

[Table of Contents](#)

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 28, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-3011

THE VALSPAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

36-2443580
(I.R.S. Employer Identification No.)

**901 3rd Avenue South
Minneapolis, Minnesota**
(Address of principal executive offices)

55402
(Zip Code)

Registrant's telephone number, including area code: (612) 851-7000

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, \$0.50 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: 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 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 the filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting stock held by persons other than officers, directors and more than 10% stockholders of the registrant as of April 29, 2011 was \$2.7 billion based on the closing sales price of \$39.31 per share as reported on the New York Stock Exchange. As of December 12, 2011, 93,334,818 shares of Common Stock, \$0.50 par value per share (net of 25,107,806 shares in treasury), were outstanding.

DOCUMENTS INCORPORATED IN PART BY REFERENCE

Portions of The Valspar Corporation's definitive Proxy Statement dated January 13, 2012 (the "Proxy Statement"), to be filed with the Securities and Exchange

Commission within 120 days after the end of the fiscal year ended October 28, 2011, are incorporated by reference into Part III to the extent described in this report.

The Valspar Corporation
Form 10-K
Table of Contents

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	1
<u>Item 1A. Risk Factors</u>	3
<u>Item 1B. Unresolved Staff Comments</u>	7
<u>Item 2. Properties</u>	7
<u>Item 3. Legal Proceedings</u>	8
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	9
<u>Item 6. Selected Financial Data</u>	11
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 8. Financial Statements and Supplementary Data</u>	24
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	53
<u>Item 9A. Controls and Procedures</u>	54
<u>Item 9B. Other Information</u>	54
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	54
<u>Item 11. Executive and Director Compensation</u>	54
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	54
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	55
<u>Item 14. Principal Accountant Fees and Services</u>	55
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	55
<u>Signatures</u>	58

PART I

ITEM 1 BUSINESS

BUSINESS & PRODUCT OVERVIEW

The Valspar Corporation is a leading global coatings and paints manufacturer and distributor, based on revenues and trade publication rankings. We manufacture and distribute a broad portfolio of coatings, paints and related products. We operate our business in two reportable segments: Coatings and Paints. Our net sales in 2011 from our Coatings and Paints segments were \$2,092.5 million and \$1,612.2 million, respectively. Our total net sales in 2011 were \$3,953.0 million.

Much of our growth has occurred during the last decade. During this time, we have expanded our business into international markets. A significant portion of our business growth has been accomplished through acquisitions.

The Valspar Corporation is a Delaware corporation and was founded in 1806. Our principal executive offices are located at 901 3rd Avenue South, Minneapolis, Minnesota 55402, and our telephone number at that address is (612) 851-7000. Our corporate website address is www.valsparcorporate.com. The information on our website is not part of this filing.

Coatings Segment

Our Coatings segment includes our packaging product line and industrial product lines. We offer a broad range of decorative and protective coatings for metal, wood and plastic, primarily for sale to original equipment manufacturing (OEM) customers in Asia, Australia, Europe, North America and South America. Products within our Coatings segment include primers, top coats, varnishes, sprays, stains, fillers and other coatings used by customers in a wide range of manufacturing industries, including agricultural and construction equipment, appliances, building products, furniture, metal fabrication, metal packaging and transportation.

We utilize a wide variety of technologies to provide differentiated coatings that meet our customers' requirements and enable value creation within the markets in which they are used. These technologies include electrodeposition, powder, solvent-based, water-borne, UV curing and laser sintering. Our capability to design and manufacture resins allows us to customize products and provide leading solutions for a range of market applications.

Our packaging product line includes coatings for the interior and exterior of metal packaging containers, principally food containers and beverage cans, for global customers. We also produce coatings for aerosol and paint cans, crowns for glass bottles, plastic packaging and bottle closures. We believe we are the world's largest supplier of metal packaging coatings. Consolidation and globalization of our customers has occurred, and we have responded to these trends by offering a wide variety of packaging coatings products throughout the world.

Our industrial product lines include coil, general industrial and wood. Our coil product line produces coatings that are applied to metal coils used to manufacture pre-engineered buildings and building components, other metal building and architectural products and appliances. Our general industrial product line provides customers a single source for powder, liquid and electrodeposition coatings technologies in a wide variety of industries, including lawn and garden, pipe coatings, transportation, and agricultural and construction equipment. Our wood product line supplies decorative and protective coatings for wood furniture, building products, cabinets and floors. We have color design manufacturing and technical service capabilities for our customers. We supply our industrial products throughout Asia, Australia, Europe, India, North America and South America.

Paints Segment

Our Paints segment includes a wide variety of products such as paints, primers, topcoats and aerosol spray paints sold primarily through retailers, distribution networks and company-owned stores. This segment includes our consumer paints and automotive refinish product lines.

Our consumer paints product line comprises the largest part of our Paints segment. We offer a broad portfolio of interior and exterior paints, stains, primers, varnishes, high performance floor paints and specialty decorative products, such as enamels, aerosols and faux finishes, used in both the do-it-yourself and professional markets. The primary distribution channels for these products in the U.S. and Canada are home centers, hardware wholesalers, distributors and independent dealers. We offer our own branded products and private label brands for customers. In China, we sell our Huarun and Valspar brands of consumer paints through distributors and retail outlets. In Australia and New Zealand, we sell our Watty! brands of consumer paints through independent dealers, hardware chains, home centers and company-owned stores. At certain customers, we also offer additional marketing and customer support by providing Valspar personnel to train paint department employees and to answer paint questions in stores.

[Table of Contents](#)

We develop highly customized merchandising and marketing support programs for our consumer paint customers, enabling them to differentiate their paint departments from their competitors' through product and color selection assistance, point-of-purchase materials and labeling. Our primary brands include Valspar and Cabot in the U.S., Huarun and Valspar in China, and Watty and Solagard in Australia and New Zealand. We continue to invest in and support these brands through advertising and marketing programs.

Our automotive product line includes refinish paints and aerosol spray paints that are sold through automotive refinish distributors, body shops, automotive supply distributors and automotive supply retailers. We manufacture these products in Europe and North America and distribute them under the Valspar, DeBeer and House of Kolor brands in many countries around the world.

All Other

In addition to the main product lines within our Coatings and Paints segments, we manufacture and sell specialty polymers, colorants and gelcoats, and we sell furniture protection plans and furniture care and repair products under the Guardsman brand. The specialty polymers and colorants are manufactured for internal use and for external sale to other coatings manufacturers. Our gelcoats and related products are primarily sold to boat manufacturers and shower and tub manufacturers.

COMPETITION

All aspects of the coatings and paints business are highly competitive. Some of our competitors are larger and have greater financial resources than us.

Competition in our Coatings segment is based on formulating products for specific customer applications, meeting customer delivery requirements and providing technical assistance to the customer in product application, new technology offerings and product prices. The markets for these coatings are global with current growth in Asia and South America. We can provide global coatings solutions to customers due to our position as one of the world's largest industrial coatings manufacturers and our commitment to developing new technologies.

Competition in our Paints segment is based on factors such as consumer brand recognition, product quality, distribution and price. In this segment, we support our brand awareness through advertising and highly customized merchandising and marketing support programs provided to our customers.

RAW MATERIALS

We obtain raw materials from a number of suppliers. The raw materials are derived from petrochemicals, minerals and metals. Our most significant raw materials are titanium dioxide, solvents and epoxy and other resins. Historically, all of these materials have been generally available on the open market, with pricing and availability subject to fluctuation. Most of the raw materials used in production are purchased from outside sources. We have made, and plan to continue to make, supply arrangements to meet our current and future supply requirements. We manage sourcing of critical raw materials by establishing contracts, buying from multiple sources and identifying alternative or lower cost materials or technology, when possible. We have active initiatives to find lower cost materials, to reformulate products with lower cost and more environmentally friendly raw materials and to qualify multiple and local sources of supply, including suppliers from Asia and other lower cost regions of the world.

The chemical industry's economic cycle has been volatile. In 2011, we continued to experience a significant increase in raw material costs along with shortages of certain raw materials. Since our raw material costs average approximately 80% of our cost of goods sold, the efficient use of raw materials is a critical cost component of the products we manufacture.

PATENTS

Our policy is to seek patent protection for our products and manufacturing processes when appropriate. We also license some patented technology from other sources. Our business is not materially dependent upon licenses or similar rights or on any single patent or group of related patents. Although we believe our patent rights are valuable, our knowledge and trade secret information regarding our manufacturing processes and materials have also been important in maintaining our competitive position. We require employees to sign confidentiality agreements relating to proprietary information.

While we make efforts to protect our trade secret information, others may independently develop or otherwise acquire substantially equivalent proprietary information or techniques or inappropriately gain access to our proprietary technology or disclose this technology. Any of these factors could adversely impact the value of our proprietary trade secret information and harm our business.

SEASONALITY AND WORKING CAPITAL ITEMS

Our sales volume is traditionally lowest during the first quarter of the fiscal year (November, December and January), and highest in the third quarter of the fiscal year (May, June and July), primarily due to weather and the buying cycle in the Coatings and Paints segments. When sales are generally lowest, we build inventory, the financing for which is provided primarily by internally generated funds, short-term debt and long-term credit lines discussed in Note 5 of Notes to Consolidated Financial Statements.

SIGNIFICANT CUSTOMERS

In 2011, our sales to Lowe's Companies, Inc. exceeded 10% of consolidated net sales, and our ten largest customers accounted for approximately 30% of consolidated net sales. Our five largest customers in the Paints segment accounted for approximately 45% of our net sales in the segment.

BACKLOG AND GOVERNMENT CONTRACTS

We have no significant backlog of orders and generally are able to fill orders on a current basis. No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the government.

RESEARCH AND DEVELOPMENT

Our product and application technology is supported by underlying chemistry that has been developed over many years. Ongoing research and development efforts focus on improving our internally developed and acquired technology and making formulation changes to improve the performance, profitability and cost competitiveness of our products. Our primary emphasis has been on developing and refining emerging technologies in our Coatings segment.

Research and development costs for fiscal 2011 were \$115.4 million or 2.9% of net sales, compared to \$100.2 million or 3.1% of net sales for fiscal 2010 and \$91.3 million or 3.2% of net sales for fiscal 2009.

ENVIRONMENTAL COMPLIANCE

We undertake to comply with applicable regulations relating to protection of the environment and workers' safety. Capital expenditures for this purpose were not material in fiscal 2011, and capital expenditures for fiscal 2012 to comply with existing laws and regulations are also not expected to be material.

EMPLOYEES

We employ approximately 10,000 persons, approximately 400 of whom are subject to collective bargaining agreements in the United States. We believe that our relationship with our union employees is good.

FOREIGN OPERATIONS AND EXPORT SALES

Our foreign operations are conducted primarily through majority-owned subsidiaries and, to a limited extent, through joint ventures. Our various acquisitions and joint ventures over the past several years have increased revenues from foreign subsidiaries and operations, which comprised approximately 48% of our total revenues in fiscal 2011. Sales from foreign operations as a percent of consolidated sales increased in 2011 compared to 2010.

We have manufacturing plants in Australia, Brazil, Canada, China, France, Germany, India, Ireland, Malaysia, Mexico, The Netherlands, New Zealand, Singapore, South Africa, Switzerland, Thailand, the United Kingdom and Vietnam. We also have joint ventures in Japan, South Africa, Switzerland and Vietnam and sales offices in other countries.

During fiscal 2011, export sales from the United States represented 3.5% of our business.

ITEM 1A RISK FACTORS

You should consider the following risk factors, in addition to the other information presented or incorporated by reference into this Annual Report on Form 10-K, in evaluating our business and your investment in us.

Deterioration of economic conditions could harm our business.

Our business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, access to and functioning of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges), and the effects of governmental initiatives to manage economic conditions. Deterioration in national and global economic conditions may reduce demand for our products and overall growth of the coatings industry.

[Table of Contents](#)

Volatility in financial markets and the deterioration of national and global economic conditions could impact our operations as follows:

- the value of our investments in debt and equity securities may decline, including our assets held in pension plans;
- the financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for us or non-performance by suppliers; and
- it may become more costly or difficult to obtain financing to fund operations or investment opportunities, or to refinance our debt in the future.

Additionally, we utilize hedges and other derivative financial instruments to reduce our exposure to various interest rate risks, which qualify for hedge accounting for financial reporting purposes. Volatile fluctuations in market conditions could cause these instruments to become ineffective, which could require any gains or losses associated with these instruments to be reported in our earnings each period.

Fluctuations in the availability and prices of raw materials could negatively impact our financial results.

We purchase the raw materials needed to manufacture our products from a number of suppliers. The majority of our raw materials are petroleum-based derivatives and minerals and metals. Under normal market conditions, these materials are generally available from one or more suppliers on the open market. From time to time, however, the availability and costs of raw materials may fluctuate significantly, which could impair our ability to procure necessary materials, or increase the cost of manufacturing our products. Our raw material costs have been volatile, and we have experienced disruptions in supplies of certain raw materials at various times. These disruptions could affect our ability to manufacture products ordered by our customers, which could negatively impact sales.

When raw material costs increase, our profit margins are reduced unless and until we are able to pass along the increases to our customers through higher prices. If raw material costs increase, and if we are unable to pass along, or are delayed in passing along, those increases to our customers, we will experience profit margin reductions.

Many of our customers are in cyclical industries, which may affect the demand for our products.

Many of our customers are in businesses or industries that are cyclical and sensitive to changes in general economic conditions. As a result, the demand for our products by these customers depends, in part, upon economic cycles affecting their businesses or industries and general economic conditions. The continued weakness in the U.S. housing market has adversely affected product lines that serve this end market. Downward economic cycles affecting the industries of our customers, and the deterioration of general economic conditions, may reduce our sales and profitability.

The industries in which we operate are highly competitive, and some of our competitors are larger and may have greater financial resources than we do.

All aspects of the coatings and paints business are highly competitive. We face strong competitors in all areas of our business. Any increase in competition may cause us to lose market share or compel us to reduce prices to remain competitive, which could result in reduced margins for our products. Competitive pressures may not only impair our margins but may also impact our revenues and our growth. A number of our competitors are larger than us and may have greater financial resources than we do. Increased competition with these companies could curtail price increases or could require price reductions or increased spending on marketing, sales and research and development, any of which could adversely affect our results of operations.

Industry sources estimate that the top ten largest coatings manufacturers represent more than half of the world's coatings sales. Our larger competitors may have more resources to finance acquisitions or internal growth in this competitive environment. Also, we buy our raw materials from large suppliers, primarily chemical companies. In many of our product lines, we then sell our finished goods to large customers, such as do-it-yourself home centers, large equipment manufacturers and can makers. Our larger competitors may have more resources or capabilities to conduct business with these large suppliers and large customers. Finally, many of our larger competitors operate businesses other than paints and coatings. These competitors may be better able to compete during coatings industry downturns.

We have a significant amount of indebtedness.

Our total debt, including notes payable, was \$1,057.1 million at October 28, 2011. Our level of indebtedness may have important consequences. For example, it:

- may require us to dedicate a material portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions or other general corporate purposes;
- could make us less attractive to prospective or existing customers or less able to fund potential acquisitions; and

[Table of Contents](#)

- may limit our flexibility to adjust to changing business and market conditions and make us more vulnerable to a downturn in general economic conditions as compared to a competitor that may have less indebtedness.

Acquisitions are an important part of our growth strategy, and future acquisitions may not be successful.

Acquisitions have historically contributed significantly to the growth of our company. As part of our growth strategy, we intend to continue to pursue acquisitions of complementary businesses and products. If we are not able to identify and complete future acquisitions, our growth may be negatively affected. Even if we are successful in completing future acquisitions, we may experience:

- difficulties in assimilating acquired companies and products into our existing business;
- delays in realizing the benefits from the acquired companies or products;
- difficulties due to lack of or limited prior experience in any new markets we may enter;
- unforeseen claims and liabilities, including unexpected environmental exposures or product liability;
- unforeseen adjustments, charges and write-offs;
- unexpected losses of customers of, or suppliers to, acquired businesses;
- difficulty in conforming the acquired business' standards, processes, procedures and controls with our operations;
- variability in financial information arising from the application of purchase price accounting;
- difficulties in retaining key employees of the acquired businesses; and
- challenges arising from the increased scope, geographic diversity and complexity of our operations.

Any of these factors may make it more difficult to repay our debt. In addition, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize acquisition expenses or the cost of acquired assets.

We derive a substantial portion of our revenues from foreign markets, which subjects us to additional business risks.

We conduct a substantial portion of our business outside of the United States. We currently have production facilities, research and development facilities, and administrative and sales offices located outside the United States, including facilities and offices located in Australia, Brazil, Canada, China, Finland, France, Germany, India, Ireland, Malaysia, Mexico, The Netherlands, New Zealand, Singapore, South Africa, Switzerland, Thailand, the United Kingdom and Vietnam. In 2011, revenues from products sold outside the United States accounted for approximately 48% of our net sales.

We expect sales from international markets to continue to represent a growing portion of our net sales. Notwithstanding the benefits of geographic diversification, our ability to achieve and maintain profitable growth in international markets is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks inherent in international operations include the following:

- agreements may be difficult to enforce, and receivables may be difficult to collect or have longer payment cycles;
- foreign countries may impose additional withholding taxes or otherwise tax our foreign income, or adopt other restrictions on foreign trade or investment, including currency exchange controls;
- foreign operations may experience difficulties in attracting and retaining key employees and labor disputes;
- transportation and other shipping costs may increase;
- foreign governments may nationalize private enterprises;

[Table of Contents](#)

- unexpected adverse changes in export duties, quotas and tariffs and difficulties in obtaining export licenses;
- intellectual property rights may be more difficult to enforce;
- fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services we provide in international markets where payment for our products and services is made in the local currency;
- our business and profitability in a particular country could be affected by political or economic changes or terrorist activities and responses to such activities;
- unexpected adverse changes in foreign laws or regulatory requirements may occur; and
- compliance with a variety of foreign laws and regulations may be burdensome.

We have certain key customers.

Our relationships with certain key customers are important to us. From 2009 through 2011, sales to our largest customer exceeded 10% of our consolidated net sales. In 2011, our ten largest customers accounted for approximately 30% of our consolidated net sales. Although we sell various types of products through various channels of distribution, we believe that the loss of a substantial portion of our sales to our largest customers could have a material adverse impact on us.

If the reputation of our company or one or more of its key brands is damaged, it could harm our business.

Our reputation is one of the foundations of our relationships with key customers and other stakeholders. If we are unable to effectively manage real or perceived issues that negatively affect our reputation, our ability to conduct our business could be impaired, and our financial results could suffer. As we continue to invest in advertising and promotion for our key brands, our financial success is becoming more dependent on the success of our brands. The success of these brands could suffer if our marketing plans or product initiatives do not have the desired effect on a brand's image, reputation or ability to attract customers. Further, our growth and results could be harmed if the reputation of our company or a key brand is damaged due to real or perceived quality issues, product recalls, regulatory enforcement or actions or customer claims and litigation.

Technology changes, and our ability to protect our technology, could affect our business.

Our product and application technology is supported by underlying chemistry that has been developed over many years. Ongoing research and development efforts focus on improving our internally developed and acquired technology and making formulation changes to improve the performance, profitability and cost competitiveness of our products. If our competitors develop new technology, or if our customers' technology requirements change, and we are not able to develop competitive technology, our business and financial results could suffer. Further, although we seek to protect our proprietary technology and information through confidentiality and trade secret protection programs and practices, patents, cybersecurity measures and other means, if we were unable to protect material proprietary technology or information, our business and financial results could suffer.

Numerous laws and regulations affect our business.

We are subject to numerous laws and regulations that control the manufacturing, marketing, sale, use and disposal of our products. These laws and regulations include health, safety, product liability, environmental and labeling requirements applicable to our products and business.

Environmental laws and regulations control, among other things, the discharge of pollutants into the air and water, the handling, use, treatment, storage and clean-up of hazardous and non-hazardous wastes, the investigation and remediation of soil and groundwater affected by hazardous substances, or otherwise relating to environmental protection and various health and safety matters. These environmental laws and regulations impose strict, retroactive and joint and several liability for the costs of, and damages resulting from, cleaning up current sites, past spills, disposals and other releases of hazardous substances and violations of these laws and regulations can also result in fines and penalties. We are currently undertaking remedial activities at a number of our facilities and properties, and have received notices under the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, or analogous state laws of liability or potential liability in connection with the disposal of material from our operations or former operations. Pursuant to health, safety, product liability and labeling laws and regulations, we have also been subject to various governmental enforcement actions and litigation by individuals relating to the sale, use of or exposure to our products or materials used or contained in our products, including claims for property damage or personal injury claimed to have been caused by our products or materials used or contained in our products.

[Table of Contents](#)

We are subject to the risk that adverse decisions relating to our compliance with existing laws and regulations and new laws or regulations, or changes in existing laws or regulations or their interpretation, could increase our compliance costs and expand our potential liability for enforcement actions by governmental authorities and litigation by individuals.

In addition, our customers' or consumers' perceptions about the acceptability or potential environmental or health effects of certain substances could require us to invest additional amounts to develop products that exclude those substances. If we are unable to develop products that exclude those substances when and if required by our customers, we may experience reduced sales and profitability.

ITEM 1B UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 PROPERTIES

We lease our principal offices located in Minneapolis, Minnesota. North America manufacturing operations are conducted at 27 locations (25 owned; 2 leased), primarily in the United States, Canada and Mexico. The total combined square footage for our principal offices and manufacturing operations in North America is approximately 4,096,000, which includes approximately 130,000 square feet at our principal offices. Asia Pacific manufacturing operations are conducted at 15 locations (12 owned; 3 leased) in Australia, China, Malaysia, New Zealand, Singapore, Thailand and Vietnam with a total combined square footage of approximately 1,995,000. European manufacturing operations are conducted at nine locations (8 owned; 1 leased) in France, Germany, Ireland, The Netherlands, Switzerland and the United Kingdom with a total combined square footage of approximately 929,000. In South America, we own two manufacturing facilities in Brazil with square footage of approximately 468,000. In India, we own one manufacturing facility with square footage of approximately 83,000. In South Africa, we own one manufacturing facility with square footage of approximately 54,000.

Shown below is a breakdown of the approximate square footage of principal facilities by region as of October 28, 2011:

Region	Approximate Square Footage Owned	Approximate Square Footage Leased	Total
North America	3,573,000	523,000	4,096,000
Asia Pacific	1,887,000	108,000	1,995,000
Europe	834,000	95,000	929,000
Other	605,000	—	605,000
Total	6,899,000	726,000	7,625,000

Set forth below is a breakdown of principal facilities square footage by business segment:

Business Segment	Approximate Square Footage
Coatings	3,746,000
Paints	3,002,000
All Other	877,000
Total	7,625,000

We believe our manufacturing properties are well maintained, in good operating condition and adequate for the purposes for which they are being used. Restructuring initiatives in 2011 included plant closures, which are reflected above. See Note 15 in Notes to Consolidated Financial Statements for more information. Operating capacity varies by product line, but additional production capacity is available for most product lines by increasing the number of days and/or shifts worked.

ITEM 3 LEGAL PROCEEDINGS

Environmental Matters

We are involved in various claims relating to environmental matters at a number of current and former plant sites. We engage or participate in remedial and other environmental compliance activities at certain of these sites. At other sites, we have been named as a potentially responsible party ("PRP") under federal and state environmental laws for site remediation. We analyze each individual site, considering the number of parties involved, the level of our potential liability or contribution relative to the other parties, the nature and magnitude of the hazardous wastes involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. Based on the above analysis, we estimate the clean-up costs and related claims for each site. The estimates are based in part on discussion with other PRPs, governmental agencies and engineering firms.

We accrue appropriate reserves for potential environmental liabilities, which are reviewed and adjusted as additional information becomes available. While uncertainties exist with respect to the amounts and timing of our ultimate environmental liabilities, management believes there is not a reasonable possibility that such liabilities, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

Other Legal Matters

We are involved in a variety of legal claims and proceedings relating to personal injury, product liability, warranties, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These claims and proceedings include cases where we are one of a number of defendants in proceedings alleging that the plaintiffs suffered injuries or contracted diseases from exposure to chemicals or other ingredients used in the production of some of our products or waste disposal. We believe these claims and proceedings are not out of the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, we believe there is not a reasonable possibility that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of all of our executive officers, all of whom are approved by the Board of Directors for re-election in February of each year, and the positions held by them are as listed below. There are no family relationships between any of the officers or between any officer and director.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gary E. Hendrickson	55	Chief Executive Officer since June 2011, President since February 2008 and Director since August 2009
Lori A. Walker	54	Senior Vice President and Chief Financial Officer since February 2008
Rolf Engh	58	Executive Vice President since July 2005, General Counsel and Secretary since April 1993
Anthony L. Blaine	44	Senior Vice President – Human Resources since January 2007

The foregoing executive officers have served in the stated capacity for the registrant during the past five years, except for the following:

Prior to June 2011, Mr. Hendrickson was Chief Operating Officer since February 2008 and Senior Vice President from July 2005 to February 2008.

Prior to February 2008, Ms. Walker was Vice President, Treasurer and Controller since October 2004.

Prior to January 2007, Mr. Blaine was Vice President – Human Resources at MeadWestvaco Corporation since June 2001.

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 under the trading symbol VAL. The table below sets forth the quarterly high and low market prices of the Common Stock for fiscal years 2011 and 2010 as quoted on the New York Stock Exchange.

For the Fiscal Year	Market Price (high/low)	
	2011	2010
First Quarter	\$ 37.60–31.13	\$ 28.79–25.16
Second Quarter	\$ 40.60–36.33	\$ 32.80–25.11
Third Quarter	\$ 39.50–32.45	\$ 33.13–28.93
Fourth Quarter	\$ 36.58–27.44	\$ 32.66–29.07

The quarterly dividend declared December 7, 2011, to be paid on January 13, 2012 to common stockholders of record January 3, 2012, was increased to \$0.20 per share. The table below sets forth the quarterly dividends paid for fiscal years 2011 and 2010.

For the Fiscal Year	Per Share Dividends	
	2011	2010
First Quarter	\$ 0.18	\$ 0.16
Second Quarter	\$ 0.18	\$ 0.16
Third Quarter	\$ 0.18	\$ 0.16
Fourth Quarter	\$ 0.18	\$ 0.16
	\$ 0.72	\$ 0.64

The number of record holders of our Common Stock at December 12, 2011 was 1,430.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ¹	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs ¹
7/30/11 – 8/26/11				
Repurchase program	250,000	\$ 30.17	250,000	8,750,000
Other transactions ²	100	29.87	—	—
8/27/11 – 9/23/11				
Repurchase program	475,000	31.28	475,000	8,275,000
Other transactions ²	—	—	—	—
9/24/11 – 10/28/11				
Repurchase program	25,000	30.49	25,000	8,250,000
Other transactions ²	15,758	34.32	—	—

¹ On October 13, 2010, we received board authorization to repurchase 15,000,000 shares, with no predetermined end date. As of October 28, 2011, we have repurchased 6,750,000 shares under this authorization.

² Our other transactions include our acquisition of common stock in satisfaction of tax-payment obligations upon vesting of restricted stock and our receipt of surrendered shares in connection with the exercise of stock options.

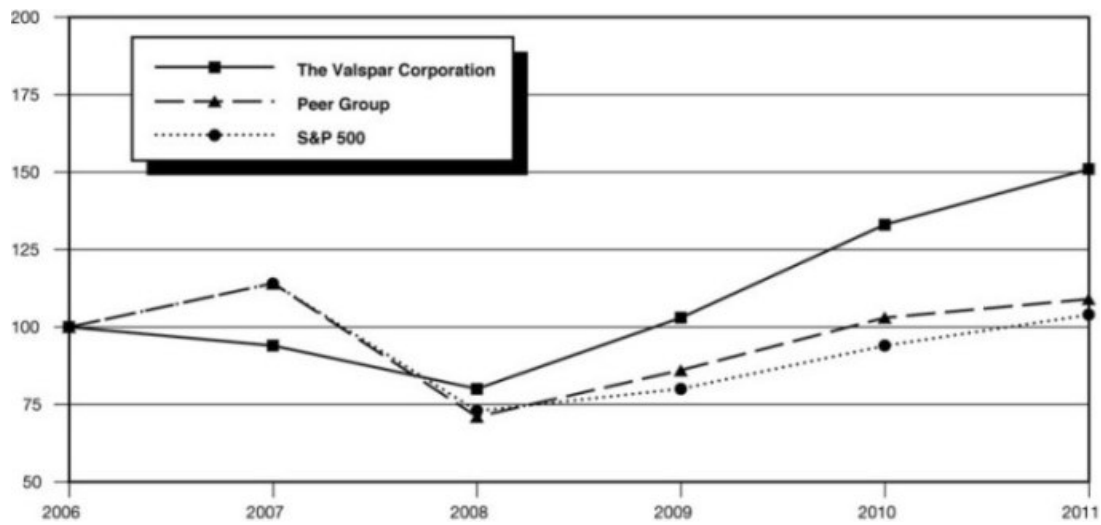
Stock Performance Graphs

The following graphs compare our cumulative total shareholder return for the last five fiscal years and the last ten fiscal years with the cumulative total return of the Standard & Poor's 500 Stock Index and a peer group of companies selected by us on a line-of-business basis. The graphs assume the investment of \$100 in our Common Stock, the S&P 500 Index and the peer group at the end of fiscal 2006 and fiscal 2001, respectively, and the reinvestment of all dividends.

The companies selected to form the peer group index are: Akzo Nobel N.V.; Ferro Corporation; H.B. Fuller Company; Masco Corporation; Newell Rubbermaid Inc.; PPG Industries, Inc.; RPM International Inc. and The Sherwin-Williams Company.

We included the ten-year graph because we believe the ten-year graph provides information regarding performance of our Common Stock over an extended period.

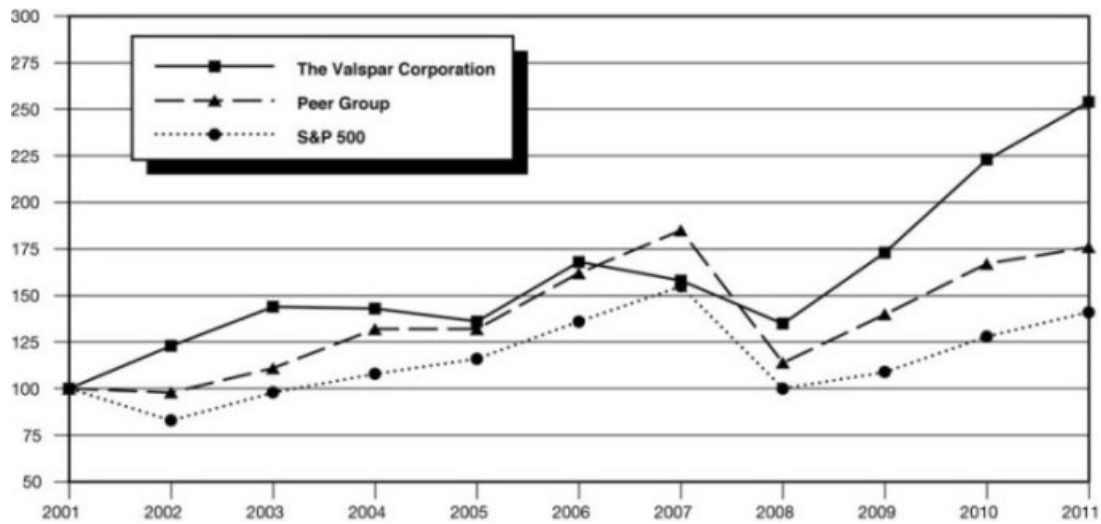
**COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN
Among The Valspar Corporation, a Peer Group and the S&P 500 Index**



(Fiscal Year-End)	Cumulative Total Return					
	2006	2007	2008	2009	2010	2011
Valspar	\$ 100	\$ 94	\$ 80	\$ 103	\$ 133	\$ 151
Peer Group	\$ 100	\$ 114	\$ 71	\$ 86	\$ 103	\$ 109
S&P 500	\$ 100	\$ 114	\$ 73	\$ 80	\$ 94	\$ 104

Assumes \$100 invested on October 27, 2006 in the Common Stock of The Valspar Corporation, the Peer Group and the S&P 500 Index, including reinvestment of dividends.

**COMPARISON OF TEN YEAR CUMULATIVE TOTAL RETURN
Among The Valspar Corporation, a Peer Group and the S&P 500 Index**



(Fiscal Year-End)	Cumulative Total Return										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Valspar	\$ 100	\$ 123	\$ 144	\$ 143	\$ 136	\$ 168	\$ 158	\$ 135	\$ 173	\$ 223	\$ 254
Peer Group	\$ 100	\$ 98	\$ 111	\$ 132	\$ 132	\$ 162	\$ 185	\$ 114	\$ 140	\$ 167	\$ 176
S&P 500	\$ 100	\$ 83	\$ 98	\$ 108	\$ 116	\$ 136	\$ 155	\$ 100	\$ 109	\$ 128	\$ 141

Assumes \$100 invested on October 26, 2001 in the Common Stock of The Valspar Corporation, the Peer Group and the S&P 500 Index, including reinvestment of dividends.

ITEM 6 SELECTED FINANCIAL DATA

The following selected financial data has been derived from our audited Consolidated Financial Statements and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

(Dollars in thousands, except per share amounts)		Fiscal Years				
		2011	2010	2009	2008	2007
Operating Results	Net Sales	\$ 3,952,954	\$ 3,226,687	\$ 2,879,042	\$ 3,482,378	\$ 3,249,287
	Cost and Expenses					
	Cost of Sales	2,721,146	2,155,009	1,900,114	2,504,947	2,277,490
	Operating Expense	862,160	695,601	687,960	684,056	662,224
	Impairment of Goodwill and Intangible Assets	409,714	—	—	—	—
	Income (Loss) from Operations	(40,066)	376,077	290,968	293,375	309,573
	Interest Expense	61,511	58,267	50,394	57,745	61,662
	Other (Income) Expense – Net	1,577	(1,387)	2,246	6,933	(11,860)
	Income (Loss) Before Income Taxes	(103,154)	319,197	238,328	228,697	259,771
	Net Income (Loss)	(138,601)	222,056	160,153	150,766	172,115
	Net Income as a Percent of Sales	N/A	6.9%	5.6%	4.3%	5.3%
	Return on Average Equity	N/A	14.2%	10.8%	10.6%	13.1%
	Per Common Share:					
	Net Income (Loss) – Basic	\$ (1.47)	\$ 2.25	\$ 1.50	\$ 1.39	\$ 1.52
	Net Income (Loss) – Diluted	(1.47)*	2.20*	1.49*	1.38*	1.50*
	Dividends Paid	0.72	0.64	0.60	0.56	0.52
	Stockholders' Equity	12.96	16.63	15.12	14.53	13.72
Financial Position	Total Assets	\$ 3,500,151	\$ 3,867,936	\$ 3,511,024	\$ 3,520,042	\$ 3,452,281
	Working Capital**	538,025	530,435	406,638	435,897	458,141
	Property, Plant and Equipment, Net	548,253	567,630	471,088	489,716	514,396
	Long-Term Debt, Excluding Current Portion	679,805	943,216	873,095	763,129	648,988
	Stockholders' Equity	1,212,550	1,630,365	1,504,507	1,452,868	1,380,797
Other Statistics	Property, Plant and Equipment Expenditures	\$ 66,469	\$ 67,732	\$ 57,897	\$ 43,045	\$ 76,940
	Depreciation and Amortization Expense	97,747	81,312	82,862	80,831	71,811
	Research and Development Expense	115,416	100,236	91,303	96,552	90,322
	Total Cash Dividends	\$ 68,164	\$ 63,279	\$ 60,116	\$ 55,854	\$ 52,670
	Average Diluted Common Shares Outstanding (000's)	94,310	100,866	100,921	100,326	102,617
	Number of Stockholders at Year-End	1,405	1,432	1,449	1,467	1,474
	Number of Employees at Year-End	10,020	10,180	8,788	9,341	9,946
	Market Price Range – Common Stock:					
	High	\$ 40.60	\$ 33.13	\$ 28.60	\$ 26.20	\$ 29.58
	Low	27.44	25.11	14.47	16.02	24.00

Reference is made to the Notes to Consolidated Financial Statements for a summary of accounting policies and additional information.

* Net income (loss) per common share diluted for 2011 includes an impairment charge on goodwill and intangible assets of \$3.75. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 1 and Note 8 in Notes to Consolidated Financial Statements for more information. In 2011, 2010, 2009 and 2008, net income (loss) per common share diluted includes \$0.24, \$0.08, \$0.18 and \$0.16 per share in restructuring charges, respectively. See Note 15 in Notes to Consolidated Financial Statements for more information. In 2011 and 2010, net income (loss) per share diluted includes \$0.09 and \$0.03 in acquisition-related charges, respectively, related to the step-up of inventory to fair value and acquisition fees, respectively. Net income (loss) per common share diluted in 2010, 2008 and 2007 includes gains on sale of certain assets of \$0.08, \$0.09 and \$0.10, respectively. Huarun Redeemable Stock accrual reduced diluted net income (loss) per common share by \$0.10 in 2009, \$0.12 in 2008 and \$0.18 in 2007. The accrual was related to the minority interest shares of Huarun Paints Holding Company Limited as further described in Note 2 in Notes to Consolidated Financial Statements. Adjusted net income per common share diluted, excluding the items mentioned above, was \$2.65 for 2011, which includes a dilutive share impact of \$0.04, \$2.23 for 2010, \$1.77 for 2009, \$1.57 for 2008 and \$1.58 for 2007. See related reconciliation in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Earnings per Share" for more information.

** Working Capital is defined as accounts and notes receivable plus inventory less trade accounts payable.

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

(Dollars in thousands, except per share amounts)

OVERVIEW

The Valspar Corporation is a global leader in the paint and coatings industry. With fiscal year 2011 sales of \$3,952,954 and more than 10,000 employees in over 25 countries, we believe we are the sixth largest paint and coatings company in the world. Our strong consumer brands and leading technologies, together with our technical expertise and customer service, differentiate us from our competition and allow us to grow and create value with customers in a wide variety of geographic and end-use markets.

Our fundamental business objective is to create long-term value for our shareholders. We accomplish this by:

- focusing on helping our customers succeed;
- investing in brands and technologies;
- expanding our global presence;
- maintaining operational discipline, productivity improvement and prudent cost control;
- generating strong cash flow; and
- optimizing our allocation of capital to maintain and grow the business, increase dividends, fund internal growth initiatives and strategic acquisitions, and repurchase shares.

In addition to delivering sound financial results and creating value for our shareholders, we are committed to:

- adhering to our values, ethical business conduct and doing business with integrity;
- improving our safety and environmental performance; and
- building our reputation by supporting the communities where we work and live through volunteer efforts and philanthropy.

The following discussion of financial condition and results of operations should be read in the context of this overview.

General Economic and Industry-Wide Factors

General economic conditions remain challenging. The recovery in the paint and coatings industry has been slow and U.S. volumes are still below 2007 levels. The U.S. housing markets have not recovered to historic levels and are not expected to do so in the foreseeable future. However, certain markets where Valspar has a strong presence, including Asia and Latin America, continued to grow.

In fiscal year 2011, we experienced a significant increase in raw material costs, along with shortages of certain raw materials, reflecting ongoing volatility in the chemical industry. We expect some raw material inflation in fiscal year 2012, but not at the significant levels we experienced in fiscal year 2011.

Despite challenging economic conditions and higher raw material costs, we made solid progress on our long-term growth initiatives by:

- Continuing to invest in our brands and technologies, which enabled us to obtain new business and achieve consistent gains in consumer awareness of the Valspar brand in the U.S. and the Huarun brand in China.
- Continuing to invest in strategic acquisitions that further expand our presence in fast-growing coatings markets and improve the geographic diversity of our portfolio. In February, we acquired Isocoat Tintas e Vernizes Ltda. (Isocoat), a Brazilian-based manufacturer of powder coatings serving appliance, building products, transportation and other general industrial markets. Isocoat provides an immediate platform for growth and further strengthens our presence in Latin America.

- Initiating restructuring actions in our Coatings segment, primarily our Wood coatings product line. These actions reduced our Wood coatings production footprint, lowered our overall cost structure and positioned the product line to be profitable in the current economic environment.
- Progressing with the integration of Watty (an Australian paints acquisition completed in September 2010) and our plan to bring Watty's profitability in-line with the corporate average. These actions include facility consolidation in manufacturing and distribution to lower Watty's supply chain cost structure, closure of underperforming stores and reinvestment in new stores in better locations.
- Returning cash to shareholders by increasing our annual dividend 12.5% to \$0.72 per share in fiscal year 2011, our 33rd consecutive year with a dividend increase, and by repurchasing 6,750,000 shares for \$241,831, which more than offset the exercise of stock options.

Business Performance

Net sales in 2011 increased 22.5% to \$3,952,954 from \$3,226,687 in 2010, primarily due to acquisitions, pricing, new business predominantly in our Coatings segment and favorable foreign currency exchange. Our global presence grew significantly and international sales accounted for approximately 48% of consolidated net sales.

We were successful in implementing pricing, improving productivity and gaining new business despite a challenging economic environment and significant raw material cost increases. Gross profit as a percent of net sales decreased due to the lag between higher raw material costs and the impact of our pricing actions. Our ability to return to historical gross margins will depend on the continued implementation of selling price increases.

We continually evaluate our cost structure in the normal course of our business. During the 2011 fiscal year, we initiated restructuring actions in our Coatings segment, primarily in our wood product line, which will reduce our manufacturing capacity and overall global headcount. The end-markets served by this product line, which are heavily influenced by the U.S. housing market, have been weak for several years and we do not anticipate any significant changes to these market conditions in the near or medium term. In addition, we initiated restructuring actions related to improving the profitability of our Australian acquisition in the Paints segment, Watty. Specific actions include facility consolidations in manufacturing and distribution, store rationalization and other related costs. We expect the above restructuring activities to continue through 2012 and the total costs to be \$0.30 to \$0.35 per share after tax. Restructuring activities during 2011 resulted in pre-tax charges of \$34,439 or \$0.24 per share after tax. See Note 15 in Notes to Consolidated Financial Statements for further information on restructuring.

During the year, we generated \$156,541 in free cash flow (net cash provided by operating activities of \$291,174 less capital expenditures and dividends), an increase of \$21,671 from the prior year due to improved operating results. Our total debt of \$1,057,124, including notes payable, increased by \$105,820 due to share repurchases and the acquisition of Isocoat (see Note 2 in Notes to Consolidated Financial Statements for more information), partially offset by operating cash flow and option exercise proceeds. Our liquidity position is strong, with \$178,167 in cash and cash equivalents and \$423,635 in unused committed bank credit facilities providing total committed liquidity of \$601,802 at year-end, compared to \$688,642 at the end of 2010.

Impairment Charge

In the fourth quarter of 2011, we completed our annual goodwill and indefinite-lived intangible asset impairment reviews. As a result, we recorded a pre-tax impairment loss of \$409,714 in the fourth quarter of 2011. This represents impairment of goodwill and indefinite-lived intangible assets in our wood coatings reporting unit, part of our Coatings segment, and in our gelcoat reporting unit, part of All Other. The impairment charge resulted from changes in the structure of our reporting units used to conduct our impairment testing, as well as changes in our forecasts for the respective reporting units in light of economic conditions prevailing in the markets for these product lines.

In performing the impairment analysis, we reconsidered the appropriate reporting units as a result of: (i) the long-term financial outlook determined as part of our strategic planning process which occurs in the fourth quarter; (ii) the current volatility in the markets in which we compete; and (iii) a change in our Chief Operating Decision Maker (CODM). The expected trends for the U.S. housing market are a key input for our internal forecast, which serves as the basis for our strategic plan process. While in previous years we had expected the U.S. housing market to return to more normal levels during our planning horizon, in fiscal year 2011 we concluded that this will not occur. As a result, the long-term financial outlook for the wood and gelcoat product lines diverged from that of our other product lines and no longer met the criteria for aggregation within our historical reporting units. The resulting impairment charge also reflects our view of anticipated risks based on our expectations of market and general economic conditions.

[Table of Contents](#)

As a result of our conclusions, the impairment charges in the fourth quarter of 2011 were as follows:

	Goodwill	Intangible Assets	Total
Wood reporting unit ¹	\$ 292,942	\$ 75,120	\$ 368,062
Gelcoat reporting unit ²	21,633	20,019	41,652
Total Impairment	\$ 314,575	\$ 95,139	\$ 409,714

¹ Wood intangible asset write-downs were as follows: (i) technology of \$31,005; (ii) customer lists of \$23,260 and (iii) trademarks of \$20,855.

² Gelcoat intangible asset write-downs were as follows: (i) customer lists of \$10,496; (ii) technology of \$5,579 and (iii) trademarks of \$3,944.

No impairment to the carrying values of the other reporting units was identified. See Note 1 and Note 8 in Notes to Consolidated Financial Statements for further information on our 2011 impairment testing.

Earnings Per Share

Net income (loss) per common share – diluted was (\$1.47) for 2011 and \$2.20 for 2010. The table below presents adjusted net income per common share – diluted, which excludes in the respective periods (i) the non-cash impairment charge on goodwill and intangible assets, (ii) restructuring charges, (iii) acquisition-related charges and (iv) a net gain on the sale of certain assets included in net income.

	2011	2010
Net income (loss) per common share – diluted	\$ (1.47)	\$ 2.20
Impact of dilutive shares ¹	0.04	—
Non-cash impairment charge on goodwill and intangible assets	3.75	—
Restructuring charges	0.24	0.08
Acquisition-related charges	0.09	0.03
Net gain on sale of certain assets	—	(0.08)
Adjusted net income per common share – diluted	\$ 2.65	\$ 2.23

¹ In the non-GAAP reconciliation of adjusted net income per common share, we used 97,054,164 diluted shares for the 2011 period to reflect positive net income on an adjusted basis and the related share dilution.

“Adjusted net income per common share – diluted” is a non-GAAP financial measure. We disclose this measure because we believe the measure may assist investors in comparing our results of operations in the respective periods without regard to the impact of the non-cash impairment charge on goodwill and intangible assets, restructuring charges, acquisition-related charges and a net gain on sale of certain assets. The acquisition-related charges are primarily related to the step-up of inventory to fair value. This non-GAAP measure is provided to enhance investors’ overall understanding of our current financial performance and prospects for the future. Specifically, we believe the non-GAAP measure provides useful information to both management and investors by excluding certain expenses, gains and losses on purchases or sales of assets and non-cash charges, which may not be indicative of our core operating results and business outlook. In addition, because we have historically reported certain non-GAAP results to investors, we believe the inclusion of this non-GAAP measure provides consistency in our presentation of financial information. See Note 8 and Note 15 in Notes to Consolidated Financial Statements for further information on goodwill and intangible assets and restructuring, respectively.

OPERATIONS 2011 VS. 2010

Net Sales	2011	2010	% Change
Coatings	\$ 2,092,490	\$ 1,814,804	15.3%
Paints	1,612,219	1,176,831	37.0%
All Other	248,245	235,052	5.6%
Consolidated Net Sales	\$ 3,952,954	\$ 3,226,687	22.5%

- **Consolidated Net Sales** – Adjusting for the positive impact of 12.4% from acquisitions and 2.5% from foreign currency, sales for 2011 increased 7.6%. The increase in sales was primarily due to selling price increases and new business predominantly in our Coatings segment.
- **Coatings Segment Net Sales** – Adjusting for the positive impact of 3.3% from foreign currency and 1.4% from acquisitions, sales for 2011 increased 10.6%. The increase in sales was primarily due to selling price increases and new business in all of our product lines.

[Table of Contents](#)

- **Paints Segment Net Sales** – Adjusting for the positive impact of 31.9% from acquisitions and 1.4% from foreign currency, sales for 2011 increased 3.7%. The increase in sales was primarily due to selling price increases and growth in our China consumer business, partially offset by the loss of a large U.S. retailer.
- **All Other Net Sales** – The All Other category includes the following product lines: resins, furniture protection plans, colorants and gelcoats. Adjusting for the positive impact of 1.1% from foreign currency, sales for the 2011 period increased 4.5%. The higher sales were primarily due to increased selling prices, partially offset by lower volume.

Gross Profit	2011		2010	
Consolidated Gross Profit	\$	1,231,808	\$	1,071,678
As a percent of Net Sales		31.2%		33.2%

- **Gross Profit** – Gross profit as a percent of net sales decreased due to the lag between higher raw material costs and selling price increases, as well as higher restructuring charges and acquisition-related charges. Restructuring charges of \$25,563 or 0.6% of net sales and \$12,520 or 0.4% of net sales were included in the 2011 and 2010 periods, respectively. Acquisition-related charges of \$11,416 or 0.3% of net sales related to the step-up of inventory to fair value were included in the 2011 period. There were no acquisition-related charges included in gross profit in the 2010 period.

Operating Expenses*	2011		2010	
Consolidated Operating Expenses	\$	862,160	\$	695,601
As a percent of Net Sales		21.8%		21.6%

* Includes research and development and selling, general and administrative costs. For breakout see Consolidated Statements of Operations.

- **Consolidated Operating Expenses (dollars)** – Consolidated operating expenses increased 23.9% or \$166,559 compared to the prior year. The increase was driven primarily by the addition of Wattyl and Isocoat operating expenses, an unfavorable effect of foreign currency exchange, a net gain on the sale of certain assets of \$11,497 recognized in 2010, higher restructuring charges, and acquisition-related charges of \$1,859, which more than offset lower incentive compensation. Restructuring charges of \$8,876 or 0.2% of net sales were included in 2011.
- **Consolidated Operating Expenses (percent of net sales)** – Operating expenses as a percent of consolidated net sales increased 0.2 percentage points compared to last year. The increase in expense dollars was largely offset by leverage on improved sales.

EBIT*	2011		2010	
Coatings	\$	(112,209)	\$	256,466
As a percent of Net Sales		-5.4%		14.1%
Paints		134,886		151,432
As a percent of Net Sales		8.4%		12.9%
All Other		(64,320)		(30,434)
As a percent of Net Sales		-25.9%		-12.9%
Consolidated EBIT	\$	(41,643)	\$	377,464
As a percent of Net Sales		-1.1%		11.7%

*We evaluate the performance of operating segments and allocate resources based on profit or loss from operations before interest expense and taxes (EBIT).

- **Consolidated EBIT** – EBIT for 2011 decreased \$419,107 from the prior year. Fiscal year 2011 includes the impairment charge on goodwill and intangible assets of \$409,714 or 10.4% of net sales, restructuring charges of \$34,439 or 0.9% of net sales and acquisition-related charges of \$13,275 or 0.3% net sales. Fiscal year 2010 includes restructuring charges of \$12,383 or 0.4% of net sales, acquisition-related charges of \$3,173 or 0.1% of net sales and a net gain on sale of certain assets of \$11,497 or 0.4% of net sales. Foreign currency exchange fluctuation had an immaterial effect on Consolidated EBIT, as well as EBIT of the segments discussed below.
- **Coatings Segment EBIT** – EBIT as a percent of net sales decreased primarily due to the impairment charge on goodwill and intangible assets of \$368,062 or 17.6% of net sales, the lag between higher raw material costs and selling price increases, restructuring charges, a net gain on the sale of certain assets recognized in 2010 of \$11,497 or 0.5% of net sales and acquisition-related charges of \$1,859 or 0.1% of net sales in 2011. The decline was partially offset by new business and operating leverage on higher net sales. The restructuring charges for 2011 and 2010 periods were \$20,940 or 1.0% of net sales and \$10,563 or 0.6% of net sales, respectively.

[Table of Contents](#)

- **Paints Segment EBIT** – EBIT as a percent of net sales decreased primarily due to the lag between higher raw material costs and selling price increases, as well as restructuring charges and acquisition-related charges. The restructuring charges for 2011 and 2010 periods were \$13,013 or 0.8% of net sales and \$1,595 or 0.1% of net sales, respectively. EBIT included acquisition-related charges of \$11,416 or 0.7% of net sales and \$3,173 or 0.3% of net sales in the 2011 and 2010 periods, respectively.
- **All Other EBIT** – All Other EBIT includes corporate expenses. EBIT as a percent of net sales declined compared to the prior year due to the impairment charge on goodwill and intangibles assets of \$41,652 or 16.8% of net sales, partially offset by lower incentive compensation expense. EBIT included restructuring charges of \$486 or 0.2% of net sales in 2011 and \$225 in 2010.

Interest Expense	2011		2010	
Consolidated Interest Expense	\$	61,511	\$	58,267

- **Interest Expense** – The 2011 increase is primarily due to higher average debt levels offset by lower average interest rates.

Effective Tax Rate	2011		2010	
Effective Tax Rate		34.4%		30.4%

- **Effective Tax Rate** – The tax rate for fiscal 2011 reflects the impact of goodwill and intangible asset impairment charges, the majority of which are nondeductible for tax purposes. Excluding the impact of the impairment charges, our fiscal 2011 effective tax rate was 26.7%. The lower tax rate includes a discrete benefit from favorable tax rulings and statute lapses.

Net Income (Loss)	2011		2010		% Change
Consolidated Net Income (Loss)	\$	(138,601)	\$	222,056	-162.4%

OPERATIONS 2010 VS. 2009

Net Sales	2010		2009		% Change
Coatings	\$	1,814,804	\$	1,582,786	14.7%
Paints		1,176,831		1,072,372	9.7%
All Other		235,052		223,884	5.0%
Consolidated Net Sales	\$	3,226,687	\$	2,879,042	12.1%

- **Consolidated Net Sales** – Excluding a 1.9% positive effect from foreign currency and 0.3% from acquisitions, sales for 2010 increased 9.9%. The increase in sales was primarily due to new business, improved market conditions, particularly outside the U.S., and customer price increases.
- **Coatings Segment Net Sales** – Excluding a 3.0% positive effect from foreign currency, sales for 2010 increased 11.7%. The increase in sales was primarily due to new business in all of our product lines, improved market conditions in most regions and customer price increases. Both international and U.S. net sales increased.
- **Paints Segment Net Sales** – Excluding a 0.4% positive effect from foreign currency and 0.9% from acquisitions, sales for 2010 increased 8.4%. The increase in sales was primarily due to growth in our global consumer paints and automotive refinish product lines. Our global consumer paints product line benefited from improved market conditions, particularly in Asia, new business and customer price increases, primarily in the U.S. Our global automotive refinish product line benefited from improved volumes, including new business. Continued investment in our global brands has contributed to the 2010 sales improvement.
- **All Other Net Sales** – The All Other category includes resins, colorants, gelcoats and furniture protection plan product lines. Excluding a 1.0% positive effect from foreign currency, sales for the 2010 period increased 4.0%. The higher sales were primarily due to increased customer pricing and new business in all of our product lines.

Gross Profit	2010		2009	
Consolidated Gross Profit	\$	1,071,678	\$	978,928
As a percent of Net Sales		33.2%		34.0%

- **Consolidated Gross Profit** – Gross profit as a percent of net sales decreased due to higher raw material cost comparisons partially offset by increased customer pricing, manufacturing efficiencies resulting from increased volumes and previously completed restructuring actions and lower 2010 restructuring charges. Restructuring charges of \$12,520 or 0.4% of net sales and \$22,280 or 0.8% of net sales were included in the 2010 and 2009 periods, respectively.

Operating Expenses*	2010		2009	
Consolidated Operating Expenses	\$	695,601	\$	687,960
As a percent of Net Sales		21.6%		23.9%

*Includes research and development and selling and administrative costs. For breakout see Consolidated Statements of Operations.

- **Consolidated Operating Expenses (dollars)** – Consolidated operating expenses increased 1.1% or \$7,641 compared to the prior year. The increase was driven primarily by higher incentive compensation, the unfavorable effect of foreign currency exchange, Wattyl operating expenses and Wattyl acquisition fees of \$3,173, partially offset by a net gain on the sale of certain assets of \$11,497, lower 2010 restructuring charges and lower bad debt expense. Restructuring charges included a credit of \$137 in 2010. Restructuring charges of \$6,277 or 0.2% of net sales were included in 2009.
- **Consolidated Operating Expenses (percent of net sales)** – Operating expenses as a percent of consolidated net sales declined 2.3 percentage points compared to last year. The improvement was primarily due to leverage from higher sales.

EBIT*	2010		2009	
Coatings	\$	256,466	\$	185,528
As a percent of Net Sales		14.1%		11.7%
Paints		151,432		135,561
As a percent of Net Sales		12.9%		12.6%
All Other		(30,434)		(32,367)
As a percent of Net Sales		-12.9%		-14.5%
Consolidated EBIT	\$	377,464	\$	288,722
As a percent of Net Sales		11.7%		10.0%

*We evaluate the performance of operating segments and allocate resources based on profit or loss from operations before interest expense and taxes (EBIT).

- **Consolidated EBIT** – EBIT for 2010 increased \$88,742 or 30.7% from the prior year. Fiscal year 2010 includes a net gain on the sale of certain assets of \$11,497, or 0.4% of net sales and Wattyl acquisition fees of \$3,173 or 0.1% net sales. Foreign currency exchange fluctuation had an immaterial effect on Consolidated EBIT, as well as EBIT of the segments discussed below. Consolidated EBIT included restructuring charges of \$12,383 or 0.4% of net sales and \$28,557 or 1.0% of net sales in the 2010 and 2009 periods, respectively.
- **Coatings Segment EBIT** – EBIT as a percent of net sales increased primarily due to improved net sales and a net gain on the sale of certain assets of 0.6% of net sales, partially offset by higher raw material costs and increased incentive compensation. EBIT included restructuring charges of \$10,563 or 0.6% of net sales and \$18,237 or 1.2% of net sales in the 2010 and 2009 periods, respectively.
- **Paints Segment EBIT** – EBIT as a percent of net sales improved primarily due to increased net sales, partially offset by higher raw material costs. EBIT included restructuring charges of \$1,595 or 0.1% of net sales and \$4,429 or 0.4% of net sales in the 2010 and 2009 periods, respectively and Wattyl acquisition fees of \$3,173 or 0.3% net sales.
- **All Other EBIT** – All Other EBIT includes corporate expenses. EBIT as a percent of net sales improved compared to the prior year due to increased net sales and lower 2010 restructuring charges, partially offset by higher incentive compensation. EBIT included restructuring charges of \$225 in 2010 and \$5,891 or 2.6% of net sales in 2009.

Interest Expense	2010		2009	
Consolidated Interest Expense	\$	58,267	\$	50,394

- **Interest Expense** – The 2010 increase is primarily due to higher average interest rates resulting from our bond issuance in June of 2009 partially offset by lower average debt levels in 2010.

Effective Tax Rate	2010		2009	
Effective Tax Rate		30.4%		32.8%

- **Effective Tax Rate** – The decrease in the 2010 effective tax rate primarily reflects the settlement of certain state and foreign income tax audits.

Net Income	2010		2009		% Change
Consolidated Net Income	\$	222,056	\$	160,153	38.7%

FINANCIAL CONDITION

The Company's financial condition, cash flow and liquidity remained strong in 2011. Cash flow from operations was \$291,174 in 2011, compared to \$265,881 in 2010 and \$337,695 in 2009. The improvement in cash flow in 2011 was primarily driven by higher earnings excluding the impact of the non-cash goodwill and intangible asset impairment charges along with efficient working capital management. A key metric we use to measure the effectiveness of our working capital management is working capital as a percentage of annual net sales:

	October 28, 2011	% of Net Sales	October 29, 2010	% of Net Sales
Accounts receivable	\$ 664,855	16.8%	\$ 628,589	19.5%
Inventory	336,750	8.5%	349,149	10.8%
Accounts payable	(463,580)	-11.7%	(447,303)	-13.9%
Net Working Capital	\$ 538,025	13.6%	\$ 530,435	16.4%

Our net working capital as a percentage of net sales decreased to 13.6% from 16.4%. This improvement was driven by our effective working capital management and a full year of Watty sales (our Australian paints acquisition - see Note 2 in Notes to Consolidated Financial Statements for further information).

During the 2011 period, we used the strong cash flow from operations and \$100,547 in net proceeds from bank borrowings to fund \$241,831 in share repurchases, \$66,469 in capital expenditures, and \$30,579 in acquisitions. We used cash on hand and \$41,087 in proceeds from the sale of treasury stock to fund \$68,164 in dividend payments.

See Note 5 in Notes to Consolidated Financial Statements for further discussion on our restricted cash primarily associated with cash collateralization of our liability insurance programs.

The ratio of total debt to capital was 46.6% at October 28, 2011, compared to 36.8% at October 29, 2010. Average debt outstanding during 2011 was \$1,146,699 at a weighted average interest rate of 5.36% versus \$911,067 at 6.40% last year. Interest expense for 2011 was \$61,511 compared to \$58,267 in 2010.

Under various agreements, we are obligated to make future cash payments in fixed amounts. These include payments under our multi-currency credit facilities, senior notes, industrial development bonds, employee benefit plans, non-cancelable operating leases with initial or remaining terms in excess of one year, capital expenditures, commodity purchase commitments and telecommunication commitments. Some of our interest charges are variable and are assumed at current rates.

The following table summarizes our fixed cash obligations as of October 28, 2011 for the fiscal years ending in October:

	2012	2013	2014	2015	2016	2017 and thereafter	Total
Notes & Interest to Banks	\$ 182,232	\$ 71,299	\$ 78	\$ 138	\$ —	\$ —	\$ 253,747
Senior Notes & Interest	244,100	38,475	38,475	186,563	30,825	511,631	1,050,069
Industrial Development Bonds & Interest	35	35	35	12,524	—	—	12,629
Medical Retiree/SERP/Pension	11,211	1,783	1,827	1,876	1,663	17,867	36,227
Operating Leases	33,546	23,957	17,356	11,004	8,955	33,686	128,504
Capital Expenditures	4,521	—	—	—	—	—	4,521
Commodity Purchase Commitments	424	—	—	—	—	—	424
Telecommunication Commitments	3,163	1,921	813	407	—	—	6,304
Total Contractual Cash Obligations	\$ 479,232	\$ 137,470	\$ 58,584	\$ 212,512	\$ 41,443	\$ 563,184	\$ 1,492,425

We expect to make cash outlays in the future related to uncertain tax positions. However, due to the uncertainty of the timing of future cash flows, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, gross unrecognized tax benefits of \$12,948 as of October 28, 2011, have been excluded from the contractual obligations table above. For further information related to unrecognized tax benefits see Note 10 in Notes to Consolidated Financial Statements.

[Table of Contents](#)

We maintain an unsecured committed revolving credit facility with a syndicate of banks. During the first quarter of 2011, the bank syndicate facility was expanded by \$75,000 to a total facility size of \$550,000 and the maturity date was extended from June 30, 2012 to December 31, 2014. As of October 28, 2011 and October 29, 2010, our bank credit facilities consist of the following:

	October 28, 2011	
	Total Outstanding	Facility Size
December 2014 bank syndicate facility ¹	\$ 153,955	\$ 550,000
June 2012 bilateral facility	7,803	14,631
September 2013 bilateral facility	67,024	87,786
Total unsecured committed revolving credit	\$ 228,782	\$ 652,417
Uncommitted bank lines of credit	\$ 15,840	\$ 165,568
Total Bank Credit Facilities	\$ 244,622	\$ 817,985

	October 29, 2010	
	Total Outstanding	Facility Size
December 2014 bank syndicate facility ¹	\$ 50,000	\$ 475,000
June 2012 bilateral facility	7,751	14,534
September 2013 bilateral facility	72,963	87,201
Total unsecured committed revolving credit	\$ 130,714	\$ 576,735
Uncommitted bank lines of credit	\$ 8,088	\$ 125,486
Total Bank Credit Facilities	\$ 138,802	\$ 702,221

¹ Our bank syndicate facility includes \$153,955 and \$0 of commercial paper as of October 28, 2011 and October 29, 2010, respectively. We have a \$350,000 commercial paper program backstopped by our \$550,000 credit facility.

Our credit facilities have covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of October 28, 2011. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

To ensure availability of funds, we maintain uncommitted bank lines of credit sufficient to cover outstanding short-term borrowings. These arrangements are reviewed periodically for renewal and modification.

At October 28, 2011, we had unused lines of committed and uncommitted credit available from banks of \$573,363.

We believe cash flow from operations, existing lines of credit, access to credit facilities and access to debt and capital markets will be sufficient to meet our current liquidity needs. In the current market conditions, we have demonstrated continued access to capital markets. We have committed liquidity and cash reserves in excess of our anticipated funding requirements.

Our cash and cash equivalent balances consist of high quality, short-term money market instruments and cash held by our international subsidiaries that are used to fund those subsidiaries' day-to-day operating needs. Those balances have also been used to finance acquisitions. Our investment policy on excess cash is to preserve principal.

We use derivative instruments with a number of counterparties principally to manage well-defined interest rate and foreign currency exchange risks. We evaluate the financial stability of each counterparty and spread the risk among several financial institutions to limit our exposure. We will continue to monitor counterparty risk on an ongoing basis. We do not have any credit-risk related contingent features in our derivative contracts as of October 28, 2011.

We paid common stock dividends of \$68,164 or \$0.72 per share in 2011, an increase of 12.5% per share over 2010 common stock dividends of \$63,279 or \$0.64 per share.

We have continuing authorization to purchase shares of our common stock at management's discretion for general corporate purposes. We repurchased 6,750,000 shares totaling \$241,831 in 2011 compared to 4,000,000 shares totaling \$118,671 in 2010 and 2,000,000 shares totaling \$54,387 in 2009. At October 28, 2011 we had 8,250,000 shares remaining under our current authorization.

We are involved in various claims relating to environmental and waste disposal matters at a number of current and former plant sites. We engage or participate in remedial and other environmental compliance activities at certain of these sites. At other sites, we have been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous waste. We analyze each individual site, considering the number of parties involved, the level of potential liability or contribution by us relative to the other parties, the nature and magnitude of the wastes involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site, and the time period over which any costs would likely be incurred. Based on the above analysis, we estimate the remediation or other clean-up costs and related claims for each site. The estimates are based in part on discussions with other PRPs, governmental agencies and engineering firms.

We accrue appropriate reserves for potential environmental liabilities, which are continually reviewed and adjusted as additional information becomes available. While uncertainties exist with respect to the amounts and timing of our ultimate environmental liabilities, we believe there is not a reasonable possibility that such liabilities, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

We are involved in a variety of legal claims and proceedings relating to personal injury, product liability, warranties, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These claims and proceedings include cases where we are one of a number of defendants in proceedings alleging that the plaintiffs suffered injuries or contracted diseases from exposure to chemicals or other ingredients used in the production of some of our products or waste disposal. We believe these claims and proceedings are not out of the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, we believe there is not a reasonable possibility that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities at the date of the financial statements. We regularly review our estimates and assumptions, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements and that the judgments and estimates are reasonable:

Revenue Recognition

Other than extended furniture protection plans, revenue from sales is recognized at the time of product delivery, passage of title, a sales agreement is in place, pricing is fixed or determinable and collection is reasonably assured. Discounts provided to customers at the point of sale are recognized as a reduction in revenue as the products are sold. We sell extended furniture protection plans for which revenue is deferred and recognized over the life of the contract. An actuarial study utilizing historical claims data is used to forecast claim payments over the contract period, and revenue is recognized based on the forecasted claims payments. Actual claims costs are reflected in earnings in the period incurred. Anticipated losses on programs in progress are charged to earnings when identified.

Supplier and Customer Rebates

In accordance with underlying agreements, as they are earned, we estimate and record supplier and customer rebates as a reduction of cost of goods sold or a reduction to revenue, respectively. The customer rebate estimate is developed based on historical experience plus current activity for the customer's purchases. Customer rebates that increase based on different levels of sales volume are recognized immediately when the current activity plus expected volume triggers a higher earned rebate. The supplier rebate estimate is developed based on contractual terms of our current purchasing activity. Supplier rebates that increase based on different levels of purchases are recognized when there is certainty that the current level of purchases will trigger a higher rebate earned.

Valuation of Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Other intangible assets consist of customer lists and relationships, purchased technology and patents and trademarks.

Goodwill for our reporting units is reviewed for impairment at least annually using a two-step process. In the first step, we compare the fair value of each reporting unit to its carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss. In step 2, we would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss, in the period identified, equal to the difference.

[Table of Contents](#)

We review indefinite-lived intangible assets at least annually for impairment by calculating the fair value of the assets and comparing those fair values to the carrying value. In assessing fair value, we generally utilize a relief from royalty method. If the carrying value of the indefinite-lived intangible assets exceeds the fair value of the asset, the carrying value is written down to fair value in the period identified.

In the fourth quarter of 2011, we completed our annual goodwill and indefinite-lived intangible asset impairment reviews. During the goodwill review, the carrying value for the wood and gelcoat reporting units exceeded the fair value, requiring a step 2 valuation using an income approach (Level 3 measurement in the fair value hierarchy). As a result, we recorded a pre-tax impairment loss of \$409,714 in the fourth quarter of 2011. This represents impairment of goodwill and indefinite-lived intangible assets in our wood coatings reporting unit, part of our Coatings segment, and in our gelcoat reporting unit, part of All Other. No impairment to the carrying values of the other reporting units was identified.

In performing the impairment analysis, we reconsidered the appropriate reporting units as a result of: (i) the long-term financial outlook determined as part of our strategic planning process which occurs in the fourth quarter; (ii) the current volatility in the markets in which we compete; and (iii) a change in our Chief Operating Decision Maker (CODM). The expected trends for the U.S. housing market are a key input for our internal forecast, which serves as the basis for our strategic plan process. While in previous years we had expected the U.S. housing market to return to more normal levels during our planning horizon, in fiscal year 2011 we concluded that this will not occur. As a result, the long-term financial outlook for the wood and gelcoat product lines diverged from that of our other product lines and no longer met the criteria for aggregation within our historical reporting units. The resulting impairment charge also reflects our view of anticipated risks based on our expectations of market and general economic conditions.

During the fourth quarter of 2010, we completed our annual goodwill and intangible asset impairment reviews with no impairments to the carrying values identified.

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as long-term sales growth rates, forecasted operating margins, market multiples and our cost of capital or discount rate, are based on the best available market information and are consistent with our internal forecasts and operating plans. Additionally, in assessing goodwill impairment we considered the implied control premium and concluded it was reasonable based on other recent market transactions. Changes in these estimates or a continued decline in general economic conditions could change our conclusion regarding an impairment of goodwill and potentially result in a non-cash impairment loss in a future period.

The discount rate, long-term growth rate, forecasted operating margins and market multiple assumptions are the four material assumptions utilized in our calculations of the present value cash flows and the business enterprise fair value used to estimate the fair value of the reporting units when performing the annual goodwill impairment test and in testing indefinite-lived intangible assets for impairment. We utilize a cash flow approach (Level 3 valuation technique) in estimating the fair value of the reporting units for the income approach, where the discount rate reflects a weighted average cost of capital rate. The cash flow model used to derive fair value is most sensitive to the discount rate, sales growth and forecasted operating margin assumptions used. For the market approach, average revenue and earnings before interest, tax, depreciation and amortization multiples for our peer group are weighted to determine the reporting unit's business enterprise fair value. The resulting values from the two approaches are weighted to derive the final fair value of the reporting units that will be compared with the reporting units carrying value when assessing impairment in step 1.

For reporting units that do not fail step 1, we perform a sensitivity analysis on the discount rate, long-term growth rate and forecasted operating margin assumptions. The discount rate could increase by more than 10% of the discount rate utilized, the long-term growth rate assumption could decline to a zero growth environment, or costs could remain at the current spending level with no cost savings realized in future periods and our reporting units and indefinite-lived intangible assets would continue to have fair value in excess of carrying value. Other than the wood and gelcoat reporting units mentioned above, we have no other reporting units that are at risk of failing step 1 of our goodwill or indefinite-lived intangible asset impairment tests. There have been no significant events since the timing of our impairment tests that would have triggered additional impairment testing.

The assumptions used in our impairment testing could be adversely affected by certain of the risks discussed in "Risk Factors" in Item 1A of this report. For additional information about goodwill, see Note 1 and 8 in Notes to Consolidated Financial Statements.

Pension and Post-Retirement Medical Obligations

We sponsor several defined benefit plans for certain hourly and salaried employees. We sponsor post-retirement medical benefits for certain U.S. employees. We account for our defined benefit pension plans and post-retirement medical plans in accordance with GAAP, which requires the amount recognized in financial statements to be determined on an actuarial basis. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical trend rates and discount rates. A change in these assumptions could cause actual results to differ from those reported. A reduction of 50 basis points in the long-term rate of return and a reduction of 50 basis points in the discount rate would have increased our pension expense \$2,802 in 2011. A 1% increase in the medical trend rates would not have a material effect on post-retirement medical expense or the post-retirement benefit obligation. See Note 13 in Notes to Consolidated Financial Statements, for further details regarding accounting for pensions and post-retirement medical benefits.

Income Taxes

At each period end, it is necessary for us to make certain estimates and assumptions to compute the provision for income taxes including, but not limited to the expected operating income (or loss) for the year, projections of the proportion of income (or loss) earned and taxed in the foreign jurisdictions and the extent to which this income (or loss) may also be taxed in the United States, permanent and temporary differences, the likelihood of deferred tax assets being recovered and the outcome of uncertain tax positions. Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. We record an accrual for more likely than not exposures after evaluating the positions associated with our various income tax filings. A number of years may elapse before a particular matter for which we have established an accrual is audited and fully resolved or clarified. We adjust our tax contingencies accrual and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from our established accrual, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. The IRS has notified us that our fiscal 2010 U.S. federal tax return will be audited. We are currently under audit in several state and foreign jurisdictions. We also expect various statutes of limitation to expire during the next 12 months. Due to the uncertain response of taxing authorities, a range of outcomes cannot be reasonably estimated at this time.

FORWARD-LOOKING STATEMENTS

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements.

Forward-looking statements are based on management's current expectations, estimates, assumptions and beliefs about future events, conditions and financial performance. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside our control and could cause actual results to differ materially from such statements. Any statement that is not historical in nature is a forward-looking statement. We may identify forward-looking statements with words and phrases such as "expects," "projects," "estimates," "anticipates," "believes," "could," "may," "will," "plans to," "intend," "should" and similar expressions.

These risks, uncertainties and other factors include, but are not limited to, deterioration in general economic conditions, both domestic and international, that may adversely affect our business; fluctuations in availability and prices of raw materials, including raw material shortages and other supply chain disruptions, and the inability to pass along or delays in passing along raw material cost increases to our customers; dependence of internal sales and earnings growth on business cycles affecting our customers and growth in the domestic and international coatings industry; market share loss to, and pricing or margin pressure from, larger competitors with greater financial resources; significant indebtedness that restricts the use of cash flow from operations for acquisitions and other investments; dependence on acquisitions for growth, and risks related to future acquisitions, including adverse changes in the results of acquired businesses, the assumption of unforeseen liabilities and disruptions resulting from the integration of acquisitions; risks and uncertainties associated with operations and achievement of profitable growth in developing markets, including Asia and Central and South America; loss of business with key customers; damage to our reputation and business resulting from product claims or recalls, litigation, customer perception and other matters; our ability to respond to technology changes and to protect our technology; changes in governmental regulation, including more stringent environmental, health and safety regulations; our reliance on the efforts of vendors, government agencies, utilities and other third parties to achieve adequate compliance and avoid disruption of our business; unusual weather conditions adversely affecting sales; changes in accounting policies and standards and taxation requirements such as new tax laws or revised tax law interpretations; the nature, cost and outcome of pending and future litigation and other legal proceedings; and civil unrest and the outbreak of war and other significant national and international events.

We undertake no obligation to subsequently revise any forward-looking statement to reflect new information, events or circumstances after the date of such statement, except as required by law.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our foreign sales and results of operations are subject to the impact of foreign currency fluctuations. As most of our underlying costs are denominated in the same currency as our sales, the effect has not been material. We have not hedged our exposure to translation gains and losses; however, we have reduced our exposure by borrowing funds in local currencies. A 10% adverse change in foreign currency rates is not expected to have a material effect on our results of operations or financial position.

We are also subject to interest rate risk. At October 28, 2011, approximately 24.3% of our total debt consisted of floating rate debt. From time to time, we may enter into interest rate derivatives to hedge a portion of either our variable or fixed rate debt. Assuming the current level of borrowings, a 10% increase in interest rates from those in effect at the end of the fourth quarter would not have a material impact on our results of operations or financial position.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Stockholders
The Valspar Corporation

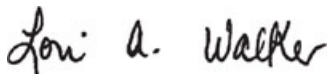
The Valspar Corporation's (the "Company") management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, the Company's management assessed the design and operating effectiveness of internal control over financial reporting as of October 28, 2011 based on the framework set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of October 28, 2011. Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting as of October 28, 2011. That report is included herein.



Gary E. Hendrickson
President and Chief Executive Officer



Lori A. Walker
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders
The Valspar Corporation

We have audited The Valspar Corporation and subsidiaries' (the Corporation) internal control over financial reporting as of October 28, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Valspar Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

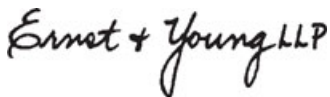
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A corporation's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and directors of the corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Valspar Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 28, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of October 28, 2011, and October 29, 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended October 28, 2011, of The Valspar Corporation and subsidiaries, and our report dated December 21, 2011, expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Minneapolis, Minnesota
December 21, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

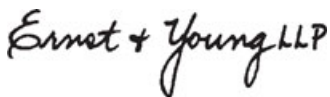
The Board of Directors and Stockholders
The Valspar Corporation

We have audited the accompanying consolidated balance sheets of The Valspar Corporation and subsidiaries (the Corporation) as of October 28, 2011, and October 29, 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended October 28, 2011. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Valspar Corporation and subsidiaries at October 28, 2011, and October 29, 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 28, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Valspar Corporation's internal control over financial reporting as of October 28, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 21, 2011, expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Minneapolis, Minnesota
December 21, 2011

Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	October 28, 2011	October 29, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 178,167	\$ 167,621
Restricted Cash	20,378	12,574
Accounts and notes receivable less allowance (2011 - \$14,977; 2010 - \$17,459)	664,855	628,589
Inventories	336,750	349,149
Deferred income taxes	50,685	49,069
Prepaid expenses and other	74,302	77,920
Total Current Assets	1,325,137	1,284,922
Goodwill	1,058,006	1,355,818
Intangibles, net	553,286	637,390
Other Assets	13,560	17,398
Long-Term Deferred Income Taxes	1,909	4,778
Property, Plant and Equipment		
Land	72,838	72,504
Buildings	390,389	383,014
Machinery and equipment	889,055	870,552
Gross property, plant and equipment	1,352,282	1,326,070
Less accumulated depreciation	(804,029)	(758,440)
Net Property, Plant and Equipment	548,253	567,630
Total Assets	\$ 3,500,151	\$ 3,867,936
Liabilities and Stockholders' Equity		
Current Liabilities		
Short-term debt	\$ 169,516	\$ 8,088
Current portion of long-term debt	207,803	—
Trade accounts payable	463,580	447,303
Income taxes	17,684	33,331
Other accrued liabilities	401,350	396,129
Total Current Liabilities	1,259,933	884,851
Long-Term Debt	679,805	943,216
Deferred Income Taxes	214,920	256,525
Other Long-Term Liabilities	132,943	152,979
Total Liabilities	2,287,601	2,237,571
Stockholders' Equity		
Common stock (par value \$0.50; authorized – 250,000,000 shares; shares issued, including shares in treasury – 2011: 118,442,624; 2010: 118,442,624)	59,220	59,220
Additional paid-in capital	397,793	383,167
Retained Earnings	1,221,750	1,428,515
Accumulated other comprehensive income (loss)	62,779	88,087
Less cost of common stock in treasury (2011 – 24,888,494; 2010 – 20,415,334)	(528,992)	(328,624)
Total Stockholders' Equity	1,212,550	1,630,365
Total Liabilities and Stockholders' Equity	\$ 3,500,151	\$ 3,867,936

See Notes to Consolidated Financial Statements

[Table of Contents](#)**Consolidated Statements of Operations**

(Dollars in thousands, except per share amounts)

For the Year Ended	October 28, 2011	October 29, 2010	October 30, 2009
	(52 weeks)	(52 weeks)	(52 weeks)
Net Sales	\$ 3,952,954	\$ 3,226,687	\$ 2,879,042
Cost of Sales	2,721,146	2,155,009	1,900,114
Gross Profit	1,231,808	1,071,678	978,928
Research and Development	115,416	100,236	91,303
Selling, General and Administrative	746,744	595,365	596,657
Operating Expenses	862,160	695,601	687,960
Impairment of Goodwill and Intangible Assets ¹	409,714	—	—
Income (Loss) from Operations	(40,066)	376,077	290,968
Interest Expense	61,511	58,267	50,394
Other (Income)/Expense – net	1,577	(1,387)	2,246
Income (Loss) before Income Taxes	(103,154)	319,197	238,328
Income Taxes	35,447	97,141	78,175
Net Income (Loss)	\$ (138,601)	\$ 222,056	\$ 160,153
Huarun Redeemable Stock Accrual ²	—	—	9,954
Net Income (Loss) Available to Common Stockholders	\$ (138,601)	\$ 222,056	\$ 150,199
Net Income (Loss) Per Common Share – Basic	\$ (1.47)	\$ 2.25	\$ 1.50
Net Income (Loss) Per Common Share – Diluted	\$ (1.47)	\$ 2.20	\$ 1.49

¹ For more information on the Impairment of Goodwill and Intangible Assets see Note 1 and Note 8 in Notes to Consolidated Financial Statements.

² For more information on the Huarun Redeemable Stock Accrual see Note 2 in Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements

Statement of Changes in Equity

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, October 31, 2008	\$ 59,220	\$ 331,083	\$ 1,180,011	\$ (207,482)	\$ 90,036	\$ 1,452,868
Net Income	—	—	160,153	—	—	160,153
Foreign Currency Translation	—	—	—	—	8,186	8,186
Change in Unfunded Benefit Obligations, net of tax of \$20,915	—	—	—	—	(35,323)	(35,323)
Net Gain (Loss) on Financial Instruments, net of tax of \$3,191	—	—	—	—	5,098	5,098
Comprehensive Income						\$ 138,114
Restricted Stock Granted for 112,990 Shares	—	837	—	1,272	—	2,109
Common Stock Options Exercised of 1,426,341 Shares	—	11,781	—	15,063	—	26,844
Purchase of Shares of Common Stock for Treasury of 2,000,000 Shares	—	—	—	(54,387)	—	(54,387)
Cash Dividends on Common Stock – \$0.60 per Share	—	—	(60,116)	—	—	(60,116)
Stock Option Expense	—	9,385	—	—	—	9,385
Huarun Redeemable Stock Accrual	—	—	(9,954)	—	—	(9,954)
Pension Plans Measurement Date Change (see Note 13 in Notes to Consolidated Financial Statements)	—	—	(356)	—	—	(356)
Balance, October 30, 2009	\$ 59,220	\$ 353,086	\$ 1,269,738	\$ (245,534)	\$ 67,997	\$ 1,504,507
Net Income	—	—	222,056	—	—	222,056
Foreign Currency Translation	—	—	—	—	21,921	21,921
Change in Unfunded Benefit Obligations, net of tax of (\$420)	—	—	—	—	(1,421)	(1,421)
Net Gain (Loss) on Financial Instruments, net of tax of \$258	—	—	—	—	(410)	(410)
Comprehensive Income						\$ 242,146
Restricted Stock Granted for 325,949 Shares, net of forfeitures	—	2,327	—	4,340	—	6,667
Director Stock Granted for 21,842 Shares	—	—	—	351	—	351
Common Stock Options Exercised of 2,232,383 Shares	—	18,743	—	30,890	—	49,633
Purchase of Shares of Common Stock for Treasury of 4,000,000 Shares	—	—	—	(118,671)	—	(118,671)
Cash Dividends on Common Stock – \$0.64 per Share	—	—	(63,279)	—	—	(63,279)
Stock Option Expense	—	9,011	—	—	—	9,011
Balance, October 29, 2010	\$ 59,220	\$ 383,167	\$ 1,428,515	\$ (328,624)	\$ 88,087	\$ 1,630,365
Net Income (Loss)	—	—	(138,601)	—	—	(138,601)
Foreign Currency Translation	—	—	—	—	(7,175)	(7,175)
Change in Unfunded Benefit Obligations, net of tax of \$4,208	—	—	—	—	(5,332)	(5,332)
Net Gain (Loss) on Financial Instruments, net of tax of \$8,014	—	—	—	—	(12,801)	(12,801)
Comprehensive Income						\$ (163,909)
Restricted Stock Granted for 225,691 Shares, net of forfeitures	—	4,223	—	4,054	—	8,277
Director Stock Granted for 21,258 Shares	—	—	—	452	—	452
Common Stock Options Exercised of 2,122,962 Shares	—	13,487	—	36,957	—	50,444
Purchase of Shares of Common Stock for Treasury of 6,750,000 Shares	—	—	—	(241,831)	—	(241,831)
Cash Dividends on Common Stock – \$0.72 per Share	—	—	(68,164)	—	—	(68,164)
Stock Option Expense	—	8,370	—	—	—	8,370
Purchase of equity award shares	—	(11,454)	—	—	—	(11,454)
Balance, October 28, 2011	\$ 59,220	\$ 397,793	\$ 1,221,750	\$ (528,992)	\$ 62,779	\$ 1,212,550

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(Dollars in thousands)

For the Year Ended	October 28, 2011 (52 weeks)	October 29, 2010 (52 weeks)	October 30, 2009 (52 weeks)
Operating Activities:			
Net income (loss)	\$ (138,601)	\$ 222,056	\$ 160,153
Adjustments to reconcile net income (loss) to net cash (used in)/provided by operating activities:			
Depreciation	90,109	74,039	75,287
Amortization	7,638	7,273	7,575
Stock-based compensation	9,783	9,011	9,385
Deferred income taxes	(35,906)	3,240	18,397
Impairment of Goodwill and Intangible Assets	409,714	—	—
(Gain)/loss on asset divestitures	(420)	(12,419)	940
Changes in certain assets and liabilities, net of effects of acquired businesses:			
(Increase)/decrease in accounts and notes receivable	(32,038)	(58,892)	40,530
(Increase)/decrease in inventories and other assets	30,667	(40,251)	37,751
Increase/(decrease) in trade accounts payable and other accrued liabilities	2,641	67,514	15,045
Increase/(decrease) in income taxes payable	(23,979)	21,900	(17,554)
Increase/(decrease) in other deferred liabilities	(31,925)	(20,102)	(29,371)
Settlement of Treasury Lock Contracts	—	—	11,600
Other	3,491	(7,488)	7,957
Net Cash (Used In)/Provided By Operating Activities	291,174	265,881	337,695
Investing Activities:			
Purchases of property, plant and equipment	(66,469)	(67,732)	(57,897)
Acquisition of businesses, net of cash acquired	(30,579)	(143,365)	—
Cash proceeds on disposal of assets	3,649	27,808	581
(Increase)/decrease in restricted cash	(3,589)	(12,574)	—
Purchase of Huarun redeemable stock	—	—	(45,047)
Net Cash (Used In)/Provided By Investing Activities	(96,988)	(195,863)	(102,363)
Financing Activities:			
Proceeds from issuance of debt	—	40,984	296,772
Net change in other borrowings	(53,408)	(132)	(346,623)
Net proceeds from issuance of commercial paper	153,955	—	—
Proceeds from sale of treasury stock	41,087	41,917	23,956
Treasury stock purchases	(241,831)	(118,671)	(54,387)
Excess tax benefit from stock-based compensation	7,239	4,791	1,343
Payments on deferred liability – excess cash - Huarun	—	—	(4,818)
Dividends paid	(68,164)	(63,279)	(60,116)
Purchase of equity award shares	(11,454)	—	—
Net Cash (Used In)/Provided By Financing Activities	(172,576)	(94,390)	(143,873)
Increase/(Decrease) in Cash and Cash Equivalents	21,610	(24,372)	91,459
Effect of exchange rate changes on Cash and Cash Equivalents	(11,064)	4,274	6,187
Cash and Cash Equivalents at Beginning of Period	167,621	187,719	90,073
Cash and Cash Equivalents at End of Period	\$ 178,167	\$ 167,621	\$ 187,719

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Valspar Corporation • Years Ended October 2011, 2010 and 2009
(Dollars and foreign currencies in thousands, except per share amounts)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: The Valspar Corporation has a 4-4-5 week accounting cycle with the fiscal year ending on the Friday on or immediately preceding October 31. Fiscal years 2011, 2010 and 2009 all include 52 weeks.

Principles of Consolidation: The consolidated financial statements include the accounts of the parent company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Investments in which we have a 20-50% interest and where we do not have management control and are not the primary beneficiary are accounted for using the equity method. In order to facilitate our year-end closing process, foreign entities' financial results are included in our consolidated financial statements on a one-month lag.

Estimates: The preparation of financial statements in conformity with United States GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions impact, among others, the following: the amount of revenue deferred under extended furniture protection plans, the amount of supplier rebates earned, the amount of customer rebates owed, the amount to be paid for other liabilities, including contingent liabilities, assumptions around the valuation of goodwill and indefinite-lived intangible assets, including impairment, our pension expense and pension funding requirements, and the computation of our income tax expense and liability. Actual results could differ from these estimates.

Revenue Recognition: Other than extended furniture protection plans, revenue from sales is recognized at the time of product delivery, passage of title, a sales agreement is in place, pricing is fixed or determinable and collection is reasonably assured. Discounts provided to customers at the point of sale are recognized as a reduction in revenue as the products are sold. We sell extended furniture protection plans for which revenue is deferred and recognized over the life of the contract. An actuarial study utilizing historical claims data is used to forecast claims payments over the contract period and revenue is recognized over the contract period based on the forecasted claims payments. Actual claims costs are reflected in earnings in the period incurred. Anticipated losses on programs in progress are charged to earnings when identified. Revenues exclude sales taxes collected from our customers.

Allowance for Doubtful Accounts: We estimate the allowance for doubtful accounts by analyzing accounts receivable by age, specific collection risk and evaluating the historical write-off percentage over the past five-year period. Accounts are written off sooner in the event of bankruptcy or other circumstances that make further collection unlikely. When it is deemed probable that a customer account is uncollectible, that balance is written off against the existing allowance.

Cash Equivalents: We consider all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents.

Restricted Cash: Represents cash that is restricted from withdrawal and primarily serves as collateral for our liability insurance programs.

Inventories: Inventories are stated at the lower of cost or market. Our domestic inventories are recorded on the last-in, first-out (LIFO) method. The remaining inventories are recorded using the first-in, first-out (FIFO) method.

Property, Plant and Equipment: Property, plant and equipment are recorded at cost. Expenditures that improve or extend the life of the respective assets are capitalized, while maintenance and repairs are expensed as incurred. Provision for depreciation of property is made by charges to operations at rates calculated to amortize the cost of the property over its useful life (twenty years for buildings; three to ten years for machinery and equipment) primarily using the straight-line method.

Impairment of Long-Lived Tangible and Intangible Assets: We evaluate long-lived assets, including intangible assets with finite lives, for impairment at least annually. An impairment loss is recognized whenever events or changes in circumstances indicate the carrying amount of an asset is not recoverable. When reviewing for impairment, assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. We consider historical performance and future estimated results in our evaluation of impairment. If the carrying amount of the asset exceeds expected undiscounted future cash flows, we measure the amount of impairment by comparing the carrying amount of the asset to its fair value, generally by discounting expected future cash flows.

[Table of Contents](#)

We also review other intangible assets with finite lives for impairment at least annually to determine if any adverse conditions exist that would indicate impairment. If the carrying value of the finite-lived intangible assets exceeds the undiscounted cash flows resulting from the use and disposition of the asset, the carrying value is written down to fair value in the period identified. See Note 8 for impairment testing results.

We amortize intangibles with finite lives, which includes our patents and customer lists.

Goodwill and Indefinite-Lived Intangible Assets: Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Indefinite-lived intangible assets consist of purchased technology, trademarks and trade names.

Goodwill for our reporting units is reviewed for impairment at least annually using a two-step process. In the first step, we compare the fair value of each reporting unit to its carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss. In step 2, we would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss, in the period identified, equal to the difference.

We review indefinite-lived intangible assets at least annually for impairment by calculating the fair value of the assets and comparing those fair values to the carrying value. In assessing fair value, we generally utilize a relief from royalty method. If the carrying value of the indefinite-lived intangible assets exceeds the fair value of the asset, the carrying value is written down to fair value in the period identified.

In the fourth quarter of 2011, we completed our annual goodwill and indefinite-lived intangible asset impairment reviews. During the goodwill review, the carrying value for the wood and gelcoat reporting units exceeded the fair value, requiring a step 2 valuation using an income approach (Level 3 measurement in the fair value hierarchy). As a result, we recorded a pre-tax impairment loss of \$409,714 in the fourth quarter of 2011. This represents impairment of goodwill and indefinite-lived intangible assets in our wood coatings reporting unit, part of our Coatings segment, and in our gelcoat reporting unit, part of All Other. No impairment to the carrying values of the other reporting units was identified.

In performing the impairment analysis, we reconsidered the appropriate reporting units as a result of: (i) the long-term financial outlook determined as part of our strategic planning process which occurs in the fourth quarter; (ii) the current volatility in the markets in which we compete; and (iii) a change in our Chief Operating Decision Maker (CODM). The expected trends for the U.S. housing market are a key input for our internal forecast, which serves as the basis for our strategic plan process. While in previous years we had expected the U.S. housing market to return to more normal levels during our planning horizon, in fiscal year 2011 we concluded that this will not occur. As a result, the long-term financial outlook for the wood and gelcoat product lines diverged from that of our other product lines and no longer met the criteria for aggregation within our historical reporting units. The resulting impairment charge also reflects our view of anticipated risks based on our expectations of market and general economic conditions.

See Note 8 for impairment testing results.

Stock-Based Compensation: Our stock-based employee compensation plans are comprised primarily of fixed stock options, but also include restricted stock and cash-settled restricted stock units. Options generally have a contractual term of 10 years, vest ratably over three or five years for employees and immediately upon grant for non-employee directors. Restricted shares and cash-settled restricted stock units vest after three or five years. We account for our stock based compensation using a fair value method. Share awards are issued from common stock in treasury. See Note 9 for additional information.

Contingent Liabilities: We are involved in various claims relating to environmental and waste disposal matters at a number of current and former plant sites. We engage or participate in remedial and other environmental compliance activities at certain of these sites. At other sites, we have been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous waste. We analyze each individual site, considering the number of parties involved, the level of potential liability or contribution by us relative to the other parties, the nature and magnitude of the wastes involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site, and the time period over which any costs would likely be incurred. Based on the above analysis, we estimate the remediation or other cleanup costs and related claims for each site. The estimates are based in part on discussions with other PRPs, governmental agencies and engineering firms.

[Table of Contents](#)

We accrue appropriate reserves for potential environmental liabilities, which are continually reviewed and adjusted as additional information becomes available. While uncertainties exist with respect to the amounts and timing of our ultimate environmental liabilities, we believe there is not a reasonable possibility that such liabilities, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

We are involved in a variety of legal claims and proceedings relating to personal injury, product liability, warranties, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These claims and proceedings include cases where we are one of a number of defendants in proceedings alleging that the plaintiffs suffered injuries or contracted diseases from exposure to chemicals or other ingredients used in the production of some of our products or waste disposal. We believe these claims and proceedings are not out of the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, we believe there is not a reasonable possibility that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

Advertising Costs: Advertising costs are expensed as incurred and totaled \$90,769 (2.3% of net sales), \$84,807 (2.6% of net sales) and \$82,096 (2.9% of net sales) in 2011, 2010 and 2009, respectively.

Foreign Currency: Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is recorded as a component of stockholders' equity (accumulated other comprehensive income (loss)). Gains and losses from foreign currency transactions are included in other expense (income), net.

Net Income (Loss) Per Share: The following table reflects the components of common shares outstanding for the three most recent fiscal years:

	2011	2010	2009
Weighted-average common shares outstanding – basic	94,309,679	98,521,088	100,036,809
Dilutive effect of stock options and unvested restricted stock	—	2,345,119	884,642
Equivalent average common shares outstanding – diluted	94,309,679	100,866,207	100,921,451

Basic earnings per share are based on the weighted average number of common shares outstanding during each year. In computing diluted earnings per share, the number of common shares outstanding is increased by common stock options with exercise prices lower than the average market prices of common shares during each year and reduced by the number of shares assumed to have been purchased with proceeds from the exercised options. If we are in a net loss position, these shares are excluded as they are antidilutive. Potential common shares of 3,057,297, 1,065,425 and 5,248,594 related to our outstanding stock options were excluded from the computation of diluted earnings per share for 2011, 2010 and 2009, respectively, as inclusion of these shares would have been antidilutive.

Financial Instruments: All financial instruments are held for purposes other than trading. See Note 6 for additional information.

Accumulated Other Comprehensive Income (Loss): Period end balances for accumulated other comprehensive income (loss) are comprised of the following:

	Year ended October 28, 2011	Year ended October 29, 2010	Year ended October 30, 2009
Foreign currency translation	\$ 152,791	\$ 159,966	\$ 138,045
Pension and postretirement benefits, net	(84,432)	(79,100)	(77,679)
Unrealized gain (loss) on financial instruments	(5,580)	7,221	7,631
Accumulated other comprehensive income (loss)	\$ 62,779	\$ 88,087	\$ 67,997

Research and Development: Research and development is expensed as incurred.

Fair Value Measurements: We measure certain assets and liabilities at fair value or disclose the fair value of certain assets and liabilities recorded at cost in the consolidated financial statements. Fair value is calculated as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value accounting rules establish a fair value hierarchy which requires assets and liabilities measured at fair value to be categorized into one of three levels based on the inputs used in the valuation. We classify assets and liabilities in their entirety based on the lowest level of input significant to the fair value measurement. The three levels are defined as follows:

- **Level 1:** Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Observable inputs, other than those included in Level 1, based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.
- **Level 3:** Unobservable inputs that reflect an entity's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

Reclassification: Certain amounts in the prior years' financial statements have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on net income (loss) or stockholders' equity as previously reported.

NOTE 2 – ACQUISITIONS AND DIVESTITURES

In February 2011, we acquired Isocoat Tintas e Vernizes Ltda. (Isocoat), a Brazilian powder coatings business serving customers in Brazil, Argentina and Colombia. The acquisition strengthens our manufacturing, marketing and distribution in a growing region. Isocoat had 2010 sales of approximately \$35,000. The acquisition was recorded at fair value in the second quarter of fiscal year 2011. The purchase price allocation has been completed. Accordingly, the net assets and operating results have been included in our financial statements from the date of acquisition.

In September 2010, we acquired all the outstanding shares of Australian paint manufacturer Watty Limited (ASX:WYL) for approximately AUD 142,000 and assumed Watty's existing debt. The acquisition was paid for primarily through the use of existing cash and cash equivalents. Watty had fiscal year 2010 net sales of approximately AUD 386,500. Watty distributes leading paint brands through independent dealers, hardware chains, home centers and approximately 135 company-owned stores. The acquisition was recorded at fair value in the fourth quarter of fiscal year 2010. The purchase price allocation was completed in the first quarter of fiscal year 2011. Accordingly, the net assets and operating results have been included in our financial statements from the date of acquisition.

In June 2010, we sold certain non-strategic metal decorating inks assets, including inventory and intellectual property, to DIC Corporation of Japan. The sale was recorded at fair value in the third quarter of 2010 and resulted in a net gain, which was recorded as a reduction to selling, general and administrative expenses.

In June 2010, we purchased the shares of DIC Coatings India Limited and certain metal packaging coatings inventory and intellectual property in other countries from DIC Corporation, including a manufacturing site in India. The acquisition was recorded at fair value in the third quarter of fiscal year 2010. Accordingly, the net assets and operating results have been included in our financial statements from the date of acquisition.

The net sales for both the June 2010 divestiture and acquisition are immaterial to our consolidated results.

Pro forma results of operations for the acquisitions and divestitures noted above have not been presented, as they were immaterial to the reported results on an individual and combined basis.

In July 2006, we acquired approximately 80% of the share capital of Huarun Paints Holdings Company Limited (Huarun) from Champion Regal and certain other stockholders. Certain of the shares not purchased by us in July 2006 were subject to various put and call rights. The put and call rights were classified outside of stockholders' equity in Huarun Redeemable Stock. During the fourth quarter of 2008, certain minority stockholders exercised their right to sell shares to us. During the fourth quarter of 2009, we acquired the remaining Huarun Redeemable Stock, reducing the balance to zero. Acquisition accounting was applied upon the acquisition of the shares in 2009.

The Huarun Redeemable Stock was accrued to redemption value and the amount of accretion is shown as an adjustment below net income (loss) to arrive at the net income (loss) available to common stockholders. We accrued \$9,954 during 2009, which reduced basic and diluted net income (loss) per common share by \$0.10.

NOTE 3 – INVENTORIES

The major classes of inventories consist of the following:

	2011	2010
Manufactured products	\$ 189,754	\$ 215,045
Raw materials, supplies and work-in-progress	146,996	134,104
Total Inventories	\$ 336,750	\$ 349,149

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate \$ 124,112 at October 28, 2011 and \$129,161 at October 29, 2010, approximately \$91,379 and \$67,672 lower, respectively, than such costs determined under the first-in, first-out (FIFO) method.

NOTE 4 – SUPPLEMENTAL DISCLOSURES RELATED TO CURRENT LIABILITIES

Trade accounts payable include \$42,502 and \$33,944 of issued checks, which had not cleared our bank accounts as of October 28, 2011 and October 29, 2010, respectively.

Other accrued liabilities include the following:

	2011	2010
Employee compensation	\$ 116,161	\$ 133,769
Uninsured loss reserves and deferred revenue	67,954	74,745
Customer volume rebates and incentives	59,902	60,141
Taxes, insurance, professional fees and services	33,853	29,518
Contribution to employees' retirement trusts	28,063	24,916
Interest	20,346	20,639
Derivative liability	20,005	751
Advertising and promotions	17,813	24,233
Restructuring	8,361	5,955
Deferred tax liability	1,915	2,128
Other	26,977	19,334
Total Other Accrued Liabilities	\$ 401,350	\$ 396,129

NOTE 5 – DEBT AND MONEY MARKET SECURITIES

Our debt consists of the following:

	2011	2010
Notes to banks (weighted average interest rate of 6.59% at October 28, 2011)	\$ 15,561	\$ 8,088
Commercial Paper (0.38% – 0.40% at October 28, 2011)	153,955	—
Total Short-term Debt	\$ 169,516	\$ 8,088
Notes to banks (7.43% at October 28, 2011)	\$ 7,803	\$ —
Senior notes Due 2012 at 5.625%	200,000	—
Total Current Portion of Long-term Debt	\$ 207,803	\$ —
Notes to banks (4.49% – 6.77% at October 28, 2011)	\$ 67,303	\$ 130,714
Senior notes Due 2012 at 5.625%	—	200,000
Due 2015 at 5.10%	150,000	150,000
Due 2017 at 6.05%	150,000	150,000
Due 2019 at 7.25%	300,000	300,000
Industrial development bonds (0.28% at October 28, 2011 payable in 2015)	12,502	12,502
Total Long-term Debt	\$ 679,805	\$ 943,216
Total Debt	\$ 1,057,124	\$ 951,304

[Table of Contents](#)

We maintain an unsecured revolving credit facility with a syndicate of banks. During the first quarter of 2011, the facility was expanded from \$475,000 to \$550,000 and the maturity date was extended from June 30, 2012 to December 31, 2014. We also maintain two unsecured committed revolving bi-lateral credit facilities to the December 2014 bank syndicate facility. One is a U.S. dollar equivalent \$14,631 facility that expires June 30, 2012. The second is a U.S. dollar equivalent \$87,786 facility expiring September 17, 2013.

Our bank credit facilities consist of the following:

	October 28, 2011	
	Total Outstanding	Facility Size
December 2014 bank syndicate facility ¹	\$ 153,955	\$ 550,000
June 2012 bilateral facility	7,803	14,631
September 2013 bilateral facility	67,024	87,786
Total unsecured committed revolving credit	\$ 228,782	\$ 652,417
Uncommitted bank lines of credit	\$ 15,840	\$ 165,568
Total Bank Credit Facilities	\$ 244,622	\$ 817,985

	October 29, 2010	
	Total Outstanding	Facility Size
December 2014 bank syndicate facility ¹	\$ 50,000	\$ 475,000
June 2012 bilateral facility	7,751	14,534
September 2013 bilateral facility	72,963	87,201
Total unsecured committed revolving credit	\$ 130,714	\$ 576,735
Uncommitted bank lines of credit	\$ 8,088	\$ 125,486
Total Bank Credit Facilities	\$ 138,802	\$ 702,221

¹ Our bank syndicate facility includes \$153,955 and \$0 of commercial paper as of October 28, 2011 and October 29, 2010, respectively. We have a \$350,000 commercial paper program backstopped by our \$550,000 credit facility.

Our credit facilities have covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of October 28, 2011. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

To ensure availability of funds, we maintain uncommitted bank lines of credit sufficient to cover outstanding short-term borrowings. These arrangements are reviewed periodically for renewal and modification. Borrowings under these debt arrangements had an average annual interest rate of 6.59% in 2011, 6.57% in 2010 and 5.70% in 2009.

The future maturities of long-term debt are as follows:

	Maturities
2012	\$ 207,803
2013	67,112
2014	66
2015	162,627
2016	—
Thereafter	450,000

Interest paid during 2011, 2010 and 2009 was \$62,095, \$58,067 and \$42,648, respectively.

[Table of Contents](#)

The table below summarizes the carrying value and fair market value of our outstanding debt. The fair market value of our publicly traded debt is based on observable market prices. The fair market value of our non-publicly traded debt was estimated using a discounted cash flow analysis based on our current borrowing costs for debt with similar maturities.

	October 28, 2011	
	Balance Sheet (carrying value)	Fair Market Value
Publicly traded debt	\$ 800,000	\$ 888,251
Non-publicly traded debt	257,124	255,807
Total Debt	\$ 1,057,124	\$ 1,144,058

	October 29, 2010	
	Balance Sheet (carrying value)	Fair Market Value
Publicly traded debt	\$ 800,000	\$ 917,728
Non-publicly traded debt	151,304	149,853
Total Debt	\$ 951,304	\$ 1,067,581

We did not elect the option to report our debt at fair value in our Consolidated Balance Sheets.

Our non-publicly traded debt consists of the following:

	2011	2010
Commercial paper	\$ 153,955	\$ —
Credit facility borrowings	74,827	130,714
Industrial development bonds	12,502	12,502
Uncommitted borrowings	15,840	8,088
Total Non-publicly Traded Debt	\$ 257,124	\$ 151,304

We invest in short-term securities including money market funds with high-credit quality financial institutions and diversify our holdings among such financial institutions to reduce our exposure to credit losses. The fair values of our short-term securities are \$38,005 and \$41,839 as of October 28, 2011 and October 29, 2010, respectively. The money market funds are included in our cash and cash equivalents and restricted cash balances with the carrying values approximating the fair values as the maturities are less than three months. These assets are classified as Level 1 inputs under the fair value hierarchy. See Note 1 for more information on fair value measurements.

Restricted cash represents cash that is restricted from withdrawal. As of October 28, 2011 and October 29, 2010, we had restricted cash of \$20,378 and \$12,574, respectively. Such restricted cash primarily serves as collateral for our liability insurance programs.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments to manage well-defined interest rate and foreign currency exchange risks. We enter into derivative financial instruments with high-credit quality counterparties and diversify our positions among such counterparties to reduce our exposure to credit losses. We do not have any credit-risk-related contingent features in our derivative contracts as of October 28, 2011.

At October 28, 2011, we had \$9,766 notional amount of foreign currency contracts that mature during fiscal year 2012. These foreign currency contracts have been designated as cash flow hedges with unrealized gains or losses recorded in accumulated other comprehensive income. Realized gains and losses were recognized in other expense (income) when they occurred. At October 29, 2010, we had approximately \$8,629 notional amount of foreign currency contracts maturing in fiscal year 2011. There was no ineffectiveness for these hedges during 2011 or 2010.

At October 28, 2011, we had \$200,000 notional amount of treasury locks to hedge, or lock-in, interest rates on anticipated long-term debt to be issued. We designated the treasury locks as cash flow hedges with unrealized gains and losses recorded, net of tax, to accumulated other comprehensive income. The accumulated other comprehensive income amount in our Consolidated Balance Sheets represents the unrealized losses, net of tax, from our current contracts and the unamortized gain, net of tax, from our settled contracts. The unamortized gain from our settled contracts is reclassified ratably to our Consolidated Statements of Operations as a decrease to interest expense over the term of the related bond issuance. At October 29, 2010 we had no treasury lock contracts in place.

At October 28, 2011, we had no interest rate derivative contracts. We had \$50,000 notional amount of interest rate derivative contracts in place as of October 29, 2010. These contracts were designated as cash flow hedges, to pay fixed rates of interest and receive a floating interest rate based on LIBOR. Prior to maturity, the interest rate derivative contracts were reflected at fair value in the Consolidated Balance Sheets. Unrealized gains and losses were recorded in accumulated other comprehensive income. Amounts to be received or paid under the contracts were recognized as interest expense over the life of the contracts. There was no ineffectiveness for these derivatives during the 2011 and 2010 periods.

[Table of Contents](#)

Our derivative assets and liabilities subject to fair value measurement disclosures are the following:

	Fair Value at October 28, 2011	Fair Value at October 29, 2010
	Level 2 ¹	Level 2 ¹
Assets		
Prepaid expenses and other:		
Foreign currency contracts	\$ 3	\$ —
Total Assets	\$ 3	\$ —
Liabilities		
Accrued liabilities other:		
Foreign currency contracts	\$ —	\$ 366
Treasury lock contracts	20,005	—
Interest rate derivative contracts	—	385
Total Liabilities	\$ 20,005	\$ 751

¹ See Note 1 for more information on fair value measurements.

Derivative gains (losses) recognized in AOCI ² and on the Consolidated Statements of Operations for fiscal year ended October 28, 2011 and October 29, 2010, respectively, are as follows:

October 28, 2011	Amount of Gain (Loss) Recognized in AOCI ²	Statement of Operations Classification	Amount of Gain (Loss) Recognized in Earnings ²
Derivatives designated as cash flow hedges			
Foreign currency contracts	\$ 369	Other income / (expense), net	\$ (647)
Treasury lock contracts	(21,569)	Interest expense	1,564
Interest rate derivative contracts	385	Interest expense	(388)
Total derivatives designated as cash flow hedges	\$ (20,815)	Total	\$ 529
October 29, 2010			
Derivatives designated as cash flow hedges			
Foreign currency contracts	\$ (195)	Other income / (expense), net	\$ 177
Treasury lock contracts	(1,564)	Interest expense	1,564
Interest rate derivative contracts	1,091	Interest expense	(1,354)
Total derivatives designated as cash flow hedges	\$ (668)	Total	\$ 387

² Accumulated other comprehensive income (loss) (AOCI) is included on the Consolidated Balance Sheet in the Stockholders' Equity section and is reported net of tax. The amounts disclosed in the above table are reported pretax and represent the full year derivative activity.

NOTE 7 – GUARANTEES AND CONTRACTUAL OBLIGATIONS

We are required to disclose information about certain guarantees and contractual obligations in our periodic financial statements.

We sell extended furniture protection plans and offer warranties for certain products. Revenue related to furniture protection plans is deferred and recognized over the contract life. Historical claims data is used to forecast claims payments over the contract period and revenue is recognized based on the forecasted claims payments. Actual claims costs are reflected in earnings in the period incurred. Anticipated losses on programs in progress are charged to earnings when identified. For product warranties, we estimate the costs that may be incurred under these warranties based on historical claims data and record a liability in the amount of such costs at the time revenue is recognized.

We periodically assess the adequacy of these recorded amounts and adjust as necessary. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses can be estimated. The extended furniture protection plans that we enter into have fixed prices. To the extent the actual costs to complete contracts are higher than the amounts estimated as of the date of the financial statements, gross margin would be negatively affected in future quarters when we revise our estimates. Our practice is to revise estimates as soon as such changes in estimates become known.

Changes in the recorded amounts included in other liabilities, both short-term and long-term, during the period are as follows:

Balance, October 31, 2008	\$	77,993
Additional net deferred revenue/accrual made during the period		(699)
Payments made during the period		(6,791)
Balance, October 30, 2009	\$	70,503
Amount acquired through acquisitions		1,913
Additional net deferred revenue/accrual made during the period		11,680
Payments made during the period		(9,189)
Balance, October 29, 2010	\$	74,907
Additional net deferred revenue/accrual made during the period		12,381
Payments made during the period		(13,609)
Balance, October 28, 2011	\$	73,679

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the fiscal years ended October 28, 2011 and October 29, 2010 are as follows:

	Coatings	Paints	Other	Total
Balance, October 30, 2009	\$ 1,079,462	\$ 234,804	\$ 23,731	\$ 1,337,997
Goodwill acquired (disposed/adjusted)	4,123	5,191	—	9,314
Currency translation gain (loss)	7,942	322	243	8,507
Balance, October 29, 2010	\$ 1,091,527	\$ 240,317	\$ 23,974	\$ 1,355,818
Goodwill acquired (disposed/adjusted)	15,348	(317)	—	15,031
Allocation of goodwill due to change in reporting units	(21,633)	—	21,633	—
Impairment of goodwill	(292,942)	—	(21,633)	(314,575)
Currency translation gain (loss)	(2,994)	4,438	288	1,732
Balance, October 28, 2011	\$ 789,306	\$ 244,438	\$ 24,262	\$ 1,058,006

The decrease in goodwill during fiscal year 2011 is primarily due to an impairment of goodwill as a result of our annual impairment testing, partially offset by the acquisition of Isocoat and foreign currency translation.

The increase in goodwill during fiscal year 2010 is due to foreign currency translation, the acquisition of Watty Limited and the purchase of certain assets and the shares of DIC Coatings India Limited from DIC Corporation of Japan.

Information regarding our other intangible assets is as follows:

	Estimated Useful Life	Carrying Amount	Accumulated Amortization	Net
Balance, October 29, 2010				
Customer lists	40 years	\$ 285,650	\$ (49,411)	\$ 236,239
Technology	Indefinite	204,469	—	204,469
Trademarks	Indefinite	196,295	—	196,295
Other	10 years	11,571	(11,184)	387
Total		\$ 697,985	\$ (60,595)	\$ 637,390
Balance, October 28, 2011				
Customer lists	20 to 40 years	\$ 256,551	\$ (47,885)	\$ 208,666
Technology	Indefinite	169,112	—	169,112
Trademarks	Indefinite	175,192	—	175,192
Other	10 years	11,587	(11,271)	316
Total		\$ 612,442	\$ (59,156)	\$ 553,286

The balance as of October 28, 2011 reflects the net impairment charge on intangible assets of \$95,139 as a result of our annual impairment analysis, partially offset by the allocation related to the acquisition of Isocoat (\$10,957 was allocated to customer lists and \$1,055 was allocated to trademarks). The balance as of October 29, 2010 reflects the allocation related to the acquisition of Watty Limited (\$8,110 was allocated to trademarks) and the acquisition of certain assets from DIC Corporation (\$3,420 was allocated to customer lists).

[Table of Contents](#)

Goodwill for our reporting units is reviewed for impairment at least annually using a two-step process. In the first step, we compare the fair value of each reporting unit to its carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss. In step 2, we would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss, in the period identified, equal to the difference.

In the fourth quarter of 2011, we completed our annual goodwill and indefinite-lived intangible asset impairment reviews. During the goodwill review, the carrying value for the wood and gelcoat reporting units exceeded the fair value, requiring a step 2 valuation using an income approach (Level 3 measurement in the fair value hierarchy). As a result, we recorded a pre-tax impairment loss of \$409,714 in the fourth quarter of 2011. This represents impairment of goodwill and indefinite-lived intangible assets in our wood coatings reporting unit, part of our Coatings segment, and in our gelcoat reporting unit, part of All Other. The impairment charge on goodwill and intangible assets was recorded as follows:

	Goodwill	Intangible Assets	Total
Wood reporting unit ¹	\$ 292,942	\$ 75,120	\$ 368,062
Gelcoat reporting unit ²	21,633	20,019	41,652
Total Impairment	\$ 314,575	\$ 95,139	\$ 409,714

¹ Wood intangible asset write-downs were as follows: (i) technology of \$31,005; (ii) customer lists of \$23,260 and (iii) trademarks of \$20,855.

² Gelcoat intangible asset write-downs were as follows: (i) customer lists of \$10,496; (ii) technology of \$5,579 and (iii) trademarks of \$3,944.

No impairment to the carrying values of the other reporting units was identified.

During the fourth quarter of 2010, we completed our annual goodwill and intangible asset impairment reviews with no impairments to the carrying values identified.

Amortization lives are based on management's estimates. Amortization lives for intangible assets range from 10 to 40 years. The remaining life averages for assets included in the customer lists and other categories were 32 years and 3 years, respectively.

Total intangible asset amortization expense was \$7,638, \$7,273 and \$7,575 in 2011, 2010 and 2009, respectively. Estimated amortization expense for each of the five succeeding fiscal years based on intangible assets as of October 28, 2011 is approximately \$7,000 annually.

NOTE 9 – STOCK-BASED COMPENSATION

Until February 2009, we had stock-based compensation plans comprised of stock options, restricted stock and stock awards, which could be granted to officers, employees, non-employee directors and consultants. In February 2009, stockholders approved a new equity compensation plan, the 2009 Omnibus Equity Plan (Omnibus Plan). The new plan resulted in one pool of reserved shares that will be used for equity grants, totaling 5,229,684 shares as of April 2009 and included the authorization to grant cash-settled restricted stock units. These reserved shares are equal to the total reserved shares that were remaining under the previous equity compensation plans at the time the Omnibus Plan was approved. In February 2010, stockholders approved a 3,000,000 increase in the reserve. Under the Omnibus Plan, equity compensation awarded through restricted stock or stock awards reduces the pool of reserved shares at a multiple of 2.53 times the actual number of shares awarded. Stock option awards reduce the reserved shares pool at a rate equal to the number of options granted. Options generally have a contractual term of 10 years, vest ratably over three years or five years for employees and vest immediately upon grant for non-employee directors. Restricted shares vest after three or five years. Stock awards are issued and outstanding upon date awarded. The table below summarizes the stock option and restricted stock activity for the three years ended October 28, 2011. The table below presents the shares reserved in one pool for options and awards, which includes predecessor plans and the Omnibus Plan.

[Table of Contents](#)

	Shares Reserved	Shares Outstanding
Balance, October 31, 2008	5,006,414	12,259,457
Granted – restricted stock	(131,792)	112,990
Granted – stock options	(1,776,650)	1,776,650
Vested – restricted stock	—	(101,559)
Exercised – stock options	—	(1,426,341)
Canceled – stock options	384,590	(384,590)
Balance, October 30, 2009	3,482,562	12,236,607
Reserve increase ¹	3,000,000	—
Granted – restricted stock	(851,421)	336,530
Granted – stock options	(705,500)	705,500
Issued – stock awards	(55,260)	—
Vested – restricted stock	—	(50,224)
Exercised – stock options	—	(2,232,383)
Forfeited – restricted stock	26,770	(10,581)
Canceled – stock options	94,789	(94,789)
Balance, October 29, 2010	4,991,940	10,890,660
Granted – restricted stock	(609,159)	240,774
Granted – stock options	(752,500)	752,500
Issued – stock awards	(53,783)	—
Vested – restricted stock	—	(149,379)
Exercised – stock options	—	(2,122,962)
Forfeited – restricted stock	32,087	(15,083)
Canceled – stock options	76,507	(76,507)
Balance, October 28, 2011	3,685,092	9,520,003

¹ On June 9, 2010, we filed an S-8 registration statement to add 3,000,000 shares to the shares reserved for issuance under the Omnibus Plan.

Stock Options: Total stock-based compensation expense included in our Consolidated Statements of Operations in fiscal 2011, 2010 and 2009 was \$8,370, \$9,011 and \$9,385, respectively. Awards to retirement-eligible employees are expensed at the grant date.

As of October 28, 2011, there was \$5,600 of total unrecognized pre-tax compensation cost related to non-vested awards that are expected to be recognized over a weighted-average period of 1.9 years.

Stock option activity for the three years ended October 28, 2011 is summarized as follows:

	Options Outstanding	Weighted Average Exercise Price per share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance, October 31, 2008	12,011,718	\$ 21.06	5.9 years	\$ 17,036
Granted	1,776,650	26.34		
Exercised	(1,426,341)	17.55		10,140
Canceled	(384,590)	20.75		
Balance, October 30, 2009	11,977,437	\$ 22.27	6.1 years	\$ 41,073
Granted	705,500	31.48		
Exercised	(2,232,383)	19.26		24,073
Canceled	(94,789)	24.99		
Balance, October 29, 2010	10,355,765	\$ 23.52	6.0 years	\$ 88,858
Granted	752,500	32.42		
Exercised	(2,122,962)	20.94		30,676
Canceled	(76,507)	24.15		
Balance, October 28, 2011	8,908,796	\$ 24.88	6.0 years	\$ 97,560
Exercisable	7,132,818	23.62	5.3 years	87,064

Options exercisable of 7,784,429 at October 29, 2010 and 8,576,291 at October 30, 2009 had weighted average exercise prices of \$22.68 and \$21.69, respectively.

The total intrinsic value at October 28, 2011 is based on our closing stock price on the last trading day of the year for in-the-money options. The exercise prices of the options granted during these periods are equal to the market price of the underlying stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following table sets forth the weighted average fair values and assumptions on which the fair values are determined:

	2011	2010	2009
Expected dividend yield	2.2%	2.0%	2.3%
Expected stock price volatility	28.9%	28.0%	30.0%
Risk-free interest rate	1.7%	2.0%	2.9%
Expected life of options	7.4 years	7.4 years	6 years
Weighted average fair value on the date of grant	\$ 8.06	\$ 8.02	\$ 6.89

Restricted Stock and Cash-Settled Restricted Stock Units: We grant restricted stock to certain employees through our Omnibus Plan. Previously, we granted restricted stock to certain employees through share reserves under our Key Employee Bonus Plan and our 2001 Stock Incentive Plan. In February 2009, the share reserves under the Omnibus Plan replaced those reserves.

In fiscal year 2011, we granted cash-settled restricted stock units to certain employees through our Omnibus Plan. Since the compensation expense is payable in cash, these restricted stock units are classified as liabilities within other long-term liabilities and are marked-to-market each period. Stock based compensation expense included in our Consolidated Statements of Operations for these restricted stock units was \$1,413 in fiscal year 2011.

The following table sets forth a reconciliation of restricted shares (equity classified) and cash-settled restricted stock units (liability classified) for the three years ended October 28, 2011:

	Equity Classified			Liability Classified		
	Shares Outstanding	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value	Units Outstanding	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Balance, October 31, 2008	247,739	\$ 24.44	\$ 5,066	—	\$ —	\$ —
Granted	112,990	18.66	2,109	—	—	—
Vested	(101,559)	24.35	1,902	—	—	—
Balance, October 30, 2009	259,170	\$ 21.95	\$ 6,575	—	\$ —	\$ —
Granted	336,530	27.54	9,268	—	—	—
Vested	(50,224)	25.60	1,522	—	—	—
Forfeited	(10,581)	27.66	(293)	—	—	—
Balance, October 29, 2010	534,895	\$ 25.01	\$ 17,170	—	\$ —	\$ —
Granted	240,774	34.34	8,268	221,066	36.21	8,005
Vested	(149,379)	24.30	5,420	(1,459)	34.27	56
Forfeited	(15,083)	27.32	(412)	(8,141)	34.27	(279)
Balance, October 28, 2011	611,207	\$ 28.80	\$ 21,900	211,466	\$ 36.30	\$ 7,577

NOTE 10 – INCOME TAXES

Income (loss) before income taxes consisted of the following:

	2011	2010	2009
Domestic	\$ (109,281)	\$ 170,505	\$ 163,737
Foreign	6,127	148,692	74,591
Total Income (Loss) Before Income Taxes	\$ (103,154)	\$ 319,197	\$ 238,328

Significant components of the provision for income taxes are as follows:

	2011	2010	2009
Current			
Federal	\$ 39,274	\$ 50,698	\$ 34,038
State	6,803	(934)	3,682
Foreign	25,276	44,137	22,058
Total Current	71,353	93,901	59,778
Deferred			
Federal	(19,681)	1,646	12,618
State	(3,822)	561	2,576
Foreign	(12,403)	1,033	3,203
Total Deferred	(35,906)	3,240	18,397
Total Income Taxes	\$ 35,447	\$ 97,141	\$ 78,175

[Table of Contents](#)

Significant components of our deferred tax assets and liabilities are as follows:

	2011	2010	2009
Deferred tax assets:			
Insurance	\$ 8,781	\$ 7,271	\$ 9,492
Compensation	36,082	31,891	24,836
Deferred revenue	10,400	9,772	11,226
Pension	15,001	17,734	24,909
Accrued expenses	28,960	26,629	8,867
Tax credits and carryforwards	18,308	15,242	21,261
Other	9,821	11,957	19,756
Total Deferred Tax Assets	127,353	120,496	120,347
Deferred tax liabilities:			
Tax in excess of book depreciation	(55,157)	(50,582)	(42,872)
Amortization	(223,091)	(261,584)	(259,319)
Other	(13,348)	(13,136)	(16,449)
Total Deferred Tax Liabilities	(291,596)	(325,302)	(318,640)
Net Deferred Tax Liabilities	\$ (164,243)	\$ (204,806)	\$ (198,293)

A reconciliation of income tax computed at the U.S. federal statutory tax rate to the effective income tax rate is as follows:

	2011	2010	2009
Tax (benefit) at U.S. statutory rate	(35.0%)	35.0%	35.0%
State income taxes, net of federal benefit	5.7%	(1.0%)	1.7%
Non-U.S. taxes	(18.0%)	(2.1%)	(1.2%)
Non-deductible impairment charges	94.2%	—	—
Other	(12.5%)	(1.5%)	(2.7%)
Total Effective Income Tax Rate	34.4%	30.4%	32.8%

The tax rate for fiscal 2011 reflects the impact of goodwill and intangible asset impairment charges, the majority of which are nondeductible for income tax purposes. Excluding the impact of the impairment charges, our fiscal 2011 effective tax rate was 26.7%.

No provision has been made for U.S. federal income taxes on certain undistributed earnings of foreign subsidiaries that we intend to permanently invest or that may be remitted substantially tax-free. The total of undistributed earnings that would be subject to federal income tax if remitted under existing law is approximately \$330,658 at October 28, 2011. Determination of the unrecognized deferred tax liability related to these earnings is not practicable because of the complexities with its hypothetical calculation. Upon distribution of these earnings, we will be subject to U.S. taxes and withholding taxes payable to various foreign governments. A credit for foreign taxes already paid would be available to reduce the U.S. tax liability.

Income taxes paid during 2011, 2010 and 2009 were \$83,051, \$74,882 and \$78,946, respectively.

At each period end, it is necessary for us to make certain estimates and assumptions to compute the provision for income taxes including, but not limited to the expected operating income (or loss) for the year, projections of the proportion of income (or loss) earned and taxed in the foreign jurisdictions and the extent to which this income (or loss) may also be taxed in the United States, permanent and temporary differences, the likelihood of deferred tax assets being realized and the outcome of uncertain tax positions. Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. We record an accrual for uncertain tax positions after evaluating the positions associated with our various income tax filings. A number of years may elapse before a particular matter for which we have established an accrual is audited and fully resolved or clarified. We adjust our tax contingencies accrual and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from our established accrual, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

[Table of Contents](#)

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (excluding interest and penalties) for fiscal year 2009 through 2011 is as follows:

Gross unrecognized tax benefits at October 31, 2008	\$	44,797
Increases in tax positions for prior years		170
Decreases in tax positions for prior years		(7,176)
Increases in tax positions for current year		2,649
Settlements		(388)
Lapse in statute of limitations		(6,655)
Gross unrecognized tax benefits at October 30, 2009	\$	33,397
Increases in tax positions for prior years		211
Increases in tax positions for current year		2,857
Settlements		(11,424)
Lapse in statute of limitations		(7,224)
Gross unrecognized tax benefits at October 29, 2010	\$	17,817
Increases in tax positions for prior years		323
Decreases in tax positions for prior years		(505)
Increases in tax positions for current year		2,164
Settlements		(171)
Lapse in statute of limitations		(6,680)
Gross unrecognized tax benefits at October 28, 2011	\$	12,948

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. We had recognized accrued interest and penalties relating to unrecognized tax benefits of \$4,620 and \$5,907 as of October 28, 2011 and October 29, 2010, respectively. The gross amount of interest and penalties included in tax expense for the year ended October 28, 2011, October 29, 2010 and October 30, 2009 was \$(1,287), \$(7,289) and \$799, respectively.

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was \$12,203 and \$15,646 as of October 28, 2011 and October 29, 2010, respectively.

The company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and numerous state and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006. The IRS has notified us that our fiscal 2010 U.S. federal tax return will be audited. We are currently under audit in several state and foreign jurisdictions. We also expect various statutes of limitation to expire during the next 12 months. Due to the uncertain response of taxing authorities, a range of outcomes cannot be reasonably estimated at this time.

NOTE 11 – LEASING ARRANGEMENTS

We have operating lease commitments outstanding at October 28, 2011, for plant and warehouse equipment, office and warehouse space, automobiles and retail stores. The leases have initial periods ranging from one to ten years, with minimum future rental payments as follows:

		Minimum Lease Payments
2012	\$	33,546
2013		23,957
2014		17,356
2015		11,004
2016		8,955
2017 and beyond		33,686
Total Minimum Future Lease Rental Payments	\$	128,504

Rent expense for operating leases was \$45,154 in 2011, \$24,364 in 2010 and \$23,765 in 2009.

NOTE 12 – LEGAL PROCEEDINGS

We are involved in a variety of legal claims and proceedings relating to personal injury, product liability, warranties, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These claims and proceedings include cases where we are one of a number of defendants in proceedings alleging that the plaintiffs suffered injuries or contracted diseases from exposure to chemicals or other ingredients used in the production of some of our products or waste disposal. We believe these claims and proceedings are not out of the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, we believe there is not a reasonable possibility that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

NOTE 13 – PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Savings and Retirement Plan: We sponsor a Savings and Retirement Plan for substantially all of our U.S. employees. Under the Plan, we match employee contributions up to a maximum match of 3% of employees' compensation. In addition to matching employees' contributions throughout the year, there is a year-end contribution that can range from 4% to 13% of eligible employees' pay as defined in the Plan. U.S. employees who are not eligible for the Savings and Retirement Plan have the option to participate in a separate 401(k) Employee Stock Ownership Plan. We match employee contributions (up to a maximum match of 3% of employees' compensation), and based on our financial performance there is a discretionary match that can range from 0-3%. Contributions to the Plans totaled \$31,060, \$33,273, and \$28,517, for 2011, 2010 and 2009, respectively.

Executive Retirement Plans: We have Supplemental Executive Retirement Plans (SERPs) to provide retirement, death and disability benefits to a limited number of former employees. Annual benefits under the SERPs are based on years of service and individual compensation near retirement.

Pension and Post-Retirement Medical Plans: We also sponsor several defined benefit pension plans for certain hourly and salaried employees. The benefits for most of these plans are generally based on stated amounts for each year of service. We fund the plans in amounts consistent with the limits of allowable tax deductions. During fiscal year 2011, we made contributions of approximately \$30,961 to our pension plans. We also sponsor a post-retirement medical plan that provides subsidized medical benefits for eligible retired employees and their eligible dependents. The plan changed on January 1, 2009 to eliminate the subsidy for future retirees with the exception of a small group of employees near retirement that will still be eligible for the subsidized coverage at retirement. A 1% increase in the medical trend rates would not have a material effect on post-retirement medical expense or the post-retirement benefit obligation. For the fiscal year ending October 26, 2012, we expect our total contributions to our funded pension plans, unfunded pension, non-qualified plans and post-retirement medical plans to be at least \$3,700.

Effective for our fiscal year ended October 30, 2009, we adopted all provisions related to the accounting and disclosure for employers' defined benefit pension and other post retirement plans. In fiscal year 2009, we were required to measure the plans' assets and obligations that determine our funded status as of the end of our fiscal year. Previously our measurement date was July 31. We elected to use the Alternate method to transition to the new measurement date. Under this method, the expense is calculated based on a 15-month period from July 31, 2008 to October 30, 2009 and is prorated to assign costs to the three-month adjustment period (adjustment to retained earnings) and the twelve-month period, which is our fiscal year 2009 expense. The adoption of this requirement did not have a material effect on our 2009 financial condition or results of operations.

The cost of pension and post-retirement medical benefits is as follows:

Net Periodic Benefit Cost	Pension		
	2011	2010	2009
Service cost	\$ 4,496	\$ 3,272	\$ 2,748
Interest cost	14,691	12,863	13,356
Expected return on plan assets	(17,625)	(16,250)	(15,487)
Amortization of prior service cost	397	472	617
Recognized actuarial loss	6,055	4,932	2,043
Settlement loss	(16)	—	2,102
Curtailment	—	(172)	(740)
Net Periodic Benefit Cost	\$ 7,998	\$ 5,117	\$ 4,639

Net Periodic Benefit Cost	Post-Retirement Medical		
	2011	2010	2009
Service cost	\$ 188	\$ 211	\$ 283
Interest cost	510	476	599
Expected return on plan assets	N/A	N/A	N/A
Amortization of prior service cost	(128)	(2,871)	(3,786)
Recognized actuarial loss	304	2,629	3,215
Net Periodic Benefit Cost	\$ 874	\$ 445	\$ 311

The plans' funded status is shown below, along with a description of how the status changed during the past two years. The benefit obligation is the projected benefit obligation—the actuarial present value, as of a date, of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. In certain countries outside the U.S., fully funding pension plans is not a common practice, as funding provides no economic benefit.

[Table of Contents](#)

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Change in Benefit Obligation				
Benefit obligation beginning of year	\$ 268,266	\$ 238,060	\$ 9,780	\$ 10,575
Service cost	4,496	3,272	188	211
Interest cost	14,691	12,863	510	476
Plan participants' contributions	737	498	—	—
Plan amendments	676	758	—	—
Actuarial loss (gain)	4,074	11,906	1,641	854
Benefits paid	(14,376)	(12,108)	(2,652)	(2,336)
Expenses paid from assets	(211)	—	—	—
Currency impact	(201)	(1,573)	—	—
Curtailement	—	(202)	—	—
Initial adoption on acquisition – WattyI	—	14,792	—	—
Benefit Obligation at End of Year	\$ 278,152	\$ 268,266	\$ 9,467	\$ 9,780

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Change in Plan Assets				
Fair value of plan assets at beginning of year	\$ 212,822	\$ 167,213	\$ —	\$ —
Actual return on plan assets	7,970	23,594	—	—
Employer contributions	30,961	19,321	2,652	2,336
Plan participants' contributions	737	498	—	—
Benefit payments	(14,376)	(12,108)	(2,652)	(2,336)
Expenses paid from assets	(211)	—	—	—
Currency impact	(245)	(697)	—	—
Initial adoption on acquisition – WattyI	—	15,001	—	—
Fair Value of Assets at End of Year	\$ 237,658	\$ 212,822	\$ —	\$ —

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Funded Status				
Projected benefit obligation	\$ (278,152)	\$ (268,266)	\$ (9,467)	\$ (9,780)
Plan assets at fair value	237,658	212,822	—	—
Net Funded Status – Over (Under)	\$ (40,494)	\$ (55,444)	\$ (9,467)	\$ (9,780)
Funded status – overfunded plans	\$ 352	\$ 209	\$ —	\$ —
Funded status – underfunded plans	(40,846)	(55,653)	(9,467)	(9,780)

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Amounts Recognized in Balance Sheet:				
Noncurrent assets	\$ 352	\$ 209	\$ —	\$ —
Current liabilities	(477)	(438)	(994)	(977)
Noncurrent liabilities	(40,369)	(55,215)	(8,473)	(8,803)

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Amounts in Accumulated Other Comprehensive Income:				
Net (gain) / loss	\$ 125,245	\$ 117,446	\$ 5,027	\$ 3,690
Net prior service cost (credit)	5,005	4,729	(695)	(823)
Other Comprehensive (Income) / Loss – Total	130,250	122,175	4,332	2,867

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Amortization Expense Expected to Be Recognized During Next Fiscal Year:				
Prior service cost (credits)	\$ 436	\$ 397	\$ (128)	\$ (128)
Net loss	6,863	6,035	472	304

Our pension and post-retirement medical plans with accumulated benefit obligations in excess of plan assets were as follows:

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Projected / accumulated post-retirement benefit obligation	\$ 226,158	\$ 253,475	\$ 9,467	\$ 9,780
Accumulated benefit obligation	219,328	244,428	N/A	N/A
Fair value of plan assets	186,329	197,821	N/A	N/A

Our pension and post-retirement medical plans with projected benefit obligations in excess of plan assets were as follows:

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Projected / accumulated post-retirement benefit obligation	\$ 265,134	\$ 253,475	N/A	N/A
Accumulated benefit obligation	255,298	244,428	N/A	N/A
Fair value of plan assets	224,288	197,821	N/A	N/A

Our pension plans with projected benefit obligations less than plan assets were as follows:

	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Projected benefit obligation	\$ 13,018	\$ 14,791	N/A	N/A
Accumulated benefit obligation	12,222	14,329	N/A	N/A
Fair value of plan assets	13,370	15,001	N/A	N/A

Actuarial Assumptions: We determine our actuarial assumptions on an annual basis. These assumptions are weighted to reflect each country with requirements that may have an impact on the cost of providing retirement benefits. We employ a total return investment approach for the domestic and foreign pension plan assets. A mix of equities and fixed income investments are used to maximize the long-term return on plan assets for a prudent level of risk. In determining the expected long-term rate of return, management considers the historical rates of return, the nature of investments and an expectation of future investment strategies.

Assumption ranges used in net periodic benefit cost	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Discount rate	4.75% – 5.75%	5.50% – 6.75%	5.50%	4.75%
Expected long-term return on plan assets	4.75% – 8.00%	6.50% – 8.50%	N/A	N/A
Average increase in compensation	2.25% – 4.00%	2.25% – 4.00%	N/A	N/A
Initial medical trend rate	N/A	N/A	9.00%	7.00%
Ultimate medical trend rate	N/A	N/A	5.00%	5.00%
Years to ultimate rate	N/A	N/A	8 Years	2 Years

Assumption ranges used to determine benefit obligation:	Pension		Post-Retirement Medical	
	2011	2010	2011	2010
Discount rate	4.25% – 5.50%	4.75% – 5.75%	5.00%	5.50%
Rate of compensation increase	2.25% – 4.00%	2.25% – 4.00%	N/A	N/A
Initial medical trend rate	N/A	N/A	8.50%	9.00%
Ultimate medical trend rate	N/A	N/A	5.00%	5.00%
Years to ultimate rate	N/A	N/A	7 Years	8 Years

Investment Strategy: We have a master trust that holds the assets for all the U.S. pension plans. For investment purposes, the plans are managed in an identical way, as their objectives are similar. The Benefit Funds Investment Committee, along with assistance from external consultants, sets investment guidelines and makes asset allocation decisions. These are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. The Committee also oversees the selection of investment managers and monitors asset performance. As pension liabilities are long-term in nature, the Committee employs a long-term rate of return on plan assets approach for a prudent level of risk. Historical returns are considered as well as advice from investment experts. Annually, the Committee and the consultants review the risk versus the return of the investment portfolio to assess the long-term rate of return assumption.

The U.S. investment portfolio contains a diversified portfolio of investment categories, including domestic and international equities and short and long-term fixed income securities. Among the equity investments there is also diversity of style, growth versus value. Plan assets did not include investments in our stock as of the reported dates. The Committee believes with prudent risk tolerance and asset diversification, the plans should be able to meet their pension obligations in the future.

[Table of Contents](#)

The weighted average asset allocations for the past two fiscal years by asset category are as follows:

Asset Allocation	Pension Plans		
	2011	2010	Target Allocation
Equity securities	56%	56%	50 – 60%
Debt securities	39%	39%	40 – 50%
Other	5%	5%	0%
Total	100%	100%	100%

The following tables provide information on the fair value of pension plan assets. See Note 1 for more information on fair value measurements.

	Fair Value at October 28, 2011	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Domestic Equity Securities				
Corporate Stocks	\$ 24,041	\$ 24,041	\$ —	\$ —
Commingled Trust	53,273	—	53,273	—
Mutual Funds	3,437	—	3,437	—
International Equity Securities				
Mutual Funds	48,385	—	48,385	—
Total Equity Securities	129,136	24,041	105,095	—
Domestic Fixed Income				
Debt Securities	1,466	—	1,466	—
Mutual Funds	73,243	—	73,243	—
International Fixed Income				
Debt Securities	2,532	—	2,532	—
Mutual Funds	20,809	—	20,809	—
Total Fixed Income	98,050	—	98,050	—
Other Investments				
Insurance Contracts	7,216	—	—	7,216
Cash	1,969	1,969	—	—
Real Estate	1,287	—	787	500
Total Other Investments	10,472	1,969	787	7,716
Total	\$ 237,658	\$ 26,010	\$ 203,932	\$ 7,716

	Fair Value at October 29, 2010	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Domestic Equity Securities				
Corporate Stocks	\$ 18,393	\$ 18,393	\$ —	\$ —
Commingled Trust	50,534	—	50,534	—
Mutual Funds	4,200	—	4,200	—
International Equity Securities				
Mutual Funds	45,330	—	45,330	—
Total Equity Securities	118,457	18,393	100,064	—
Domestic Fixed Income				
Debt Securities	2,100	—	2,100	—
Mutual Funds	59,994	—	59,994	—
International Fixed Income				
Debt Securities	2,250	—	2,250	—
Mutual Funds	19,129	—	19,129	—
Fixed Income – Mutual Funds	83,473	—	83,473	—
Other Investments				
Insurance Contracts	6,527	—	—	6,527
Cash	2,970	2,970	—	—
Real Estate	1,395	—	900	495
Total Other Investments	10,892	2,970	900	7,022
Total	\$ 212,822	\$ 21,363	\$ 184,437	\$ 7,022

Pension plan investments in corporate stocks are classified as Level 1 investments within the fair value hierarchy, as determined by quoted market prices.

Pension plan investments in mutual funds and common/collective trusts, and certain other investments are classified as Level 2 investments within the fair value hierarchy. These investments are valued at net asset value based on the underlying securities, as determined by the sponsor. Level 3 investments are primarily related to insurance contracts required in certain foreign-based plans.

[Table of Contents](#)

Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported. The valuation methods previously described above may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values.

The following table provides a reconciliation of the beginning and ending balances of pension assets measured at fair value that used significant unobservable inputs (Level 3):

	Total	U.S.	Non-U.S.
Balance, October 30, 2009	\$ 4,236	\$ 495	\$ 3,741
Actual return on plan assets			
Relating to assets still held at reporting date	2,118	—	2,118
Relating to assets sold during period	—	—	—
Purchases, sales, settlements	898	—	898
Transfers in and/or out of Level 3	—	—	—
Currency impact	(230)	—	(230)
Balance, October 29, 2010	\$ 7,022	\$ 495	\$ 6,527
Actual return on plan assets			
Relating to assets still held at reporting date	(328)	5	(333)
Purchases	1,168	—	1,168
Settlements	(66)	—	(66)
Transfers in and/or out of Level 3	—	—	—
Currency impact	(80)	—	(80)
Balance, October 28, 2011	\$ 7,716	\$ 500	\$ 7,216

Estimated Future Benefits: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension	Post-retirement Medical
2012	\$ 14,401	\$ 1,018
2013	14,395	1,144
2014	14,822	1,189
2015	15,254	1,107
2016	15,483	982
2017 – 2021	84,907	2,897
Total	\$ 159,262	\$ 8,337

NOTE 14 – SEGMENT INFORMATION

Based on the nature of our products, technology, manufacturing processes, customers and regulatory environment, we aggregate our operating segments into two reportable segments: Coatings and Paints. We are required to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. We evaluate the performance of operating segments and allocate resources based on profit or loss from operations before interest expense and taxes (EBIT).

The Coatings segment aggregates our industrial and packaging product lines. Industrial products include a broad range of decorative and protective coatings for metal, wood and plastic. Packaging products include both interior and exterior coatings used in metal packaging containers, principally food containers and beverage cans. The products of this segment are sold throughout the world.

The Paints segment aggregates our consumer paints and automotive refinish product lines. Consumer paint products include interior and exterior decorative paints, primers, varnishes, high performance floor paints and specialty decorative products, such as enamels, aerosols and faux varnishes for the do-it-yourself and professional markets in North America and China. In September 2010, we acquired Wattyl Limited and we now sell consumer paints in Australia and New Zealand primarily through independent dealers, hardware chains, home centers and company-owned stores (see Note 2).

[Table of Contents](#)

Our remaining activities are included in All Other. These activities include specialty polymers and colorants that are used internally and sold to other coatings manufacturers, as well as gelcoats and related products and furniture protection plans. Also included within All Other are our corporate administrative expenses. The administrative expenses include amortization expense, certain environmental-related expenses and other expenses not directly allocated to any other operating segment.

It is not practicable to obtain the information needed to disclose revenues attributable to each of our identified product lines within our reportable segments.

In the following table, sales between segments are recorded at selling prices that are below market prices, generally intended to recover internal costs. Segment EBIT includes income realized on inter-segment sales. Identifiable assets are those directly identified with each reportable segment. Corporate assets included within All Other include cash and cash equivalents, deferred pension assets, intangibles and the headquarters property, plant and equipment. The accounting policies of the reportable segments are the same as those described in Note 1. Comparative segment data for fiscal years 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Net Sales:			
Coatings	\$ 2,092,490	\$ 1,814,804	\$ 1,582,786
Paints	1,612,219	1,176,831	1,072,372
All Other	360,059	335,354	316,251
Less Intersegment sales	(111,814)	(100,302)	(92,367)
Total Net Sales	\$ 3,952,954	\$ 3,226,687	\$ 2,879,042

	2011	2010	2009
EBIT:			
Coatings	\$ (112,209)	\$ 256,466	\$ 185,528
Paints	134,886	151,432	135,561
All Other	(64,320)	(30,434)	(32,367)
Total EBIT	\$ (41,643)	\$ 377,464	\$ 288,722
Interest Expense	\$ 61,511	\$ 58,267	\$ 50,394
Income (Loss) before Income Taxes	\$ (103,154)	\$ 319,197	\$ 238,328

	2011	2010	2009
Depreciation and Amortization:			
Coatings	\$ 47,205	\$ 45,006	\$ 45,439
Paints	34,202	18,686	18,566
All Other	16,340	17,620	18,857
Total Depreciation and Amortization	\$ 97,747	\$ 81,312	\$ 82,862

	2011	2010	2009
Identifiable Assets:			
Coatings	\$ 2,118,589	\$ 2,368,262	\$ 2,293,130
Paints	1,030,712	1,117,485	818,732
All Other ¹	350,850	382,189	399,162
Total Identifiable Assets	\$ 3,500,151	\$ 3,867,936	\$ 3,511,024

¹ Includes our consolidated cash and cash equivalent balances and restricted cash.

	2011	2010	2009
Capital Expenditures:			
Coatings	\$ 32,284	\$ 30,355	\$ 25,761
Paints	18,650	16,644	8,047
All Other	15,535	20,733	24,089
Total Capital Expenditures	\$ 66,469	\$ 67,732	\$ 57,897

[Table of Contents](#)

Geographic net sales are based on the country from which the customer was billed for the products sold. The United States is the largest country for customer sales. China and Australia are the only countries outside of the United States that represent more than 10% of consolidated sales. Long-lived assets include property, plant and equipment, intangibles and goodwill attributable to each country's operations. Net sales and long-lived assets by geographic region are as follows:

	2011		2010		2009
Net Sales – External:					
United States	\$	2,055,494	\$	1,922,781	\$ 1,790,084
China		488,272		418,017	328,634
Australia		481,578		103,042	71,026
Other Countries		927,610		782,847	689,298
Total Net Sales - External	\$	3,952,954	\$	3,226,687	\$ 2,879,042

	2011		2010		2009
Long-lived Assets:					
United States	\$	1,186,267	\$	1,498,192	\$ 1,513,885
China		366,417		465,505	459,004
Australia		144,316		153,571	35,622
Other Countries		462,545		443,570	430,497
Total Long-lived Assets	\$	2,159,545	\$	2,560,838	\$ 2,439,008

We have one significant customer in the Paints segment whose net sales ranged from 16.4% to 20.1% of total sales over the last three years.

NOTE 15 – RESTRUCTURING

During the 2011 fiscal year, we initiated restructuring actions in our Coatings segment, primarily in our wood product line, which will further rationalize our manufacturing capacity and reduce our overall global headcount. We also initiated restructuring actions to improve the profitability of our Australian acquisition in the Paints segment, which include facility consolidations in manufacturing and distribution, store rationalization and other related costs. These restructuring activities resulted in pre-tax charges of \$33,093 or \$0.24 per share after tax in 2011. These activities will span fiscal years 2011 and 2012, and we expect the total cost to be \$0.30 to \$0.35 per share after tax.

In fiscal year 2008, we initiated a comprehensive series of restructuring activities which are now complete. These restructuring initiatives included plant closures, reductions to research and development and selling, general and administrative expenses, manufacturing consolidation and relocation, and our exit from non-strategic product lines in certain geographies. We rationalized our manufacturing capacity and reduced our overall global headcount to lower our costs in light of the challenging global economic conditions. Pre-tax restructuring charges for these initiatives were \$1,346 or \$0.01 per share after tax, \$12,383 or \$0.08 per share after tax and \$28,557 or \$0.18 per share after tax in fiscal years 2011, 2010 and 2009, respectively.

Our total restructuring activities for 2011 resulted in pre-tax charges of \$34,439 or \$0.24 per share after tax, compared to \$12,383 or \$0.08 per share after tax in 2010 and \$28,557 or \$0.18 per share after tax in 2009.

The total resulting expenses included severance and employee benefits, asset impairments, professional services and site clean-up. We plan to pay the majority of the current restructuring liabilities within the next nine months.

The following restructuring and asset impairment charges by segment were recorded in 2011, 2010 and 2009:

Year Ended October 28, 2011

	Liability Beginning Balance 10/29/2010	Expense	Activity	Liability Ending Balance 10/28/2011
Coatings				
Severance and employee benefits	\$ 1,139	\$ 10,044	\$ (7,299)	\$ 3,884
Asset impairments	—	5,644	(5,644)	—
Exit costs (consulting/site clean-up)	2,034	5,252	(4,484)	2,802
Total Coatings	3,173	20,940	(17,427)	6,686
Paints				
Severance and employee benefits	19	7,945	(5,049)	2,915
Asset impairments	—	4,169	(4,169)	—
Exit costs (consulting/site clean-up)	2,763	899	(3,254)	408
Total Paints	2,782	13,013	(12,472)	3,323
All Other				
Severance and employee benefits	—	486	(49)	437
Total All Other	—	486	(49)	437
Total	\$ 5,955	\$ 34,439	\$ (29,948)	\$ 10,446

Year Ended October 29, 2010

	Liability Beginning Balance 10/30/2009	Net Expense	Activity	Liability Ending Balance 10/29/2010
Coatings				
Severance and employee benefits	\$ 1,694	\$ 2,353	\$ (2,908)	\$ 1,139
Asset impairments	—	5,596	(5,596)	—
Exit costs (consulting/site clean-up)	1,012	1,822	(800)	2,034
Contract term costs (leases)	—	792	(792)	—
Total Coatings	2,706	10,563	(10,096)	3,173
Paints				
Severance and employee benefits	827	313	(1,121)	19
Asset impairments	—	(237)	237	—
Exit costs (consulting/site clean-up)	2,556	1,519	(1,312)	2,763
Total Paints	3,383	1,595	(2,196)	2,782
All Other				
Severance and employee benefits	55	—	(55)	—
Asset impairments	—	114	(114)	—
Exit costs (consulting/site clean-up)	—	111	(111)	—
Total All Other	55	225	(280)	—
Total	\$ 6,144	\$ 12,383	\$ (12,572)	\$ 5,955

Year Ended October 30, 2009

	Liability Beginning Balance 10/31/2008	Expense	Activity	Liability Ending Balance 10/30/2009
Coatings				
Severance and employee benefits	\$ 7,842	\$ 12,339	\$ (18,487)	\$ 1,694
Asset impairments	—	3,417	(3,417)	—
Exit costs (consulting/site clean-up)	423	2,010	(1,421)	1,012
Contract term costs (leases)	—	471	(471)	—
Total Coatings	8,265	18,237	(23,796)	2,706
Paints				
Severance and employee benefits	—	1,374	(547)	827
Asset impairments	—	1,935	(1,935)	—
Exit costs (consulting/site clean-up)	2,252	1,120	(816)	2,556
Total Paints	2,252	4,429	(3,298)	3,383
All Other				
Severance and employee benefits	806	615	(1,366)	55
Asset impairments	—	3,647	(3,647)	—
Exit costs (consulting/site clean-up)	64	1,568	(1,632)	—
Contract term costs (leases)	—	61	(61)	—
Total All Other	870	5,891	(6,706)	55
Total	\$ 11,387	\$ 28,557	\$ (33,800)	\$ 6,144

The ending liability balance at October 28, 2011 and at October 29, 2010 is included in other accrued liabilities on our Consolidated Balance Sheets. The restructuring reserve balances presented are considered adequate to cover committed restructuring actions. The restructuring expenses recorded are included in the Consolidated Statements of Operations. For 2011, \$25,563 was charged to cost of sales and \$8,876 was charged to selling, general and administrative (SG&A) expenses. For 2010, \$12,520 was charged to cost of sales and \$137 was credited to SG&A expenses. For 2009, \$22,280 was charged to cost of sales and \$6,277 was charged to SG&A expenses.

In 2010, we also recorded \$6,147 of restructuring charges consisting primarily of severance related to the divestiture of certain assets to DIC Corporation, which was netted against the gain included in SG&A expenses in our Coatings segment.

NOTE 16 – QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results for the years ended October 28, 2011 and October 29, 2010:

	Net Sales	Gross Margin	Net Income (Loss)	Net Income (Loss) per Share - Basic	Net Income (Loss) per Share - Diluted
2011 Quarter Ended:					
January 28	\$ 842,404	\$ 258,913	\$ 33,427	\$ 0.35	\$ 0.34
April 29	992,729	315,510	56,308	0.60	0.58
July 29	1,070,482	324,337	67,387	0.72	0.70
October 28	1,047,339	333,048	(295,723)	(3.18)	(3.18)
	\$ 3,952,954	\$ 1,231,808	\$ (138,601)	\$ (1.47)	\$ (1.47)
2010 Quarter Ended:					
January 29	\$ 672,363	\$ 216,991	\$ 33,937	\$ 0.34	\$ 0.34
April 30	803,570	273,353	61,673	0.63	0.61
July 30	873,915	290,804	75,143	0.76	0.74
October 29	876,839	290,530	51,303	0.52	0.51
	\$ 3,226,687	\$ 1,071,678	\$ 222,056	\$ 2.25	\$ 2.20

In the fourth quarter of fiscal year 2011, income (loss) from continuing operations included an impairment of goodwill and intangible assets of \$3.82 per share (\$3.75 per share for the full fiscal year 2011). See Note 1 and Note 8 for more information on goodwill and intangible assets. The second, third and fourth quarters of fiscal year 2011 included restructuring costs of \$0.01, \$0.10 and \$0.13 per share, respectively. The first, third and fourth quarters of fiscal year 2010 included restructuring costs of \$0.02, \$0.04 and \$0.02 per share, respectively. See Note 15 for more information on restructuring activities. In the first and second quarter of 2011, income (loss) from continuing operations included acquisition-related charges of \$0.05 and \$0.05 per share, respectively. In the fourth quarter of 2010, income from continuing operations included acquisition-related charges of \$0.03 per share. In the third quarter of 2010, income from continuing operations included an after-tax benefit of \$0.08 per share for a net gain on the sale of certain assets. The quarters will not sum to the fiscal year amount due to the effect of weighting and the exclusion of antidilutive shares in 2011.

NOTE 17 – RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board (FASB) amended the guidance on fair value measurement to expand certain disclosure requirements and converge United States General Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) measurement and reporting requirements. The change is effective for interim and annual periods beginning after December 15, 2011, which means the second quarter of our fiscal year 2012, and is to be applied prospectively. We do not expect the adoption of this accounting guidance to have a material effect on our consolidated financial statements.

In June 2011, the Financial Accounting Standards Board (FASB) updated the disclosure requirements for comprehensive income. The update requires companies to disclose total comprehensive income, the components of net income and the components of other comprehensive income, either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The change is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which means the first quarter of our fiscal year 2013, and is to be applied retrospectively. We do not expect the adoption of these updated disclosure requirements to have an effect on our consolidated results of operations, financial condition or liquidity.

In September 2011, the Financial Accounting Standards Board (FASB) amended the guidance on goodwill impairment testing to allow companies the option of first assessing qualitative factors to determine whether the two-step impairment test is required. If it is more likely than not that the fair value of a reporting unit is less than its carrying value, the two-step impairment test must be performed. Otherwise, the two-step impairment test is not necessary. The change is effective for fiscal years beginning after December 15, 2011, which is our fiscal year 2013, but early adoption is permitted. We do not expect the adoption of this accounting guidance to have an effect on our consolidated financial statements.

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

None.

ITEM 9A CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of October 28, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Changes in Internal Controls

The report of Management on Internal Control over Financial Reporting is set forth on page 24.

The Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting is set forth on page 25.

There were no changes in our internal control over financial reporting during the quarter ended October 28, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B OTHER INFORMATION

Not applicable.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in the sections titled "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" in the Proxy Statement is incorporated herein by reference. The information regarding executive officers is set forth in Part I of this report.

ITEM 11 EXECUTIVE AND DIRECTOR COMPENSATION

The information in the sections titled "Compensation Committee Report" and "Executive and Director Compensation" in the Proxy Statement is incorporated herein by reference.

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

The information in the sections titled "Share Ownership of Certain Beneficial Owners" and "Share Ownership of Management" in the Proxy Statement is incorporated herein by reference.

EQUITY COMPENSATION PLANS

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (1)
Equity Compensation Plans Approved by Security Holders	8,908,796	\$ 24.88	3,685,092
Equity Compensation Plans Not Approved by Security Holders	None	None	None
Total	8,908,796	\$ 24.88	3,685,092

(1) The number of securities remaining available for future issuance under equity compensation plans consists of shares issuable under outstanding stock options under The Valspar Corporation 1991 Stock Option Plan and The Valspar Corporation Stock Option Plan for Non-Employee Directors. In December 2008, the Board of Directors approved the 2009 Omnibus Equity Plan, which was approved by the stockholders in February 2009. The 2009 Omnibus Equity Plan replaced other equity compensation plans for future grants.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information in the sections titled "Corporate Governance – Director Independence" and "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the sections titled "Audit Fee Information" and "Pre-Approval of Services by Independent Auditors" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report.

(1) Financial Statements

	Page
Report of Management on Internal Control Over Financial Reporting	24
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	25
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	26
Consolidated Balance Sheets – October 28, 2011 and October 29, 2010	27
Consolidated Statements of Operations – Years ended October 28, 2011, October 29, 2010 and October 30, 2009	28
Consolidated Statement of Changes in Equity – Years ended October 28, 2011, October 29, 2010 and October 30, 2009	29
Consolidated Statements of Cash Flows – Years ended October 28, 2011, October 29, 2010 and October 30, 2009	30
Notes to Consolidated Financial Statements	31–53
Selected Quarterly Financial Data (Unaudited)	53

(2) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts and Reserves can be found on page 59.

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.

(3) Exhibits

Exhibit Number	Description
2.1	Scheme Implementation Deed between the Registrant and WattyI Limited dated June 28, 2010 (incorporated by reference to Form 8-K filed on July 1, 2010)
3.1	Certificate of Incorporation – as amended to and including June 30, 1970, with further amendments to Article Four dated February 29, 1984, February 25, 1986, February 26, 1992, February 26, 1997 and May 22, 2003 and to Article Eleven dated February 25, 1987 (incorporated by reference to Form 10-K for the period ended October 31, 1997, amendment filed with Form 10-Q for the quarter ended April 25, 2003)
3.2	By-Laws – as amended and restated, effective August 19, 2009 (incorporated by reference to Form 10-Q for the quarter ended July 31, 2009)

Exhibit Number	Description
4.1	Indenture dated April 24, 2002, between the Registrant and Bank One Trust Company, N.A., as Trustee, relating to Registrant's 6% Notes due 2007 (The Bank of New York Trust Company, N.A. is the successor in interest to Bank One) (incorporated by reference to Form 10-K for the period ended October 25, 2002, amendment filed with Form 10-Q for the quarter ended April 30, 2004)
4.2	Second Supplemental Indenture, dated as of April 17, 2007, to indenture dated as of April 24, 2002, between the Registrant and The Bank of New York Trust Company, N.A. relating to the Registrant's 5.625% Notes due 2012 and 6.050% Notes due 2017 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on April 18, 2007)
4.3	Indenture dated July 15, 2005 between the Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to the Company's 5.100% Notes due 2015, including form of Registrant's 5.100% Notes due 2015 (incorporated by reference to Form 8-K filed on July 18, 2005)
4.4	Third Supplemental Indenture, between the Registrant and U.S. Bank, National Association, as Trustee, dated June 19, 2009, to Indenture dated April 24, 2002, between the Registrant and The Bank of New York Trust Company, N.A. relating to the Registrant's 7.250% Notes due 2019 (incorporated by reference to Form 8-K filed on June 23, 2009)
10.1	The Valspar Corporation Key Employees' Supplementary Retirement Plan, restated effective October 15, 2008 (incorporated by reference to Form 10-K for the period ended October 31, 2008)*
10.2	The Valspar Corporation 1991 Stock Option Plan – as amended through August 21, 2007 (incorporated by reference to Form 10-K for the period ended October 31, 2008)*
10.3	The Valspar Corporation Key Employee Annual Bonus Plan for Officers – as amended and restated on June 8, 2010 (incorporated by reference to Form 8-K filed on June 14, 2010)*
10.4	The Valspar Corporation Stock Option Plan for Non-Employee Directors – as amended through October 17, 2007 (incorporated by reference to Form 10-K for the period ended October 31, 2008)*
10.5	The Valspar Corporation 2001 Stock Incentive Plan (incorporated by reference to Form 10-K for the period ended October 25, 2002)*
10.6	Form of Change in Control Employment Agreement between the Registrant and the Registrant's Named Executives – as amended through December 10, 2008 (incorporated by reference to Form 10-K for the period ended October 31, 2008)*
10.7	The Valspar Corporation Supplemental Executive Retirement Plan for William L. Mansfield, restated effective December 31, 2008 (incorporated by reference to Form 10-K for the period ended October 31, 2008)*
10.8	Form of Nonstatutory Stock Option Agreement for Officers under the Corporation's 1991 Stock Option Plan – as amended August 21, 2007 (incorporated by reference to Form 10-K for the period ended October 31, 2008)*
10.9	Confidentiality and Noncompetition Agreement between Registrant and William L. Mansfield (incorporated by reference to Form 10-Q for the quarter ended January 28, 2005)
10.10	Three-Year Credit Agreement dated June 30, 2009 with Wells Fargo Bank, National Association, as administrative agent and an issuing bank, Wachovia Bank, National Association, as an issuing bank, and certain other lenders, together with First Amendment to Three-Year Credit Agreement dated August 17, 2009 (incorporated by reference to Form 10-Q for the quarter ended January 29, 2010)
10.11	Form of Stock Option Granted to Non-Employee Directors – as amended October 17, 2007 (incorporated by reference to Form 10-K for the period ended October 31, 2008)*
10.12	Form of Restricted Stock Granted to Certain Executive Officers (incorporated by reference to Form 10-Q for the quarter ended April 28, 2006)*
10.13	Form of Stock Option Granted to Certain Executive Officers (incorporated by reference to Form 10-Q for the quarter ended April 28, 2006)*

[Table of Contents](#)

Exhibit Number	Description
10.14	The Valspar Corporation 2009 Omnibus Equity Plan – as amended and restated on June 8, 2010 (incorporated by reference to Form 10-Q for the quarter ended April 30, 2010)*
10.15	Form of Indemnification Letter Agreement to Non-Employee Directors and Certain Executive Officers (incorporated by reference to Form 10-Q for the quarter ended January 30, 2009)*
10.16	Term Sheet for Compensation Program for Non-Employee Directors (incorporated by reference to Form 8-K filed on October 23, 2009)*
10.17	Second Amendment to Credit Agreement with Wells Fargo Bank, National Association, as administrative agent and an issuing bank, and certain other lenders, dated as of November 15, 2010 (incorporated by reference to Form 8-K filed on November 19, 2010)
10.18	Letter Agreement between Registrant and Gary E. Hendrickson dated as of February 17, 2011 (incorporated by reference to Form 10-Q filed for the quarter ended January 28, 2011)*
10.19	Confidentiality and Noncompetition Agreement between Registrant and Gary E. Hendrickson dated as of February 17, 2011 (incorporated by reference to Form 10-Q filed for the quarter ended January 28, 2011)
10.20	Restricted Stock Unit Agreement between Registrant and Gary E. Hendrickson dated effective as of June 1, 2011 (incorporated by reference to Form 10-Q filed for the quarter ended January 28, 2011)*
10.21	Transition Agreement and Release with William L. Mansfield dated as of April 13, 2011 (incorporated by reference to Form 8-K filed on April 18, 2011)
14.1 †	Code of Ethics and Business Conduct (incorporated by reference to Form 10-K for the period ended October 29, 2004)
21.1**	Subsidiaries of the Registrant
23.1**	Consent of Independent Registered Public Accounting Firm – Ernst & Young LLP
31.1**	Section 302 Certification of the Chief Executive Officer
31.2**	Section 302 Certification of the Chief Financial Officer
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document
101.LAB**	XBRL Label Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document

* Compensatory Plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

**Filed electronically herewith.

†Available at the Registrant's website at <http://www.valsparcorporate.com>.

Portions of the 2012 Proxy Statement are incorporated herein by reference as set forth in Items 10, 11, 12, 13 and 14 of this report. Only those portions expressly incorporated by reference herein shall be deemed filed with the Commission.

SIGNATURES

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.

THE VALSPAR CORPORATION

/s/ Rolf Engh 12/21/11

Rolf Engh, 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 and on the dates indicated.

/s/ Gary E. Hendrickson 12/21/11

Gary E. Hendrickson, Director
President and Chief Executive Officer
(principal executive officer)

/s/ Lori A. Walker 12/21/11

Lori A. Walker, Senior Vice President
and Chief Financial Officer
(principal financial officer)

/s/ Tracy C. Jokinen 12/21/11

Tracy C. Jokinen, Vice President and
Controller (principal accounting officer)

/s/ John S. Bode 12/21/11

John S. Bode, Director

/s/ William M. Cook 12/21/11

William M. Cook, Director

/s/ Jeffrey H. Curler 12/21/11

Jeffrey H. Curler, Director

/s/ Ian R. Friendly 12/21/11

Ian R. Friendly, Director

/s/ Janel S. Haugarth 12/21/11

Janel S. Haugarth, Director

/s/ Mae C. Jemison 12/21/11

Mae C. Jemison, Director

/s/ William L. Mansfield 12/21/11

William L. Mansfield, Director Chairman

/s/ Gregory R. Palen 12/21/11

Gregory R. Palen, Director

The Valspar Corporation
Schedule II – Valuation and Qualifying Accounts and Reserves

Changes in the allowance for doubtful accounts were as follows:

(dollars in thousands)	2011	2010	2009
Beginning balance	\$ 17,459	\$ 21,768	\$ 16,389
Amount acquired through acquisitions	309	1,434	—
Bad debt expense	2,992	(668)	11,186
Uncollectable accounts written off, net of recoveries	(5,783)	(5,075)	(5,807)
Ending balance	\$ 14,977	\$ 17,459	\$ 21,768