

VALSPAR CORP  
Form 10-K  
December 21, 2010

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

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**FORM 10-K**

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(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended October 29, 2010

**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

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**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:**

| <b>Title of Each Class</b>                                       | <b>Name of Each Exchange on which Registered</b> |
|--|--|
| Common Stock, \$.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

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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.

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 5% stockholders of the registrant as of April 30, 2010 was \$2.3 billion based on the closing sales price of \$31.32 per share as reported on the New York Stock Exchange. As of December 13, 2010, 97,465,441 shares of Common Stock, \$.50 par value per share (net of 20,977,183 shares in treasury), were outstanding.

### **DOCUMENTS INCORPORATED IN PART BY REFERENCE**

Portions of The Valspar Corporation's definitive Proxy Statement dated January 14, 2011 (the Proxy Statement), to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended October 29, 2010, are incorporated by reference into Part III to the extent described in this report.

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**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 2010 from our Coatings and Paints segments were \$1,814.8 million and \$1,176.8 million, respectively. Our total net sales in 2010 were \$3,226.7 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.valsparglobal.com](http://www.valsparglobal.com). The information on our website is not part of this filing.

**Coatings Segment**

Our Coatings segment includes our packaging product line and our three industrial product lines: coil, general industrial and wood. 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 equipment, appliances, building products, construction equipment, furniture, metal fabrication, metal packaging and transportation.

We utilize a wide variety of coatings technologies to meet our customers' coatings requirements, including electrodeposition, powder, solvent-based, waterborne and UV light-cured coatings. This broad technology capability allows us to customize products to our customers' specifications and to provide one stop integrated solutions. For example, we believe that we are one of only a small number of coatings manufacturers that currently have the technological and manufacturing capabilities to be a single source coatings supplier to appliance makers.

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 coil product line includes coatings that are applied to metal coils used to manufacture pre-engineered buildings and building components, other metal building and architectural products and appliances. We believe we are the leading coil coatings manufacturer in North America, with particular strength in coil coatings for metal buildings and appliances. With our broad technology portfolio, we have a product for nearly every type of coil coatings application requirement. We also supply coil coatings in Asia, Australia, Eastern and Northern Europe and South America.

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. We continue to expand our manufacturing and technical service infrastructure into Asia, Australia, Central America, Europe and South America.

Our wood product line supplies decorative and protective coatings for wood furniture, building products, cabinets and floors. We believe we are one of the world's largest suppliers of wood coatings. We have color design, manufacturing and technical service capabilities for customers throughout Asia and North 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 (formerly known as architectural) 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. At key customers, we also offer additional marketing and customer support by providing Valspar personnel to train paint department employees and to

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answer paint questions in stores. In China, we sell our Huarun brand 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.

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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 in China, and WattyI 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.

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, price and new technology offerings. In addition, the markets for these coatings are becoming increasingly global. 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 innovative 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 to our customers.

### **RAW MATERIALS**

We obtain raw materials from a number of suppliers. The raw materials are derived from petrochemicals, minerals and metals. Historically, all of these materials have been generally available on the open market, with pricing and availability subject to fluctuation. The chemical industry's economic cycle has been volatile for most of the last decade. Our raw material costs reached historically high levels in 2008. Early in 2009, due to weak economic conditions, prices for many of the raw materials we purchased moderated from the 2008 levels, but as the year progressed, material prices began to rise again as crude oil and other feedstock prices recovered. In 2010, that trend continued as we experienced a significant increase in raw material costs along with shortages of certain raw materials. Current raw material price levels still remain above trend lines from the early part of the last decade. Raw material demand and price volatility are managed to minimize the impact on our operations. Because 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. As a condition of employment, except where otherwise prohibited by law or union rules, we require each employee to sign a confidentiality agreement 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 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 and short-term and long-term credit lines discussed in Note 5 of Notes to Consolidated Financial Statements.

### **SIGNIFICANT CUSTOMERS**

In 2010, our sales to Lowe's Companies, Inc. exceeded 10% of net sales, and our ten largest customers accounted for approximately 35% of net sales. In 2010, our five largest customers in the Paints segment accounted for approximately 60% of our net sales in the segment.



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**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 include improving our proprietary technology, including the technology we have acquired through acquisitions, and making formulation changes to improve our products.

Research and development costs for fiscal 2010 were \$100.2 million or 3.1% of net sales, compared to \$91.3 million or 3.2% of net sales for fiscal 2009 and \$96.6 million or 2.8% of net sales for fiscal 2008. Our primary emphasis has been on developing and refining emerging technologies in our Coatings segment.

**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 2010, and capital expenditures for fiscal 2011 to comply with existing laws and regulations are also not expected to be material.

**EMPLOYEES**

We employ approximately 10,180 persons, approximately 445 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 40% of our total revenues in fiscal 2010. Sales from foreign operations as a percent of consolidated sales increased in 2010 compared to 2009.

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 China, Japan, South Africa and Vietnam and sales offices in other countries.

During fiscal 2010, export sales from the United States represented 2.5% 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.

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;

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.



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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.

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***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. During the past four to five years, 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.

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 challenging global economic environment has had the most severe impact on our industrial product lines and customers. Downward economic cycles affecting the industries of our customers, and 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 \$951.3 million at October 29, 2010. 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

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 lower 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 affected. 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;

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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 2010, revenues from products sold outside the United States accounted for approximately 40% 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;

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 repercussions 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.***

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Our relationships with certain key customers are important to us. From 2008 through 2010, sales to our largest customer exceeded 10% of our total net sales. In 2010, our ten largest customers accounted for approximately 35% of our total 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 negatively impacted 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.

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*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 expanding our proprietary technology, including technology obtained through acquisitions, 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 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.

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 thirty locations (28 owned; 2 leased), primarily in California, Illinois, North Carolina, Pennsylvania and Texas, including one owned manufacturing facility in both Canada and Mexico. The total combined square footage for our principal offices and manufacturing operations in North America is approximately 4,238,000, which includes 130,000 square feet at our principal offices. Asia Pacific manufacturing operations are conducted at fifteen locations (12 owned; 3 leased) in Australia, New Zealand, China, Malaysia, 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 one manufacturing facility in Brazil with square footage of approximately 400,000. In South Africa, we own one manufacturing facility with square footage of approximately 54,000. In India, we own one manufacturing facility with square footage of approximately 83,000.

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Shown below is a breakdown of the approximate square footage of principal facilities by region as of October 29, 2010:

| <b>Region</b> | <b>Approximate<br/>Square Footage<br/>Owned</b> | <b>Approximate<br/>Square Footage<br/>Leased</b> | <b>Total</b>     |
|---------------|---|--|------------------|
| North America | 3,715,000                                       | 523,000  | 4,238,000        |
| Asia Pacific  | 1,887,000                                       | 108,000  | 1,995,000        |
| Europe        | 834,000   | 95,000   | 929,000          |
| Other         | 537,000   |  | 537,000          |
| <b>Total</b>  | <b>6,973,000</b>                                | <b>726,000</b>                                   | <b>7,699,000</b> |

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

| <b>Business Segment</b> | <b>Approximate<br/>Square Footage</b> |
|-------------------------|---------------------------------------|
| Coatings                | 3,820,000                             |
| Paints                  | 3,002,000                             |
| All Other               | 877,000                               |
| <b>Total</b>            | <b>7,699,000</b>                      |

Management believes our manufacturing properties are well maintained, in good operating condition and adequate for the purposes for which they are being used. We had restructuring initiatives in 2010 that included a plant closure, which is 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.

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**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. Management analyzes 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, management estimates 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, management believes 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.

| <b>Name</b>          | <b>Age</b> | <b>Position</b>  |
|----------------------|------------|--|
| William L. Mansfield | 62         | Chairman since August 2007 and Chief Executive Officer since February 2005               |
| Lori A. Walker       | 53         | Senior Vice President and Chief Financial Officer since February 2008                    |
| Gary E. Hendrickson  | 54         | President and Chief Operating Officer since February 2008 and Director since August 2009 |
| Rolf Engh            | 57         | Executive Vice President since July 2005, General Counsel and Secretary since April 1993 |
| Anthony L. Blaine    | 43         | 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 February 2008, Ms. Walker was Vice President, Treasurer and Controller since October 2004.

Prior to February 2008, Mr. Hendrickson was Senior Vice President since July 2005.

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



Table of Contents**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 2010 and 2009 as quoted on the New York Stock Exchange.

| For the Fiscal Year | Market Price (high/low) |       |          |       |
|---------------------|-------------------------|-------|----------|-------|
|                     | 2010                    |       | 2009     |       |
| First Quarter       | \$ 28.79                | 25.16 | \$ 21.32 | 14.47 |
| Second Quarter      | \$ 32.80                | 25.11 | \$ 24.91 | 15.13 |
| Third Quarter       | \$ 33.13                | 28.93 | \$ 25.61 | 21.51 |
| Fourth Quarter      | \$ 32.66                | 29.07 | \$ 28.60 | 24.80 |

The quarterly dividend declared December 8, 2010, to be paid on January 14, 2011 to common stockholders of record December 27, 2010, was increased to \$0.18 per share. The table below sets forth the quarterly dividend paid for fiscal years 2010 and 2009.

| For the Fiscal Year | Per Share Dividends |         |
|---------------------|---------------------|---------|
|                     | 2010                | 2009    |
| First Quarter       | \$ 0.16             | \$ 0.15 |
| Second Quarter      | \$ 0.16             | \$ 0.15 |
| Third Quarter       | \$ 0.16             | \$ 0.15 |
| Fourth Quarter      | \$ 0.16             | \$ 0.15 |
|                     | \$ 0.64             | \$ 0.60 |

The number of record holders of our Common Stock at December 13, 2010 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) |
|------------------------|--------------------------------------|------------------------------|--|--|
| 7/31/10 – 8/27/10      |                                      |                              |  |  |
| Repurchase program     | 150,000                              | \$ 29.81                     | 150,000  | 850,000  |
| Other transactions (2) | —                                    | —                            | —  | —  |
| 8/28/10 – 9/24/10      |                                      |                              |  |  |
| Repurchase program     | 570,000                              | 30.82                        | 570,000  | 280,000  |
| Other transactions (2) | 5,166                                | 31.59                        | —  | —  |
| 9/25/10 – 10/29/10     |                                      |                              |  |  |
| Repurchase program     | 280,000                              | 31.77                        | 280,000  | 15,000,000   |
| Other transactions (2) | 14,253                               | 32.04                        | —  | —  |

On October 21, 2009 we received board authorization to repurchase 4,000,000 shares through October 12, 2010. Under this authorization we repurchased 1,000,000 and 4,000,000 shares in the fourth quarter and year-to-date (1) periods of 2010, respectively. On October 13, 2010 we received board authorization to repurchase 15,000,000 shares, with no predetermined end date. As of October 29, 2010, we repurchased zero shares under this authorization.

(2)

Our other transactions include acquired shares of common stock for payment of tax obligations upon vesting of restricted stock and shares surrendered 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 2005 and fiscal 2000, 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.

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

|            | Cumulative Total Return |        |        |       |        |        |
|------------|-------------------------|--------|--------|-------|--------|--------|
|            | 2005                    | 2006   | 2007   | 2008  | 2009   | 2010   |
| Valspar    | \$ 100                  | \$ 124 | \$ 118 | \$ 99 | \$ 126 | \$ 163 |
| Peer Group | \$ 100                  | \$ 122 | \$ 141 | \$ 86 | \$ 105 | \$ 125 |
| S&P 500    | \$ 100                  | \$ 116 | \$ 133 | \$ 85 | \$ 94  | \$ 109 |

Assumes \$100 invested on October 31, 2005 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**

|            | Cumulative Total Return |        |        |        |        |        |        |        |        |        |        |
|------------|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|            | 2000                    | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   |
| Valspar    | \$ 100                  | \$ 125 | \$ 158 | \$ 183 | \$ 181 | \$ 174 | \$ 215 | \$ 205 | \$ 172 | \$ 219 | \$ 284 |
| Peer Group | \$ 100                  | \$ 111 | \$ 112 | \$ 126 | \$ 150 | \$ 151 | \$ 184 | \$ 214 | \$ 130 | \$ 159 | \$ 189 |
| S&P 500    | \$ 100                  | \$ 75  | \$ 64  | \$ 77  | \$ 84  | \$ 92  | \$ 107 | \$ 122 | \$ 78  | \$ 86  | \$ 100 |

Assumes \$100 invested on October 31, 2000 in the Common Stock of The Valspar Corporation, the Peer Group and the S&P 500 Index, including reinvestment of dividends.

Table of Contents**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,<br>except per share amounts) | Fiscal Years |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
|   | 2010         | 2009         | 2008         | 2007         | 2006         |
| <b>Operating Results</b>                            |              |              |              |              |              |
| Net Sales   | \$ 3,226,687 | \$ 2,879,042 | \$ 3,482,378 | \$ 3,249,287 | \$ 2,978,062 |
| Cost and Expenses                                   |              |              |              |              |              |
| Cost of Sales                                       | 2,155,009    | 1,900,114    | 2,504,947    | 2,277,490    | 2,072,157    |
| Operating Expense                                   | 695,601      | 687,960      | 684,056      | 662,224      | 598,468      |
| Income from Operations                              | 376,077      | 290,968      | 293,375      | 309,573      | 307,437      |
| Interest Expense                                    | 58,267       | 50,394       | 57,745       | 61,662       | 46,206       |
| Other (Income) Expense                              |              |              |              |              |              |
| Net   | (1,387)      | 2,246        | 6,933        | (11,860)     | 3,799        |
| Income Before Income Taxes                          | 319,197      | 238,328      | 228,697      | 259,771      | 257,432      |
| Net Income  | 222,056      | 160,153      | 150,766      | 172,115      | 175,252      |
| Net Income as a Percent of Sales                    | 6.9%         | 5.6%         | 4.3%         | 5.3%         | 5.9%         |
| Return on Average Equity                            | 14.2%        | 10.8%        | 10.6%        | 13.1%        | 15.2%        |
| Per Common Share:                                   |              |              |              |              |              |
| Net Income Basic                                    | \$ 2.25*     | \$ 1.50*     | \$ 1.39*     | \$ 1.52*     | \$ 1.73      |
| Net Income Diluted                                  | 2.20*        | 1.49*        | 1.38*        | 1.50*        | 1.71         |
| Dividends Paid                                      | 0.64         | 0.60         | 0.56         | 0.52         | 0.44         |
| Stockholders Equity                                 | 16.63        | 15.12        | 14.53        | 13.72        | 12.17        |
| <b>Financial Position</b>                           |              |              |              |              |              |
| Total Assets  | \$ 3,867,936 | \$ 3,511,024 | \$ 3,520,042 | \$ 3,452,281 | \$ 3,191,535 |
| Working Capital**                                   | 530,435      | 406,638      | 435,897      | 458,141      | 389,394      |
| Property, Plant and Equipment, Net                  | 567,630      | 471,088      | 489,716      | 514,396      | 459,605      |
| Long-Term Debt, Excluding Current Portion           | 943,216      | 873,095      | 763,129      | 648,988      | 350,267      |
| Stockholders Equity                                 | 1,630,365    | 1,504,507    | 1,452,868    | 1,380,797    | 1,240,063    |
| Property, Plant and Equipment Expenditures          | \$ 67,732    | \$ 57,897    | \$ 43,045    | \$ 76,940    | \$ 75,417    |
| Depreciation and Amortization Expense               | 81,312       | 82,862       | 80,831       | 71,811       | 68,716       |
| Research and Development Expense                    | 100,236      | 91,303       | 96,552       | 90,322       | 82,608       |
| Total Cash Dividends                                | \$ 63,279    | \$ 60,116    | \$ 55,854    | \$ 52,670    | \$ 44,655    |
| Average Diluted Common Shares Outstanding (000 s)   | 100,866      | 100,921      | 100,326      | 102,617      | 102,726      |
| Number of Stockholders at Year-End                  | 1,432        | 1,449        | 1,467        | 1,474        | 1,532        |
| Number of Employees at Year-End                     | 10,180       | 8,788        | 9,341        | 9,946        | 9,556        |
| Market Price Range Common Stock:                    |              |              |              |              |              |
| High  | \$ 33.13     | \$ 28.60     | \$ 26.20     | \$ 29.58     | \$ 29.62     |
| Low   | 25.11        | 14.47        | 16.02        | 24.00        | 21.54        |

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

- \* Huarun Redeemable Stock accrual reduced basic and diluted net income 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. In 2010, 2009 and 2008, net income per common share basic and diluted included \$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. Net income per common share basic and diluted for 2010 included a net \$0.05 after-tax gain (from the sale of certain assets partially offset by WattyI acquisition fees). Net income per common share basic and diluted for 2008 and 2007 included gains on the sale of certain assets of \$0.09 and \$0.10, respectively. Adjusted net income per common share diluted, for the items mentioned above, was \$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 accounts payable.

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**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 sales of \$3,226,687 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 global brands and leading technologies, together with our technical expertise and customer service, differentiate us from 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 will accomplish this by focusing on helping our customers succeed and through:

our investments in brands and technologies;

expansion of our global presence;

operational discipline, productivity improvement and prudent cost control;

generation of 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 providing value to our customers so that in turn we create value for our shareholders, we are committed to:

adhering to our values, ethical business conduct and doing business with integrity;

improving our safety 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 appear to have stabilized from those experienced during the global recession that started in late 2008. The recovery in our industry has been slow and volumes are still below pre-recession levels. The U.S. housing and construction markets have not fully recovered to historical levels. However, certain markets grew, including Asia and Latin America.

The chemical industry's economic cycle has been volatile for most of the last decade. In 2010, we experienced a significant increase in raw material costs along with shortages of certain raw materials in the second half of the year. We expect raw material costs to continue to rise throughout fiscal year 2011.

Despite the challenging economic conditions in fiscal year 2010, we accomplished the following:

Continued to invest in our brands and technologies, which enabled us to gain new business in all of our product lines.

Acquired Wattyl Limited, an Australian paint manufacturer that provides a strong brand portfolio in an excellent geography and further diversifies our overall sales mix. Additionally, the acquisition provides a supply chain to support our largest customer's entry into the Australian market.

Acquired a key manufacturing site in India.

Increased our dividend for the 32nd consecutive year to \$0.64 per share.

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Reduced our outstanding shares by buying back 4,000,000 shares for \$118,671, which more than offset the exercise of stock options. In October, our Board authorized the purchase of an additional 15,000,000 shares in the future.

Continued our restructuring initiatives that started in 2008, which have lowered our cost structure and further increased our operational efficiency.

Made aggregate pension contributions of \$19,321 to maintain appropriate funding levels.

### **Business Performance**

Net sales in 2010 increased to \$3,226,687 from \$2,879,042 in 2009, primarily due to new business, improved market conditions, particularly outside the U.S., favorable foreign currency exchange and customer price increases. Our net income increased by 38.7%. The majority of the increase was due to new business across all product lines, customer price increases, productivity improvements and tight control of expenses, which offset significantly higher raw material costs. This increase also included lower 2010 restructuring charges and a net gain from the sale of certain assets, partially offset by Watty1 acquisition fees. Our global presence remained strong and international sales accounted for approximately 40% of consolidated net sales.

During the third quarter of 2008, we initiated a comprehensive series of actions to lower our cost structure and further increase our operational efficiency. We incurred total restructuring charges of \$0.08, \$0.18 and \$0.16 per share after tax, in fiscal years 2010, 2009 and 2008, respectively. See Note 15 in Notes to Consolidated Financial Statements for more information on restructuring.

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During the year, we generated \$134,870 in free cash flow (net cash provided by operating activities less capital expenditures and dividends), and our total debt, including notes payable, increased by \$70,931, which was due to the acquisition of Wattyl (see Note 2 in Notes to Consolidated Financial Statements for more information). Our liquidity position is strong, with \$167,621 in cash and cash equivalents and \$521,021 in unused committed bank credit facilities providing total committed liquidity of \$688,642 at year-end, compared to \$608,348 at the end of 2009.

We have enhanced our liquidity by increasing our main credit facility from \$475,000 to \$550,000 and extended the term from June 30, 2012 to December 31, 2014.

### **Earnings Per Share**

Net income per share available to common stockholders (diluted) was \$2.20 for 2010 and \$1.49 for 2009. Huarun Redeemable Stock had no effect in 2010 as we acquired the remaining shares in the fourth quarter of 2009. We accrued \$9,954, or \$0.10 per common share basic and diluted, in 2009 for the Huarun Redeemable Stock (see Note 2 in Notes to Consolidated Financial Statements for further details). The table below presents adjusted net income per common share diluted, which excludes (i) the non-cash accrual related to Huarun Redeemable Stock in the 2009 period, (ii) an after-tax gain (net of related restructuring charges) on the sale of certain assets, partially offset by after-tax Wattyl acquisition fees, and (iii) after-tax restructuring charges included in net income in the respective periods.

|  | 2010    | 2009    |
|--|---------|---------|
| Net income per common share diluted                  | \$ 2.20 | \$ 1.49 |
| Huarun redeemable stock accrual                      |         | 0.10    |
| Net gain on sale of certain assets /acquisition fees | (0.05)  |         |
| Restructuring charges                                | 0.08    | 0.18    |
| Adjusted net income per common share diluted         | \$ 2.23 | \$ 1.77 |

Adjusted net income per common share diluted is a non-GAAP financial measure. Management discloses 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 accrual related to the Huarun Redeemable Stock, the net gain and our recent restructuring activity. 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, as the case may be, 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.

As the Huarun Redeemable Stock was redeemed, acquisition accounting was applied. See Note 2 in Notes to Consolidated Financial Statements for further details regarding Huarun Redeemable Stock, the sale of certain assets and the Wattyl acquisition; and to Note 15 in Notes to Consolidated Financial Statements for further restructuring details.

### **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 (formerly known as architectural) 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



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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.

| <b>Gross Profit</b>       |    | <b>2010</b> | <b>2009</b> |
|---------------------------|----|-------------|-------------|
| Consolidated Gross Profit | \$ | 1,071,678   | \$ 978,928  |
| As a percent of Net Sales |    | 33.2%       | 34.0%       |

**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.

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|                                 |    |             |    |             |
|---------------------------------|----|-------------|----|-------------|
| <b>Operating Expenses*</b>      |    | <b>2010</b> |    | <b>2009</b> |
| Consolidated Operating Expenses | \$ | 695,601     | \$ | 687,960     |
| As a percent of Net Sales       |    | 21.6%       |    | 23.9%       |

\*Includes research and development and selling, general and administrative costs. For breakout see Consolidated Statement of Income.

**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, Watty1 operating expenses and Watty1 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.

|                           |    |             |    |             |
|---------------------------|----|-------------|----|-------------|
| <b>EBIT*</b>              |    | <b>2010</b> |    | <b>2009</b> |
| 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 Watty1 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 Watty1 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.

|                               |    |             |    |             |
|-------------------------------|----|-------------|----|-------------|
| <b>Interest Expense</b>       |    | <b>2010</b> |    | <b>2009</b> |
| 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.

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|                           |             |             |
|---------------------------|-------------|-------------|
| <b>Effective Tax Rate</b> | <b>2010</b> | <b>2009</b> |
| 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.

|                                 |             |             |                 |
|---------------------------------|-------------|-------------|-----------------|
| <b>Net Income</b>               | <b>2010</b> | <b>2009</b> | <b>% Change</b> |
| Consolidated Net Income         | \$ 222,056  | \$ 160,153  | 38.7%           |
| <b>OPERATIONS 2009 VS. 2008</b> |             |             |                 |

|                        |              |              |                 |
|------------------------|--------------|--------------|-----------------|
| <b>Net Sales</b>       | <b>2009</b>  | <b>2008</b>  | <b>% Change</b> |
| Coatings               | \$ 1,582,786 | \$ 2,053,747 | -22.9%          |
| Paints                 | 1,072,372    | 1,127,073    | -4.9%           |
| All Other              | 223,884      | 301,558      | -25.8%          |
| Consolidated Net Sales | \$ 2,879,042 | \$ 3,482,378 | -17.3%          |

**Consolidated Net Sales** The sales decline for 2009 was 14.3% after excluding the negative effect of foreign currency of 3.2% and the positive effect of acquisitions of 0.2%. The decrease in core sales was primarily due to lower volume, partially offset by previous customer price increases. The challenging global economic environment negatively affected demand. Fiscal year 2009 included 52 weeks compared to 53 weeks in 2008, which negatively affected sales by 1.1%.

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**Coatings Segment Net Sales** The sales decrease for 2009 was 18.7% after excluding the negative impact of foreign currency of 4.4% and the positive effect of acquisitions of 0.2%. All of our product lines had reduced sales reflecting weakness in global industrial markets. Our general industrial, wood and coil product lines primarily drove the core sales decline. Fiscal year 2009 included 52 weeks compared to 53 weeks in 2008, which negatively affected sales by 1.1%.

**Paints Segment Net Sales** The sales decline for 2009 was 4.0% after excluding the negative effect of foreign currency of 0.9%. Sales were down primarily due to promotional spending to build our brand in the Asia consumer paints product line and weak market conditions in our global automotive refinish product line, partially offset by increased sales in our domestic consumer paints product line. Fiscal year 2009 included 52 weeks compared to 53 weeks in 2008, which negatively affected sales by 1.3%.

**All Other Net Sales** The All Other category includes resins, colorants, gelcoats and furniture protection plan product lines. Sales for 2009 decreased 23.1% after excluding the negative effect of foreign currency of 2.7%. The lower sales were due to weak demand. Fiscal year 2009 included 52 weeks compared to 53 weeks in 2008, which negatively affected sales by 1.3%.

| <b>Gross Profit</b>       |    | <b>2009</b> |    | <b>2008</b> |
|---------------------------|----|-------------|----|-------------|
| Consolidated Gross Profit | \$ | 978,928     | \$ | 977,431     |
| As a percent of Net Sales |    | 34.0%       |    | 28.1%       |

**Consolidated Gross Profit** The increase in gross profit as a percent of net sales was primarily due to improved raw material cost comparisons, previous customer price increases, favorable product mix and productivity gains from previously completed restructuring actions, partially offset by continuing restructuring charges and higher incentive compensation accruals. Restructuring charges of \$22,280 or 0.8% of net sales and \$15,694 or 0.5% of net sales were included in the 2009 and 2008 periods, respectively.

| <b>Operating Expenses*</b>      |    | <b>2009</b> |    | <b>2008</b> |
|---------------------------------|----|-------------|----|-------------|
| Consolidated Operating Expenses | \$ | 687,960     | \$ | 684,056     |
| As a percent of Net Sales       |    | 23.9%       |    | 19.6%       |

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

**Consolidated Operating Expenses (dollars)** Consolidated operating expenses increased 0.6% to \$687,960 in 2009 compared to the prior year. Operating expenses for 2009 included restructuring charges of \$6,277 or 0.2% of net sales. Operating expenses for 2008 included restructuring charges of \$7,489 or 0.2% of net sales and a pre-tax gain on the sale of a non-strategic specialty product line of \$14,167 or 0.4% of net sales. The operating expense dollar increase is due to the 2008 gain on the sale of the specialty product line and higher 2009 incentive-based compensation accruals, partially offset by favorable effect of foreign currency exchange, benefits from previously completed restructuring actions and effective expense controls.

**Consolidated Operating Expenses (percent of net sales)** As a percent of consolidated net sales, consolidated operating expenses increased 4.3 percentage points from last year. The increase was primarily due to lower sales volume.

| <b>EBIT*</b>              |    | <b>2009</b> |    | <b>2008</b> |
|---------------------------|----|-------------|----|-------------|
| Coatings                  | \$ | 185,528     | \$ | 188,267     |
| As a percent of Net Sales |    | 11.7%       |    | 9.2%        |
| Paints                    |    | 135,561     |    | 94,587      |
| As a percent of Net Sales |    | 12.6%       |    | 8.4%        |
| All Other                 |    | (32,367)    |    | 3,588       |
| As a percent of Net Sales |    | -14.5%      |    | 1.2%        |
| Consolidated EBIT         | \$ | 288,722     | \$ | 286,442     |
| As a percent of Net Sales |    | 10.0%       |    | 8.2%        |

\*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 2009 increased \$2,280 or 0.8% from the prior year. Consolidated EBIT included restructuring charges of \$28,557 or 1.0% of net sales and \$23,454 or 0.7% of net sales in the 2009 and 2008 periods, respectively. In addition, fiscal year 2008 included a \$14,167 gain, or 0.4% of net sales, on the sale of a non-strategic specialty product line. For Consolidated EBIT, as well as EBIT of the segments discussed below, foreign currency fluctuation had no material effect.

**Coatings Segment EBIT** EBIT included restructuring charges of \$18,237 or 1.2% of net sales and \$12,951 or 0.6% of net sales in the 2009 and 2008 periods, respectively. The increase in EBIT as a percent of net sales was driven primarily by improved raw material cost comparisons, previous customer price increases and productivity gains from previously completed restructuring actions, partially offset by lower sales volume and higher 2009 restructuring charges compared to 2008.

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**Paints Segment EBIT** EBIT included restructuring charges of \$4,429 or 0.4% of net sales and \$7,153 or 0.6% of net sales in the 2009 and 2008 periods, respectively. The increase in EBIT as a percent of net sales was driven primarily by improved raw material cost comparisons, previous customer price increases and productivity gains from previously completed restructuring actions.

**All Other EBIT** All Other EBIT includes corporate expenses. EBIT included restructuring charges of \$5,891 or 2.6% of net sales and \$3,350 or 1.1% of net sales in the 2009 and 2008 periods, respectively. The 2008 period also included a pre-tax gain on the sale of a non-strategic specialty product line for \$14,167, or 4.7% of net sales. The decrease in EBIT as a percent of net sales was driven primarily by the decline in net sales, higher incentive compensation accruals and the 2008 gain.

|                               |    |             |    |             |
|-------------------------------|----|-------------|----|-------------|
| <b>Interest Expense</b>       |    | <b>2009</b> |    | <b>2008</b> |
| Consolidated Interest Expense | \$ | 50,394      | \$ | 57,745      |

**Interest Expense** The 2009 decrease is primarily due to lower average debt levels and lower average interest rates.

|                           |  |             |  |             |
|---------------------------|--|-------------|--|-------------|
| <b>Effective Tax Rate</b> |  | <b>2009</b> |  | <b>2008</b> |
| Effective Tax Rate        |  | 32.8%       |  | 34.1%       |

**Effective Tax Rate** The lower 2009 tax rate is due to favorable geographic mix of earnings and certain discrete items related to the accounting for uncertain tax positions.

|                         |    |             |    |             |                 |
|-------------------------|----|-------------|----|-------------|-----------------|
| <b>Net Income</b>       |    | <b>2009</b> |    | <b>2008</b> | <b>% Change</b> |
| Consolidated Net Income | \$ | 160,153     | \$ | 150,766     | 6.2%            |

**FINANCIAL CONDITION**

Net cash provided by operations was \$265,881 in 2010, compared to \$337,695 in 2009 and \$264,450 in 2008. The cash provided by operations in 2010 was primarily generated by net income, increase in trade accounts payable and other accrued liabilities and an increase in income taxes payable, partially offset by an increase in accounts and notes receivable, an increase in inventories and other assets and a decrease in other deferred liabilities. The \$67,514 increase in trade accounts payable and other accrued liabilities is primarily due to an increase in purchases, improved days payables outstanding and the timing of vendor payments. The \$21,900 increase in income taxes payable is due to the timing of tax payments. The \$58,892 increase in accounts and notes receivable is due to higher sales levels and the timing of customer payments. The \$40,251 increase in inventories and other assets is primarily due to the timing of raw material purchases and improved sales volume. The \$20,102 decrease in other deferred liabilities is primarily due to discretionary pension plan payments.

During the 2010 period, we used cash on hand, cash provided by operations and \$41,917 in proceeds from the sale of treasury stock to fund \$115,557 of acquisitions (net of disposal of assets), \$118,671 in share repurchases, \$63,279 in dividend payments and \$67,732 in capital expenditures.

Capital expenditures for property, plant and equipment were \$67,732 in 2010, compared with \$57,897 in 2009. We anticipate capital spending in 2011 to be approximately \$90,000.

The \$12,574 of restricted cash is associated with cash collateralization of certain letters of credit. See Note 5 in Notes to Financial Statements for further discussion.

The ratio of total debt to capital was 36.8% at October 29, 2010, compared to 36.9% at October 30, 2009. Average debt outstanding during 2010 was \$911,067 at a weighted average interest rate of 6.40% versus \$972,657 at 5.18% last year. Interest expense for 2010 was \$58,267 compared to \$50,394 in 2009.

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

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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 29, 2010, which reflects the extended maturity of our bank syndicate facility to December 31, 2014, for the fiscal years ending in October:

|                           | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016 and<br/>thereafter</b> | <b>Total</b> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|--------------------------------|--------------|
| Notes & Interest to Banks | \$ 14,779   | \$ 14,122   | \$ 78,962   | \$ 1,380    | \$ 50,230   | \$                             | \$ 159,473   |
| Senior Notes & Interest   | 49,725      | 244,100     | 38,475      | 38,475      | 186,563     | 542,456                        | 1,099,794    |
| Industrial Development    |             |             |             |             |             |                                |              |
| Bonds & Interest          | 55          | 55          | 55          | 55          | 12,537      |                                | 12,757       |
| Medical                   |             |             |             |             |             |                                |              |
| Retiree/SERP/Pension      | 3,483       | 1,816       | 1,887       | 1,908       | 1,898       | 18,080                         | 29,072       |
| Operating Leases          | 32,882      | 25,819      | 18,393      | 12,938      | 9,327       | 30,999                         | 130,358      |
| Capital Expenditures      | 2,423       |             |             |             |             |                                | 2,423        |
| Commodity Purchase        |             |             |             |             |             |                                |              |
| Commitments               | 1,081       |             |             |             |             |                                | 1,081        |
| Telecommunication         |             |             |             |             |             |                                |              |
| Commitments               | 3,475       | 808         | 808         | 808         | 606         |                                | 6,505        |
| Total Contractual Cash    |             |             |             |             |             |                                |              |
| Obligations               | \$ 107,903  | \$ 286,720  | \$ 138,580  | \$ 55,564   | \$ 261,161  | \$ 591,535                     | \$ 1,441,463 |

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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 \$17,817 as of October 29, 2010, 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.

During the third quarter of 2009, we issued \$300,000 of unsecured, senior notes that mature on June 15, 2019 with a coupon rate of 7.25%. The public offering was made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission. We used the net proceeds of \$296,772 to repay our commercial paper borrowings and a portion of our borrowings under our existing bank credit facilities.

In June 2009, we entered into a \$465,000 unsecured committed revolving credit facility with a syndicate of banks expiring on June 30, 2012. The bank syndicate facility replaced our \$150,000 364-day credit agreement that was due to mature in November 2009 and our \$600,000 five-year credit agreement that was due to mature in October 2010, which were both terminated on June 26, 2009. During the fourth quarter of 2009, the bank syndicate facility was expanded by \$10,000 to a total facility size of \$475,000. Under this facility, we had \$50,000 outstanding as of October 29, 2010 and October 30, 2009. Subsequent to October 29, 2010, the maturity date of the bank syndicate facility was extended from June 30, 2012 to December 31, 2014 and the facility was expanded by \$75,000 to a total facility size of \$550,000. The bank syndicate facility is a backstop to our \$350,000 U.S. commercial paper program established in 2006, under which we had zero outstanding as of October 29, 2010 and October 30, 2009. In connection with the bank syndicate facility, we entered into a bilateral U.S. dollar equivalent \$14,534 unsecured committed revolving credit facility that expires on June 30, 2012 under which we had notes to banks totaling \$7,751 and \$10,593 at October 29, 2010 and October 30, 2009, respectively. During the fourth quarter of 2010, we entered into a three-year bilateral U.S. dollar equivalent \$87,201 unsecured committed revolving credit facility, under which \$72,963 was outstanding as of October 29, 2010.

The credit facilities contain covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of October 29, 2010. 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. Outstanding borrowings under these debt arrangements were \$8,088 and \$7,278 as of October 29, 2010 and October 30, 2009, respectively.

At October 29, 2010, we had unused lines of committed and uncommitted credit available from banks of \$638,419.

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 and projected needs for financing. In the current market conditions, and through the recent credit crisis, we have demonstrated continued access to these 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 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 financial instruments to manage well-defined interest rate and foreign currency exchange risks. We evaluate the financial stability of each counterparty and spread the risk among many 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 29, 2010.

Common stock dividends of \$63,279 in 2010 represented a 5.3% increase over 2009. The dividend in 2010 was increased to \$0.64 per share from \$0.60 per share in 2009.

We have continuing authorization to purchase shares of our common stock at management's discretion for general corporate purposes. We repurchased 4,000,000 shares totaling \$118,671 in 2010 compared to 2,000,000 shares totaling \$54,387 in 2009 and 1,850,000 shares totaling \$39,675 in 2008.

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. Management analyzes 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



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consulting expense with respect to each site, and the time period over which any costs would likely be incurred. Based on the above analysis, management estimates 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.

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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, 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.

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, management believes 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 four 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, as computed primarily by present value cash flow calculations, to its book 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, the implied fair value is compared to the carrying amount of the goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss equal to the difference. The implied fair value is calculated by allocating the fair value of the reporting unit (as determined in step 1) to all of its assets and liabilities (including unrecognized intangible assets) and any excess in fair value that is not assigned to the assets and liabilities is the implied fair value of goodwill.

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Management also reviews 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 discounted cash flows resulting from the use and disposition of the asset, the carrying value is written down to fair value in the period identified. Indefinite-lived intangible assets are reviewed at least annually for impairment by calculating the fair value of the assets and comparing with their carrying value. In assessing fair value, management generally utilizes a relief from royalty method.

During the fourth quarters of 2010 and 2009, management completed the 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 forecasted sales growth rates, forecasted operating margin improvements 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, sales growth and operating margin improvement assumptions are the three material assumptions utilized in our calculations of the present value cash flows 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, 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 operating margin improvement assumptions used. The estimated fair value of the reporting units and indefinite-lived intangible assets has historically exceeded the carrying value of such reporting units or indefinite-lived intangible assets by a substantial amount. We perform a sensitivity analysis on the discount rate, revenue growth and operating margin improvement assumptions. The discount rate could increase by more than 10% of the discount rate utilized, the sales growth 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. We do not have any reporting units that are at risk of failing step 1 of our goodwill impairment test. Also, we do not have any indefinite-lived intangible assets at risk of failing our impairment test. 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 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 \$2,772 in 2010. 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.

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**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 and Section 21E of the Securities Exchange Act of 1934. 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.

**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 29, 2010, approximately 10.6% of our total debt consisted of floating rate debt. From time to time, we may enter into interest rate swaps 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.

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**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 29, 2010 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 29, 2010. 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 29, 2010. That report is included herein.

William L. Mansfield  
Chairman and Chief Executive Officer

Lori A. Walker  
Senior Vice President and Chief Financial Officer

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**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 29, 2010, 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 maintained, in all material respects, effective internal control over financial reporting as of October 29, 2010, 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 29, 2010, and October 30, 2009, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended October 29, 2010, and our report dated December 21, 2010, expressed an unqualified opinion thereon.

Minneapolis, Minnesota  
December 21, 2010

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**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 29, 2010, and October 30, 2009, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended October 29, 2010. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements 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 29, 2010, and October 30, 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 29, 2010, 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.

As discussed in Note 13, Pension and Other Postretirement Benefits, to the consolidated financial statements, effective October 30, 2009, the Corporation adopted the measurement provision originally issued in Statement of Financial Accounting Standards (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (codified primarily in FASB ASC 715).

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 29, 2010, 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, 2010, expressed an unqualified opinion thereon.

Minneapolis, Minnesota  
December 21, 2010

Table of Contents**Consolidated Balance Sheets**

(Dollars in thousands, except per share amounts)

|  | October 29, 2010 | October 30, 2009 |
|--|------------------|------------------|
| <b>Assets</b>  |                  |                  |
| Current Assets   |                  |                  |
| Cash and cash equivalents  | \$ 167,621       | \$ 187,719       |
| Restricted cash  | 12,574           |                  |
| Accounts and notes receivable less allowance (2010<br>\$17,459; 2009 \$21,768)   | 628,589          | 518,188          |
| Inventories  | 349,149          | 238,449          |
| Deferred income taxes  | 49,069           | 34,479           |
| Prepaid expenses and other   | 77,920           | 83,631           |
| Total Current Assets   | 1,284,922        | 1,062,466        |
| Goodwill   | 1,355,818        | 1,337,997        |
| Intangibles, net   | 637,390          | 629,923          |
| Other Assets   | 17,398           | 4,192            |
| Long-Term Deferred Income Taxes  | 4,778            | 5,358            |
| Property, Plant and Equipment  |                  |                  |
| Land   | 72,504           | 35,815           |
| Buildings  | 383,014          | 339,219          |
| Machinery and equipment  | 870,552          | 710,113          |
| Gross Property, Plant and Equipment  | 1,326,070        | 1,085,147        |
| Less accumulated depreciation  | (758,440)        | (614,059)        |
| Net Property, Plant and Equipment  | 567,630          | 471,088          |
| Total Assets   | \$ 3,867,936     | \$ 3,511,024     |
| <b>Liabilities and Stockholders Equity</b>   |                  |                  |
| Current Liabilities  |                  |                  |
| Notes payable and commercial paper   | \$ 8,088         | \$ 7,278         |
| Trade accounts payable   | 447,303          | 349,999          |
| Income taxes   | 33,331           | 4,762            |
| Other accrued liabilities  | 396,129          | 349,440          |
| Total Current Liabilities  | 884,851          | 711,479          |
| Long-Term Debt   | 943,216          | 873,095          |
| Deferred Income Taxes  | 256,525          | 235,975          |
| Other Long-Term Liabilities  | 152,979          | 185,968          |
| Total Liabilities  | 2,237,571        | 2,006,517        |
| Stockholders Equity  |                  |                  |
| Common stock (par value \$0.50; authorized<br>250,000,000 shares; shares issued, including shares<br>in treasury 2010: 118,442,624; 2009: 118,442,624) | 59,220           | 59,220           |
| Additional paid-in capital   | 383,167          | 353,086          |
| Retained earnings  | 1,428,515        | 1,269,738        |
| Accumulated other comprehensive income (loss)  | 88,087           | 67,997           |
| Less cost of common stock in treasury<br>(2010 20,415,334; 2009 18,960,410)  | (328,624)        | (245,534)        |
| Total Stockholders Equity  | 1,630,365        | 1,504,507        |
| Total Liabilities and Stockholders Equity  | \$ 3,867,936     | \$ 3,511,024     |

See Notes to Consolidated Financial Statements



Table of Contents**Consolidated Statements of Income**

(Dollars in thousands, except per share amounts)

| <b>For the Year Ended</b>                          | <b>October 29, 2010</b> | <b>October 30, 2009</b> | <b>October 31, 2008</b> |
|--|-------------------------|-------------------------|-------------------------|
|  | (52 weeks)              | (52 weeks)              | (53 weeks)              |
| <b>Net Sales</b>                                   | <b>\$ 3,226,687</b>     | <b>\$ 2,879,042</b>     | <b>\$ 3,482,378</b>     |
| Cost of Sales                                      | <b>2,155,009</b>        | 1,900,114               | 2,504,947               |
| <b>Gross Profit</b>                                | <b>1,071,678</b>        | 978,928                 | 977,431                 |
| Research and Development                           | <b>100,236</b>          | 91,303                  | 96,552                  |
| Selling, General and Administrative                | <b>595,365</b>          | 596,657                 | 587,504                 |
| <b>Income from Operations</b>                      | <b>376,077</b>          | 290,968                 | 293,375                 |
| Interest Expense                                   | <b>58,267</b>           | 50,394                  | 57,745                  |
| Other (Income)/Expense net                         | <b>(1,387)</b>          | 2,246                   | 6,933                   |
| <b>Income before Income Taxes</b>                  | <b>319,197</b>          | 238,328                 | 228,697                 |
| Income Taxes                                       | <b>97,141</b>           | 78,175                  | 77,931                  |
| <b>Net Income</b>                                  | <b>\$ 222,056</b>       | <b>\$ 160,153</b>       | <b>\$ 150,766</b>       |
| Huarun Redeemable Stock Accrual <sup>1</sup>       |                         | (9,954)                 | (12,195)                |
| <b>Net Income Available to Common Stockholders</b> | <b>\$ 222,056</b>       | <b>\$ 150,199</b>       | <b>\$ 138,571</b>       |
| Net Income Per Common Share Basic                  | <b>\$ 2.25</b>          | \$ 1.50                 | \$ 1.39                 |
| Net Income Per Common Share Diluted                | <b>\$ 2.20</b>          | \$ 1.49                 | \$ 1.38                 |

<sup>1</sup> For more information on the Huarun Redeemable Stock Accrual see Note 2 in Notes to Consolidated Financial Statements.  
See Notes to Consolidated Financial Statements

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**Statement of Changes in Equity**

(Dollars in thousands, except per share amounts)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total        |
|---|-----------------|----------------------------------|----------------------|-------------------|--|--------------|
| Balance, October 26, 2007   | \$ 59,220       | \$ 312,343                       | \$ 1,108,051         | \$ (180,688)      | \$ 81,871  | \$ 1,380,797 |
| Net Income  |                 |                                  | 150,766              |                   |  | 150,766      |
| Foreign Currency Translation  |                 |                                  |                      |                   | 8,184  | 8,184        |
| Change in Unfunded Benefit Obligations, net of tax of \$868                                       |                 |                                  |                      |                   | (419)  | (419)        |
| Net Gain (Loss) on Financial Instruments, net of tax of \$250                                     |                 |                                  |                      |                   | 400  | 400          |
| Comprehensive Income  |                 |                                  |                      |                   |  | \$ 158,931   |
| Restricted Stock Granted for 56,634 Shares, net of forfeitures                                    |                 | 397                              |                      | 670               |  | 1,067        |
| Common Stock Options Exercised of 1,179,702 Shares  |                 | 9,103                            |                      | 12,211            |  | 21,314       |
| Purchase of Shares of Common Stock for Treasury of 1,850,000 Shares                               |                 |                                  |                      | (39,675)          |  | (39,675)     |
| Cash Dividends on Common Stock \$0.56 per Share   |                 |                                  | (55,854)             |                   |  | (55,854)     |
| Stock Option Expense  |                 | 9,240                            |                      |                   |  | 9,240        |
| Huarun Redeemable Stock Accrual   |                 |                                  | (12,195)             |                   |  | (12,195)     |
| Cumulative effect of adopting FIN 48 (FASB ASC Topic 740)   |                 |                                  | (10,757)             |                   |  | (10,757)     |
| 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          |
|   |                 | 18,743                           |                      | 30,890            |  | 49,633       |

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|  |           |               |           |                |           |                  |           |                  |           |               |           |                  |
|--|-----------|---------------|-----------|----------------|-----------|------------------|-----------|------------------|-----------|---------------|-----------|------------------|
| Common Stock Options Exercised of<br>2,232,383 Shares                  |           |               |           |                |           |                  |           |                  |           |               |           |                  |
| Purchase of Shares of Common Stock for<br>Treasury of 4,000,000 Shares |           |               |           |                |           |                  |           |                  |           |               |           |                  |
|  |           |               |           |                | (118,671) |                  | (118,671) |                  |           |               |           |                  |
| Cash Dividends on Common Stock \$0.64<br>per Share                     |           |               |           |                |           |                  |           |                  |           |               |           |                  |
|  |           |               |           |                | (63,279)  |                  | (63,279)  |                  |           |               |           |                  |
| Stock Option Expense   |           |               |           |                |           |                  |           |                  |           |               |           |                  |
|  |           |               | 9,011     |                |           |                  | 9,011     |                  |           |               |           |                  |
| <b>Balance, October 29, 2010</b>                                       | <b>\$</b> | <b>59,220</b> | <b>\$</b> | <b>383,167</b> | <b>\$</b> | <b>1,428,515</b> | <b>\$</b> | <b>(328,624)</b> | <b>\$</b> | <b>88,087</b> | <b>\$</b> | <b>1,630,365</b> |
| See Notes to Consolidated Financial Statements                         |           |               |           |                |           |                  |           |                  |           |               |           |                  |

Table of Contents**Consolidated Statements of Cash Flows**

(Dollars in thousands)

| For the Year Ended   | October 29, 2010<br>(52 weeks) | October 30, 2009<br>(52 weeks) | October 31, 2008<br>(53 weeks) |
|--|--------------------------------|--------------------------------|--------------------------------|
| <b>OPERATING ACTIVITIES:</b>   |                                |                                |                                |
| Net Income   | \$ 222,056                     | \$ 160,153                     | \$ 150,766                     |
| Adjustments to Reconcile Net Income to Net Cash<br>(Used In)/Provided by Operating Activities: |                                |                                |                                |
| Depreciation   | 74,039                         | 75,287                         | 72,894                         |
| Amortization   | 7,273                          | 7,575                          | 7,937                          |
| Stock-based Compensation   | 9,011                          | 9,385                          | 9,240                          |
| Deferred Income Taxes  | 3,240                          | 18,397                         | (7,488)                        |
| (Gain)/Loss on Asset Divestitures  | (12,419)                       | 940                            | (7,916)                        |
| Changes in Certain Assets and Liabilities, Net of<br>Effects of Acquired Businesses:           |                                |                                |                                |
| Decrease/(Increase) in Accounts and Notes<br>Receivable  | (58,892)                       | 40,530                         | (21,993)                       |
| Decrease/(Increase) in Inventories and Other<br>Assets   | (40,251)                       | 37,751                         | 13,432                         |
| Increase/(Decrease) in Trade Accounts Payable<br>and Other Accrued Liabilities                 | 67,514                         | 15,045                         | 31,013                         |
| Increase/(Decrease) in Income Taxes Payable  | 21,900                         | (17,554)                       | 25,988                         |
| Increase/(Decrease) in Other Deferred Liabilities  | (20,102)                       | (29,371)                       | (8,229)                        |
| Settlement of Treasury Lock Contracts  |                                | 11,600                         |                                |
| Other  | (7,488)                        | 7,957                          | (1,194)                        |
| Net Cash (Used In)/Provided by Operating<br>Activities   | 265,881                        | 337,695                        | 264,450                        |
| <b>INVESTING ACTIVITIES:</b>   |                                |                                |                                |
| Purchases of Property, Plant and Equipment   | (67,732)                       | (57,897)                       | (43,045)                       |
| Acquisition of Businesses, Net of Cash Acquired  | (143,365)                      |                                | (64,647)                       |
| Cash Proceeds on Disposal of Assets  | 27,808                         | 581                            | 38,210                         |
| (Increase)/Decrease in Restricted Cash   | (12,574)                       |                                |                                |
| Purchase of Huarun Redeemable Stock  |                                | (45,047)                       | (21,501)                       |
| Net Cash (Used in)/Provided by Investing<br>Activities   | (195,863)                      | (102,363)                      | (90,983)                       |
| <b>FINANCING ACTIVITIES:</b>   |                                |                                |                                |
| Proceeds from Issuance of Debt   | 40,984                         | 296,772                        |                                |
| Payments on Senior Notes   |                                |                                | (100,000)                      |
| Net Change in Other Borrowings   | (132)                          | (346,623)                      | 18,104                         |
| Proceeds from Sale of Treasury Stock   | 41,917                         | 23,956                         | 20,200                         |
| Treasury Stock Purchases   | (118,671)                      | (54,387)                       | (39,675)                       |
| Excess Tax Benefit from Stock-Based<br>Compensation  | 4,791                          | 1,343                          | 473                            |
| Payments on Deferred Liability Excess Cash -<br>Huarun   |                                | (4,818)                        | (11,390)                       |
| Dividends Paid   | (63,279)                       | (60,116)                       | (55,854)                       |
| Net Cash (Used in)/Provided by Financing<br>Activities   | (94,390)                       | (143,873)                      | (168,142)                      |
| Increase/(Decrease) in Cash and Cash Equivalents   | (24,372)                       | 91,459                         | 5,325                          |
| Effect of Exchange Rate Changes on Cash and<br>Cash Equivalents                                | 4,274                          | 6,187                          | (200)                          |
| Cash and Cash Equivalents at Beginning of Year   | 187,719                        | 90,073                         | 84,948                         |
| Cash and Cash Equivalents at End of Year   | \$ 167,621                     | \$ 187,719                     | \$ 90,073                      |
| See Notes to Consolidated Financial Statements   |                                |                                |                                |

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**Notes to Consolidated Financial Statements**

The Valspar Corporation Years Ended October 2010, 2009 and 2008  
(Dollars 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 2010, 2009 and 2008 include 52, 52 and 53 weeks, respectively.

**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.

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Management also reviews 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.

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 four 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, as computed primarily by present value cash flow calculations (Level 3 valuation technique), 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 (as determined in step 1). If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss equal to the difference.

Management reviews indefinite-lived intangible assets at least annually for impairment by calculating the fair value of the assets and comparing with their carrying value. In assessing fair value, management generally utilizes 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.

During the fourth quarters of 2010 and 2009, management completed the annual goodwill and indefinite-lived intangible asset impairment reviews with no impairments to the carrying values identified.

**Stock-Based Compensation:** Our stock-based employee compensation plans are comprised primarily of fixed stock options, but also include restricted stock. 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 vest after three or five years. We account for our stock based compensation using a fair value method. 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. Management analyzes 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, management estimates 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.

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, 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.

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, management believes 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 \$84,807 (2.6% of net sales), \$82,096 (2.9% of net sales) and \$93,925 (2.7% of net sales) in 2010, 2009 and 2008, 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.

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

|  | 2010        | 2009        | 2008        |
|--|-------------|-------------|-------------|
| Weighted-average common shares outstanding basic               | 98,521,088  | 100,036,809 | 99,650,574  |
| Dilutive effect of stock options and unvested restricted stock | 2,345,119   | 884,642     | 675,675     |
| Equivalent average common shares outstanding diluted           | 100,866,207 | 100,921,451 | 100,326,249 |

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. Potential common shares of 1,065,425, 5,248,594 and 4,176,277 related to our outstanding stock options were excluded from the computation of diluted earnings per share for 2010, 2009 and 2008, 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<br>October 29,<br>2010 | Year ended<br>October 30,<br>2009 | Year ended<br>October 31,<br>2008 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Foreign currency translation                    | \$ 159,966                        | \$ 138,045                        | \$ 129,859                        |
| Pension and postretirement benefits, net        | (79,100)                          | (77,679)                          | (42,356)                          |
| Unrealized gain (loss) on financial instruments | 7,221                             | 7,631                             | 2,533                             |
| Accumulated other comprehensive income (loss)   | \$ 88,087                         | \$ 67,997                         | \$ 90,036                         |

**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 2010 presentation. Such reclassifications had no effect on net income or stockholders' equity as previously reported.

### **NOTE 2 ACQUISITIONS AND DIVESTITURES**

In September 2010, we acquired all the outstanding shares of Australian paint manufacturer Wattyl Limited (ASX:WYL) for approximately AUD 142,000 and the assumption of Wattyl's existing debt. The acquisition was paid for primarily through the use of existing cash and cash equivalents. Wattyl had fiscal year 2010 net sales of approximately AUD 386,500. Wattyl 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 and a preliminary allocation of the purchase price has been completed. 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.



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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. The acquisition was strategic as we obtained 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.

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

In October 2008, we completed the sale of a non-strategic specialty product line to W.M. Barr & Co., Inc. No manufacturing equipment or plants were included in the transaction.

In January 2008, we completed the sale of our commercial/industrial polymer floor coatings product line to Sika AG. The product line had annual sales of approximately \$17,000 in fiscal year 2007. No manufacturing equipment or plants were included in the transaction.

In December 2007, we acquired control of Aries Coil Coatings S.A. de C.V. (Aries), a privately owned manufacturer of high-performance coil and packaging coatings based in Monterrey, Mexico. We acquired the remaining shares of this business in the second quarter of 2008. Aries had annual sales in calendar year 2007 of approximately \$40,000. This transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in our financial statements from the date of acquisition.

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 and 2008. The balance in Huarun Redeemable Stock was zero at October 29, 2010 and October 30, 2009.

The Huarun Redeemable Stock was accrued to redemption value and the amount of accretion is shown as an adjustment below net income to arrive at the net income available to common stockholders. We accrued \$9,954 and \$12,195 during 2009 and 2008, respectively, which reduced basic and diluted net income per common share by \$0.10 and \$0.12, respectively.

The terms of the acquisition also required us to pay to Champion Regal and certain other stockholders an amount equal to the excess cash, as defined in the purchase agreement, held by Huarun as of the closing date. The liability was to be paid as soon as practical before the third anniversary of the closing date, including interest at 6%. The excess cash was recorded as a deferred liability under purchase accounting. We made a payment of \$4,818 plus accrued interest during the first quarter of 2009 to reduce this liability to zero. During fiscal year 2008 we paid \$11,390 plus interest.

### **NOTE 3 INVENTORIES**

The major classes of inventories consist of the following:

|  | 2010              | 2009              |
|--|-------------------|-------------------|
| Manufactured products                        | \$ 215,045        | \$ 134,535        |
| Raw materials, supplies and work-in-progress | 134,104           | 103,914           |
|  | <b>\$ 349,149</b> | <b>\$ 238,449</b> |

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate \$129,161 at October 29, 2010 and \$122,688 at October 30, 2009, approximately \$67,672 and \$53,426 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 \$33,944 and \$24,120 of issued checks, which had not cleared our bank accounts as of October 29, 2010 and October 30, 2009, respectively.

Other accrued liabilities include the following:

|  | 2010       | 2009       |
|--|------------|------------|
| Employee compensation                        | \$ 133,769 | \$ 117,080 |
| Uninsured loss reserves and deferred revenue | 74,745     | 63,476     |

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|  |                   |            |
|--|-------------------|------------|
| Customer volume rebates and incentives           | <b>60,141</b>     | 53,018     |
| Contribution to employees' retirement trusts     | <b>24,916</b>     | 21,592     |
| Interest   | <b>20,639</b>     | 20,372     |
| Taxes, insurance, professional fees and services | <b>29,518</b>     | 21,455     |
| Advertising and promotions                       | <b>24,233</b>     | 23,529     |
| Restructuring                                    | <b>5,955</b>      | 6,144      |
| Deferred tax liability                           | <b>2,128</b>      | 2,155      |
| Other  | <b>20,085</b>     | 20,619     |
|  | <b>\$ 396,129</b> | \$ 349,440 |

**NOTE 5 DEBT AND MONEY MARKET SECURITIES**

Our debt consists of the following:

|   | <b>2010</b>       | <b>2009</b> |
|---|-------------------|-------------|
| Total Short-term Borrowings (weighted average interest rate of 6.57% at October 29, 2010) | <b>\$ 8,088</b>   | \$ 7,278    |
| Notes to banks<br>(2.76% - 7.21% at October 29, 2010)                                     | <b>\$ 130,714</b> | \$ 60,593   |
| Senior notes  |                   |             |
| Due 2012 at 5.625%  | <b>200,000</b>    | 200,000     |
| Due 2015 at 5.10%   | <b>150,000</b>    | 150,000     |
| Due 2017 at 6.05%   | <b>150,000</b>    | 150,000     |
| Due 2019 at 7.25%   | <b>300,000</b>    | 300,000     |
| Industrial development bonds<br>(0.44% at October 29, 2010 payable in 2015)               | <b>12,502</b>     | 12,502      |
| Total Long-term Debt  | <b>\$ 943,216</b> | \$ 873,095  |
| Total Debt  | <b>\$ 951,304</b> | \$ 880,373  |

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Our bank credit facilities consist of the following:

|  | <b>October 29, 2010</b>      |                                    |
|--|------------------------------|------------------------------------|
|  | <b>Total<br/>Outstanding</b> | <b>Committed<br/>Facility Size</b> |
| December 2014 bank syndicate facility      | \$ 50,000                    | \$ 550,000                         |
| June 2012 bilateral facility               | 7,751                        | 14,534                             |
| September 2013 bilateral facility          | 72,963                       | 87,201                             |
| Total unsecured committed revolving credit | \$ 130,714                   | \$ 651,735                         |
| Uncommitted bank lines of credit           | \$ 8,088                     | \$ 125,486                         |
| Total bank credit facilities               | \$ 138,802                   | \$ 777,221                         |

|  | <b>October 30, 2009</b>      |                                    |
|--|------------------------------|------------------------------------|
|  | <b>Total<br/>Outstanding</b> | <b>Committed<br/>Facility Size</b> |
| June 2012 bank syndicate facility          | \$ 50,000                    | \$ 475,000                         |
| June 2012 bilateral facility               | 10,593                       | 13,500                             |
| Total unsecured committed revolving credit | \$ 60,593                    | \$ 488,500                         |
| Uncommitted bank lines of credit           | \$ 7,278                     | \$ 117,535                         |
| Total bank credit facilities               | \$ 67,871                    | \$ 606,035                         |

In June 2009, we entered into a \$465,000 unsecured revolving credit facility with a syndicate of banks expiring on June 30, 2012. The bank syndicate facility replaced our \$150,000 364-day credit agreement that was due to mature in November 2009 and our \$600,000 five-year credit agreement that was due to mature in October 2010, which were both terminated on June 26, 2009. During the fourth quarter of 2009, the bank syndicate facility was expanded by \$10,000 to a total facility size of \$475,000. Subsequent to October 29, 2010, the maturity date of the bank syndicate facility was extended from June 30, 2012 to December 31, 2014 and the facility was expanded by \$75,000 to a total facility size of \$550,000. The bank syndicate facility is a backstop to our \$350,000 U.S. commercial paper program established in 2006, under which there were no amounts outstanding as of October 29, 2010 and October 30, 2009. In connection with the bank syndicate facility we entered into a bilateral U.S. dollar equivalent \$14,534 unsecured committed revolving credit facility in June 2009 that expires June 30, 2012. During the fourth quarter of 2010, we entered a three-year U.S. dollar equivalent \$87,201 unsecured committed revolving credit facility. The September 2013 facility is a bilateral facility to the bank syndicate facility.

The credit facilities contain covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of October 29, 2010. 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 6.57% in 2010, 5.70% in 2009 and 5.88% in 2008.

During the third quarter of 2009, we issued \$300,000 of unsecured, senior notes that mature on June 15, 2019 with a coupon rate of 7.25%. The public offering was made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission. We used the net proceeds of \$296,772 to repay our commercial paper borrowings and a portion of our borrowings under our existing bank credit facilities.

The future maturities of long-term debt, after giving effect to the extended maturity of our bank syndicate facility to December 31, 2014, are as follows:

|            | <b>Maturities</b> |
|------------|-------------------|
| 2011       | \$                |
| 2012       | 207,751           |
| 2013       | 72,963            |
| 2014       |                   |
| 2015       | 212,502           |
| Thereafter | 450,000           |

Interest paid during 2010, 2009 and 2008 was \$58,067, \$42,648 and \$61,485, respectively.

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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.

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

|                          | <b>October 30, 2009</b>                   |                              |
|--------------------------|---|------------------------------|
|                          | <b>Balance Sheet<br/>(carrying value)</b> | <b>Fair Market<br/>Value</b> |
| Publicly traded debt     | \$ 800,000                                | \$ 867,942                   |
| Non-publicly traded debt | 80,373                                    | 77,676                       |
| <b>Total debt</b>        | <b>\$ 880,373</b>                         | <b>\$ 945,618</b>            |

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

We invest in 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 money market funds are \$41,212 and \$74,119 as of October 29, 2010 and October 30, 2009, 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 29, 2010 and October 30, 2009, we had restricted cash of \$12,574 and zero, respectively. Such restricted cash primarily serves as collateral for our liability insurance programs.

Table of Contents**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 29, 2010.

At October 29, 2010, we had an aggregate \$50,000 notional amount of interest rate swap contracts, which have been designated as cash flow hedges, to pay fixed rates of interest and receive a floating interest rate based on LIBOR. All contracts mature during fiscal year 2011. The interest rate swap contracts are reflected at fair value in the consolidated balance sheet. Unrealized gains and losses are recorded in accumulated other comprehensive income. Amounts to be received or paid under the contracts are recognized as interest expense over the life of the contracts. We had \$50,000 notional amount of interest rate swap contracts in place as of October 30, 2009. There was no ineffectiveness for these swaps for the year ended October 29, 2010 or for the year ended October 30, 2009. During the third quarter of 2009, we terminated \$50,000 notional amount of interest rate swap contracts yielding a pretax loss of \$1,667. The interest rate swap contracts were terminated as a result of the repayment of the hedged LIBOR based borrowings. The loss is reflected as an increase to interest expense in our statement of income for the third quarter of 2009.

At October 29, 2010, we had \$8,629 notional amount of foreign currency contracts that mature during fiscal year 2011. 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 30, 2009, we had approximately \$8,665 notional amount of foreign currency contracts maturing in fiscal year 2010. There was no ineffectiveness for these hedges during 2010 or 2009.

At October 29, 2010 and at October 30, 2009 we had no treasury lock contracts in place. In the third quarter of 2009, we terminated \$150,000 of treasury lock contracts as a result of our bond issuance, yielding a pretax gain of \$11,600. The unamortized gain is reflected, net of tax, in accumulated other comprehensive income in our consolidated balance sheet as of October 29, 2010 and is being reclassified ratably to our statements of income as a decrease to interest expense over the term of the related debt.

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

|                              | Fair Value at<br>October 29, 2010<br>Level 2 * | Fair Value at<br>October 30, 2009<br>Level 2 * |
|------------------------------|--|--|
| <u>Liabilities</u>           |  |  |
| Accrued liabilities other:   |  |  |
| Foreign currency contracts   | \$ 366   | \$ 170   |
| Interest rate swap contracts | 385  |  |
| Other long-term liabilities: |  |  |
| Interest rate swap contracts |  | 1,476  |
| Total Liabilities            | \$ 751   | \$ 1,646                                       |

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

Derivative gains (losses) recognized in AOCI \*\* and on the Consolidated Statement of Income for fiscal year ended October 29, 2010 and October 30, 2009, respectively, are as follows:

| October 29, 2010                                  | Amount of Gain (Loss)<br>Recognized in AOCI** | Statement of<br>Income Classification | Amount of Gain (Loss)<br>Recognized in Earnings** |
|---|---|---------------------------------------|---|
| <u>Derivatives designated as cash flow hedges</u> |   |                                       |   |
| Foreign currency contracts                        | \$ (195)                                      | Other income / (expense), net         | \$ 177  |
| Treasury lock contracts                           | (1,564)                                       | Interest expense                      | 1,564   |
| Interest rate swap contracts                      | 1,091   | Interest expense                      | (1,354)   |
| Total derivatives designated as cash flow hedges  | \$ (668)                                      |                                       | \$ 387  |

| October 30, 2009                                  | Amount of Gain (Loss)<br>Recognized in AOCI** | Statement of<br>Income Classification | Amount of Gain (Loss)<br>Recognized in Earnings** |
|---|---|---------------------------------------|---|
| <u>Derivatives designated as cash flow hedges</u> |   |                                       |   |
| Foreign currency contracts                        | \$ (1,726)                                    | Other income / (expense), net         | \$ 1,031  |

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|  |          |                  |         |
|--|----------|------------------|---------|
| Treasury lock contracts                          | 10,713   | Interest expense | 887     |
| Interest rate swap contracts                     | (698)    | Interest expense | (3,395) |
| Total derivatives designated as cash flow hedges | \$ 8,289 | \$               | (1,477) |

\*\*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.

Table of Contents**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 of our 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 are estimable. 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, both short and long-term, during the period are as follows:

|  |           |               |
|--|-----------|---------------|
| Balance, October 26, 2007                                      | \$        | 85,142        |
| Additional net deferred revenue/accrual made during the period |           | 5,311         |
| Payments made during the period                                |           | (12,460)      |
| 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)       |
| <b>Balance, October 29, 2010</b>                               | <b>\$</b> | <b>74,907</b> |

**NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the fiscal years ended October 29, 2010 and October 30, 2009 are as follows:

|                                       | <b>Coatings</b>     |           | <b>Paints</b>  |           | <b>Other</b>  |           | <b>Total</b>     |
|---------------------------------------|---------------------|-----------|----------------|-----------|---------------|-----------|------------------|
| Balance, October 31, 2008             | \$ 1,096,243        | \$        | 234,424        | \$        | 22,146        | \$        | 1,352,813        |
| Goodwill acquired (disposed/adjusted) | (16,622)            |           | (1,102)        |           |               |           | (17,724)         |
| Currency translation gain (loss)      | (159)               |           | 1,482          |           | 1,585         |           | 2,908            |
| 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            |
| <b>Balance, October 29, 2010</b>      | <b>\$ 1,091,527</b> | <b>\$</b> | <b>240,317</b> | <b>\$</b> | <b>23,974</b> | <b>\$</b> | <b>1,355,818</b> |

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.

The balance as of October 30, 2009 reflects the final purchase price allocation related to the acquisition of Aries (\$17,252 was reclassified from goodwill to other intangible assets, pretax).

Information regarding our other intangible assets is as follows:

|                           | <b>Estimated Useful Life</b> |    | <b>Carrying Amount</b> |    | <b>Accumulated Amortization</b> |    | <b>Net</b> |
|---------------------------|------------------------------|----|------------------------|----|---------------------------------|----|------------|
| Balance, October 30, 2009 |                              |    |                        |    |                                 |    |            |
| Customer Lists            | 40 years                     | \$ | 280,728                | \$ | (42,219)                        | \$ | 238,509    |
| Technology                | Indefinite                   |    | 204,144                |    |                                 |    | 204,144    |



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|                           |            |    |                |          |                 |                   |
|---------------------------|------------|----|----------------|----------|-----------------|-------------------|
| Trademarks                | Indefinite |    | 186,835        |          |                 | 186,835           |
| Other                     | 10 years   |    | 11,538         | (11,103) |                 | 435               |
|                           |            | \$ | 683,245        | \$       | (53,322)        | \$ 629,923        |
| 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               |
|                           |            | \$ | <b>697,985</b> | \$       | <b>(60,595)</b> | \$ <b>637,390</b> |
|                           |            |    | <b>34</b>      |          |                 |                   |

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The balance as of October 29, 2010 reflects the provisional allocation related to the acquisition of Wattyl Limited (\$8,110 was allocated to trademarks) and the acquisition of certain assets from DIC Corporation (\$3,420 was allocated to customer lists).

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 List and Other categories were 33 years and 4 years, respectively.

Total intangible asset amortization expense was \$7,273, \$7,575 and \$7,937 in 2010, 2009 and 2008, respectively. Estimated amortization expense for each of the five succeeding fiscal years based on intangible assets as of October 29, 2010 was approximately \$7,500 annually.

### **NOTE 9 STOCK-BASED COMPENSATION**

Until February 2009, we had stock-based compensation plans composed 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, equal to the total reserved shares remaining under the previous equity compensation plans at the time the Omnibus Plan was approved. Under the new 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 29, 2010. The table below includes the shares reserved in one pool even though the Omnibus Plan was not in effect until February 2009.

|                                  | <b>Shares<br/>Reserved</b> | <b>Shares<br/>Outstanding</b> |
|----------------------------------|----------------------------|-------------------------------|
| Balance, October 26, 2007        | 6,380,664                  | 12,169,386                    |
| Granted Restricted Stock         | (86,493)                   | 86,493                        |
| Granted Stock Options            | (1,900,734)                | 1,900,734                     |
| Vested Restricted Stock          |                            | (104,477)                     |
| Exercised Stock Options          |                            | (1,179,702)                   |
| Forfeited Restricted Stock       | 29,859                     | (29,859)                      |
| Canceled Stock Options           | 583,118                    | (583,118)                     |
| 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)                   |
| Forfeited Restricted Stock       |                            |                               |
| Canceled Stock Options           | 384,590                    | (384,590)                     |
| Balance, October 30, 2009        | 3,482,562                  | 12,236,607                    |
| Reserve Increase *               | 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)                      |
| <b>Balance, October 29, 2010</b> | <b>4,991,940</b>           | <b>10,890,660</b>             |

\*On June 9, 2010, we filed an S-8 registration statement to add 3,000,000 shares to reserve for the Omnibus Plan.

**Stock Options:** Total stock-based compensation expense included in our Consolidated Statements of Income in fiscal 2010, 2009 and 2008 was \$9,011, \$9,385 and \$9,240, respectively. Awards to retirement-eligible employees are expensed at the grant date.

As of October 29, 2010, there was \$8,069 of total unrecognized before-tax compensation cost related to non-vested awards that is expected to be recognized over a weighted-average period of 1.8 years.

Stock option activity for the three years ended October 29, 2010 is summarized as follows:

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|                                  | Options<br>Outstanding | Weighted Average<br>Exercise Price<br>per share | Weighted Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic Value |
|----------------------------------|------------------------|---|---|------------------------------|
| Balance, October 26, 2007        | 11,873,804             | \$ 21.21  | 5.9 years   | \$ 44,605                    |
| Granted                          | 1,900,734              | 18.62   |   |                              |
| Exercised                        | (1,179,702)            | 17.12   |   | 6,514                        |
| Canceled                         | (583,118)              | 24.14   |   |                              |
| 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   |   |                              |
| <b>Balance, October 29, 2010</b> | <b>10,355,765</b>      | <b>\$ 23.52</b>                                 | <b>6.0 years</b>                                  | <b>\$ 88,858</b>             |
| Exercisable                      | 7,784,429              | 22.68   | 5.2 years   | 73,351                       |

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Options exercisable of 8,576,291 at October 30, 2009 and 8,936,910 at October 31, 2008 had weighted average exercise prices of \$21.69 and \$20.82, respectively.

The total intrinsic value at October 29, 2010 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:

|  | 2010      | 2009    | 2008    |
|--|-----------|---------|---------|
| Expected dividend yield                          | 2.0%      | 2.3%    | 3.0%    |
| Expected stock price volatility                  | 28.0%     | 30.0%   | 27.9%   |
| Risk-free interest rate                          | 2.0%      | 2.9%    | 3.4%    |
| Expected life of options                         | 7.4 years | 6 years | 6 years |
| Weighted average fair value on the date of grant | \$ 8.02   | \$ 6.89 | \$ 4.29 |

**Restricted Stock** 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 Stock Incentive Plan. In February 2009, the share reserves under the Omnibus Plan replaced those reserves.

The following table sets forth a reconciliation of restricted shares for the three years ended October 29, 2010.

|                                  | Shares<br>Outstanding | Weighted Average<br>Grant Date<br>Fair Value | Aggregate<br>Intrinsic Value |
|----------------------------------|-----------------------|--|------------------------------|
| Balance, October 26, 2007        | 295,582               | \$ 25.32                                     | \$ 7,262                     |
| Granted                          | 86,493                | 21.34  | 1,845                        |
| Vested                           | (104,477)             | 23.91  | 2,138                        |
| Forfeited                        | (29,859)              | 26.10  | (779)                        |
| Balance, October 31, 2008        | 247,739               | \$ 24.44                                     | \$ 5,066                     |
| Granted                          | 112,990               | 18.66  | 2,109                        |
| Vested                           | (101,559)             | 24.35  | 1,902                        |
| Forfeited                        |                       |  |                              |
| 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)                        |
| <b>Balance, October 29, 2010</b> | <b>534,895</b>        | <b>\$ 25.01</b>                              | <b>\$ 17,170</b>             |

### **NOTE 10 INCOME TAXES**

Income before income taxes consisted of the following:

|          | 2010              | 2009              | 2008              |
|----------|-------------------|-------------------|-------------------|
| Domestic | \$ 170,505        | \$ 163,737        | \$ 161,556        |
| Foreign  | 148,692           | 74,591            | 67,141            |
|          | <b>\$ 319,197</b> | <b>\$ 238,328</b> | <b>\$ 228,697</b> |

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

|               | 2010      | 2009      | 2008      |
|---------------|-----------|-----------|-----------|
| Current       |           |           |           |
| Federal       | \$ 50,698 | \$ 34,038 | \$ 53,256 |
| State         | (934)     | 3,682     | 6,927     |
| Foreign       | 44,137    | 22,058    | 25,236    |
| Total Current | 93,901    | 59,778    | 85,419    |
| Deferred      |           |           |           |
| Federal       | 1,646     | 12,618    | (2,556)   |
| State         | 561       | 2,576     | (777)     |

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|                    |                  |           |           |
|--------------------|------------------|-----------|-----------|
| Foreign            | <b>1,033</b>     | 3,203     | (4,155)   |
| Total Deferred     | <b>3,240</b>     | 18,397    | (7,488)   |
| Total Income Taxes | <b>\$ 97,141</b> | \$ 78,175 | \$ 77,931 |

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

|                                    | <b>2010</b>         | <b>2009</b>  | <b>2008</b>  |
|------------------------------------|---------------------|--------------|--------------|
| Deferred tax assets:               |                     |              |              |
| Insurance-related accruals         | <b>\$ 7,220</b>     | \$ 9,546     | \$ 9,586     |
| Compensation-related accruals      | <b>32,331</b>       | 25,065       | 21,911       |
| Deferred revenue                   | <b>9,772</b>        | 11,226       | 11,819       |
| Pension                            | <b>17,604</b>       | 24,908       | 11,502       |
| Other                              | <b>53,909</b>       | 49,414       | 51,901       |
| Total deferred tax assets          | <b>120,836</b>      | 120,159      | 106,719      |
| Deferred tax liabilities:          |                     |              |              |
| Tax in excess of book depreciation | <b>(50,806)</b>     | (43,606)     | (34,057)     |
| Amortization                       | <b>(261,527)</b>    | (259,294)    | (249,060)    |
| Other                              | <b>(13,309)</b>     | (15,552)     | (14,592)     |
| Total deferred tax liabilities     | <b>(325,642)</b>    | (318,452)    | (297,709)    |
| Net deferred tax liabilities       | <b>\$ (204,806)</b> | \$ (198,293) | \$ (190,990) |

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

|  | <b>2010</b>   | <b>2009</b> | <b>2008</b> |
|--|---------------|-------------|-------------|
| Tax at U.S. statutory rate                 | <b>35.0%</b>  | 35.0%       | 35.0%       |
| State income taxes, net of federal benefit | <b>(1.0%)</b> | 1.7%        | 2.2%        |
| Non-U.S. taxes                             | <b>(2.1%)</b> | (1.2%)      | (1.7%)      |
| Other                                      | <b>(1.5%)</b> | (2.7%)      | (1.4%)      |
|  | <b>30.4%</b>  | 32.8%       | 34.1%       |

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 \$319,953 at October 29, 2010. 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 2010, 2009 and 2008 were \$74,882, \$78,946 and \$58,755, 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.

We adopted the amended provisions of ASC Topic 740, *Income Taxes*, at the beginning of fiscal year 2008, on October 27, 2007. As a result of the adoption, we recorded a cumulative effect adjustment of \$10,757, increasing our liability for unrecognized tax benefits, interest and penalties and reducing the October 27, 2007 retained earnings balance.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (excluding interest and penalties) for fiscal year 2008 through 2010 is as follows:

|  |           |               |
|--|-----------|---------------|
| Gross unrecognized tax benefits at October 27, 2007        | \$        | 47,504        |
| Increases in tax positions for prior years                 |           |               |
| Decreases in tax positions for prior years                 |           | (799)         |
| Increases in tax positions for current year                |           | 3,222         |
| Settlements  |           |               |
| Lapse in statute of limitations                            |           | (5,130)       |
| 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           |
| Decreases in tax positions for prior years                 |           |               |
| Increases in tax positions for current year                |           | 2,857         |
| Settlements  |           | (11,424)      |
| Lapse in statute of limitations                            |           | (7,224)       |
| <b>Gross unrecognized tax benefits at October 29, 2010</b> | <b>\$</b> | <b>17,817</b> |

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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 \$5,907 and \$13,196 as of October 29, 2010 and October 30, 2009 respectively. The gross amount of interest and penalties included in tax expense for the year ended October 29, 2010 and October 30, 2009 was \$(7,289) and \$799, respectively.

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was \$15,646 and \$29,907 as of October 29, 2010 and October 30, 2009, 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 2005. The Internal Revenue Service (IRS) concluded its examination of our U.S. federal tax returns for the fiscal years ended 2004 and 2005 in April 2008. There were no material adjustments to our income tax expense or balance of unrecognized tax benefits as a result of the IRS examination. 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.

Table of Contents**NOTE 11 LEASING ARRANGEMENTS**

We have operating lease commitments outstanding at October 29, 2010, for plant and warehouse equipment, office and warehouse space, automobiles and retail stores. The retail stores are related to our acquisition of Watty Limited, see Note 2 for further information. The leases have initial periods ranging from one to ten years, with minimum future rental payments as follows:

|                 | <b>Minimum<br/>Lease Payments</b> |
|-----------------|-----------------------------------|
| 2011            | \$ 32,882                         |
| 2012            | 25,819                            |
| 2013            | 18,393                            |
| 2014            | 12,938                            |
| 2015            | 9,327                             |
| 2016 and beyond | 30,999                            |
|                 | <b>\$ 130,358</b>                 |

Rent expense for operating leases was \$23,283 in 2010, \$22,885 in 2009 and \$24,604 in 2008.

**NOTE 12 LITIGATION**

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, management believes 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. Employees whom are not eligible for the Savings and Retirement Plan have the option to participate in the 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 \$33,273, \$28,517, and \$23,855, for 2010, 2009 and 2008, respectively.

**Executive Retirement Plans:** We have a limited number of Supplemental Executive Retirement Plans (SERPs) to provide designated executives with retirement, death and disability benefits. 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 2010, we made discretionary contributions of approximately \$19,321 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 28, 2011, we expect our total contributions to our funded pension plans, unfunded pension, non-qualified plans and post-retirement medical plans to be at least \$3,400.

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.

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

| Net Periodic Benefit Cost                   | Pension  |          |          |
|---|----------|----------|----------|
|   | 2010     | 2009     | 2008     |
| Service cost                                | \$ 3,272 | \$ 2,748 | \$ 3,774 |
| Interest cost                               | 12,863   | 13,356   | 13,447   |
| Expected return on plan assets              | (16,250) | (15,487) | (15,670) |
| Amortization of transition asset obligation |          |          | (34)     |
| Amortization of prior service cost          | 472      | 617      | 733      |
| Recognized actuarial loss                   | 4,932    | 2,043    | 3,033    |
| Settlement loss                             |          | 2,102    |          |
| Curtailment                                 | (172)    | (740)    | (33)     |
| Net periodic benefit cost                   | \$ 5,117 | \$ 4,639 | \$ 5,250 |

| Net Periodic Benefit Cost          | Post-Retirement Medical |         |          |
|------------------------------------|-------------------------|---------|----------|
|                                    | 2010                    | 2009    | 2008     |
| Service cost                       | \$ 211                  | \$ 283  | \$ 1,168 |
| Interest cost                      | 476                     | 599     | 928      |
| Expected return on plan assets     | N/A                     | N/A     | N/A      |
| Amortization of prior service cost | (2,871)                 | (3,786) | (82)     |
| Recognized actuarial loss          | 2,629                   | 3,215   | 388      |
| Net periodic benefit cost          | \$ 445                  | \$ 311  | \$ 2,402 |

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.

| Change in Benefit Obligation           | Pension    |            | Post-Retirement Medical |           |
|--|------------|------------|-------------------------|-----------|
|  | 2010       | 2009       | 2010                    | 2009      |
| Benefit obligation beginning of year   | \$ 238,060 | \$ 209,848 | \$ 10,575               | \$ 9,324  |
| Service cost                           | 3,272      | 2,748      | 211                     | 283       |
| Interest cost                          | 12,863     | 13,356     | 476                     | 599       |
| Plan participants' contributions       | 498        | 485        |                         |           |
| Plan amendments                        | 758        | 136        |                         |           |
| Actuarial loss (gain)                  | 11,906     | 28,651     | 854                     | 1,262     |
| Benefits paid                          | (12,108)   | (15,196)   | (2,336)                 | (1,501)   |
| Currency impact                        | (1,573)    | (2,383)    |                         |           |
| Settlement loss                        |            | 549        |                         |           |
| Curtailment                            | (202)      | (995)      |                         |           |
| Initial adoption on acquisition—Wattyl | 14,792     |            |                         |           |
| Change in measurement date             |            | 861        |                         | 608       |
| Benefit obligation at end of year      | \$ 268,266 | \$ 238,060 | \$ 9,780                | \$ 10,575 |

| Change in Plan Assets                          | Pension    |            | Post-Retirement Medical |         |
|--|------------|------------|-------------------------|---------|
|  | 2010       | 2009       | 2010                    | 2009    |
| Fair value of plan assets at beginning of year | \$ 167,213 | \$ 176,393 | \$                      | \$      |
| Actual return on plan assets                   | 23,594     | (16,932)   |                         |         |
| Employer contributions                         | 19,321     | 21,992     | 2,336                   | 1,501   |
| Plan participants' contributions               | 498        | 485        |                         |         |
| Benefit payments                               | (12,108)   | (15,196)   | (2,336)                 | (1,501) |
| Currency impact                                | (697)      | (2,959)    |                         |         |
| Initial adoption on acquisition—Wattyl         | 15,001     |            |                         |         |
| Change in measurement date                     |            | 3,430      |                         |         |
| Fair value of assets at end of year            | \$ 212,822 | \$ 167,213 | \$                      | \$      |

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| <b>Funded Status</b>                         | <b>Pension</b> |              | <b>Post-Retirement Medical</b> |             |
|--|----------------|--------------|--------------------------------|-------------|
|  | <b>2010</b>    | <b>2009</b>  | <b>2010</b>                    | <b>2009</b> |
| Projected benefit obligation                 | \$ (268,266)   | \$ (238,060) | \$ (9,780)                     | \$ (10,575) |
| Plan assets at fair value                    | 212,822        | 167,213      |                                |             |
| Company contributions after measurement date |                |              |                                |             |
| Benefits paid after measurement date         |                |              |                                |             |
| Net funded status over (under)               | \$ (55,444)    | \$ (70,847)  | \$ (9,780)                     | \$ (10,575) |
| Funded status overfunded plans               | \$ 209         | \$           | \$                             | \$          |
| Funded status underfunded plans              | (55,653)       | (70,847)     | (9,780)                        | (10,575)    |

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|   | Pension  |          | Post-Retirement Medical |         |
|---|----------|----------|-------------------------|---------|
|   | 2010     | 2009     | 2010                    | 2009    |
| <b>Amounts Recognized in Balance Sheet:</b> |          |          |                         |         |
| Noncurrent assets                           | \$ 209   | \$       | \$                      | \$      |
| Current liabilities                         | (438)    | (461)    | (977)                   | (1,075) |
| Noncurrent liabilities                      | (55,215) | (70,386) | (8,803)                 | (9,500) |

|   | Pension    |            | Post-Retirement Medical |          |
|---|------------|------------|-------------------------|----------|
|   | 2010       | 2009       | 2010                    | 2009     |
| <b>Amounts in Accumulated Other Comprehensive Income:</b> |            |            |                         |          |
| Net (gain) / loss   | \$ 117,446 | \$ 117,883 | \$ 3,690                | \$ 5,465 |
| Net prior service cost (credit)                           | 4,729      | 4,387      | (823)                   | (3,694)  |
| Net transition obligation / (asset)                       |            |            |                         |          |
| Other comprehensive income total                          | 122,175    | 122,270    | 2,867                   | 1,771    |

|  | Pension |        | Post-Retirement Medical |            |
|--|---------|--------|-------------------------|------------|
|  | 2010    | 2009   | 2010                    | 2009       |
| <b>Amortization Expense Expected to Be Recognized During Next Fiscal Year:</b> |         |        |                         |            |
| Prior service cost (credits)   | \$ 397  | \$ 456 | \$ (128)                | \$ (2,872) |
| Net loss   | 6,035   | 4,927  | 304                     | 2,629      |
| Transition obligation (asset)  |         |        |                         |            |

Our pension and post-retirement medical plans with projected / accumulated benefit obligations in excess of Plan Assets were as follows:

|  | Pension    |            | Post-Retirement Medical |           |
|--|------------|------------|-------------------------|-----------|
|  | 2010       | 2009       | 2010                    | 2009      |
| Projected / accumulated post-retirement benefit obligation | \$ 253,475 | \$ 238,060 | \$ 9,780                | \$ 10,575 |
| Accumulated benefit obligation                             | 244,428    | 230,444    | N/A                     | N/A       |
| Fair value of plan assets                                  | 197,821    | 167,213    | N/A                     | N/A       |

Our pension plans with projected benefit obligations less than Plan Assets were as follows:

|                                | Pension   |      | Post-Retirement Medical |      |
|--------------------------------|-----------|------|-------------------------|------|
|                                | 2010      | 2009 | 2010                    | 2009 |
| Projected benefit obligation   | \$ 14,791 | \$   | N/A                     | N/A  |
| Accumulated benefit obligation | 14,329    |      | N/A                     | N/A  |
| Fair value of plan assets      | 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 plans 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.

|  | Pension     |             | Post-Retirement Medical |         |
|--|-------------|-------------|-------------------------|---------|
|  | 2010        | 2009        | 2010                    | 2009    |
| <b>Assumption ranges used in net periodic benefit cost</b> |             |             |                         |         |
| Discount rate  | 5.50% 6.75% | 6.00% 7.00% | 4.75%                   | 6.75%   |
| Expected long-term return on plan assets                   | 6.50% 8.50% | 6.50% 8.50% | N/A                     | N/A     |
| Average increase in compensation                           | 2.25% 4.00% | 2.25% 4.25% | N/A                     | N/A     |
| Initial medical trend rate                                 | N/A         | N/A         | 7.00%                   | 8.00%   |
| Ultimate medical trend rate                                | N/A         | N/A         | 5.00%                   | 5.00%   |
| Years to ultimate rate                                     | N/A         | N/A         | 2 Years                 | 3 Years |

Pension Post-Retirement Medical

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| <b>Assumption ranges used to determine benefit obligation:</b> | <b>2010</b>  |              | <b>2009</b> |       | <b>2010</b>    | <b>2009</b> |
|--|--------------|--------------|-------------|-------|----------------|-------------|
| Discount rate  | <b>4.75%</b> | <b>5.75%</b> | 5.50%       | 6.75% | <b>5.50%</b>   | 4.75%       |
| Rate of compensation increase                                  | <b>2.25%</b> | <b>4.00%</b> | 2.25%       | 4.00% | <b>N/A</b>     | N/A         |
| Initial medical trend rate                                     |              | <b>N/A</b>   |             | N/A   | <b>9.00%</b>   | 7.00%       |
| Ultimate medical trend rate                                    |              | <b>N/A</b>   |             | N/A   | <b>5.00%</b>   | 5.00%       |
| Years to ultimate rate   |              | <b>N/A</b>   |             | N/A   | <b>8 Years</b> | 2 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.

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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.

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

| Asset Allocation  | Pension Plans |      |                   |
|-------------------|---------------|------|-------------------|
|                   | 2010          | 2009 | Target Allocation |
| Equity securities | 56%           | 57%  | 50 60%            |
| Debt securities   | 39%           | 39%  | 40 50%            |
| Other             | 5%            | 4%   | 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<br>October 29, 2010 | Fair Value Measurements Using Inputs Considered<br>as |            |          |
|---------------------------|-----------------------------------|---|------------|----------|
|                           |                                   | Level 1   | Level 2    | Level 3  |
| Equity Securities         |                                   |   |            |          |
| Corporate Stocks          | \$ 18,393                         | \$ 18,393   | \$         | \$       |
| Trust                     | 50,534                            |   | 50,534     |          |
| Mutual Funds              | 49,530                            |   | 49,530     |          |
| Total Equity Securities   | 118,457                           | 18,393  | 100,064    |          |
| Fixed Income Mutual Funds | 83,473                            |   | 83,473     |          |
| Other Investments         |                                   |   |            |          |
| Insurance Contracts       | 6,527                             |   |            | 6,527    |
| Cash                      | 2,970                             | 2,970   |            |          |
| Mutual Funds              | 900                               |   | 900        |          |
| Real Estate               | 495                               |   |            | 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.

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. |
|---|----------|--------|----------|
| Beginning Balance                               | \$ 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)    |

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Ending Balance \$ 7,022    \$ 495    \$ 6,527

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

|             | <b>Pension</b> | <b>Post-retirement<br/>Medical</b> |
|-------------|----------------|------------------------------------|
| 2011        | \$ 14,650      | \$ 1,003                           |
| 2012        | 14,103         | 1,159                              |
| 2013        | 14,189         | 1,249                              |
| 2014        | 14,743         | 1,244                              |
| 2015        | 15,212         | 1,125                              |
| 2016 - 2020 | 82,132         | 3,490                              |
|             | \$ 155,029     | \$ 9,270                           |

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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 (formerly known as architectural) 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 Watty 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).

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 2010, 2009 and 2008 are as follows:

|                                       | 2010         | 2009         | 2008         |
|---------------------------------------|--------------|--------------|--------------|
| <b>Net Sales:</b>                     |              |              |              |
| Coatings                              | \$ 1,814,804 | \$ 1,582,786 | \$ 2,053,747 |
| Paints                                | 1,176,831    | 1,072,372    | 1,127,073    |
| All Other                             | 335,354      | 316,251      | 404,721      |
| Less Intersegment sales               | (100,302)    | (92,367)     | (103,163)    |
|                                       | \$ 3,226,687 | \$ 2,879,042 | \$ 3,482,378 |
|                                       | 2010         | 2009         | 2008         |
| <b>EBIT:</b>                          |              |              |              |
| Coatings                              | \$ 256,466   | \$ 185,528   | \$ 188,267   |
| Paints                                | 151,432      | 135,561      | 94,587       |
| All Other                             | (30,434)     | (32,367)     | 3,588        |
| <b>Total EBIT</b>                     | \$ 377,464   | \$ 288,722   | \$ 286,442   |
| <b>Interest Expense</b>               | \$ 58,267    | \$ 50,394    | \$ 57,745    |
| <b>Income before Income Taxes</b>     | \$ 319,197   | \$ 238,328   | \$ 228,697   |
|                                       | 2010         | 2009         | 2008         |
| <b>Depreciation and Amortization:</b> |              |              |              |
| Coatings                              | \$ 45,006    | \$ 45,439    | \$ 46,715    |
| Paints                                | 18,686       | 18,566       | 16,891       |
| All Other                             | 17,620       | 18,857       | 17,225       |
|                                       | \$ 81,312    | \$ 82,862    | \$ 80,831    |



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|                             | 2010         | 2009         | 2008         |
|-----------------------------|--------------|--------------|--------------|
| <b>Identifiable Assets:</b> |              |              |              |
| Coatings                    | \$ 2,368,262 | \$ 2,293,130 | \$ 2,379,946 |
| Paints                      | 1,117,485    | 818,732      | 847,285      |
| All Other *                 | 382,189      | 399,162      | 292,811      |
|                             | \$ 3,867,936 | \$ 3,511,024 | \$ 3,520,042 |

\*Includes our consolidated cash and cash equivalent balances and restricted cash.

|                              | 2010      | 2009      | 2008      |
|------------------------------|-----------|-----------|-----------|
| <b>Capital Expenditures:</b> |           |           |           |
| Coatings                     | \$ 30,355 | \$ 25,761 | \$ 24,059 |
| Paints                       | 16,644    | 8,047     | 6,338     |
| All Other                    | 20,733    | 24,089    | 12,648    |
|                              | \$ 67,732 | \$ 57,897 | \$ 43,045 |

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 is the only country outside of the United States that represents 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:

|                            | 2010         | 2009         | 2008         |
|----------------------------|--------------|--------------|--------------|
| <b>Net Sales External:</b> |              |              |              |
| United States              | \$ 1,922,781 | \$ 1,790,084 | \$ 2,067,337 |
| China                      | 418,017      | 328,634      | 381,419      |
| Other Countries            | 885,889      | 760,324      | 1,033,622    |
|                            | \$ 3,226,687 | \$ 2,879,042 | \$ 3,482,378 |

|                           | 2010         | 2009         | 2008         |
|---------------------------|--------------|--------------|--------------|
| <b>Long-lived Assets:</b> |              |              |              |
| United States             | \$ 1,498,192 | \$ 1,513,885 | \$ 1,531,575 |
| China                     | 465,505      | 459,004      | 462,318      |
| Other Countries           | 597,141      | 466,119      | 468,104      |
|                           | \$ 2,560,838 | \$ 2,439,008 | \$ 2,461,997 |

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We have one significant customer in the Paints segment whose net sales ranged from 16.0% to 20.1% of total sales over the last three years.

**NOTE 15 RESTRUCTURING**

During the third quarter of 2008, we initiated a comprehensive series of actions to lower our cost structure and further increase our operational efficiency. We expect that these restructuring activities will be completed by the end of the first quarter of fiscal year 2011. We incurred total restructuring charges of \$0.08, \$0.18 and \$0.16 per share after tax, in fiscal years 2010, 2009 and 2008, respectively. The pre-tax net charges were \$12,383, \$28,557 and \$23,454 in fiscal years 2010, 2009 and 2008, respectively.

The expenses included severance and employee benefits, asset impairments, professional services and site cleanup. We plan to pay the majority of the current restructuring liabilities by the middle of fiscal year 2011.

The restructuring initiatives included plant closures, reductions to research and development and selling and administrative expenses, manufacturing consolidation and relocation, and the exit of non-strategic product lines in certain geographies. We reduced our manufacturing capacity and our overall global headcount to lower our costs in light of the challenging global economic conditions.

The following restructuring and impairment charges by segment were recorded in 2010, 2009 and 2008:

**Year Ended October 29, 2010**

|                                       | Liability<br>Beginning<br>Balance<br>10/30/2009 | Net Expense      | Activity           | Liability<br>Ending<br>Balance<br>10/29/2010 |
|---------------------------------------|---|------------------|--------------------|--|
| <b>Coatings</b>                       |   |                  |                    |  |
| 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)              |  |
| <b>Total Coatings</b>                 | <b>2,706</b>                                    | <b>10,563</b>    | <b>(10,096)</b>    | <b>3,173</b>                                 |
| <b>Paints</b>                         |   |                  |                    |  |
| 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  |
| <b>Total Paints</b>                   | <b>3,383</b>                                    | <b>1,595</b>     | <b>(2,196)</b>     | <b>2,782</b>                                 |
| <b>All Other</b>                      |   |                  |                    |  |
| Severance and employee benefits       | 55  |                  | (55)               |  |
| Asset impairments                     |   | 114              | (114)              |  |
| Exit costs (consulting/site clean-up) |   | 111              | (111)              |  |
| <b>Total All Other</b>                | <b>55</b>                                       | <b>225</b>       | <b>(280)</b>       |  |
| <b>Total</b>                          | <b>\$ 6,144</b>                                 | <b>\$ 12,383</b> | <b>\$ (12,572)</b> | <b>\$ 5,955</b>                              |

**Year Ended October 30, 2009**

|                                       | Liability<br>Beginning<br>Balance<br>10/31/2008 | Expense       | Activity        | Liability<br>Ending<br>Balance<br>10/30/2009 |
|---------------------------------------|---|---------------|-----------------|--|
| <b>Coatings</b>                       |   |               |                 |  |
| 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)           |  |
| <b>Total Coatings</b>                 | <b>8,265</b>                                    | <b>18,237</b> | <b>(23,796)</b> | <b>2,706</b>                                 |
| <b>Paints</b>                         |   |               |                 |  |
| Severance and employee benefits       |   | 1,374         | (547)           | 827  |

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|                                       |                  |                  |                    |                 |
|---------------------------------------|------------------|------------------|--------------------|-----------------|
| Asset impairments                     |                  | 1,935            | (1,935)            |                 |
| Exit costs (consulting/site clean-up) | 2,252            | 1,120            | (816)              | 2,556           |
| Contract term costs (leases)          |                  |                  |                    |                 |
| <b>Total Paints</b>                   | <b>2,252</b>     | <b>4,429</b>     | <b>(3,298)</b>     | <b>3,383</b>    |
| <b>All Other</b>                      |                  |                  |                    |                 |
| 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)               |                 |
| <b>Total All Other</b>                | <b>870</b>       | <b>5,891</b>     | <b>(6,706)</b>     | <b>55</b>       |
| <b>Total</b>                          | <b>\$ 11,387</b> | <b>\$ 28,557</b> | <b>\$ (33,800)</b> | <b>\$ 6,144</b> |

Table of Contents**Year Ended October 31, 2008**

|                                       | Liability<br>Beginning<br>Balance<br>10/26/2007 | Expense          | Activity           | Liability<br>Ending<br>Balance<br>10/31/2008 |
|---------------------------------------|---|------------------|--------------------|--|
| <b>Coatings</b>                       |   |                  |                    |  |
| Severance and employee benefits       | \$  | \$ 10,509        | \$ (2,667)         | \$ 7,842                                     |
| Asset impairments                     |   | 1,630            | (1,630)            |  |
| Exit costs (consulting/site clean-up) |   | 800              | (377)              | 423  |
| Contract term costs (leases)          |   | 12               | (12)               |  |
| <b>Total Coatings</b>                 |   | <b>12,951</b>    | <b>(4,686)</b>     | <b>8,265</b>                                 |
| <b>Paints</b>                         |   |                  |                    |  |
| Severance and employee benefits       |   | 176              | (176)              |  |
| Asset impairments                     |   | 4,720            | (4,720)            |  |
| Exit costs (consulting/site clean-up) |   | 2,257            | (5)                | 2,252  |
| Contract term costs (leases)          |   |                  |                    |  |
| <b>Total Paints</b>                   |   | <b>7,153</b>     | <b>(4,901)</b>     | <b>2,252</b>                                 |
| <b>All Other</b>                      |   |                  |                    |  |
| Severance and employee benefits       |   | 1,399            | (593)              | 806  |
| Asset impairments                     |   | 1,815            | (1,815)            |  |
| Exit costs (consulting/site clean-up) |   | 136              | (72)               | 64   |
| Contract term costs (leases)          |   |                  |                    |  |
| <b>Total All Other</b>                |   | <b>3,350</b>     | <b>(2,480)</b>     | <b>870</b>                                   |
| <b>Total</b>                          | <b>\$</b>                                       | <b>\$ 23,454</b> | <b>\$ (12,067)</b> | <b>\$ 11,387</b>                             |

The ending liability balance at October 29, 2010 and at October 30, 2009 is included in other accrued liabilities on our Consolidated Balance Sheet. The restructuring reserve balances presented are considered adequate to cover committed restructuring actions. The restructuring expenses recorded are included in the Consolidated Statement of Income. For 2010, \$12,520 was charged to Cost of Sales and \$137 was credited to Selling, General and Administrative (SG&A) expenses. For 2009, \$22,280 was charged to Cost of Sales and \$6,277 was charged to SG&A expenses. For 2008, \$15,694 was charged to Cost of Sales, \$7,489 was charged to SG&A expenses, and \$271 was charged to Other Expense (Income).

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 29, 2010 and October 30, 2009:

|                            | Net<br>Sales        | Gross<br>Margin     | Net<br>Income     | Huarun<br>Redeemable<br>Stock<br>Accrual | Huarun<br>Redeemable<br>Stock<br>Accrual<br>per Share | Net Income<br>Available<br>to Common<br>Stockholders | Net<br>Income<br>per<br>Share<br>Basic | Net<br>Income<br>per<br>Share<br>Diluted |
|----------------------------|---------------------|---------------------|-------------------|--|---|--|--|--|
| <b>2010 Quarter Ended:</b> |                     |                     |                   |  |   |  |  |  |
| <b>January 29</b>          | \$ 672,363          | \$ ,216,991         | \$ 33,937         | \$                                       | \$  | \$ 33,937  | \$ 0.34                                | \$ 0.34                                  |
| <b>April 30</b>            | 803,570             | 273,353             | 61,673            |  |   | 61,673   | 0.63                                   | 0.61                                     |
| <b>July 30</b>             | 873,915             | 290,804             | 75,143            |  |   | 75,143   | 0.76                                   | 0.74                                     |
| <b>October 29</b>          | 876,839             | 290,530             | 51,303            |  |   | 51,303   | 0.52                                   | 0.51                                     |
|                            | <b>\$ 3,226,687</b> | <b>\$ 1,071,678</b> | <b>\$ 222,056</b> | <b>\$</b>                                | <b>\$</b>   | <b>\$ 222,056</b>                                    | <b>\$ 2.25</b>                         | <b>\$ 2.20</b>                           |
| <b>2009 Quarter Ended:</b> |                     |                     |                   |  |   |  |  |  |
| January 30                 | \$ 639,497          | \$ 189,344          | \$ 14,168         | \$ (3,318)                               | \$ (0.03)   | \$ 10,850  | \$ 0.11                                | \$ 0.11                                  |
| May 1                      | 668,384             | 221,136             | 31,130            | (3,318)                                  | (0.03)  | 27,812   | 0.28                                   | 0.28                                     |

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|            |              |            |            |            |           |            |         |         |
|------------|--------------|------------|------------|------------|-----------|------------|---------|---------|
| July 31    | 794,580      | 290,246    | 64,951     | (3,318)    | (0.03)    | 61,633     | 0.61    | 0.61    |
| October 30 | 776,581      | 278,202    | 49,904     |            |           | 49,904     | 0.50    | 0.49    |
|            | \$ 2,879,042 | \$ 978,928 | \$ 160,153 | \$ (9,954) | \$ (0.10) | \$ 150,199 | \$ 1.50 | \$ 1.49 |

The first, third and fourth quarters of fiscal year 2010 included restructuring costs of \$0.02, \$0.04 and \$0.02 per share, respectively. The first, second, third and fourth quarters of fiscal year 2009 included restructuring costs of \$0.06, \$0.05, \$0.03 and \$0.04 per share, respectively. See Note 15 for more information on restructuring activities. 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; see Note 2 for more information. In the fourth quarter of 2010, income from continuing operations included acquisition fees of \$0.03 per share; see Note 2 for more information.

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**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 29, 2010. 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 21.

The Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting is set forth on page 22.

There were no changes in our internal control over financial reporting during the quarter ended October 29, 2010 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**

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| Plan Category  | Number of Securities<br>to be Issued Upon<br>Exercise of<br>Outstanding<br>Options,<br>Warrants and Rights | Weighted-Average<br>Exercise Price of<br>Outstanding<br>Options, Warrants<br>and Rights | Number of Securities<br>Remaining Available<br>for Future Issuance<br>Under Equity<br>Compensation Plans<br>(1) |
|--|--|---|---|
| Equity Compensation Plans Approved by Security Holders     | 10,355,765   | \$ 23.52  | 4,991,940   |
| Equity Compensation Plans Not Approved by Security Holders | None   | None  | None  |
| <b>Total</b>   | <b>10,355,765</b>  | <b>\$ 23.52</b>   | <b>4,991,940</b>  |

- (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.

Table of Contents**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**

|   | <b>Page</b> |
|---|-------------|
| Report of Management on Internal Control Over Financial Reporting   | 21          |
| Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting              | 22          |
| Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements                      | 23          |
| Consolidated Balance Sheets – October 29, 2010 and October 30, 2009   | 24          |
| Consolidated Statements of Income – Years ended October 29, 2010, October 30, 2009 and October 31, 2008           | 25          |
| Consolidated Statement of Changes in Equity – Years ended October 29, 2010, October 30, 2009 and October 31, 2008 | 26          |
| Consolidated Statements of Cash Flows – Years ended October 29, 2010, October 30, 2009 and October 31, 2008       | 27          |
| Notes to Consolidated Financial Statements  | 28–44       |
| Selected Quarterly Financial Data (Unaudited)   | 44          |

**(2) Financial Statement Schedules**

Schedule II – Valuation and Qualifying Accounts and Reserves can be found on page 49.

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<br>Number | Description   |
|-------------------|---|
| 2.1               | Scheme Implementation Deed between the Registrant and Watty 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 |



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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)
- 4.1 Rights Agreement dated as of May 1, 2000, between the Registrant and ChaseMellon Stockholder Services, L.L.C., as Rights Agent (incorporated by reference to Form 8-A filed on May 3, 2000)
- 4.2 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)
- 4.3 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)
- 4.4 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)
- 4.5 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)\*\*

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| Exhibit Number | Description  |
|----------------|--|
| 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           | Employment Transition Agreement and Release between the Registrant and Paul C. Reyelts (incorporated by reference to Form 10-Q for the quarter ended January 30, 2009)**   |
| 10.9           | 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)**  |
| 10.10          | Confidentiality and Noncompetition Agreement between Registrant and William L. Mansfield (incorporated by reference to Form 10-Q for the quarter ended January 28, 2005)   |
| 10.11          | 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) |
| 10.12          | 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)**  |
| 10.13          | Form of Restricted Stock Granted to Certain Executive Officers (incorporated by reference to Form 10-Q for the quarter ended April 28, 2006)**   |
| 10.14          | Form of Stock Option Granted to Certain Executive Officers (incorporated by reference to Form 10-Q for the quarter ended April 28, 2006)**   |
| 10.15          | 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)**   |

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- 10.16 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)\*\*
- 10.17 Term Sheet for Compensation Program for Non-Employee Directors (incorporated by reference to Form 8-K filed on October 23, 2009)\*\*
- 10.18 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)
- 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

\* Filed electronically herewith.

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

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

Portions of the 2011 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.

Table of Contents**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 12/21/10

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/ William L. Mansfield 12/21/10 /s/ John S. Bode 12/21/10

William L. Mansfield, Director  
Chairman and Chief Executive Officer  
(principal executive officer)

John S. Bode, Director

/s/ William M. Cook 12/21/10

/s/ Lori A. Walker 12/21/10

William M. Cook, Director

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

/s/ Jeffrey H. Curler 12/21/10

Jeffrey H. Curler, Director

/s/ Tracy C. Jokinen 12/21/10

/s/ Ian R. Friendly 12/21/10

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

Ian R. Friendly, Director

/s/ Charles W. Gaillard 12/21/10

Charles W. Gaillard, Director

/s/ Janel S. Haugarth 12/21/10

Janel S. Haugarth, Director

/s/ Gary E. Hendrickson 12/21/10

Gary E. Hendrickson, Director

/s/ Mae C. Jemison 12/21/10

Mae C. Jemison, Director

/s/ Stephen D. Newlin 12/21/10

Stephen D. Newlin, Director

/s/ Gregory R. Palen 12/21/10

Gregory R. Palen, Director

Table of Contents**The Valspar Corporation**  
**Schedule II Valuation and Qualifying Accounts and Reserves**

Changes in the allowance for doubtful accounts were as follows:

| (dollars in thousands)                                | 2010      | 2009      | 2008      |
|---|-----------|-----------|-----------|
| Beginning balance                                     | \$ 21,768 | \$ 16,389 | \$ 10,598 |
| Amount acquired through acquisitions                  | 1,434     |           | 594       |
| Bad debt expense                                      | (668)     | 11,186    | 12,565    |
| Uncollectable accounts written off, net of recoveries | (5,075)   | (5,807)   | (7,368)   |
| Ending balance  | \$ 17,459 | \$ 21,768 | \$ 16,389 |