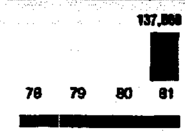
Paint Stores

- Reorganized regional structure by streamlining from 10 regions to 5 and by increasing staff for each region. Resulted in more flexible, broader, regionalized management control.
- Placed budgeting responsibilities with store managers so accountability for expense and sales budgets now rests with individuals closest to daily operations.
- SuperPaint® successfully introduced.
- Wallpaper sales increased 10%, retail sales increased 9%, wholesale sales increased 5%.
- Improved profit 108%.
- Remodeled 42 stores, opened 19 stores, relocated 19 stores, closed 20 stores.
- Developed training programs for all levels of field personnel.



Drug Stores

- Fourth quarter sales increased.
- New management in place.



Coatings

Consumer Division

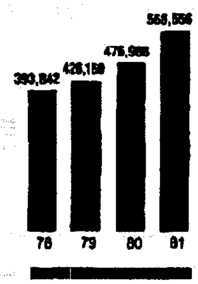
- Increased paint sales 39% because of Dutch Boy acquisition.
- Increased Specialty Products sales 17%.
- Increased profit because of manufacturing and distribution efficiencies.

Automotive Aftermarket Division

- Marketed U.S.-made product line for Japanese imports.
- Double-digit percent gain on dollar sales because of market strength and S-W marketing programs.
- Improved asset management — reduced working capital to sales.

Chemical Coatings Division

- Commercialized high-solids technology for metal office furniture market.
- Introduced in-mold technology for priming plastic parts to the automotive industry.
- Reorganized marketing organization around product lines.
- Went from a loss position to a profit.



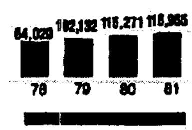
Container Division

- Achieved record aerosol sales and production through successful marketing plan in personal products.
- Profits flat because of softness in paint can market.
- Reduced inventory levels to lowest level since 1968 despite increase in sales of 300% in that time period. Accomplished this through improved inventory control procedures.

Chemicals

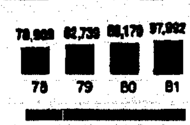
Chemicals Division

- Lost money because of high level of fixed costs and slow response to downturn in economy.
- Established position in antioxidant market for plastics with rebuilding of BHT facility.
- Opened four warehouses to serve drilling mud market in Oklahoma.



International

- Record sales and earnings in Mexico and West Indies.
- Record sales in Brazilian subsidiary. (unconsolidated)



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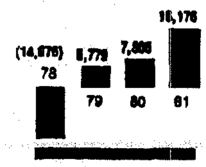
Development for the future

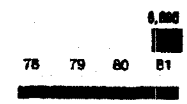
Operating Income (Loss)

Thousands of Dollars

- New emphasis on industrial maintenance program.
- Continue to expand our distribution and penetration in key markets. Plan to add 35 new stores, relocate 50 and close 10.
- Progress in cost reduction through use of additional core staffing and payroll management system.



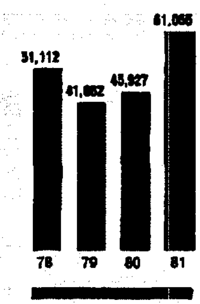
- Begin strategic planning process.
- Establish merchandising strategy.
- Set up expansion plans and establish prototype store.
- Reduce administrative costs.



- Merge Specialty Products into Consumer to use distribution systems and strengthen merchandising position.
- Implement marketing programs to broaden distribution channels and improve capacity utilization.

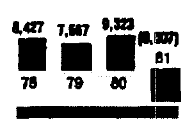
- Install mini-computer system in aftermarket branches for better control of assets and expenses.

- Expand distribution system to small and medium sized manufacturers.
- Offer customer training in product applications.

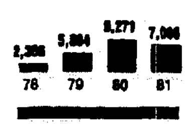


- Fully commercialize plastic Poly-Pail® one-gallon containers and go into limited production of plastic five-gallon containers in 1982.

- Increase number of warehouses and product line in energy field chemicals.
- Cost reduction in 1981 should significantly reduce loss in 1982.



- Develop more focused marketing programs in Canada and Mexico.
- Increase licensing and export programs.



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Directors and Officers

Board of Directors

James A. Attwood, 54
Executive Vice President and
Chief Investment Officer
Equitable Life Assurance
Society of the United States

Keith S. Benson, 63
Retired, formerly Executive
Vice President,
Administration and Finance
Oglebay Norton Company

John G. Breen, 47
Chairman, President and
Chief Executive Officer
The Sherwin-Williams Company

D. Wayne Calloway, 46
President and Chief Executive
Officer Frito-Lay Division of
Pepsico, Incorporated

Thomas A. Commes, 39
Senior Vice President, Finance
The Sherwin-Williams Company

William J. De Lancey, 65
Chairman and
Chief Executive Officer
Republic Steel Corporation

Robert C. Doban, 57
Senior Vice President,
Science and Technology
Owens-Corning
Fiberglas Corporation

Allen C. Holmes, 61
National Managing Partner
Jones, Day, Reavis &
Pogue, attorneys

J. Robert Killpack, 59
President National City Bank
and National City Corporation

William G. Mitchell, 51
President Central Telephone
and Utilities Corporation

Patrick S. Parker, 52
Chairman of the Board
and Chief Executive Officer
Parker-Hannifin Corporation

Officers

John G. Breen
Chairman, President and
Chief Executive Officer

Thomas A. Commes
Senior Vice President, Finance

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

Carl A. Bellini
Group Vice President

Edward D. Hopkins
Group Vice President

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

William B. Eldredge
Vice President,
International Group

Conway G. Ivy
Vice President, Corporate
Planning and Development

Arthur D. Maine
Vice President,
Human Resources

Robert A. Tschannen
Vice President, Facilities and
Administrative Services

James E. Wallace
Vice President,
Corporate Controller

Thomas R. Miklich
Treasurer

Larry J. Pitorak
Director of Taxes and
Assistant Secretary and
Assistant Treasurer

Richard R. Anglin
President & General Manager,
Stores Division

Thomas N. Bird
President & General Manager,
Consumer Division

Frank E. Butler
President & General Manager,
Chemicals Division

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

Joseph P. Maladra
President & General Manager,
Container Division

Alvin F. Towle
President & General Manager,
Gray Drug Fair Division

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

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Financial Summary

Thousands of dollars, except per share data

Years ended December 31,	**1981**	1980	1979	1978	1977
Operations					
Net sales	$1,536,807	$1,263,721	$1,196,343	$1,132,350	$1,035,989
Cost of products sold	1,070,171	868,388	829,183	795,237	732,049
Selling, general and administrative expenses	402,472	343,931	323,206	311,514	283,879
Interest expense	18,332	18,552	19,366	21,318	17,965
Income (loss) before income taxes	57,721	48,351	33,436	9,589	(11,890)
Income taxes (credit)	26,336	23,487	15,943	4,580	(3,683)
Net income (loss)	31,385	24,864	17,493	5,009	(8,207)
Funds provided from operations	63,228	49,496	44,763	24,640	11,117
Financial Position					
Inventories	$334,890	$237,399	$242,264	$243,508	$256,314
Accounts receivable — net	132,174	131,265	125,669	135,047	125,380
Working capital	291,643	307,451	317,028	311,537	270,320
Property, plant and equipment — net	240,268	210,754	203,851	209,580	201,112
Total assets	864,438	768,592	711,734	653,799	621,307
Long-term debt	230,101	212,934	234,285	242,362	196,621
Common shareholders' equity	284,029	262,964	243,402	242,868	238,648
Total shareholders' equity	305,020	286,876	268,107	267,793	263,586
Per Common Share Data					
Average number of shares outstanding	9,908,669	9,767,608	10,581,750	10,796,890	10,793,492
Common shareholders' equity per share (book value)	$ 28.69	$ 26.76	$ 25.00	$ 22.49	$ 22.10
Net income (loss) per common share	3.07	2.44	1.55	36	(.86)
Fully diluted net income (loss) per common share	2.72	2.12	1.43	.36	(.86)
Cash dividends declared per common share	.80	.60	.075	—	.83
Financial Ratios					
Income (loss) as a percentage of sales	2.0%	2.0%	1.5%	.4%	(.8%)
Return on common shareholders' equity (A)	11.6%	9.8%	6.8%	1.8%	(3.6%)
Return on assets	3.6%	3.2%	2.5%	.8%	(1.3%)
Dividend payout ratio	26.1%	24.6%	4.3%	—	+100.0%
Debt to capitalization	43.0%	43.5%	47.1%	48.6%	46.2%
Current ratio	2.0 to 1	2.3 to 1	2.8 to 1	3.6 to 1	3.0 to 1
Times interest earned (B)	4.2 x	3.6 x	2.7 x	1.5 x	.3 x
Working capital as a percentage of sales	19.0%	24.3%	26.5%	27.5%	26.1%
General					
Capital expenditures	$43,072	$23,704	$11,867	$17,274	$31,888
Research and development expenditures	9,766	8,854	7,100	6,712	7,945
Provision for depreciation and amortization	21,668	19,979	19,458	18,438	16,924
Number of shareholders:					
Preferred	750	855	951	991	1,010
Common	8,858	8,688	9,796	10,611	10,927
Number of employees	23,507	16,808	16,872	18,015	19,269
Sales per employee	$65,377	$75,186	$70,907	$62,856	$53,765
Sales per dollar of assets	1.78	1.64	1.68	1.73	1.67

(A) Based on common shareholders' equity at beginning of year.
(B) Ratio of pre-tax income before interest expense to interest expense.
This summary should be read in conjunction with the financial statements and notes on pages 15-29 of this report.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

CASH FLOW SUMMARY

Millions of Dollars	1981	1980	1979	1978
Sources:				
Profit	$ 31.4	$ 24.9	$ 17.5	$ 5.0
Depreciation	21.7	20.0	19.5	18.4
	53.1	44.9	37.0	23.4
Uses:				
(Increase) decrease working capital	-11.0	51.7	71.1	-15.1
Capital expenditures	-43.1	-23.7	-11.9	-17.3
Other	9.1	3.6	6.5	2.1
	-45.0	31.6	65.7	-30.3
Net cash flow from operations	$ 8.1	$ 76.5	$102.7	$- 6.9
Non operating:				
Acquisitions	-55.1	-14.3	—	—
Dividends	- 8.9	- 6.9	- 1.8	- .8
Debt repurchases/issuance	-11.8	-18.6	- 9.5	38.2
Stock repurchases	- 3.2	- .1	-15.4	—
Other	- .3	2.7	.7	—
	-79.3	-37.2	-26.0	37.4
Net increase (decrease) cash	$-71.2	$ 39.3	$ 76.7	$ 30.5

Working Capital

- Ratio of current assets to current liabilities was 2.0 at the end of 1981 compared to 2.3 at the end of 1980 and 2.8 at the end of 1979.
- Decline from 1980 due primarily to acquisition of Gray Drug and an increase in certain expense accruals. The use of the LIFO method of inventory valuation also continues to reduce the current ratio.
- The significant decline in cash is primarily attributable to acquisitions and expenditures for repurchase of debt and common stock.
- The company has been free of short-term borrowings since the end of 1978 except for borrowings by our Canadian subsidiary and Gray Drug Fair. Short-term borrowings of the company's Canadian subsidiary and Gray Drug Fair Division were eliminated by the end of 1981.
- The company's current cash flow position and anticipated future cash flow from operations should be sufficient to finance working capital needs presently anticipated.

Capital Expenditures/Acquisitions

- Capital expenditures were approximately $43,072,000 during 1981 compared to approximately $23,704,000 in 1980, excluding fixed assets acquired through acquisitions.
- Expenditures of the Stores Division increased substantially over 1980 due to the decision to own rather than lease stores where financially attractive.
- Capital expenditures are not expected to increase substantially in 1982.
- Expenditures for acquisitions totaled $55,079,000 in 1981 (Gray Drug) and $14,359,000 in 1980 (Dutch Boy and Chemical Operations).
- External financing is not anticipated for 1982, except for the store purchase program.

Lines of Credit

- The company has an unused line of credit with a group of ten banks totaling $100,000,000. This credit agreement was entered into as of July 31, 1981 and expires July 31, 1985.
- The company's Canadian subsidiary also has an unused line of credit for CD$17,000,000.

Capital Structure

- The ratio of total debt (including capitalized lease obligations) to total capitalization was 43.0% at the end of 1981 compared to 43.5% at the end of 1980 and 47.1% at the end of 1979.
- Improvement in this ratio has been accomplished primarily through the repurchase of debt in the open market at a discount, the elimination of short-term borrowings and improved profitability.
- Total borrowings (including capitalized lease obligations) were $230,101,000 at December 31, 1981 as compared

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to $221,169,000 and $238,934,000 at December 31, 1980 and 1979, respectively Gray Drug debt included for 1981 amounted to $30,247,000.

- The company repurchased approximately 164,000 shares of its common stock during 1981. Depending on the company's cash position and market conditions, additional shares of common stock may be purchased for general corporate purposes. In October of 1979 the company repurchased 1,460,000 shares of its common stock from Gulf & Western Industries, Inc.
- There have been no other material changes in capitalization during 1981 or 1980, nor has the company entered into any significant financing arrangements not reflected in the financial statements.

Dividends

- The improved financial condition of the company since 1978 allowed for the reinstatement of the dividend in 1979 at a quarterly rate of $.075 per share and subsequent increases to a quarterly rate of $.20 per share during 1981.
- The board of directors at a meeting held February 17, 1982, declared a dividend of $.25 per share, an increase of 25% from the 1981 level.
- This is the third consecutive year that the dividend has been increased due to the performance improvement of the company
- The company's target dividend payout ratio is approximately 30% of earnings, depending on future capital needs of the company.

Results of Operations — 1981 vs 1980

Net Sales

- Consolidated net sales increased 22% during 1981 due to a combination of volume and price increases.
- Sales in all segments showed improvement in 1981 with sales of the Stores and Coatings segments being the primary contributors to the sales increase.
- Net sales in 1981 were affected favorably by the acquisition of Dutch Boy in September 1980 and Gray Drug in October 1981.

Gross Profit

- Gross profit margin for the year was relatively flat due principally to the significant decrease in the margins of the Chemicals segment which was affected by a severely depressed market for certain of its products in 1981.
- Profit margins continued to improve for the company's Coatings segment in 1981. The shift in sales mix to higher-margin products and continued emphasis on cost control contributed to the improved margins in this segment.

Selling, General and Administrative Expenses

- Selling, general and administrative expenses increased $58,541,000 over 1980 but declined as a percentage of sales from 27.2% in 1980 to 26.2% in 1981.
- Additional expenses from the Dutch Boy line and the Gray acquisition accounted for a major part of the increase.

Interest Income/Interest Expense

- Interest income declined from $16,845,000 in 1980 to $15,229,000 in 1981. The decline occured primarily because of reduced levels of funds available for investment due to expenditures for acquisitions and repurchases of debt and common stock.
- Interest expense declined slightly from $18,552,000 in 1980 to $18,332,000 in 1981. The decline was due to the repurchase of debentures and elimination of short-term borrowings in Canada offset to some extent by interest expense on Gray Drug debt from the date of acquisition.

Net Income

- Net income increased to $31,385,000, an increase of 26% from 1980.
- Increase primarily due to increased profitability in Stores and Coatings segments.
- Incremental profit from the Gray Drug subsidiary over the interest income which would have been earned on the funds expended for that acquisition also contributed to the increase.

Effects of Inflation

- Supplemental information regarding the impact of inflation upon the company is presented on pages 25-27 of this report.

Results of Operations — 1980 vs 1979

Net Sales

- Sales increased 5.6% during 1980.
- Coatings and Chemicals segments were largest contributors to the increase although sales in all segments increased.
- Sales increase attributable primarily to price.

Gross Profit

- Gross profit margins increased from 30.7% to 31.3% in spite of adoption of LIFO.
- Improvement primarily attributable to emphasis on cost reduction and shift in sales mix to higher-margin products.

Selling, General and Administrative Expense

- Increased 6.4% over 1979 levels.
- Advertising expenses in Stores Division added significantly to the increase in these expenses.

Interest Income/Interest Expense

- Interest income increased $8,714,000 in 1980 and interest expense declined $814,000.
- High interest rates and improved working capital management led to increase in interest income; interest expense declined primarily due to the repurchase of debentures.

Net Income

- Increased $7,371,000 from 1979.
- Improved profitability in Paint Stores and International segments combined with the increased interest income contributed to the improvement.
- Income of Paint Stores and Coatings segments in 1980 reflects the adoption of LIFO for these segments.

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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, 1981, 1980 and 1979. The opinion of Ernst & Whinney, the company's independent auditors, on those financial statements is included. The primary responsibility for the integrity of the financial information included in this annual report rests with management. This information is prepared in accordance with generally accepted accounting principles, based upon our best estimates and judgments and giving due consideration to materiality.

The company maintains accounting and control systems which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and which produce records adequate for preparation of financial information. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should not exceed the benefits to be derived. We believe our system provides this appropriate balance.

The board of directors pursues its responsibility for these financial statements through the Audit Committee, composed exclusively of outside directors. The committee meets periodically with management, internal auditors and our independent auditors to discuss the adequacy of financial controls, the quality of financial reporting and the nature, extent and results of the audit effort. Both the internal auditors and independent auditors have private and confidential access to the Audit Committee at all times.

J G Breen
J G Breen,
Chairman, President,
Chief Executive Officer

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

J E Wallace
J. E. Wallace,
Vice President, Corporate Controller
Chief Accounting Officer

Report of Ernst & Whinney, Independent Auditors

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

We have examined the consolidated financial statements of The Sherwin-Williams Company and subsidiaries listed in Item 11(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 11(a) of the Index present fairly the consolidated financial position of The Sherwin-Williams Company and subsidiaries at December 31, 1981, 1980 and 1979, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis except for the changes, with which we concur, in the method of determining inventory cost as described in Note 3 to the consolidated financial statements.

Cleveland, Ohio
February 16, 1982

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.	**1981**	1980	1979
Net sales	$1,536,807	$1,263,721	$1,196,343
Costs and expenses:			
Costs of products sold	1,070,171	868,388	829,183
Selling, general and administrative expenses	402,472	343,931	323,206
Interest expense	18,332	18,552	19,366
Interest income	(15,229)	(16,845)	(8,131)
Other	3,340	1,344	(717)
	1,479,086	1,215,370	1,162,907
Income before income taxes	57,721	48,351	33,436
Income taxes	26,336	23,487	15,943
Net income	$ 31,385	$ 24,864	$ 17,493
Net income per common share:			
Primary	$ 3.07	$ 2.44	$ 1.55
Fully diluted	$ 2.72	$ 2.12	$ 1.43

See notes to consolidated financial statements

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Consolidated Balance Sheets

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

Years ended December 31,	1981	1980	1979
Assets			
Current assets			
Cash and short-term investments	$ 77,530	$148,730	$109,402
Accounts receivable, less allowance	132,174	131,265	125,669
Inventories:			
Finished products	278,114	173,941	177,748
Work in process and raw materials	56,776	63,458	64,516
	334,890	237,399	242,264
Other current assets	37,026	25,749	16,006
Total current assets	581,620	543,143	493,341
Other assets	42,550	14,695	14,542
Property, plant and equipment			
Land	12,522	6,925	5,612
Buildings	126,181	115,461	112,646
Machinery and equipment	275,356	256,166	240,506
Construction in progress	22,870	15,207	10,879
	436,929	393,759	369,643
Less allowances for depreciation and amortization	196,661	183,005	165,792
	240,268	210,754	203,851
	$864,438	$768,592	$711,734
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term borrowings	$ —	$ 8,235	$ 4,649
Accounts payable	153,982	105,712	78,885
Compensation and amounts withheld	42,730	42,705	34,912
Pensions	14,140	14,084	14,899
Other accruals	70,983	46,424	28,445
Income taxes	8,142	18,532	14,523
Total current liabilities	289,977	235,692	176,313
Long-term debt	230,101	212,934	234,285
Deferred income taxes	29,790	26,365	24,873
Other long-term liabilities	7,920	4,995	5,326
Minority interest in subsidiary	1,630	1,730	2,830
Shareholders' equity			
Capital stock:			
Serial preferred	7,545	8,583	8,854
Common	69,806	34,162	33,884
Other capital	2,393	6,000	5,171
Retained earnings	247,485	254,184	236,234
Cumulative foreign currency translation adjustment	(2,922)	—	—
	324,307	302,929	284,143
Less treasury stock, at cost	19,287	16,053	16,036
Total shareholders' equity	305,020	286,876	268,107
	$864,438	$768,592	$711,734

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,	1981	1980	1979
Funds provided from operations:			
Net income	$31,385	$24,864	$17,493
Non-cash charges to net income.			
Depreciation and amortization	21,668	19,979	19,458
Noncurrent deferred income taxes	3,425	1,492	6,762
Disposition of noncurrent assets	6,750	3,161	1,050
Funds provided from operations	63,228	49,496	44,763
Funds required for operations:			
Decrease (increase) in working capital	(11,022)	51,745	71,189
Capital expenditures	(43,072)	(23,704)	(11,867)
Obligations under capital leases	(2,489)	(2,654)	1,462
Other	1,410	1,607	(2,912)
Funds required for operations	(55,173)	26,994	57,872
Net cash flow from operations	8,055	76,490	102,635
Funds invested, distributed and other:			
Increase in working capital from business acquisitions	(44,370)	(2,840)	—
Noncurrent assets from business acquisitions	(9,406)	(10,420)	—
Purchase of debentures	(11,856)	(18,607)	(9,474)
Cash dividends	(8,907)	(6,914)	(1,767)
Treasury stock	(3,234)	(17)	(15,421)
Acquisition of minority interest in subsidiary	(43)	(1,297)	—
Other	(1,439)	2,933	707
Funds invested, distributed and other	(79,255)	(37,162)	(25,955)
Net increase (decrease) in cash and short-term investments	(71,200)	39,328	76,680
Cash and short-term investments:			
Beginning of the year	148,730	109,402	32,722
End of the year	$ 77,530	$148,730	$109,402
Decrease (increase) in working capital:			
Accounts receivable	$ (909)	$ (5,596)	$ 9,378
Inventories	(97,491)	4,865	1,244
Other current assets	(11,277)	(9,743)	2,664
Short-term borrowings	(8,235)	3,586	(6,071)
Accounts payable	48,270	26,827	42,031
Compensation and amounts withheld	25	7,793	4,816
Pensions	56	(815)	289
Other accruals	24,559	17,979	8,620
Income taxes	(10,390)	4,009	8,218
Decrease (increase) in working capital	$(55,392)	$ 48,905	$ 71,189

See notes to consolidated financial statements.

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Statements of Consolidated Shareholders' Equity

Thousands of dollars

The Sherwin-Williams Company and Subsidiaries

	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance at December 31, 1978	$ 8,854	$33,881	$ 5,240	$220,508	—	$ (690)
Treasury stock acquired:						
1,060,000 shares of common stock — net of 400,000 shares sold	—	—	(75)	—	—	(15,237)
2,200 shares of Series B preferred stock	—	—	—	—	—	(109)
Common stock issued:						
800 shares upon exercise of stock options	—	3	6	—	—	—
Net income	—	—	—	17,493	—	—
Cash dividends declared:						
Series A preferred stock — $4.00 per share	—	—	—	(282)	—	—
Series B preferred stock — $4.40 per share	—	—	—	(785)	—	—
Common stock — $ 075 per share	—	—	—	(700)	—	—
Balance at December 31, 1979	8,854	33,884	5,171	236,234	—	(16,036)
Treasury stock acquired:						
281 shares of Series A preferred stock	—	—	—	—	—	(17)
Common stock issued:						
63,200 shares upon exercise of stock options	—	197	615	—	—	—
24,908 shares upon conversion of preferred stock	(271)	78	192	—	—	—
1,084 shares upon conversion of 6 25% Convertible Subordinated Debentures	—	3	22	—	—	—
Net income	—	—	—	24,864	—	—
Cash dividends declared:						
Series A preferred stock — $4.00 per share	—	—	—	(278)	—	—
Series B preferred stock — $4.40 per share	—	—	—	(775)	—	—
Common stock — $.60 per share	—	—	—	(5,861)	—	—
Balance at December 31, 1980	8,583	34,162	6,000	254,184	—	(16,053)
Cumulative translation adjustment	—	—	—	—	(1,548)	—
Two-for-one stock split	—	34,537	(5,360)	(29,177)	—	—
Treasury stock acquired:						
164,044 shares of common stock	—	—	—	—	—	(3,234)
Common stock issued:						
138,838 shares upon exercise of stock options	—	552	1,113	—	—	—
93,782 shares upon conversion of preferred stock	(1,038)	535	503	—	—	—
4,342 shares upon conversion of 6.25% Convertible Subordinated Debentures	—	20	137	—	—	—
Net income	—	—	—	31,385	—	—
Cash dividends declared:						
Series A preferred stock — $4.00 per share	—	—	—	(271)	—	—
Series B preferred stock — $4.40 per share	—	—	—	(700)	—	—
Common stock — $.80 per share	—	—	—	(7,936)	—	—
Current year translation adjustment	—	—	—	—	(1,374)	—
Balance at December 31, 1981	$ 7,545	$69,806	$ 2,393	$247,485	$ (2,922)	$(19,287)

See notes to consolidated financial statements

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Years ended December 31, 1981, 1980 and 1979

Note 1 — Summary of 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 cost, which approximates market.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined principally on the last-in, first-out (LIFO) method.

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% - 5%
Machinery and Equipment	4% -12%
Furniture and Fixtures	5% -10%
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 operations, and were $9,766,000, $8,854,000 and $7,100,000 for 1981, 1980 and 1979, respectively.

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

Foreign Currency Translation. The financial statements of foreign entities for the year ended December 31, 1981 have been translated to U. S. dollars in accordance with FASB Statement No. 52, "Foreign Currency Translation." Under that Statement, for certain foreign operations, all balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of shareholders' equity. For 1980 and prior years, certain balance sheet accounts (principally inventory and property and equipment) and related income statement items are translated at historical exchange rates, and all translation adjustments are made directly to income. The new method of accounting increased 1981 net income by $1,910,000 ($.19 per share). If the company had adopted the new Statement for 1980 and 1979, reported net income for those years would not have changed significantly. Adoption of Statement No. 52 resulted in establishing a new cumulative translation adjustment account that decreased shareholders' equity by $1,548,000 at January 1, 1981.

Note 2 — Stock Split

On February 18, 1981, the company's board of directors authorized a two-for-one split of the common stock effected in the form of a 100% stock dividend which was distributed on March 30, 1981, to holders of record on March 9, 1981. Accordingly, all numbers of common shares and per share data have been restated to reflect the stock split. The par value of the additional shares of common stock issued in connection with the stock split was credited to common stock and a like amount charged to other capital and retained earnings.

Note 3 — Inventories

Effective January 1, 1980 and 1979, the company changed its method of determining inventory cost from the FIFO and the average cost methods to the LIFO method for substantially all inventories. The company believes the LIFO method more fairly presents its results of operations by reducing the effect of inflationary cost increases in these inventories and results in 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, 1981	1980	1979
Percentage of total inventories on LIFO	94%	90%	20%
Excess of FIFO and average cost over LIFO	$55,949	$32,424	$6,221
Effect of LIFO on net income	12,703	14,150	3,359
Effect of LIFO on net income per common share	1.28	1.45	.32

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Note 4 — Pensions

Substantially all employees of the company who meet certain requirements as to age and service participate in noncontributory pension plans. The company funds the amount charged to expense, which represents normal cost and amortization of unfunded prior service cost over 30 years.

Pension expense was $14,546,000, $15,020,000, and $15,558,000 for 1981, 1980 and 1979, respectively. Increased benefits and additional employees related to business acquisitions increased 1981 and 1980 pension expense by approximately $1,200,000 and $1,100,000, respectively. However, certain actuarial assumption changes and plan amendments were made which decreased pension expense.

In addition, the company contributed approximately $174,000 to various defined contribution union retirement plans. The company is presently unable to determine its respective share of either the accumulated plan benefits or net assets available for benefits under the union plans.

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

Thousands of dollars	January 1, 1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$187,330	$168,522
Non-Vested	14,936	8,070
	$202,266	$176,592
Net assets available for benefits	$241,547	$182,735
Weighted average assumed rate of return on accumulated plan benefits	8%	8%

Note 5 — Income Taxes

Thousands of dollars	Years ended December 31, 1981	1980	1979
The components of income before income taxes consist of the following:			
Domestic	$50,364	$39,360	$27,353
Foreign	7,357	8,991	6,083
Total income before income taxes	$57,721	$48,351	$33,436
The components of income tax expense are as follows:			
Current:			
Federal	$14,264	$16,830	$ 7,080
State and Local	2,600	2,600	1,419
Foreign	3,041	4,479	3,400
	19,905	23,909	11,899
Deferred:			
Federal	6,511	(774)	3,966
Foreign	(80)	352	78
	6,431	(422)	4,044
Total income tax expense	$26,336	$23,487	$15,943

The company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting, relating primarily to depreciation and other valuation allowances. It is the company's intention to reinvest undistributed earnings of foreign subsidiaries; accordingly, no deferred income taxes have been provided thereon. At December 31, 1981, such undistributed earnings amounted to approximately $15,140,000.

Investment tax credits (accounted for by the flow-through method) aggregated $2,837,000, $1,500,000 and $1,483,000 for 1981, 1980 and 1979, respectively.

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

Thousands of dollars	Years ended December 31, 1981	1980	1979
Depreciation	$ 3,184	$ 3,112	$ 3,486
Inventory valuation reserves	434	(4,210)	(1,302)
Provision for disposition and termination of operations	(3,545)	(1,530)	(1,157)
Investment tax credits and other carryforwards	—	239	3,093
Gain on purchase of debentures	700	1,351	610
Revenue recognized on installment sale basis	69	1,702	—
Accrued vacation pay	6,786	(1,029)	(456)
Other items (each less than 5% of the computed "expected" tax amount)	(1,197)	(57)	(230)
	$ 6,431	$ (422)	$ 4,044

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

	Years ended December 31, 1981	1980	1979
Statutory tax rate	46.0%	46.0%	46.0%
Effect of:			
State and local taxes	2.4	2.9	2.2
Investment tax credit	(4.9)	(3.1)	(3.9)
Foreign tax credit	(1.1)	(1.3)	(1.2)
Foreign operations subject to varying income tax rates	1.1	2.8	3.0
Other — net	2.1	1.3	1.6
Effective tax rate	45.6%	48.6%	47.7%

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Note 6 — Acquisitions

Effective October 3, 1981, the company acquired for cash, through a wholly-owned subsidiary, the outstanding stock of Gray Drug Stores, Inc ("Gray") for $21.00 per common share.

For financial statement purposes, the acquisition has been accounted for under the purchase method. Accordingly, the operations of Gray since the date of acquisition (net sales of $137,860,000 and net income of $3,444,000 or $.35 per share) have been reflected in the statement of consolidated income.

The aggregate purchase price of $55,079,000 has been allocated to the fair value of the net assets acquired based upon a preliminary allocation of the purchase price. The excess of fair value of net assets acquired over the purchase price has been allocated to reduce proportionately the fair values assigned to fixed assets and leased property under capital leases

A summary of assets acquired and liabilities assumed (excluding net current assets of $45,673,000) is as follows:

Property, plant and equipment	$14,504,000
Other non-current assets	28,596,000
Long-term debt and other liabilities	(33,694,000)
	$ 9,406,000

Pro forma financial information has been prepared in accordance with Accounting Principle Board Opinion No. 16 and is based upon the assumption that Gray was acquired as of January 1, 1980, at the same purchase price. In management's opinion, the pro forma financial information is not indicative of results of operations that may have occurred had the acquisition of Gray taken place January 1, 1980 or of future results of operations of the combined companies under the ownership and operation of the company.

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

Thousands of dollars, except per share data	Years ended December 31, 1981	1980
Net sales	$1,907,000	$1,751,000
Net income	24,300	23,500
Net income per common share:		
Primary	2 38	2 29
Fully diluted	1 97	1 82

In 1980, the company purchased certain businesses from Dutch Boy, Inc., Ashland Chemical Co. and the Eagle-Picher Co. for a total of $14,359,000. The assets acquired consist primarily of manufacturing facilities and the related machinery and equipment.

Note 7 — Capital Stock

	Authorized Shares	Shares in Treasury, December 31, 1981	1980	1979	Shares Outstanding Net of Treasury, December 31, 1981	1980	1979
Serial Preferred Stock—without par value	1,500,000						
$4 00 Cumulative Convertible Preferred Stock, Series A		281	281	—	67,194	68,370	70,498
$4 40 Cumulative Convertible Preferred Stock, Series B		2,200	2,200	2,200	142,713	170,755	176,549
Common Stock—$6 25 par value	50,000,000	1,269,046	1,105,002	1,105,010	9,899,944	9,827,026	9,737,826

The shares of Series A and Series B preferred stock are convertible at base conversion prices of $28.965 and $31.250 per share of common stock, respectively, based on a value of $100 per share of preferred stock for this purpose. The holders of the preferred stock are entitled to one vote for each share.

The company may redeem the Series A and Series B preferred stock at $100 per share. The aggregate preference of the preferred stock in involuntary liquidation was approximately $20,991,000, $23,913,000 and $24,705,000 at December 31, 1981, 1980, and 1979, respectively. The excess of the aggregate price in involuntary liquidation over the aggregate stated value does not create any restrictions on the distribution of retained earnings.

In October, 1979 the company purchased the 1,460,000 shares (13.5%) of its common stock held by Gulf & Western Industries, Inc. at a cost of $20,987,500. In December, 1979 the Sherwin-Williams Pension Plans purchased 400,000 shares of common stock from the company for $5,675,000 at the closing market price on the date of sale.

An aggregate of 2,651,236, 3,164,562, and 3,724,954 shares of common stock, at December 31, 1981, 1980, and 1979, respectively, were reserved for conversion of preferred stock, convertible subordinated debentures and exercise of stock options.

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Note 8 — Stock Purchase and Stock Option Plans

Approximately 5,000 salaried employees currently are participating through regular payroll deductions in the company's Employee Stock Purchase and Savings Plan which became effective April 1, 1969. In this employee fund at December 31, 1981 there were 1,991,112 shares of common stock, representing approximately 20% of the total number of common shares outstanding. The company's contribution charged to operations during 1981 amounted to approximately $2,957,000 Shares of company stock credited to each member's account are voted by the trustee under confidential instructions from each individual plan member.

Stock options have been granted to certain officers and key employees under the company's stock option plan, at prices not less than fair market value of the shares at date of grant and become exercisable to the extent of one-fifth of the optioned shares for each full year of employment following the date of grant, expiring ten years after date of grant.

During 1979, the board of directors granted 146,000 stock options to certain officers at the fair market value on the date of grant with an aggregate price of $1,518,000. These options are part of related employment contracts and carry substantially the same terms as options granted under the company's stock option plan. Exercises of these options totalled 25,000 and 24,000 shares during 1981 and 1980, respectively, at an aggregate price of $258,125 and $247,250.

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

	1981		1980		1979	
	Shares	Aggregate Price	Shares	Aggregate Price	Shares	Aggregate Price
Options outstanding beginning of year	639,600	$8,618,000	374,584	$5,507,000	432,068	$6,704,000
Granted	88,000	1,727,000	479,000	6,847,000	30,000	326,000
Exercised	(113,838)	(1,407,000)	(39,200)	(565,000)	(800)	(8,000)
Canceled	(62,162)	(797,000)	(174,784)	(3,171,000)	(86,684)	(1,515,000)
Options outstanding end of year	551,600	$8,141,000	639,600	$8,618,000	374,584	$5,507,000
Exercisable	89,600		94,600		232,584	
Reserved for future grants	429,016		454,854		759,070	

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:

Thousands of dollars	December 31, 1981	1980	1979
Buildings	$16,753	$18,100	$19,085
Machinery and Equipment	14,541	12,931	12,612
	31,294	31,031	31,697
Less allowance for amortization	15,756	13,834	11,324
	$15,539	$17,197	$20,373

Rental expense for all operating leases was $36,472,000, $34,529,000 and $30,726,000 for 1981, 1980 and 1979, respectively. Contingent rentals and sublease income for all leases were 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, 1981:

Thousands of dollars	Capital Leases	Operating Leases
1982	$ 8,156	$27,584
1983	7,708	20,850
1984	6,812	14,683
1985	5,749	9,777
1986	3,759	6,392
Later years	20,455	15,993
Total minimum lease payments	52,639	$95,279
Amount representing interest	(21,132)	
Executory costs	(3,226)	
Present value of net minimum lease payments	$28,281	

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Note 10 — Long-Term Debt

Thousands of dollars	Due Date	Sinking Fund/ Prepayments Amount	Sinking Fund/ Prepayments Commence	Amount in Treasury December 31, 1981	Amount in Treasury December 31, 1980	Amount in Treasury December 31, 1979	Amount Outstanding Net of Treasury December 31, 1981	Amount Outstanding Net of Treasury December 31, 1980	Amount Outstanding Net of Treasury December 31, 1979
5 45% Debentures	1992	$2,000	Payable currently	$9,896	$ 6,896	$ 3,664	$ 22,104	$ 27,104	$ 32,336
6 25% Convertible Subordinated Debentures (Convertible into common stock at $23 a share)	1995	2,000	Payable currently	17,646	13,190	2,350	20,354	26,810	37,650
9 45% Debentures	1999	2,000	Payable currently	5,331	6,831	6,271	40,669	41,169	43,729
9 375% Promissory Notes	1996	3,325	1982	—	—	—	50,000	50,000	50,000
10% Promissory Notes . .	1998	2,997	1984	—	—	—	45,000	45,000	45,000
5 25% to 6 30% and Variable Rate Industrial Revenue Bonds .	Through 1992	Varies	Payable currently	—	—	—	9,323	6,300	6,365
9 25% Promissory Notes, $6,500 principal amount less unamortized discount based on imputed interest rate of 16 5%	1986	1,300	Payable currently	—	—	—	4,523	—	—
8 90% Promissory Notes, $12,000 principal amount less unamortized discount based on imputed interest rate of 16 5% .	1992	1,200	1983	—	—	—	9,470	—	—
8 125% Mortgage Note, $6,225 principal amount less unamortized discount based on imputed interest rate of 16%, monthly payments of $53 . .	2002	N/A	N/A	—	—	—	4,476	—	—
Obligations under capital leases — less current portion of $4,099 in 1981, $3,044 in 1980, and $2,975 in 1979 . .							24,182	16,551	19,205
				$32,873	$26,917	$12,285	$230,101	$212,934	$234,285

Certain covenants under the note agreements require the company to maintain specified levels of working capital, limit the incurrence of debt, lease obligations and investments and restrict the payment of dividends and other distributions on the company's stock. The company may, at any time, issue stock dividends or pay dividends on presently outstanding shares of preferred stock under the terms of the note agreements. At December 31, 1981, approximately $37,421,000 was available for cash dividends on common stock.

The company has sufficient debentures in treasury to satisfy most sinking fund requirements through 1983. The gain on purchase of debentures amounted to $2,220,000, $3,487,000 and $1,656,000 in 1981, 1980 and 1979, respectively. 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:
1982 — $4,690,000, 1983 — $8,590,000,
1984 — $10,556,000, 1985 — $10,887,000,
1986 — $10,991,000.

Interest expense on long-term debt amounted to $17,147,000, $17,380,000 and $18,060,000 for 1981, 1980 and 1979, respectively. There were no interest charges capitalized during the periods presented.

Under a credit agreement with a group of ten banks, the company may borrow up to $100,000,000 until July 31, 1985. Amounts outstanding under the agreement may be converted into four-year term loans at any time. The credit agreement includes certain restrictive covenants regarding working capital levels and the working capital ratio. There are no compensating balance requirements. Sherwin-Williams Canada, Inc. had certain lines of credit available to it from the Bank of Montreal during the year in the amount of $CD17,000,000. At December 31, 1981 there were no borrowings outstanding under these lines of credit.

Note 11 — Business Segments

Thousands of dollars	1981		1980		1979		1978	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Paint Stores	$ 615,434	$ 16,176	$ 582,292	$ 7,805	$ 585,312	$ 5,779	$ 575,579	$ (14,076)
Drug Stores	137,860	6,895						
Coatings	568,556	61,055	476,988	45,927	426,160	41,862	393,842	51,112
Chemicals	116,965	(8,007)	115,271	9,323	102,132	7,567	84,020	8,427
International	97,992	7,096	89,170	9,271	82,739	5,884	78,909	2,386
Segment totals	$1,536,807	83,215	$1,263,721	72,326	$1,196,343	61,092	$1,132,350	47,849
Corporate expenses — net		(7.162)		(5,423)		(8,290)		(16,942)
Interest expense		(18,332)		(18,552)		(19,366)		(21,318)
Income before income taxes		$57,721		$48,351		$33,436		$ 9,589

Thousands of dollars	Identifiable Assets — Years ended December 31, 1981	1980	1979	1978	Capital Expenditures — Years ended December 31, 1981	1980	1979	1978	Depreciation — Years ended December 31, 1981	1980	1979	1978
Paint Stores	$166,711	$159,342	$165,694	$179,390	$ 9,889	$ 5,814	$ 1,388	$ 2,671	$ 5,853	$ 5,260	$ 5,226	$ 4,775
Drug Stores	172,734				742				96			
Coatings	317,805	329,130	317,608	333,929	14,285	8,764	4,638	11,625	9,796	9,696	9,398	9,074
Chemicals	76,405	68,006	61,658	55,256	14,406	6,514	3,990	1,162	3,753	3,199	2,924	2,754
International	55,266	51,809	45,378	44,738	1,039	1,023	598	781	881	1,051	1,079	1,323
Segment totals	788,921	608,287	590,338	613,313	40,361	22,115	10,614	16,239	20,379	19,206	18,627	17,926
Corporate	75,517	160,305	121,396	40,486	2,711	1,589	1,253	1,035	1,289	773	831	512
Consolidated totals	$864,438	$768,592	$711,734	$653,799	$43,072	$23,704	$11,867	$17,274	$21,668	$19,979	$19,458	$18,438

Descriptions of these segments appear on pages 6-7 of this report.

The Paint Stores segment, formerly the Stores segment, has been retitled due to the acquisition of the additional retail segment of drug stores.

The Drug Store segment consists of the assets and operations of Gray Drug Stores, Inc., acquired during the fourth quarter of 1981. The above data contains the results of operations of this segment beginning October 3, 1981.

The Packaging Products and Specialty Products segments have been reclassified as part of the Coatings segment and the information for years prior to 1981 reclassified to conform to this presentation. This segment now includes all of the company divisions related to the manufacture and wholesale distribution of paint and related products.

The following table summarizes the effect of the adoption of LIFO on segment income:

Thousands of dollars Segment	Year of Adoption	Decrease in Operating Income 1981	1980	1979
Paint Stores	1980	$ 5,098	$ 8,720	—
Drug Stores	1981	3,620	—	—
Coatings	1979, 1980	10,470	15,199	$ 3,340
Chemicals	1979	2,564	2,284	2,881
International	1981	1,773	—	—
		$23,525	$26,203	$ 6,221

In addition to the above capital expenditures, property, plant and equipment acquired through acquisitions in 1981 totaled $14,504,000 related to the Drug Stores segment. In 1980 the Coatings and Chemicals segments acquired through acquisitions property, plant and equipment totaling $4,109,000 and $4,076,000, respectively.

Operating income is total revenue, including profit on intersegment transfers, less operating costs and expenses, excluding interest expense and corporate expenses. 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. Operations attributable to the minority interest in the consolidated Canadian subsidiary and the equity in net income or loss of affiliated companies are not significant.

The data presented above reflects external sales of each segment. Intersegment transfers, which are accounted for at values comparable to normal, unaffiliated customer sales, are set forth in the following table:

Thousands of dollars	Years ended December 31, 1981	1980	1979	1978
Coatings	$264,383	$230,039	$216,042	$219,885
All other segments	1,595	1,438	1,198	819
Segment totals	$265,978	$231,477	$217,240	$220,704

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Note 12 — Disposition and Termination of Operations

In 1981 the company provided $15,262,000 ($8,241,000 after tax or $.83 per common share) for costs related to the closing or sale of certain plants and operating units. The provision reduced inventory and property, plant and equipment and other assets to their net realizable values, while related costs for severance pay, shutdown expenses and estimated future operating losses to disposal date increased current liabilities. Approximately $9,178,000 of the provision is included in cost of products sold and $6,084,000 in costs and expenses, other. Costs incurred during 1981 totaled $3,287,000. An accrual of $19,773,000 for future costs of disposition and termination of operations remains as of December 31, 1981.

In 1980 the company provided $4,867,000 ($2,628,000 after tax, or $.27 per common share) for costs related to the closing of certain plants and operating units. This provision reduced inventory and property, plant and equipment to their estimated net realizable values, while other related costs increased current liabilities. Approximately $1,500,000 of the provision is included in cost of products sold and $3,367,000 in costs and expenses, other. Costs incurred during 1980 totaled $3,182,000. An accrual of $7,798,000 for disposition of operations remained as of December 31, 1980.

In 1979 the company provided $3,703,000 ($1,766,000 after tax, or $.17 per common share) for costs related to the closing of certain plants and additional expenses for anticipated costs associated with previous provisions. This provision reduced inventory and property, plant and equipment to their net realizable values, while other related costs increased current liabilities. Approximately $2,540,000 of the provision is included in cost of products sold; $287,000 in selling, general and administrative expenses; and $876,000 in costs and expenses, other. Net costs incurred during 1979 totaled $1,770,000. An accrual of $6,113,000 for the disposition of operations remained as of December 31, 1979.

The company expects to complete the closing and sale of the facilities at various dates through 1983.

Note 13 — Inflation Accounting (Unaudited)

In accordance with generally accepted accounting principles, financial statements have traditionally reported amounts reflecting historical costs, the prices that were in effect when the transactions occurred. These historical costs, especially during periods of high inflation, represent dollars of varying purchasing power and may not adequately reflect the effect of inflation on a business. Presented here, consistent with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, are two estimates, using differing assumptions, of the effect of changing prices on our primary financial statements. These estimates include adjustment for the changing prices of inventory, property, plant and equipment, and the related expenses of cost of goods sold, and depreciation expense.

The major impact of inflation on inventory is currently recognized in the primary financial statements through the use of the LIFO method of inventory valuation. Accordingly, only minor adjustments are required in the supplemental statements. However, historical depreciation expense based on the historical cost of assets understates the cost of replacing capital equipment at current prices. This higher cost is not presently reflected in the primary financial statements, and accounts for the majority of the supplemental statement adjustment. Because these additional costs are not currently deductible for income tax purposes, no adjustment of income tax expense has been made. The supplemental statement also does not reflect the operating efficiencies expected to be generated from new assets which would at least partially offset the increased depreciation expense.

These calculations involve a substantial number of management judgments and estimating techniques which have been employed to maintain a reasonable cost of accumulating the data. We believe the results may be a reasonable approximation insofar as they express overall trends in costs and reduced purchasing power, however the data is experimental and imprecise and is not indicative of the present or future economic condition of the company. In addition, because of varying assumptions and estimates used by each company, we believe comparisions with other companies and industries should be used with caution.

Constant Dollar Data

The constant dollar data represents the historical amounts of certain revenues and expenses stated in dollars of the same purchasing power. Under this measurement method, historical amounts of inventory, property, plant and equipment and the related cost of goods sold and depreciation expense were adjusted to reflect the increase in the Consumer Price Index (CPI-U) since the acquisition date of the assets. The CPI-U is a general index, however, and is not necessarily representative of changes in cost for a manufacturing company.

Current Cost

The current cost data represents the current cost of the assets of the company, reflecting specific price changes of the assets. The current cost of the majority of the company's plant and equipment was determined based upon externally generated indices of the major classes of assets. Current costs of property and the remaining plant and equipment were estimated using the CPI-U. Depreciation expense is based on the current cost of plant and equipment during the year, and assumes the same depreciation methods as those employed in the primary financial statements. The current cost of products sold approximates that used in the primary financial statements under the LIFO inventory method. Adjustments were made for those inventories not on LIFO.

Purchasing Power Gain

A separate disclosure, gain from decline in purchasing power of net amounts owed, is also presented. During periods of inflation, liabilities payable in a fixed dollar amount (monetary liabilities) will be repaid in dollars having less purchasing power than when borrowed or incurred. This gain in purchasing power has been calculated based on the company's net monetary liabilities during the year, adjusted for the change in the CPI-U for the year. Although this amount does not represent actual funds available for distribution to stockholders, it can be considered to represent the benefit the company received in terms of purchasing power by maintaining the net liability position.

SUPPLEMENTAL STATEMENT OF CONSOLIDATED INCOME

For the year ended December 31, 1981 in average 1981 dollars *Thousands of dollars, except per share data*	Conventional Historical Cost 1981	Constant Dollar Data 1981	Current Cost Data 1981
Net Sales	$1,536,807	$1,536,807	$1,536,807
Costs and expenses			
Cost of products sold	1,070,171	1,083,784	1,084,824
Selling, general and administrative expenses	402,472	409,253	410,555
Interest expense	18,332	18,332	18,332
Interest income	(15,229)	(15,229)	(15,229)
Other	3,340	3,340	3,340
Income before income taxes	57,721	37,327	34,985
Income taxes	26,336	26,336	26,336
Net income	$ 31,385	$ 10,991	$ 8,649
Net income per common share	$ 3.07	$ 1.01	$ .77
Gain from decline in purchasing power of net amounts owed			$ 15,594
Increase in specific prices of inventories and property, plant and equipment held during the year			$ 53,388
Effect of increase in general price level			(60,461)
Increase in the general price level over increase in specific prices			$ 7,073

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

Cost of products sold has been adjusted for changes in inventory costs in addition to depreciation and amortization expense. Selling, general and administrative expenses have been adjusted only for depreciation expense.

The current cost of net inventory and net property, plant and equipment at December 31, 1981 was approximately $405,415,000 and $395,106,000 respectively. The current cost of inventory exceeded the LIFO cost of inventory at December 31, 1981 by $70,524,000.

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Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices *(Unaudited)*

Average 1981 dollars, except historical data *(Thousands of dollars, except per share data)*	Years Ended December 31, 1981	1980	1979	1978	1977
Net sales					
Historical cost	$1,536,807	$1,263,721	$1,196,343	$1.132,350	$1,035,989
Constant dollar	1,536,807	1,394,804	1,499,005	1,578,567	1,554,838
Dividends declared per share					
Historical cost	80	60	075	—	83
Constant dollar	80	66	10	—	1 24
Market price per share at year-end:					
Historical cost	22 00	17.75	13 31	10 00	13 81
Constant dollar	21 29	18.72	15 78	13 43	20.22
Average consumer price index	272 4	246.8	217 4	195 4	181 5
Net income (loss)					
Historical cost	31.385	24,864	17,493	*	*
Constant dollar	10,991	8,768	(19,811)	*	*
Current cost	8,649	5,889	(23,259)	*	*
Income (loss) per common share:					
Historical cost	3 07	2.44	1 55	*	*
Constant dollar	1 01	78	(2 00)	*	*
Current cost	77	49	(2.33)	*	*
Total net assets					
Historical cost	305,020	286,876	268,107	*	*
Constant dollar	520,631	503,826	480,101	*	*
Current cost	513,574	507,122	484,364	*	*
Shareholders' equity per common share:					
Historical cost	28.69	26 76	25.00	*	*
Constant dollar	50 47	48.59	46 50	*	*
Current cost	49 76	48 92	46.94	*	*
Total depreciation and amortization expense:					
Historical cost	21,668	19,979	19,458	*	*
Constant dollar	37,891	36,424	36,646	*	*
Current cost	41,004	39,382	41,528	*	*
Effective tax rate:					
Historical cost	45 6%	48 6%	47.7%	*	*
Constant dollar	70.6%	74.7%	+100.0%	*	*
Current cost	75.3%	81.5%	+100.0%	*	*
Increase in the general price level over (under) increase in specific prices	7,073	(2,826)	3,604	*	*
Gain from decline in purchasing power of net amounts owed	15,594	21,636	26,846	*	*

*Information for 1978 and 1977 not required.

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Note 14 — Quarterly Data (Unaudited)
QUARTERLY STOCK PRICES AND DIVIDENDS

		Stock Price Data				Dividends		
		Common		Series B Preferred			Preferred	
Year	Quarter	High	Low	High	Low	Common	Series A	Series B
1981	1st	$23½	$17⅜	$73½	$58	$ 20	$1 00	$1 10
	2nd	23¾	20	74	63	20	1 00	1 10
	3rd	22	16⅛	67	55	20	1 00	1 10
	4th	23	17⅝	72	57	20	1 00	1 10
1980	1st	18⅜	11⅝	57	41	15	1 00	1.10
	2nd	15	12⅝	53½	44¾	15	1 00	1 10
	3rd	20¼	14⅜	65	52	15	1 00	1 10
	4th	20⅛	17	65	58	15	1.00	1 10

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS

Thousands of dollars, except per share data					Per Common Share	
Year	Quarter	Net Sales	Gross Profit	Net Income	Primary	Fully Diluted
1981	1st	$308,201	$ 88,735	$ 1,713	$ 15	$ .15
	2nd	399,145	122,953	14,666	1 45	1 24
	3rd	396,971	124,573	14,608	1 45	1 27
	4th	430,490	130,375	398	02	02
1980	1st	284,693	81,671	778	08	05
	2nd	333,905	106,984	9,884	98	83
	3rd	348,751	106,769	10,621	1 06	88
	4th	296,372	99,909	3,581	34	31

1981

First quarter net income includes an after-tax gain of $1,050,000 ($.11 per common share) on the repurchase of debentures to satisfy future sinking fund requirements.

The actuarial valuation determining pension plan contributions for the 1981 plan year was received during the third quarter of 1981. This valuation resulted in a reduction of the estimate of pension expense used by the company in the first two quarters. The effect of this adjustment was recorded in the third quarter and increased third quarter net income $861,000 ($.09 per common share) as a result.

Fourth quarter adjustments increased after-tax profits by approximately $4,676,000 ($.47 per common share). The adjustments include an after-tax provision of $8,241,000 ($.83 per common share) for the disposition and termination of certain operations offset primarily by higher-than estimated gross margins, inventory adjustments and the effects of the adoption of FASB No. 52 in the fourth quarter. Prior quarters were not restated for the adoption of FASB No. 52 since the effect on those quarters was not significant.

1980

First, second and fourth quarter net income includes after-tax gains of $610,000 ($.06 per common share), $716,000 ($.07 per common share) and $472,000 ($.05 per common share), respectively on the repurchase of debentures to satisfy future sinking fund requirements.

During the third quarter, net income for each of the first two quarters was restated by approximately $1,830,000 ($.19 per common share) due to the adoption of LIFO.

The actuarial valuation determining pension plan contributions for the 1980 plan year was received during the third quarter. This valuation resulted in a reduction of the estimate of pension expense used by the company in the first two quarters. The effect of this adjustment was recorded in the third quarter and increased third quarter net income $694,000 ($.07 per common share) as a result.

During the fourth quarter, net income for each of the first three quarters was restated by an additional $802,000 ($.08 per common share) due to the further adoption of LIFO ($500,000) and the change in accounting for vacation pay ($302,000).

Fourth quarter adjustments increased after-tax profits by approximately $4,275,000 ($.44 per common share). The adjustments include a $7,841,000 after-tax increase in profits ($.80 per common share) related to higher than estimated gross margins, offset primarily by provisions for reorganization and disposition expenses of certain operations, inventory adjustments and other related liabilities.

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Note 15 — Financial Schedules

Marketable Securities (10-K, Schedule I)

The marketable securities at December 31, 1981, consist of:

Thousands of dollars	
Certificates of deposit	$ 19,000
Eurodollar deposits	13,000
Repurchase agreements	33,430
Other securities	12,100
Total	$ 77,530

Property, Plant and Equipment (10-K, Schedule V and VI)

Property, plant and equipment classifications are disclosed in the balance sheet. Additions and retirements of property, plant and equipment were as follows:

	Years ended December 31,		
Thousands of dollars	**1981**	1980	1979
Balance — beginning of year	$393,759	$369,643	$362,231
Total additions at cost	43,072	23,704	11,887
Assets acquired through acquisitions	14,504	8,185	—
Total retirements at cost	(10,490)	(7,187)	(7,821)
Other changes	(3,916)	(586)	3,366
Balance — end of year	$436,929	$393,759	$369,643

The above changes in property, plant and equipment each constitute less than 10 percent of the ending balance of the period.

Other changes during 1981 relate primarily to the translation of foreign assets to U. S. dollars. Other changes during 1979 relate primarily to capitalized leases.

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

	Years ended December 31,		
Thousands of dollars	**1981**	1980	1979
Balance — beginning of year	$183,005	$165,792	$152,651
Total charged to expense	21,668	19,979	19,458
Retirements	(7,043)	(5,286)	(5,768)
Other changes	(969)	2,520	(549)
Balance — end of year	$196,661	$183,005	$165,792

Other changes for all years presented relate primarily to capitalized leases and reserves for the disposition and termination of operations.

Valuation and Qualifying Accounts and Reserves (10-K, Schedule VIII)

Changes in the allowance for doubtful accounts are as follows:

	Years ended December 31,		
Thousands of dollars	**1981**	1980	1979
Beginning balance	$ 2,025	$ 2,059	$ 2,008
Bad debt expense	3,640	2,934	4,179
Net uncollectible accounts written off	(3,243)	(2,968)	(4,128)
Ending balance	$ 2,422	$ 2,025	$ 2,059

Activity related to other long-term liabilities:

	Years ended December 31,		
Thousands of dollars	**1981**	1980	1979
Beginning balance	$ 4,995	$ 5,326	$ 3,607
Addition to reserve	2,982	869	2,496
Deductions from reserve	(57)	(1,200)	(777)
Ending balance	$ 7,920	$ 4,995	$ 5,326

Reserves for pensions and other items are adjusted to the estimated year-end liability. Deductions from the reserve consist primarily of pension and deferred compensation payments.

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

	Years ended December 31,		
Thousands of dollars	**1981**	1980	1979
Notes payable to banks at December 31	—	$ 8,235	$ 4,649
Weighted average interest rate at December 31	—	18.3%	15.0%
Maximum amount outstanding at any month-end	$10,576	$ 9,370	$11,647
Average amount outstanding during the period	$ 3,888	$ 7,653	$ 8,161
Weighted average interest rate during the period	16.5%	15.3%	16.0%

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

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)

	Years ended December 31,		
Thousands of dollars	**1981**	1980	1979
Maintenance and repairs	$31,265	$28,468	$26,907
Advertising costs	43,029	29,454	21,252

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 less than 1% of total net sales.

0007-SWP-035354

0007-SWP-000116776

Exhibit Index

Number		Page
3	Articles of incorporation and by-laws, as amended, filed as Exhibit 4(a) and 4(b) to Form S-8 dated April 22, 1981 and incorporated herein by reference.	
4	Not Applicable.	
10	Not Applicable.	
11	Computation of Net Income Per Common Share.	30
12	Not Applicable.	
13.	Not Applicable.	
19	Not Applicable.	
20	Not Applicable.	
22.	Subsidiaries of the registrant.	31

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

Thousands of dollars, except per share data

	December 31, 1981	1980	1979
Primary			
Average shares outstanding	9,908,669	9,767,608	10,581,750
Net income	$31,385	$24,864	$17,493
Less preferred dividend requirements	971	1,053	1,067
Net income applicable to common	$30,414	$23,811	$16,426
Net income per common share	$3.07	$2.44	$1.55
Fully Diluted			
Average shares outstanding	9,908,669	9,767,608	10,581,750
Options — treasury stock method	223,808	198,730	65,010
Assumed conversion of:			
Series A preferred stock	233,406	239,130	243,388
Series B preferred stock	502,483	546,416	570,820
6.25% Convertible Subordinated Debentures	960,314	1,567,344	1,645,834
Average fully diluted shares	11,828,680	12,319,228	13,106,802
Net Income	$31,385	$24,864	$17,493
Less preferred dividend requirements	(A)	(A)	(A)
Add 6.25% Convertible Subordinated Debentures interest net of tax	764	1,247	1,295
Net income applicable to fully diluted shares	$32,149	$26,111	$18,788
Net income per common share	$2.72	$2.12	$1.43

(A) Assumed conversion of preferred into common shares.

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Directory of Operations

Subsidiaries

Brazil — Sherwin-Williams do Brasil Industria e Comercio Ltda., São Paulo*
Canada — Sherwin-Williams Canada Inc , Montreal
Mexico — Compañía Sherwin-Williams, S A. de C.V, Mexico City
West Indies — Sherwin-Williams (West Indies) Ltd., Kingston, Jamaica
— Sherwin-Williams (Caribbean) NV., Curaçao
USA — Contract Transportation Systems Co.
Gray Drug Stores, Inc.
Drug Fair Inc.

*Unconsolidated

Joint Ventures

Ireland — FSW Coatings Limited, Dublin
Japan — Nippon Sherwin-Williams Chemicals Co., Ltd., Osaka
Panama — Sherwin-Williams de Pànamá, S A., Panama City

Licensees

Argentina — Sherwin-Williams Argentina Industrial y Comercial, S.A.
Australia — Taubmans Proprietary Limited
Bolivia — Fábrica Nacional de Pinturas "Espintbol," S.A.
Chile — Pinturas Andina, S.A.
Colombia — Fábrica Nacional de Pinturas Sherwin-Williams de Columbia, S.A.
Costa Rica — Sherwin-Williams de Costa Rica, S.A.
Denmark-Norway — Sadolin & Holmblad A/S
Dominican Republic — Acabados Automotrices, S.A.
Ecuador — Sherwin-Williams del Ecuador Fábrica Nacional de Pinturas, S.A.
El Salvador — Sherwin-Williams de Centro America, S.A. de C.V.
Finland — O. Y. Sadolin, A.B
France — Astral, S.A.
— Corsain, S.A.
Haiti — Peintures Idéales, S A.
Hong Kong — China Paint Mfg. Co. (1946) Ltd.
Italy — Vercolac, SPA
Japan — Nippon Paint Company, Ltd.
Netherlands — Sikkens Groep, N.V.
New Zealand — Taubmans International (N.Z.), Ltd.
Peru — Sherwin-Williams Peruana, S.A.
Philippines — Sherwin-Williams, Philippines, Inc.
South Africa — Advance Coatings PTY, Ltd.
Spain — Industrias Quimicas Procolor, S.A.
Switzerland — Kurt Vogelsang, A G.
Thailand — Bangkok China Paint Mfg. Co. Ltd.
United Kingdom — Donald Macpherson Group, Ltd.
Venezuela — C.A Quimica Integrada
— C.A. Venezolana de Pigmentos
— C A Venezolana de Pinturas
West Germany — Deutsche Akzo Coatings

Plants

COATINGS	COATINGS (Cont.)	COATINGS (Cont.)	CHEMICALS	INTERNATIONAL
Anaheim, CA	Elgin, IL	Morrow, GA	Cincinnati, OH	Kingston, Jamaica
Baltimore, MD	Fulton, KY	Newark, NJ	Chicago, IL	Mexico City, Mexico
Bedford Heights, OH	Garland, TX	North Olmsted, OH	Fords, NJ	São Paulo, Brazil
Chicago, IL	Gravenhurst, Canada	Oakland, CA	Coffeyville, KS	Montreal, Canada
Cleveland, OH	Greensboro, NC	Richmond, KY	Hillsboro, IL	Virginia, Ireland
Crisfield, MD	Hubbard, OH	San Leandro, CA		Panama City, Panama
Deshler, OH	Los Angeles, CA			

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

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Individual financial statements of the registrant have been omitted as the registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements filed, in the aggregate, do not have minority equity interests and/or indebtedness to any person other than the registrant or its consolidated subsidiaries in amounts which together (excepting indebtedness incurred in the ordinary course of business which is not overdue and matures within one year from the date of its creation, whether or not evidenced by securities, and indebtedness of subsidiaries which is collateralized by the registrant by guarantee pledge, assignment, or otherwise) exceed 5% of the total assets as shown by the most recent consolidated balance sheet

Financial statements (and summarized financial information) of unconsolidated subsidiaries or 50% or less owned persons accounted for by the equity method have been omitted because they do not, considered individually or in the aggregate, constitute a significant subsidiary

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 2 to Registration Statement Number 2-64247 on Form S-8 dated April 28, 1981 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, 1981

Ernst + Whinney

Cleveland, Ohio
March 12, 1982

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 17th day of February, 1982

THE SHERWIN-WILLIAMS COMPANY

by A D CHILDS
A D Childs, Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated on February 17, 1982

Officers and Directors of The Sherwin-Williams Company·

J G BREEN J G Breen	*Chairman of the Board* *President and Chief Executive Officer,* *Director*
T A COMMES T A Commes	*Senior Vice President – Finance* *Principal Financial Officer,* *Director*
J E WALLACE J E Wallace	*Vice President,* *Corporate Controller and* *Principal Accounting Officer*
J A ATTWOOD J A Attwood	*Director*
K S BENSON K S Benson	*Director*
D W CALLOWAY D W Calloway	*Director*
W J. DE LANCEY W J De Lancey	*Director*
R C DOBAN R C Doban	*Director*
J R. KILLPACK J R Killpack	*Director*
W G MITCHELL W G Mitchell	*Director*

The undersigned, by signing his name hereto, does sign this report on behalf of the designated Officers and Directors of The Sherwin-Williams Company pursuant to Powers of Attorney executed on behalf of each such Officer and Director.

by A D CHILDS
A D Childs, Attorney-in-fact

February 17, 1982

0007-SWP-035357

Securities and Exchange Commission
Washington D C 20549

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, 1981

Commission File Number 1-4851

THE SHERWIN-WILLIAMS COMPANY
AN OHIO CORPORATION
IRS EMPLOYER IDENTIFICATION NO. 34-0526850

101 Prospect Avenue, N W,
Cleveland, Ohio 44115
Telephone (216) 566-2480

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
$4.40 Cumulative Convertible Preferred Stock, Series B	New York Stock Exchange
Common Stock, Par Value $6 25	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act· None

Form 10-K

Portions of this report are not required by the Form 10-K and are not "filed" as part of the Company's 10-K Only the sections referenced in the index below are incorporated in the 10-K

The Securities and Exchange Commission has not approved or disapproved this report or passed upon its accuracy or adequacy.

The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

The Registrant had 9,921,672 shares of Common Stock, par value $6.25, outstanding at January 29, 1982. These shares were held by 8,870 holders of record on this date.

The aggregate market value of the voting stock at January 29, 1982, is $206,074,079, excluding the voting stock held by the executive officers.

Items Number 4, 9 and 10 are incorporated by reference from the definitive Proxy Statement dated March 12, 1982, filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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c. Exhibits
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All other schedules (Nos. II, III, IV, VII, XI, XII, XIII) for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

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