

SHERWIN WILLIAMS CO

Form 10-K

February 28, 2007

**Table of Contents**

---

---

**UNITED STATES**  
**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 fiscal year ended December 31, 2006

Commission file number 1-04851

---

**THE SHERWIN-WILLIAMS COMPANY**

(Exact name of registrant as specified in its charter)

**OHIO**

(State or other jurisdiction of incorporation or organization)

**34-0526850**

(I.R.S. Employer Identification No.)

**101 Prospect Avenue, N.W., Cleveland, Ohio**

(Address of principal executive offices)

**44115-1075**

(Zip Code)

**(216) 566-2000**

Registrant's telephone number, including area code

---

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, Par Value \$1.00	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

## Edgar Filing: SHERWIN WILLIAMS CO - Form 10-K

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the Registrant: (1) 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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At January 31, 2007, 134,452,953 shares of common stock were outstanding, net of treasury shares. The aggregate market value of common stock held by non-affiliates of the Registrant at June 30, 2006 was \$6,421,419,020 (computed by reference to the price at which the common stock was last sold on such date).

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report to Shareholders for the fiscal year ended December 31, 2006 ( 2006 Annual Report ) are incorporated by reference into Parts I, II and IV of this report.

Portions of our Proxy Statement for the 2007 Annual Meeting of Shareholders ( Proxy Statement ) to be filed with the Securities and Exchange Commission within 120 days of our fiscal year ended December 31, 2006 are incorporated by reference into Part III of this report.

---

---

---

**THE SHERWIN-WILLIAMS COMPANY**

**Table of Contents**

	<u>Page</u>
<b><u>PART I</u></b>	
<u>Item 1.</u>	<u>Business</u> 1
	<u>Cautionary Statement Regarding Forward-Looking Information</u> 5
<u>Item 1A.</u>	<u>Risk Factors</u> 6
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 10
<u>Item 2.</u>	<u>Properties</u> 10
<u>Item 3.</u>	<u>Legal Proceedings</u> 11
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 11
	<u>Executive Officers of the Registrant</u> 12
 <b><u>PART II</u></b>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 13
<u>Item 6.</u>	<u>Selected Financial Data</u> 14
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 14
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 14
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 15
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 15
<u>Item 9A.</u>	<u>Controls and Procedures</u> 15
<u>Item 9B.</u>	<u>Other Information</u> 15
 <b><u>PART III</u></b>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u> 16
<u>Item 11.</u>	<u>Executive Compensation</u> 16
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 17
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u> 17
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u> 17
 <b><u>PART IV</u></b>	
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u> 18
	<u>Signatures</u> 19
	<u>Exhibit Index</u> 21
<u>Exhibit 10(b)</u>	
<u>Exhibit 10(c)</u>	
<u>Exhibit 10(ff)</u>	
<u>Exhibit 13</u>	
<u>Exhibit 21</u>	
<u>Exhibit 23</u>	
<u>Exhibit 24(a)</u>	
<u>Exhibit 24(b)</u>	
<u>Exhibit 31(a)</u>	
<u>Exhibit 31(b)</u>	
<u>Exhibit 32(a)</u>	
<u>Exhibit 32(b)</u>	

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**Introduction**

The Sherwin-Williams Company, founded in 1866 and incorporated in Ohio in 1884, is engaged in the manufacture, distribution and sale of paint, coatings and related products to professional, industrial, commercial and retail customers primarily in North and South America. Our principal executive offices are located at 101 Prospect Avenue, N.W., Cleveland, Ohio 44115-1075, telephone (216) 566-2000. As used in this report, the terms Sherwin-Williams, Company, we and our mean The Sherwin-Williams Company and its consolidated subsidiaries unless the context indicates otherwise.

**Available Information**

We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. You may access these documents on the Investor Relations page of our website at [www.sherwin.com](http://www.sherwin.com).

We also make available free of charge on our website our Corporate Governance Guidelines, our Director Independence Standards, our Business Ethics Policy and the charters of our Audit Committee, our Compensation and Management Development Committee, and our Nominating and Corporate Governance Committee. You may access these documents in the Corporate Governance section on the Investor Relations page of our website at [www.sherwin.com](http://www.sherwin.com). Any person may receive a copy of any of these documents free of charge by writing to us at The Sherwin-Williams Company, 101 Prospect Avenue, N.W., Cleveland, Ohio 44115, Attention: Investor Relations.

**Basis of Reportable Segments**

We report our segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources in accordance with Statement of Financial Accounting Standards (FAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. Effective January 1, 2006, we changed our reportable operating segments based on organizational changes in our management structure. Our reportable operating segments now are: Paint Stores Group, Consumer Group and Global Group (collectively, the Reportable Operating Segments). The Global Group consists of certain business units with foreign or worldwide operations that were reported in the previous Paint Stores, Consumer, Automotive Finishes and International Coatings segments. Amounts previously reported have been reclassified to conform with the 2006 presentation. Factors considered in determining our three Reportable Operating Segments include the nature of the business activities, existence of managers responsible for the operating activities and information presented to the Board of Directors. We report all other business activities and immaterial operating segments that are not reportable in the Administrative segment.

The Company's chief operating decision maker (CODM) has been identified as the Chief Executive Officer because he has final authority over performance assessment and resource allocation decisions. Because of the diverse operations of the Company, the CODM regularly receives discrete financial information about each reportable operating segment as well as a significant amount of additional financial information about certain divisions, business units or subsidiaries of the Company. The CODM uses all such financial information for performance assessment and resource allocation decisions. The CODM evaluates the performance of and allocates resources to the Reportable Operating Segments based on profit or loss and cash generated from operations before income taxes. The accounting policies of the Reportable Operating Segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements on pages 47 through 51 of our 2006 Annual Report, which is incorporated herein by reference.

## **Table of Contents**

### **Paint Stores Group**

The Paint Stores Group consisted of 3,046 company-operated specialty paint stores in the United States, Canada, Virgin Islands and Puerto Rico at December 31, 2006. Each store in this segment is engaged in the related business activity of selling paint, coatings and related products to end-use customers. The Paint Stores Group markets and sells Sherwin-Williams® branded architectural paint and coatings, industrial and marine products, OEM product finishes and related items. These products are produced by manufacturing facilities in the Consumer and Global Groups. In addition, each store sells selected purchased associated products. During 2006, this segment opened 117 net new stores, consisting of 113 stores in the United States and 4 in Canada. In 2005, there were 95 net new stores opened (88 in the United States). In 2004, there were 297 net new stores opened or acquired (294 in the United States). The loss of any single customer would not have a material adverse effect on the business of this segment.

### **Consumer Group**

The Consumer Group develops, manufactures and distributes a variety of paint, coatings and related products to third party customers and the Paint Stores Group primarily in the United States and Canada. The acquisition of Susannah Dobbs Company LLC in 2006 was included in this segment. Approximately 55 percent of the total sales of the Consumer Group in 2006, including inter-segment transfers, represented products sold through the Paint Stores Group. Sales and marketing of certain controlled brand and private labeled products is performed by a direct sales staff. The products distributed through third party customers are intended for resale to the ultimate end-user of the product. The Consumer Group had sales to certain customers that, individually, may be a significant portion of the sales of the segment. However, the loss of any single customer would not have a material adverse effect on the overall profitability of the segment. This segment incurred most of the Company's capital expenditures related to ongoing environmental compliance measures.

### **Global Group**

The Global Group develops, licenses, manufactures, distributes and sells a variety of architectural paint and coatings, industrial and marine products, automotive finishes and refinish products, OEM coatings and related products in North and South America, Jamaica, the United Kingdom, Europe and China. This segment meets the demands of its customers for a consistent worldwide product development, manufacturing and distribution presence and approach to doing business. This segment licenses certain technology and trade names worldwide. Sherwin-Williams® and other controlled brand products are distributed through the Paint Stores Group and this segment's network of 469 company-operated branches—237 in the United States, 84 in Mexico, 44 in Chile, 56 in Brazil, 23 in Canada, 16 in Jamaica, 6 in Uruguay, 2 in Argentina, 1 in Peru—and by a direct sales staff and outside sales representatives to retailers, dealers, jobbers, licensees and other third party distributors. At December 31, 2006, the Global Group consisted of operations in the United States, 14 foreign countries, 3 foreign joint ventures and income from licensing agreements in 14 foreign countries.

### **Administrative Segment**

The Administrative segment includes the administrative expenses of the Company's corporate headquarters site. Also included in the Administrative segment was interest expense which was unrelated to retail real estate leasing activities, investment income, certain foreign currency transaction losses related to dollar-denominated debt and foreign currency option and forward contracts, certain expenses related to closed facilities and environmental-related matters, and other expenses which were not directly associated with any Reportable Operating Segment. The Administrative segment did not include any significant foreign operations. Also included in the Administrative segment was a real estate management unit that is responsible for the ownership, management, and leasing of non-retail properties held primarily for use by the Company, including the Company's headquarters site, and disposal of idle facilities. Sales of this segment represented external leasing revenue of excess headquarters space or leasing of facilities no longer used by the Company in its operations. Gains and losses from the sale of property were not a significant operating factor in determining the performance of the Administrative segment.

## **Table of Contents**

### **Segment Financial Information**

For financial information regarding our Reportable Operating Segments, including net external sales, segment profit, identifiable assets and other information by segment, see Note 18 of the Notes to Consolidated Financial Statements on pages 75 through 78 of our 2006 Annual Report, which is incorporated herein by reference.

### **Domestic and Foreign Operations**

Financial and other information regarding domestic and foreign operations is set forth in Note 18 of the Notes to Consolidated Financial Statements on page 77 of our 2006 Annual Report, which is incorporated herein by reference.

Additional information regarding risks attendant to foreign operations is set forth on page 33 of our 2006 Annual Report under the caption entitled Management's Discussion and Analysis of Financial Condition and Results of Operation, which is incorporated herein by reference.

### **Business Developments**

For additional information regarding our business and business developments, see pages 6 through 13 of our 2006 Annual Report and the Letter to Shareholders on pages 2 through 5 of our 2006 Annual Report, which is incorporated herein by reference.

### **Raw Materials and Products Purchased for Resale**

Raw materials and fuel supplies are generally available from various sources in sufficient quantities that none of the Reportable Operating Segments anticipate any significant sourcing problems during 2007. There are sufficient suppliers of each product purchased for resale that none of the Reportable Operating Segments anticipate any significant sourcing problems during 2007.

### **Seasonality**

The majority of the sales for the Paint Stores Group, Consumer Group and Global Group traditionally occur during the second and third quarters. There is no significant seasonality in sales for the Administrative segment.

### **Working Capital**

In order to meet increased demand during the second and third quarters, the Company usually builds its inventories during the first quarter. Working capital items (inventory and receivables) are generally financed through short-term borrowings, which include the use of lines of credit and the issuance of commercial paper. For a description of the Company's liquidity and capital resources, see pages 23 through 33 of our 2006 Annual Report under the caption entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated herein by reference.

### **Trademarks and Trade Names**

Customer recognition of our trademarks and trade names collectively contribute significantly to our sales. The major trademarks and trade names used by each Reportable Operating Segment are set forth below.

*Paint Stores Group:* Sherwin-Williams®, ProMar®, SuperPaint®, A-100®, PrepRite®, Classic 99®, Duration®, Master Hide®, ExpressTech® and Duron®.

*Consumer Group:* Thompson's® WaterSeal®, Dutch Boy®, Cuprinol®, Pratt & Lambert®, Martin Senour®, H&C®, Rubberset®, Dupli-Color®, Minwax®, White Lightning®, Krylon®, Purdy®, Bestt Liebco®, Accurate Dispersions™, Dobco™, Kool Seal® and Snow Roof®.

*Global Group:* Sherwin-Williams®, Martin Senour®, Western®, Lazzuril®, Excelo®, Baco®, Planet Color®, Ultra-Dutch Boy®, Krylon®, Kem-Tone®, Pratt & Lambert®, Minwax®, Kem Aqua®,

## **Table of Contents**

Sher-Wood<sup>®</sup>, Powdura<sup>®</sup>, Polane<sup>®</sup>, Ronseal<sup>®</sup>, Colorgin<sup>®</sup>, Pulverlack<sup>®</sup>, Sumare<sup>®</sup>, Andina<sup>®</sup>, Marson<sup>®</sup>, TriFlow<sup>®</sup>, Thompson<sup>®</sup>, WaterSeal<sup>®</sup>, Martin Senour<sup>®</sup>, Metalatex<sup>®</sup>, Novacor<sup>®</sup> and Loxon<sup>®</sup>.

### **Patents**

Although patents and licenses are not of material importance to our business as a whole or any segment, the international operations of the Global Group derive a portion of its income from the licensing of technology, trademarks and trade names to foreign companies.

### **Backlog and Productive Capacity**

Backlog orders are not significant in the business of any Reportable Operating Segment since there is normally a short period of time between the placing of an order and shipment. Sufficient productive capacity currently exists to fulfill our needs for paint, coatings and related products through 2007.

### **Research and Development**

For information regarding our costs of research and development included in technical expenditures, see Note 1 of the Notes to Consolidated Financial Statements on page 50 of our 2006 Annual Report, which is incorporated herein by reference.

### **Competition**

We experience competition from many local, regional, national and international competitors of various sizes in the manufacture, distribution and sale of our paint, coatings and related products. We are a leading manufacturer and retailer of paint, coatings and related products to professional, industrial, commercial and retail customers, however, our competitive position varies for our different products and markets.

In the Paint Stores Group, competitors include other paint and wallpaper stores, mass merchandisers, home centers, independent hardware stores, hardware chains and manufacturer-operated direct outlets. Product quality, service and price determine the competitive advantage for this segment.

In the Consumer Group, domestic and foreign competitors include manufacturers and distributors of branded and private labeled paint and coatings products. Technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price are the key competitive factors for this segment.

The Global Group has numerous competitors in its domestic and foreign markets with broad product offerings and several others with niche products. Key competitive factors for this segment include technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price.

The Administrative segment has many competitors consisting of other real estate owners, developers and managers in areas in which this segment owns property. The main competitive factors are the availability of property and price.

### **Employees**

We employed 30,767 persons at December 31, 2006.

### **Environmental Compliance**

For additional information regarding environmental-related matters, see pages 25 through 27 of our 2006 Annual Report under the caption entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 8 and 13 of the Notes to Consolidated Financial Statements on pages 49, 63 through 65, and 72 and 73, respectively, of our 2006 Annual Report, which is incorporated herein by reference.



**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon management's current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and the costs and potential liability for environmental-related matters and the lead pigment and lead-based paint litigation. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as expects, anticipates, believes, will, will likely result, will continue, plans to and similar expressions.

Readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside our control, that could cause actual results to differ materially from such statements and from our historical results and experience. These risks, uncertainties and other factors include such things as:

general business conditions, strengths of retail and manufacturing economies and the growth in the coatings industry;

competitive factors, including pricing pressures and product innovation and quality;

changes in raw material and energy supplies and pricing;

changes in our relationships with customers and suppliers;

our ability to attain cost savings from productivity initiatives;

our ability to successfully integrate past and future acquisitions into our existing operations, as well as the performance of the businesses acquired;

changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions, and changing government policies, laws and regulations;

risks and uncertainties associated with our expansion into and our operations in China, South America and other foreign markets, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest and other external economic and political factors;

the achievement of growth in developing markets, such as China, Mexico and South America;

increasingly stringent domestic and foreign governmental regulations including those affecting the environment;

inherent uncertainties involved in assessing our potential liability for environmental-related activities;

other changes in governmental policies, laws and regulations, including changes in accounting policies and standards and taxation requirements (such as new tax laws and new or revised tax law interpretations);

the nature, cost, quantity and outcome of pending and future litigation and other claims, including the lead pigment and lead-based paint litigation, and the effect of any legislation and administrative regulations relating thereto; and

unusual weather conditions.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no



**Table of Contents**

obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**ITEM 1A. RISK FACTORS**

Described below and elsewhere in this report and other documents that we file from time to time with the Securities and Exchange Commission are risks, uncertainties and other factors that can adversely affect our business, results of operation and financial condition. The following are some of the more important of these risks, uncertainties and other factors. Additional risks, uncertainties and other factors that are currently not known to us or we believe are not currently material may also adversely affect our business, results of operation and financial condition.

***Adverse changes in general business conditions in the United States and worldwide may adversely affect our results of operations and financial condition.***

Adverse changes in general business conditions in the United States and worldwide may reduce the demand for some of our products and adversely affect our results of operations and financial condition. Higher inflation rates, interest rates, tax rates and unemployment rates, higher labor and healthcare costs, recessions, changing governmental policies, laws and regulations, and other economic factors that adversely affect the demand for our paint, coatings and related products could adversely affect our results of operations and financial condition.

***Economic downturns in cyclical segments of the economy may reduce the demand for some of our products and adversely affect our sales and earnings.***

Portions of our business involve the sale of paint, coatings and related products to segments of the economy that are cyclical in nature, particularly segments relating to construction, housing and manufacturing. Our sales to these segments are affected by the levels of discretionary consumer and business spending in these segments. During economic downturns in these segments, the levels of consumer and business discretionary spending may decrease. This decrease in spending will likely reduce the demand for some of our products and adversely affect our sales and earnings.

***Increases in the cost of raw materials and energy may adversely affect our earnings.***

We purchase raw materials and energy for use in the manufacturing, distribution and sale of our products. Factors such as adverse weather conditions, including hurricanes, and other disasters can disrupt raw material and fuel supplies and increase our costs. Although raw materials and energy supplies are generally available from various sources in sufficient quantities, unexpected shortages and increases in the cost of raw materials and energy may have an adverse effect on our earnings in the event we are unable to offset these costs by sufficiently decreasing our operating costs or raising the prices of our products. Many of our paint and coatings products utilize titanium dioxide, which is widely used as a white pigment for paint. During 2006, we experienced significant cost increases in energy and raw materials, particularly titanium dioxide and petroleum-based materials, which adversely impacted our earnings.

***Although we have an extensive customer base, the loss of any of our largest customers could adversely affect our sales and earnings.***

We have a large and varied customer base due to our extensive distribution network. During 2006, no individual customer accounted for sales totaling more than ten percent of our sales. However, we have some customers that, individually, purchase a large amount of products from us. Although our broad distribution channels would help to minimize the impact of the loss of any one customer, the loss of any of these large customers could have an adverse effect on our sales and earnings.

**Table of Contents**

*Adverse weather conditions may reduce the demand for some of our products and could have a negative effect on our sales.*

From time to time, adverse weather conditions in certain parts of the United States have had an adverse effect on our sales of paint, coatings and related products. For example, unusually cold and rainy weather, especially during the exterior painting season, could have an adverse effect on sales of our exterior paint products.

*Increased competition may reduce our sales and earnings performance.*

We face substantial competition from many international, national, regional and local competitors of various sizes in the manufacture, distribution and sale of our paint, coatings and related products. Some of our competitors are larger than us and have greater financial resources to compete. Other competitors are smaller and may be able to offer more specialized products. Technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price are the key competitive factors for our business. Competition in any of these areas may reduce our sales and adversely affect our earnings by resulting in decreased sales volumes, reduced prices and increased costs of manufacturing, distributing and selling our products.

*Our operating results and financial condition may be negatively impacted if we do not successfully integrate past and future acquisitions into our existing operations and if the performance of the businesses we acquire do not meet our expectations.*

We have historically made strategic acquisitions of businesses in the paint and coatings industry and will likely acquire additional businesses in the future as part of our long term growth strategy. These acquisitions involve significant challenges and risks. In the event that we do not successfully integrate these acquisitions into our existing operations so as to realize the expected return on our investment, our operating results and financial condition could be adversely affected.

*Risks and uncertainties associated with our expansion into and our operations in China, South America and other foreign markets could adversely affect our sales and earnings.*

Net external sales of our consolidated foreign subsidiaries totaled approximately \$831 million in 2006, or 10.6% of our total consolidated net sales. Sales outside of the United States make up an important part of our current business and future strategic plans. Our sales and earnings could be adversely affected by a variety of international factors, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest, difficulties in staffing and managing foreign operations and other external economic and political factors. Our inability to successfully manage the risks and uncertainties relating to these factors could adversely affect our sales and earnings.

In many foreign countries, it is acceptable to engage in certain business practices that we are prohibited from engaging in because of regulations that are applicable to us, such as the Foreign Corrupt Practices Act. Although we have internal control policies and procedures designed to ensure compliance with these regulations, there can be no assurance that our policies and procedures will prevent a violation of these regulations. Any violation could cause an adverse effect on our results of operations.

*Fluctuations in foreign currency exchange rates could adversely affect our sales and earnings.*

Because of our international operations, we are exposed to market risk associated with interest rates and value changes in foreign currencies, which may adversely affect our business. Historically, our reported net sales and net earnings have been subjected to fluctuations in foreign exchange rates. Our primary exchange rate exposure is with the British pound, the Argentine peso, the Brazilian real, the Chilean peso, the Canadian dollar and the Mexican peso against the U.S. dollar. While we actively manage the exposure of our foreign currency market risk as part of our overall financial risk management policy, we believe we may experience continuing losses from foreign currency translation, and such losses could adversely affect our sales and earnings.

**Table of Contents**

*We are required to comply with increasingly stringent federal, state and local environmental laws and regulations, the cost of which is likely to increase and may adversely affect our earnings.*

Our operations are subject to various federal, state and local environmental laws and regulations. These laws and regulations not only govern our current operations and products, but also impose potential liability on us for our past operations. We expect environmental laws and regulations to impose increasingly stringent requirements upon our industry and us in the future. Our costs to comply with these laws and regulations may increase as these requirements become more stringent in the future, and these increased costs may adversely affect our earnings.

*We are involved with environmental investigation and remediation activities at some of our current and former sites, as well as a number of third-party sites, for which our ultimate liability may exceed the current amount we have accrued.*

We are involved with environmental investigation and remediation activities at some of our current and former sites and a number of third-party sites. We accrue for estimated costs of investigation and remediation activities at these sites for which commitments or clean-up plans have been developed and when such costs can be reasonably estimated based on industry standards and professional judgment. These estimated costs are based on currently available facts regarding each site. We continuously assess our potential liability for investigation and remediation activities and adjust our environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated. Due to the uncertainties surrounding environmental investigation and remediation activities, our liability may result in costs that are significantly higher than currently accrued and may have an adverse affect on our earnings.

*The nature, cost, quantity and outcome of pending and future litigation, such as litigation arising from the manufacture and sale of lead pigments and lead-based paint, could have a material adverse effect on our results of operations, liquidity and financial condition.*

In the course of our business, we are subject to a variety of claims and lawsuits, including litigation relating to product liability and warranty, personal injury, environmental, intellectual property, commercial, contractual and antitrust claims. We accrue for these contingencies when it is probable that one or more future events will occur confirming the fact of a loss and the amount of the loss can be reasonably estimated. However, because litigation is inherently subject to many uncertainties and the ultimate result of any present or future litigation is unpredictable, our ultimate liability may result in costs that are significantly higher than currently accrued. In the event that our loss contingency is ultimately determined to be significantly higher than currently accrued, the recording of the liability may result in a material impact on net income for the annual or interim period during which such liability is accrued. Additionally, due to the uncertainties involved, any potential liability determined to be attributable to us arising out of such litigation may have a material adverse effect on our results of operations, liquidity or financial condition.

Our past operations included the manufacture and sale of lead pigments and lead-based paints. Along with other companies, we are a defendant in a number of legal proceedings, including purported class actions, separate actions brought by the State of Rhode Island, and actions brought by various counties, cities, school districts and other government-related entities, arising from the manufacture and sale of lead pigments and lead-based paints. We are also a defendant in legal proceedings arising from the manufacture and sale of non-lead-based paints, which seek recovery based upon various legal theories, including the failure to adequately warn of potential exposure to lead during surface preparation when using non-lead-based paint on surfaces previously painted with lead-based paint. We expect that additional lead pigment and lead-based paint litigation may be filed against us in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

During September 2002, a jury trial commenced in the first phase of the action brought by the State of Rhode Island against us and the other defendants. The sole issue in this first phase was whether lead pigment in paint constitutes a public nuisance under Rhode Island law. In October 2002, the court declared a mistrial as the jury, which was split four to two in favor of the defendants, was unable to reach a unanimous decision.

The State of Rhode Island retried the case and on February 22, 2006, the jury returned a verdict, finding that (1) the cumulative presence of lead pigment in paints and coatings on buildings in the State of Rhode Island

**Table of Contents**

constitutes a public nuisance, (ii) we, along with two other defendants, caused or substantially contributed to the creation of the public nuisance, and (iii) we and two other defendants should be ordered to abate the public nuisance. On February 26, 2007, the Court issued a decision on the post-trial motions and other matters pending before the Court. Specifically, the Court (i) denied the defendants' post-trial motions for judgment as a matter of law and for a new trial, (ii) decided to enter a judgment of abatement in favor of the State against us and two other defendants, and (iii) decided to appoint a special master for the purpose of assisting the Court in its consideration of a remedial order to implement the judgment of abatement, and if necessary, any monitoring of the implementation of that order. We intend to appeal the jury's verdict and the Court's decision.

Litigation is inherently subject to many uncertainties. Adverse court rulings, such as the Rhode Island jury verdict and the Wisconsin State Supreme Court's determination in July 2005 that Wisconsin's risk contribution theory may apply to the lead pigment litigation, or determinations of liability, among other factors, could affect the lead pigment and lead-based paint litigation against us and encourage an increase in the number and nature of future claims and proceedings. In addition, from time to time, various legislation and administrative regulations have been enacted or proposed to impose obligations on present and former manufacturers of lead pigments and lead-based paints respecting asserted health concerns associated with such products and to overturn court decisions in which we and other manufacturers have been successful. We cannot reasonably determine the impact that the State of Rhode Island decision and determination of liability will have on the number or nature of present or future claims and proceedings against us.

Due to the uncertainties involved, management is unable to predict the outcome of the lead pigment and lead-based paint litigation, the number or nature of possible future claims and proceedings, or the effect that any legislation and/or administrative regulations may have on the litigation or against us. In addition, management cannot reasonably determine the scope or amount of the potential costs and liabilities related to such litigation, or any such legislation and regulations. We have not accrued any amounts for such litigation. Any potential liability that may result from such litigation or such legislation and regulations cannot reasonably be estimated. In the event any significant liability is determined to be attributable to us relating to such litigation, the recording of the liability may result in a material impact on net income for the annual or interim period during which such liability is accrued. Additionally, due to the uncertainties associated with the amount of any such liability and/or the nature of any other remedy which may be imposed in such litigation, any potential liability determined to be attributable to us arising out of such litigation may have a material adverse effect on our results of operations, liquidity or financial condition. An estimate of the potential impact on our results of operations, liquidity or financial condition cannot be made due to the aforementioned uncertainties.

We discuss the risks and uncertainties related to litigation, including the lead pigment and lead-based paint litigation, in more detail on pages 21 and 22 of our 2006 Annual Report under the caption "Litigation and Other Contingent Liabilities," and pages 29 through 33 of our 2006 Annual Report under the caption "Litigation," of Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 9 of the Notes to Consolidated Financial Statements on pages 65 through 68 of our 2006 Annual Report.

***The costs or potential liability ultimately determined to be attributable to us through our ownership of Life Shield could have an adverse effect on our results of operations, liquidity or financial condition.***

We own a 25% interest in Life Shield Engineered Systems, LLC and are obligated to acquire an additional 24% interest in Life Shield in October 2007. Life Shield is a start-up company that develops and manufactures blast and fragment mitigating systems and ballistic resistant systems. The blast and fragment mitigating systems and ballistic resistant systems create a potentially higher level of product liability for us than is normally associated with coatings and related products we manufacture, distribute and sell. Depending upon the extent of any potential liability ultimately determined to be attributable to us relating to Life Shield, such liability could have an adverse effect on our results of operations, liquidity and financial condition. We discuss these risks and uncertainties in more detail on page 29 of our 2006 Annual Report under the caption entitled "Contingent Liabilities" of Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents****ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We own our world headquarters located in Cleveland, Ohio, which includes the world headquarters for the Paint Stores Group, Consumer Group and Global Group. Our principal manufacturing and distribution facilities are located as set forth below. We believe our manufacturing and distribution facilities are well-maintained and are suitable and adequate, and have sufficient productive capacity, to meet our current needs.

**PAINT STORES GROUP***Manufacturing Facilities*

Atlanta, Georgia	Owned	Beltsville, Maryland	Owned
------------------	-------	----------------------	-------

*Distribution Facilities*

Atlanta, Georgia	Owned	Beltsville, Maryland	Owned
------------------	-------	----------------------	-------

**CONSUMER GROUP***Manufacturing Facilities*

Andover, Kansas	Owned	Holland, Michigan	Owned
Baltimore, Maryland	Owned	Largo, Florida	Owned
Bedford Heights, Ohio	Owned	Lawrenceville, Georgia	Owned
Chicago, Illinois	Owned	Manchester, Georgia	Owned
Cincinnati, Ohio	Owned	Memphis, Tennessee	Owned
Coffeyville, Kansas	Owned	Morrow, Georgia	Owned
Crisfield, Maryland	Leased	Norfolk, Virginia	Leased
Deshler, Ohio	Owned	Olive Branch, Mississippi	Owned
Ennis, Texas	Owned	Orlando, Florida	Owned
Fernley, Nevada	Owned	Portland, Oregon	Leased
Flora, Illinois	Owned	Reno, Nevada	Owned
Fort Erie, Ontario, Canada	Owned	San Diego, California	Leased
Garland, Texas	Owned	South Holland, Illinois	Owned
Greensboro, North Carolina	Owned	Twinsburg, Ohio	Owned

*Distribution Facilities*

Atlanta, Georgia	Leased	San Juan, Puerto Rico	Leased
Effingham, Illinois	Leased	Swaffham, England	Leased
Fredericksburg, Pennsylvania	Owned	Vaughan, Ontario, Canada	Leased
Memphis, Tennessee	Leased	Waco, Texas	Leased
Reno, Nevada(2)	Leased	Winter Haven, Florida	Leased

**GLOBAL GROUP***Manufacturing Facilities*

Edgar Filing: SHERWIN WILLIAMS CO - Form 10-K

---

Aprilia, Italy	Leased	Rio Grande do Sul, Brazil	Leased
Arica, Chile	Owned	Rockford, Illinois	Leased
Arlington, Texas	Owned	Santiago, Chile	Leased
Buenos Aires, Argentina	Owned	Santiago, Chile	Owned
Columbus, Ohio	Owned	Sao Paulo, Brazil(3)	Owned
Greensboro, North Carolina	Owned	Shanghai, China	Owned
Grimsby, Ontario, Canada	Owned	Spartanburg, South Carolina	Leased
Kingston, Jamaica	Owned	Sheffield, England	Owned
Ontario, California	Leased	Texcoco, Mexico	Owned
Richmond, Kentucky	Owned	Vallejo, Mexico	Owned



**Table of Contents**

*Distribution Facilities*

---

Aprilia, Italy	Leased	Richmond, Kentucky	Owned
Buenos Aires, Argentina	Owned	Rio Grande do Sul, Brazil	Leased
Guadalajara, Mexico	Leased	Santiago, Chile	Leased
Hermosilla, Mexico(2)	Leased	Santiago, Chile	Owned
Kingston, Jamaica	Owned	Sao Paulo, Brazil(3)	Owned
Lima, Peru	Leased	Shanghai, China	Owned
Mechelen, Belgium	Leased	Texcoco, Mexico	Leased
Mexico City, Mexico	Owned	Valencia, Venezuela	Leased
Monterrey, Mexico	Leased	Zaragoza, Mexico	Owned
Perpignan, France	Leased		

The operations of the Paint Stores Group included 3,046 company-operated specialty paint stores, of which 120 were owned, in the United States, Canada, Virgin Islands, Puerto Rico and Mexico at December 31, 2006. These paint stores are divided into four separate operating divisions that are responsible for the sale of predominantly architectural, industrial maintenance and related products through the paint stores located within their geographical region. At the end of 2006:

the Mid Western Division operated 775 paint stores primarily located in the midwestern and upper west coast states;

the Eastern Division operated 438 paint stores along the upper east coast and New England states and Canada;

the Southeastern Division operated 1,100 paint stores principally covering the lower east and gulf coast states, Puerto Rico and the Virgin Islands; and

the South Western Division operated 733 paint stores in the central plains and the lower west coast states.

In 2006, the Paint Stores Group opened 117 net new paint stores.

The Global Group operated 237 branches in the United States, of which one was owned, at December 31, 2006. The Global Group also operated 232 branches outside of the United States, of which six were owned and 226 were leased in Mexico (84), Brazil (56), Chile (44), Canada (23), Jamaica (16), Uruguay (6), Argentina (2) and Peru (1) at December 31, 2006.

Except for two idle warehouse facilities, all real property within the Administrative segment is owned by us. For additional information regarding real property within the Administrative segment, see the information set forth in Item 1 of this report, which is incorporated herein by reference.

For additional information regarding real property leases, see Note 16 of the Notes to Consolidated Financial Statements on page 75 of our 2006 Annual Report, which is incorporated herein by reference.

**ITEM 3. LEGAL PROCEEDINGS**

For information regarding environmental-related matters and other legal proceedings, see pages 25 through 27, and 29 through 33, of our 2006 Annual Report under the caption entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 8, 9 and 13 of the Notes to Consolidated Financial Statements on pages 49, 63 through 65, 65 through 68, and 73, respectively, of our 2006 Annual Report, which is incorporated herein by reference.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our security holders during the fourth quarter of 2006.



**Table of Contents****EXECUTIVE OFFICERS OF THE REGISTRANT**

The following is the name, age and present position of each of our executive officers at February 21, 2007, as well as all prior positions held by each during the last five years and the date when each was first elected or appointed as an executive officer. Executive officers are generally elected annually by the Board of Directors and hold office until their successors are elected and qualified or until their earlier death, resignation or removal.

Name	Age	Present Position	Date When First Elected or Appointed
Christopher M. Connor	50	Chairman and Chief Executive Officer, Director	1994
John G. Morikis	43	President and Chief Operating Officer	1999
Sean P. Hennessy	49	Senior Vice President Finance and Chief Financial Officer	2001
Thomas E. Hopkins	49	Senior Vice President Human Resources	1997
Conway G. Ivy	65	Senior Vice President Corporate Planning and Development	1979
Timothy A. Knight	42	Senior Vice President Corporate Planning and Development	2005
Thomas W. Seitz	58	Senior Vice President Strategic Excellence Initiatives	1999
John L. Ault	60	Vice President Corporate Controller	1987
Steven J. Oberfeld	54	President, Paint Stores Group	2006
Louis E. Stellato	56	Vice President, General Counsel and Secretary	1989
Robert J. Wells	49	Vice President Corporate Communications & Public Affairs	2006

Mr. Connor has served as Chairman since April 2000 and Chief Executive Officer since October 1999. Mr. Connor served as President from July 2005 to October 2006. Mr. Connor has served as a Director since October 1999. Mr. Connor has been employed with the Company since January 1983.

Mr. Morikis has served as President and Chief Operating Officer since October 2006. Mr. Morikis served as President, Paint Stores Group from October 1999 to October 2006. Mr. Morikis has been employed with the Company since December 1984.

Mr. Hennessy has served as Senior Vice President Finance and Chief Financial Officer since August 2001 and also served as Treasurer from August 2001 to August 2002. Mr. Hennessy has been employed with the Company since September 1984.

Mr. Hopkins has served as Senior Vice President Human Resources since February 2002. Mr. Hopkins served as Vice President Human Resources from August 1997 to February 2002. Mr. Hopkins has been employed with the Company since September 1981.

Mr. Ivy has served as Senior Vice President Corporate Planning and Development since February 2002. Mr. Ivy served as Vice President Corporate Planning and Development from April 1992 to February 2002. Mr. Ivy has been employed with the Company since March 1979.

Mr. Knight has served as Senior Vice President Corporate Planning and Development since February 2007. Mr. Knight served as President, Global Group from August 2005 to February 2007, President & General Manager, Diversified Brands Division from February 2002 to August 2005 and Senior Vice President, Diversified Brands Division, Consumer Group from January 2001 to February 2002. Mr. Knight has been employed with the Company since December 1994.

**Table of Contents**

Mr. Seitz has served as Senior Vice President Strategic Excellence Initiatives since February 2007. Mr. Seitz served as President, Consumer Group from August 2005 to February 2007 and President & General Manager, Consumer Division from January 2001 to August 2005. Mr. Seitz has been employed with the Company since June 1970.

Mr. Ault has served as Vice President Corporate Controller since January 1987. Mr. Ault has been employed with the Company since June 1976.

Mr. Oberfeld has served as President, Paint Stores Group since October 2006. Mr. Oberfeld served as President & General Manager, South Western Division, Paint Stores Group from September 1992 to October 2006. Mr. Oberfeld has been employed with the Company since October 1984.

Mr. Stellato has served as Vice President, General Counsel and Secretary since July 1991. Mr. Stellato has been employed with the Company since July 1981.

Mr. Wells has served as Vice President Corporate Communications & Public Affairs since January 2006. Mr. Wells served as Vice President Corporate Planning and Communication from July 2002 to January 2006 and Vice President Marketing Communications, Stores Group from January 1999 to July 2002. Mr. Wells has been employed with the Company since May 1998.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is listed on the New York Stock Exchange and traded under the symbol SHW. The number of shareholders of record at February 1, 2007 was 10,152.

Information regarding market prices and dividend information with respect to our common stock is set forth on page 79 of our 2006 Annual Report, which is incorporated herein by reference.

**Issuer Purchases of Equity Securities**

The following table sets forth a summary of the Company's purchases of common stock during the fourth quarter of 2006.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan
October 1 - October 31				
Share repurchase program <sup>(1)</sup>	2,176,900	\$61.07	2,176,900	13,294,170
Employee transactions <sup>(2)</sup>	2,238	\$58.66		N/A
November 1 - November 30				
Share repurchase program <sup>(1)</sup>	423,100	\$60.39	423,100	12,871,070
Employee transactions <sup>(2)</sup>				N/A
December 1 - December 31				
Share repurchase program <sup>(1)</sup>	50,000	\$61.95	50,000	12,821,070
Employee transactions <sup>(2)</sup>	2,778	\$62.70		N/A
<b>Total</b>				
Share repurchase program <sup>(1)</sup>	2,650,000	\$60.98	2,650,000	12,821,070
Employee transactions <sup>(2)</sup>	5,016	\$60.90		N/A

## Edgar Filing: SHERWIN WILLIAMS CO - Form 10-K

- (1) All shares were purchased through the Company's publicly announced share repurchase program. On October 21, 2005, the Board of Directors of the Company authorized the Company to purchase, in the aggregate, 20.0 million shares of its common stock and rescinded the previous authorization limit. The Company had remaining authorization at December 31, 2006 to purchase 12,821,070 shares. There is no

**Table of Contents**

expiration date specified for the program. The Company intends to repurchase stock under the program in the future.

(2) All shares were delivered to satisfy the exercise price and/or tax withholding obligations by employees who exercised stock options.

**ITEM 6. SELECTED FINANCIAL DATA**

(millions of dollars, except per common share data)

	2006	2005	2004	2003	2002
<b>Operations</b>					
Net sales	\$7,810	\$7,191	\$6,114	\$5,408	\$5,185
Income before cumulative effect of change in accounting principle	576	463	393	332	311
Cumulative effect of change in accounting principle					(183)
Net income	576	463	393	332	128
<b>Financial Position</b>					
Total assets	\$4,995	\$4,369	\$4,274	\$3,683	\$3,432
Long-term debt	292	487	488	503	507
Ratio of earnings to fixed charges (a)	7.0x	6.7x	7.0x	6.8x	6.5x
<b>Per Common Share Data</b>					
Income before cumulative effect of change in accounting principle basic	\$ 4.31	\$ 3.39	\$ 2.79	\$ 2.29	\$ 2.07
Income before cumulative effect of change in accounting principle diluted	4.19	3.28	2.72	2.26	2.04
Net income basic	4.31	3.39	2.79	2.29	.85
Net income diluted	4.19	3.28	2.72	2.26	.84
Cash dividends	1.00	.82	.68	.62	.60

(a) For purposes of calculating the ratio of earnings to fixed charges, earnings represents income before income taxes, minority interest and cumulative effect of change in accounting principle plus fixed charges. Fixed charges consist of interest expense, net, including amortization of discount and financing costs and the portion of operating rental expense which management believes is representative of the interest component of rent expense. The following schedule includes the figures used to calculate the ratios:

	2006	2005	2004	2003	2002
Earnings	\$834	\$656	\$580	\$523	\$497
Fixed charges:					
Interest expense, net	67	50	40	39	40
Interest component of rent expense	72	65	57	51	50
Total fixed charges	139	115	97	90	90
Earnings and fixed charges	\$973	\$771	\$677	\$613	\$587

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information required by this item is set forth on pages 18 through 37 of our 2006 Annual Report under the caption entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

## Edgar Filing: SHERWIN WILLIAMS CO - Form 10-K

We are exposed to market risk associated with interest rates, foreign currency and commodity fluctuations. We occasionally utilize derivative instruments as part of our overall financial risk management policy, but do not

## **Table of Contents**

use derivative instruments for speculative or trading purposes. The Company had foreign currency option and forward contracts and commodity swaps outstanding at December 31, 2006 to hedge against value changes in foreign currency and commodities. Foreign currency option and forward contracts are described in detail in Note 13 of the Notes to Consolidated Financial Statements on page 73 of our 2006 Annual Report. Commodity swaps are described in detail in Note 1 of the Notes to Consolidated Financial Statements on page 48 of our 2006 Annual Report. We believe we may experience continuing losses from foreign currency translation and commodity price fluctuations. However, we do not expect currency translation, transaction, commodity price fluctuations or hedging contract losses to have a material adverse effect on our financial condition, results of operations or cash flows.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Information required by this item is set forth on page 38 and pages 42 through 78 of our 2006 Annual Report under the captions entitled Report of Management on the Consolidated Financial Statements, Report of the Independent Registered Public Accounting Firm on the Consolidated Financial Statements, Statements of Consolidated Income, Consolidated Balance Sheets, Statements of Consolidated Cash Flows, Statements of Consolidated Shareholders Equity and Comprehensive Income, and Notes to Consolidated Financial Statements, which is incorporated herein by reference. Unaudited quarterly data is set forth in Note 15 of the Notes to Consolidated Financial Statements on page 75 of our 2006 Annual Report, which is incorporated herein by reference.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chairman and Chief Executive Officer and our Senior Vice President Finance and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 and Rule 15d-15 of the Securities Exchange Act of 1934, as amended ( Exchange Act ). Based upon that evaluation, our Chairman and Chief Executive Officer and our Senior Vice President Finance and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and accumulated and communicated to our management including our Chairman and Chief Executive Officer and our Senior Vice President Finance and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### **Internal Control Over Financial Reporting**

The Report of Management on Internal Control over Financial Reporting is set forth on page 39 of our 2006 Annual Report, which is incorporated herein by reference.

The Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting is set forth on pages 40 and 41 of our 2006 Annual Report, which is incorporated herein by reference.

There were no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.





**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**Directors**

The information regarding our directors is set forth under the caption entitled Election of Directors (Proposal 1) in our Proxy Statement, which is incorporated herein by reference.

There were no material changes to the procedures by which security holders may recommend nominees to our Board of Directors during 2006. At its July 2006 meeting, the Nominating and Corporate Governance Committee amended these procedures to require additional information about nominees who are recommended by security holders. Please refer to the information set forth under the caption Board Meetings and Committee Membership Nominating and Corporate Governance Committee in our Proxy Statement, which is incorporated herein by reference.

**Executive Officers**

The information regarding our executive officers is set forth under the caption entitled Executive Officers of the Registrant in Part I of this report, which is incorporated herein by reference.

**Section 16(a) Beneficial Ownership Reporting Compliance**

The information regarding compliance with Section 16 of the Securities Exchange Act of 1934 is set forth under the caption entitled Section 16(a) Beneficial Ownership Reporting Compliance in our Proxy Statement, which is incorporated herein by reference.

**Audit Committee**

The information regarding the Audit Committee of our Board of Directors and the information regarding audit committee financial experts are set forth under the caption entitled Board Meetings and Committee Membership in our Proxy Statement, which is incorporated herein by reference.

**Code of Ethics**

We have adopted a Business Ethics Policy, which applies to all of our directors, officers and employees. Our Business Ethics Policy includes additional ethical obligations for our senior financial management (which includes our chief executive officer, our chief financial officer, and the controller, treasurer and principal financial and accounting personnel in our operating groups and corporate departments). Please refer to the information set forth under the caption Corporate Governance Business Ethics Policy in our Proxy Statement, which is incorporated herein by reference. Our Business Ethics Policy is available in the Corporate Governance section on the Investor Relations page of our website at [www.sherwin.com](http://www.sherwin.com). Any person may receive a copy without charge by writing to us at: The Sherwin-Williams Company, 101 Prospect Avenue, N.W., Cleveland, Ohio, 44115, Attention: Investor Relations.

We intend to disclose on our website any amendment to, or waiver from, a provision of our Business Ethics Policy that applies to our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer or controller, or any persons performing similar functions, and that is required to be publicly disclosed pursuant to the rules of the Securities and Exchange Commission.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is set forth on pages 24 through 37 of our Proxy Statement and under the captions entitled Compensation Committee Report, Compensation Discussion and Analysis, 2006 Director Compensation Table and Director Compensation

Program in our Proxy Statement, which is incorporated herein by reference.

**Table of Contents**

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information regarding security ownership of certain beneficial owners and management is set forth under the captions entitled Security Ownership of Management and Security Ownership of Certain Beneficial Owners in our Proxy Statement, which is incorporated herein by reference.

The information regarding securities authorized for issuance under the Company's equity compensation plans is set forth under the caption entitled Equity Compensation Plan Information in our Proxy Statement, which is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is set forth under the captions entitled Certain Relationships and Transactions with Related Persons, and Independence of Directors in our Proxy Statement, which is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is set forth under the caption entitled Matters Relating to the Independent Registered Public Accounting Firm in our Proxy Statement, which is incorporated herein by reference.

During the quarter ended December 31, 2006, the Audit Committee of our Board of Directors approved non-audit services to be performed by Ernst & Young LLP, our independent registered public accounting firm. These non-audit services related to advisory services provided to the Company related to financial aspects of life insurance policies maintained by the Company.

Table of Contents**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) (1) Financial Statements  
The following consolidated financial statements of the Company included in our 2006 Annual Report are incorporated by reference in Item 8.
- (i) Report of Management on the Consolidated Financial Statements (page 38 of our 2006 Annual Report);
  - (ii) Report of the Independent Registered Public Accounting Firm on the Consolidated Financial Statements (page 42 of our 2006 Annual Report);
  - (iii) Statements of Consolidated Income for the years ended December 31, 2006, 2005 and 2004 (page 43 of our 2006 Annual Report);
  - (iv) Consolidated Balance Sheets at December 31, 2006, 2005 and 2004 (page 44 of our 2006 Annual Report);
  - (v) Statements of Consolidated Cash Flows for the years ended December 31, 2006, 2005 and 2004 (page 45 of our 2006 Annual Report);
  - (vi) Statements of Consolidated Shareholders' Equity and Comprehensive Income for the years ended December 31, 2006, 2005 and 2004 (page 46 of our 2006 Annual Report); and
  - (vii) Notes to Consolidated Financial Statements for the years ended December 31, 2006, 2005 and 2004 (pages 47 through 78 of our 2006 Annual Report).
- (2) Financial Statement Schedule  
Schedule II Valuation and Qualifying Accounts and Reserves for the years ended December 31, 2006, 2005 and 2004 is set forth below. All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

**Valuation and Qualifying Accounts and Reserves****(Schedule II)**

Changes in the allowance for doubtful accounts were as follows:

(thousands of dollars)	2006	2005	2004
Beginning balance	\$ 22,734	\$ 30,742	\$ 26,978
Amount acquired through acquisitions			4,260
Bad debt expense	26,154	27,915	23,169
Uncollectible accounts written off, net of recoveries	(25,816)	(35,923)	(23,665)
Ending balance	\$ 23,072	\$ 22,734	\$ 30,742

Increased bad debt expense and uncollectible accounts written off in 2005 and 2004 were primarily related to accounts of acquired businesses.

- (3) Exhibits  
See the Exhibit Index on pages 21 through 24 of this report.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 28, 2007.

THE SHERWIN-WILLIAMS COMPANY

By: /s/ L. E. STELLATO

---

L. E. Stellato, Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 28, 2007.

* C. M. CONNOR	Chairman and Chief Executive Officer, Director (Principal Executive Officer)
_____ C. M. Connor	
* S. P. HENNESSY	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)
_____ S. P. Hennessy	
* J. L. AULT	Vice President Corporate Controller (Principal Accounting Officer)
_____ J. L. Ault	
* A. F. ANTON	Director
_____ A. F. Anton	
* J. C. BOLAND	Director
_____ J. C. Boland	
* D. E. EVANS	Director
_____ D. E. Evans	
* D. F. HODNIK	Director
_____ D. F. Hodnik	
* S. J. KROPF	Director
_____ S. J. Kropf	
* R. W. MAHONEY	Director
_____ R. W. Mahoney	
* G. E. McCULLOUGH	Director
_____ G. E. McCullough	

Edgar Filing: SHERWIN WILLIAMS CO - Form 10-K

G. E. McCullough

\* A. M. MIXON, III

Director

---

A. M. Mixon, III

\* C. E. MOLL

Director

---

C. E. Moll

**Table of Contents**

\* R. K. SMUCKER

Director

---

R. K. Smucker

\* 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 and filed as exhibits to this report.

By: /s/ L. E. STELLATO

February 28, 2007

---

L. E. Stellato, Attorney-in-fact



**Table of Contents**

**EXHIBIT INDEX**

3. (a) Amended and Restated Articles of Incorporation of the Company, as amended through July 26, 2006, filed as Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, and incorporated herein by reference.
- (b) Regulations of the Company, as amended and restated April 28, 2004, filed as Exhibit 3 to the Company's Current Report on Form 8-K dated June 10, 2004, and incorporated herein by reference.
4. (a) Indenture between the Company and Chemical Bank, as Trustee, dated as of February 1, 1996, filed as Exhibit 4(a) to Form S-3 Registration Statement Number 333-01093, dated February 20, 1996, and incorporated herein by reference.
- (b) Indenture between Sherwin-Williams Development Corporation, as Issuer, the Company, as Guarantor, and Harris Trust and Savings Bank, as Trustee, dated June 15, 1986, filed as Exhibit 4(b) to Form S-3 Registration Statement Number 33-6626, dated June 20, 1986, and incorporated herein by reference.
- (c) Rights Agreement between the Company and The Bank of New York, as successor Rights Agent to KeyBank National Association, dated April 23, 1997, filed as Exhibit 1 to Form 8-A, dated April 24, 1997, and incorporated herein by reference.
- (d) Second Amendment and Restatement Agreement, dated as of December 8, 2005, in respect of the Five-Year Competitive Advance and Revolving Credit Facility Agreement, dated as of July 19, 2004, as amended and restated as of July 20, 2005, among the Company, JPMorgan Chase Bank, as Administrative Agent, and the Lenders party thereto, filed as Exhibit 4 to the Company's Current Report on Form 8-K dated December 8, 2005, and incorporated herein by reference.
- (e) Modification, dated as of March 15, 2006, to the Second Amended and Restated Credit Agreement, dated as of December 8, 2005, by and among the Company, the Lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 4 to the Company's Current Report on Form 8-K dated March 15, 2006, and incorporated herein by reference.
- (f) Credit Agreement, dated as of April 17, 2006, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as paying agent, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 17, 2006, and incorporated herein by reference.
- (g) Agreement for Letter of Credit, dated as of April 17, 2006, by and between the Company and Citibank, N.A., filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated April 17, 2006, and incorporated herein by reference.
- (h) Credit Agreement Amendment, dated as of April 25, 2006, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as paying agent, filed as Exhibit 4 to the Company's Current Report on Form 8-K dated April 25, 2006, and incorporated herein by reference.
- (i) Credit Agreement Amendment No. 2, dated as of May 8, 2006, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as paying agent, filed as Exhibit 4 to the Company's Current Report on Form 8-K dated May 8, 2006, and incorporated herein by reference.
- (j) Five Year Credit Agreement, dated as of May 23, 2006, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as paying agent, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 23, 2006, and incorporated herein by reference.
- (k) Agreement for Letter of Credit, dated as of May 23, 2006, by and between the Company and Citibank, N.A., filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 23, 2006, and incorporated herein by reference.

**Table of Contents**

- (l) Five Year Credit Agreement Amendment, dated as of July 24, 2006, by and among the Company, Citicorp USA, Inc., as administrative agent and issuing bank, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as paying agent, filed as Exhibit 4 to the Company's Current Report of Form 8-K dated July 24, 2006, and incorporated herein by reference.
- (m) Purchase and Contribution Agreement, dated as of February 1, 2006, between the Company, as Originator, and SWC Receivables Funding LLC, as Purchaser, filed as Exhibit 4(a) to the Company's Current Report on Form 8-K dated February 1, 2006, and incorporated herein by reference.
- (n) Loan and Servicing Agreement, dated as of February 1, 2006, among SWC Receivables Funding LLC, as Borrower; the Company, as Servicer; Citicorp North America, Inc., as Program Agent; and the Lenders party thereto, filed as Exhibit 4(b) to the Company's Current Report on Form 8-K dated February 1, 2006, and incorporated herein by reference.
- 10. \*(a) Form of Director, Executive Officer and Corporate Officer Indemnity Agreement filed as Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, and incorporated herein by reference.
- \*(b) Summary of Compensation Payable to Non-Employee Directors (filed herewith).
- \*(c) Summary of Base Salary and Annual Incentive Compensation Payable to Named Executive Officers (filed herewith).
- \*(d) Forms of Severance Agreements filed as Exhibit 10(b) to the Company's Current Report on Form 8-K dated February 21, 2007, and incorporated herein by reference.
- \*(e) Schedule of Executive Officers who are Parties to the Severance Agreements in the forms referred to in Exhibit 10(d) filed as Exhibit 10(c) to the Company's Current Report on Form 8-K dated February 21, 2007, and incorporated herein by reference.
- \*(f) The Sherwin-Williams Company Deferred Compensation Savings and Pension Equalization Plan, dated July 24, 2002, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002, and incorporated herein by reference.
- \*(g) 2004-2 Amendment to The Sherwin-Williams Company Deferred Compensation Savings and Pension Equalization Plan filed as Exhibit 10(b) to the Company's Current Report on Form 8-K dated July 20, 2005, and incorporated herein by reference.
- \*(h) The Sherwin-Williams Company 2005 Deferred Compensation Savings and Pension Equalization Plan filed as Exhibit 10(e) to the Company's Current Report on Form 8-K dated July 20, 2005, and incorporated herein by reference.
- \*(i) The Sherwin-Williams Company Revised Key Management Deferred Compensation Plan, dated July 24, 2002, filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002, and incorporated herein by reference.
- \*(j) 2004-1 Amendment to The Sherwin-Williams Company Revised Key Management Deferred Compensation Plan filed as Exhibit 10(c) to the Company's Current Report on Form 8-K dated July 20, 2005, and incorporated herein by reference.
- \*(k) The Sherwin-Williams Company 2005 Key Management Deferred Compensation Plan filed as Exhibit 10(f) to the Company's Current Report on Form 8-K dated July 20, 2005, and incorporated herein by reference.
- \*(l) The Sherwin-Williams Company Director Deferred Fee Plan (1997 Amendment and Restatement), dated April 23, 1997, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, and incorporated herein by reference.
- \*(m) 2004-1 Amendment to The Sherwin-Williams Company Director Deferred Fee Plan (1997 Amendment and Restatement) filed as Exhibit 10(d) to the Company's Current Report on Form 8-K dated July 20, 2005, and incorporated herein by reference.
- \*(n) The Sherwin-Williams Company 2005 Director Deferred Fee Plan filed as Exhibit 10(g) to the Company's Current Report on Form 8-K dated July 20, 2005, and incorporated herein by reference.

**Table of Contents**

- \* (o) The Sherwin-Williams Company Executive Disability Income Plan filed as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, and incorporated herein by reference.
- \* (p) The Sherwin-Williams Company Executive Life Insurance Plan filed as Exhibit 10(h) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, and incorporated herein by reference.
- \* (q) The Sherwin-Williams Company Management Compensation Program filed as Exhibit 10 to the Company's Current Report on Form 8-K dated October 21, 2005, and incorporated herein by reference.
- \* (r) The Sherwin-Williams Company 1994 Stock Plan, as amended and restated in its entirety, effective July 26, 2000, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000, and incorporated herein by reference.
- \* (s) The Sherwin-Williams Company 2003 Stock Plan, dated January 1, 2003, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002, and incorporated herein by reference.
- \* (t) Form of Restricted Stock Grant under The Sherwin-Williams Company 2003 Stock Plan filed as Exhibit 10(a) to the Company's Current Report on Form 8-K dated February 2, 2005, and incorporated herein by reference.
- \* (u) Form of Stock Option Grant under The Sherwin-Williams Company 2003 Stock Plan filed as Exhibit 10(b) to the Company's Current Report on Form 8-K dated February 2, 2005, and incorporated herein by reference.
- \* (v) The Sherwin-Williams Company 1997 Stock Plan for Nonemployee Directors, dated April 23, 1997, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, and incorporated herein by reference.
- \* (w) Form of Restricted Stock Grant under The Sherwin-Williams Company 1997 Stock Plan for Nonemployee Directors, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, and incorporated herein by reference.
- \* (x) Form of Stock Option Grant under The Sherwin-Williams Company 1997 Stock Plan for Nonemployee Directors, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, and incorporated herein by reference.
- \* (y) The Sherwin-Williams Company 2006 Equity and Performance Incentive Plan filed as Exhibit 10(b) to the Company's Current Report on Form 8-K dated April 19, 2006, and incorporated herein by reference.
- \* (z) Form of Nonqualified Stock Option Award under The Sherwin-Williams Company 2006 Equity and Performance Incentive Plan filed as Exhibit 10(a) to the Company's Current Report on Form 8-K dated July 19, 2006, and incorporated herein by reference.
- \* (aa) Form of Incentive Stock Option Award under The Sherwin-Williams Company 2006 Equity and Performance Incentive Plan filed as Exhibit 10(b) to the Company's Current Report on Form 8-K dated July 19, 2006, and incorporated herein by reference.
- \* (bb) Form of Restricted Stock Grant under The Sherwin-Williams Company 2006 Equity and Performance Incentive Plan filed as Exhibit 10(c) to the Company's Current Report on Form 8-K dated July 19, 2006, and incorporated herein by reference.
- \* (cc) The Sherwin-Williams Company 2006 Stock Plan for Nonemployee Directors filed as Exhibit 10(c) to the Company's Current Report on Form 8-K dated April 19, 2006, and incorporated herein by reference.
- \* (dd) Form of Restricted Stock Grant under The Sherwin-Williams Company 2006 Stock Plan for Nonemployee Directors filed as Exhibit 10(d) to the Company's Current Report on Form 8-K dated July 19, 2006, and incorporated herein by reference.
- \* (ee) Form of Individual Grantor Trust Participation Agreement filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, and incorporated herein by reference.

**Table of Contents**

- \* (ff) Schedule of Certain Executive Officers who are Parties to the Individual Grantor Trust Participation Agreements in the form referred to in Exhibit 10(aa) (filed herewith).
- \* (gg) The Sherwin-Williams Company Business Travel Accident Insurance Plan filed as Exhibit 10(z) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, and incorporated herein by reference.
- \* (hh) The Sherwin-Williams Company 2007 Executive Performance Bonus Plan filed as Exhibit 10(a) to the Company's Current Report on Form 8-K dated February 21, 2007, and incorporated herein by reference.
- 13. Our 2006 Annual Report, portions of which are incorporated herein by reference (filed herewith). With the exception of those portions of our 2006 Annual Report which are specifically incorporated by reference in this report, our 2006 Annual Report shall not be deemed filed as part of this report.
- 21. Subsidiaries (filed herewith).
- 23. Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm (filed herewith).
- 24. (a) Powers of Attorney (filed herewith).  
(b) Certified Resolution Authorizing Signature by Power of Attorney (filed herewith).
- 31. (a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith).  
(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith).
- 32. (a) Section 1350 Certification of Chief Executive Officer (filed herewith).  
(b) Section 1350 Certification of Chief Financial Officer (filed herewith).

\*Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.