VALSPAR CORP
Form 10-K
December 19, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 26, 2012

or

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

Commission File Number 1-3011

THE VALSPAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-2443580**
(State of incorporation)	(I.R.S. Employer Identification No.)
901 3rd Avenue South	
Minneapolis, Minnesota	**55402**
(Address of principal executive offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $.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.
x Yes o 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.

o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.
x Yes o 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).
x Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Act). o Yes x No

The aggregate market value of the voting stock held by persons other than officers, directors and more than 10% stockholders of the registrant as of April 27, 2012 was approximately $3.5 billion based on the closing sales price of $51.97 per share as reported on the New York Stock Exchange. As of December 11, 2012, 89,957,761 shares of Common Stock, $0.50 par value per share (net of 28,484,863 shares in treasury), were outstanding.

DOCUMENTS INCORPORATED IN PART BY REFERENCE

Portions of The Valspar Corporation s definitive Proxy Statement (the Proxy Statement), to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended October 26, 2012, 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 global leader in the paint and coatings industry. With fiscal 2012 net sales of $4,020.9 million, we believe we are the fifth largest paint and coatings supplier in the world. We manufacture and distribute a broad range of coatings, paints and related products, and we operate our business in two reportable segments: Coatings and Paints. Net sales for our Coatings and Paints segments in 2012 were $2,176.7 million and $1,604.6 million, respectively. We have grown our business by significantly expanding our global presence. In fiscal year 2012, just over half of our business was in North America, with the rest of our business spread throughout Europe, Australia, Asia and South America. We have also grown our business through acquisitions, focusing on the needs of our customers and investing in our brands and proprietary technology.

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. The information on our website is not part of this filing.

Coatings Segment

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

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

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

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

Paints Segment

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

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

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

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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 and colorants, 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. In the fourth quarter of fiscal year 2012, we exited the gelcoat products market.

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

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

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

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

The chemical industry s economic cycle has been volatile. Raw material costs increased significantly in 2010 and 2011. In 2012, we continued to experience increased raw material costs compared to the previous year, but the increases moderated in the second half of the year. Since our raw material costs average approximately 80% of our cost of goods sold, the efficient use of raw materials is a critical cost component of the products we manufacture.

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

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

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

SIGNIFICANT CUSTOMERS

In 2012, our sales to Lowe s Companies, Inc. exceeded 10% of consolidated net sales, and our ten largest customers accounted for approximately 31% of consolidated net sales. Our five largest customers in the Paints segment accounted for approximately 46% 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

The base technologies that support the product and application performance of our coatings have been developed and refined over many years. Our on-going applied science and development efforts are focused on delivering premium, differentiated coatings solutions that meet or exceed market needs for improved performance, consistent quality and system value. We work closely with our customers to build a deep understanding of their challenges and objectives and to foster our own innovation of products and services that we provide.

Research and development costs for fiscal 2012 were $117.1 million, or 2.9% of net sales, compared to $115.4 million, or 2.9% of net sales, for fiscal 2011 and $100.2 million, or 3.1% of net sales, for fiscal 2010.

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 2012, and we do not expect such expenditures will be material in fiscal 2013.

EMPLOYEES

We employ approximately 9,800 persons, approximately 400 of whom are subject to collective bargaining agreements in the United States. We believe that our relationship with our union employees is good.

FOREIGN OPERATIONS AND EXPORT SALES

Our foreign operations are conducted primarily through majority-owned subsidiaries and, to a limited extent, through joint ventures. Our various acquisitions and joint ventures over the past several years have increased revenues from foreign subsidiaries and operations, which comprised approximately 46% of our total consolidated net sales in fiscal 2012.

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

During fiscal 2012, export sales from the United States represented 3.8% 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 the 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 or 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 or global economic conditions could impact our operations as follows:

- the value of our investments in debt and equity securities may decline, including our assets held in pension plans;
- the financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for us or non-performance by suppliers; and

- it may become more costly or difficult to obtain financing to fund operations or investment opportunities, or to refinance our debt in the future.

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

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

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

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

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

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

The industries in which we operate are highly competitive, and some of our competitors are larger than us 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 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 in addition to paints and coatings. These competitors may be better able to compete during coatings industry downturns.

We have a significant amount of debt.

Our total debt, including notes payable, was $1,151.1 million at October 26, 2012. Our level of debt 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 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 less indebtedness.

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

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

- difficulties in assimilating acquired companies and products into our existing business;
- delays in realizing the benefits from the acquired companies or products;
- difficulties due to lack of or limited prior experience in any new markets we may enter;

- unforeseen claims and liabilities, including unexpected environmental exposures or product liability;
- unforeseen adjustments, charges and write-offs;
- unexpected losses of customers of, or suppliers to, acquired businesses;
- difficulty in conforming the acquired business standards, processes, procedures and controls with our operations;
- variability in financial information arising from the application of purchase price accounting;
- difficulties in retaining key employees of the acquired businesses; and
- challenges arising from the increased geographic diversity and complexity of our operations.

Any of these factors may make it more difficult to repay our debt or have an adverse affect on results of operations. 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.

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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, Japan, Malaysia, Mexico, The Netherlands, New Zealand, Singapore, South Africa, Switzerland, Thailand, the United Kingdom and Vietnam. In 2012, revenues from products sold outside the United States accounted for approximately 46% of our consolidated net sales.

We expect sales in international markets to represent a significant portion of our consolidated net sales (46%). 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 changes or terrorist activities and responses to such activities;
- unexpected adverse changes in foreign laws or regulatory requirements may occur; and
- compliance with a variety of foreign laws and regulations may be burdensome.

We have certain key customers.

Our relationships with certain key customers are important to us. From 2010 through 2012, sales to our largest customer exceeded 10% of our consolidated net sales. In 2012, our ten largest customers accounted for approximately 31% of our consolidated net sales. Although we sell various types of products through various channels of distribution, we believe that the loss of a substantial portion of net sales to our largest customers could have a material adverse impact on us.

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

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

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

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

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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 24 locations (22 owned; 2 leased) in the United States, Canada and Mexico. The total combined square footage for our principal offices and manufacturing operations in North America is approximately 3,813,000, which includes approximately 130,000 square feet at our principal offices. Asia Pacific manufacturing operations are conducted at 15 locations (12 owned; 3 leased) in Australia, China, Malaysia, New Zealand, Singapore, Thailand and Vietnam, with a total combined square footage of approximately 1,995,000. European manufacturing operations are conducted at nine locations (8 owned; 1 leased) in France, Germany, Ireland, The Netherlands, Switzerland and the United Kingdom, with a total combined square footage of approximately 929,000. In South America, we own two manufacturing facilities in Brazil with square footage of approximately 468,000. In India, we own one manufacturing facility with square footage of approximately 121,000. In South Africa, we own one manufacturing facility with square footage of approximately 54,000.

Shown below is a breakdown of the approximate square footage of principal facilities by region as of October 26, 2012:

Region	Approximate Square Footage Owned	Approximate Square Footage Leased	Total
North America	3,290,000	523,000	3,813,000
Asia Pacific	1,887,000	108,000	1,995,000
Europe	834,000	95,000	929,000
Other	643,000		643,000
Total	**6,654,000**	**726,000**	**7,380,000**

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

Business Segment	Approximate Square Footage
Coatings	3,664,000
Paints	2,889,000
All Other	827,000
Total	**7,380,000**

We believe our manufacturing properties are well maintained, in good operating condition and adequate for the purposes for which they are being used. Restructuring initiatives in 2012 included plant closures, which are reflected above. See Note 15 in Notes to Consolidated Financial Statements for more information. Operating capacity varies by product line, but additional production capacity is available for most product lines by increasing the number of days and/or shifts worked.

ITEM 3 LEGAL PROCEEDINGS

Environmental Matters

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

We accrue appropriate reserves for potential environmental liabilities, which are reviewed and adjusted as additional information becomes available. Our reserves are not discounted. 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 are also subject to claims related to the performance of our products. We believe these claims and proceedings are not out of the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, we believe there is not a reasonable possibility that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

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.

Name	Age	Position
Gary E. Hendrickson	56	Chairman since June 2012, Chief Executive Officer since June 2011 and President since February 2008

Lori A. Walker	55	Senior Vice President and Chief Financial Officer since February 2008
Rolf Engh	59	Executive Vice President since July 2005, General Counsel and Secretary since April 1993
Anthony L. Blaine	45	Senior Vice President Human Resources since January 2007
Cynthia A. Arnold	55	Senior Vice President and Chief Technology Officer since January 2011

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

Prior to June 2011, Mr. Hendrickson was Chief Operating Officer from February 2008 to June 2011 and Senior Vice President from July 2005 to February 2008. Mr. Hendrickson joined the Board of Directors in August 2009.

Prior to February 2008, Ms. Walker was Vice President, Treasurer and Controller since October 2004. On November 2, 2012, we announced that Ms. Walker intends to retire as our Chief Financial Officer (CFO) upon the hiring of a new CFO. We have commenced a search for a new CFO.

Prior to January 2011, Ms. Arnold was Chief Technology Officer at Sun Chemical Corporation since July 2004.

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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 2012 and 2011 as quoted on the New York Stock Exchange.

For the Fiscal Year	Market Price (high/low) 2012			2011		
First Quarter	**$**	**43.40**	**33.17**	$	37.60	31.13
Second Quarter	**$**	**52.12**	**42.50**	$	40.60	36.33
Third Quarter	**$**	**53.75**	**45.29**	$	39.50	32.45
Fourth Quarter	**$**	**59.81**	**48.05**	$	36.58	27.44

The quarterly dividend declared December 5, 2012, to be paid on December 28, 2012 to common stockholders of record December 17, 2012, was increased to $0.23 per share. The table below sets forth the quarterly dividends paid for fiscal years 2012 and 2011.

For the Fiscal Year	Per Share Dividends 2012		2011	
First Quarter	**$**	**0.20**	$	0.18
Second Quarter	**$**	**0.20**	$	0.18
Third Quarter	**$**	**0.20**	$	0.18
Fourth Quarter	**$**	**0.20**	$	0.18
	$	**0.80**	$	0.72

The number of record holders of our Common Stock at December 11, 2012 was 1,360.

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]
7/28/12 8/24/12					
Repurchase program	300,500	$	50.66	300,500	3,506,700
Other transactions[2]	6,477		51.65		
8/25/12 9/21/12					
Repurchase program	405,000		54.65	405,000	3,101,700
Other transactions[2]	356		58.68		
9/22/12 10/26/12					
Repurchase program	560,000		57.52	560,000	2,541,700

1 On October 13, 2010, we received board authorization to repurchase 15,000,000 shares, with no predetermined end date. As of October 26, 2012, we had repurchased 12,458,300 shares under this authorization and had 2,541,700 shares remaining under our current authorization. In December 2012, the board increased that share repurchase authorization to 15,000,000 shares.

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

Stock Performance Graphs

The following graphs compare our cumulative total shareholder return for the last five fiscal years and the last ten fiscal years with the cumulative total return of the Standard & Poor s 500 Stock Index and a peer group of companies selected by us on a line-of-business basis. The graphs assume the investment of $100 in our Common Stock, the S&P 500 Index and the peer group at the end of fiscal 2007 and fiscal 2002, 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					
Fiscal Year End	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Valspar	$ 100	$ 86	$ 109	$ 141	$ 161	$ 251
Peer Group	$ 100	$ 62	$ 76	$ 90	$ 95	$ 124
S&P 500	$ 100	$ 64	$ 71	$ 83	$ 91	$ 103

Assumes $100 invested on October 26, 2007 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										
Fiscal Year End	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Valspar	$ 100	$ 117	$ 116	$ 111	$ 137	$ 129	$ 110	$ 141	$ 182	$ 208	$ 324
Peer Group	$ 100	$ 113	$ 135	$ 134	$ 165	$ 188	$ 116	$ 142	$ 170	$ 179	$ 233
S&P 500	$ 100	$ 119	$ 130	$ 141	$ 165	$ 187	$ 121	$ 133	$ 155	$ 171	$ 192

Assumes $100 invested on October 25, 2002 in the Common Stock of The Valspar Corporation, the Peer Group and the S&P 500 Index, including reinvestment of dividends.

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ITEM 6 SELECTED FINANCIAL DATA

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

(Dollars in thousands, except per share amounts)		Fiscal Years 2012	2011	2010	2009	2008
Operating Results	Net Sales	**$ 4,020,851**	$ 3,952,954	$ 3,226,687	$ 2,879,042	$ 3,482,378
	Cost and Expenses					
	Cost of Sales	**2,667,147**	2,721,146	2,155,009	1,900,114	2,504,947
	Operating Expense	**871,434**	862,160	695,601	687,960	684,056
	Impairment of Goodwill and Intangible Assets		409,714			
	Income (Loss) from Operations	**482,270**	(40,066)	376,077	290,968	293,375
	Interest Expense	**67,604**	61,511	58,267	50,394	57,745
	Other (Income) Expense Net	**(2,558)**	1,577	(1,387)	2,246	6,933
	Income (Loss) Before Income Taxes	**417,224**	(103,154)	319,197	238,328	228,697
	Net Income (Loss)	**292,497**	(138,601)	222,056	160,153	150,766
	Net Income as a Percent of Sales	**7.3%**	N/A	6.9%	5.6%	4.3%
	Return on Average Equity	**24.0%**	N/A	14.2%	10.8%	10.6%
	Per Common Share:					
	Net Income (Loss) Basic	**$ 3.20**	$ (1.47)	$ 2.25	$ 1.50	$ 1.39
	Net Income (Loss) Diluted[1]	**3.10**	(1.47)	2.20	1.49	1.38
	Dividends Paid	**0.80**	0.72	0.64	0.60	0.56
Financial Position	Total Assets	**$ 3,626,836**	$ 3,500,151	$ 3,867,936	$ 3,511,024	$ 3,520,042
	Working Capital[2]	**538,559**	538,025	530,435	406,638	435,897
	Property, Plant and Equipment, Net	**550,968**	548,253	567,630	471,088	489,716
	Long-Term Debt, Net of Current Portion	**1,012,578**	679,805	943,216	873,095	763,129
	Stockholders Equity	**1,223,523**	1,212,550	1,630,365	1,504,507	1,452,868
Other Statistics	Property, Plant and Equipment Expenditures	**$ 89,363**	$ 66,469	$ 67,732	$ 57,897	$ 43,045
	Depreciation and Amortization Expense	**93,704**	97,747	81,312	82,862	80,831
	Research and Development Expense	**117,109**	115,416	100,236	91,303	96,552
	Total Cash Dividends	**$ 73,351**	$ 68,164	$ 63,279	$ 60,116	$ 55,854
	Average Diluted Common Shares Outstanding (000 s)	**94,380**	94,310	100,866	100,921	100,326
	Number of Stockholders at Year End	**1,365**	1,405	1,432	1,449	1,467
	Number of Employees at Year End	**9,755**	10,020	10,180	8,788	9,341
	Market Price Range Common Stock:					
	High	**$ 59.81**	$ 40.60	$ 33.13	$ 28.60	$ 26.20

Low	**33.17**	27.44	25.11	14.47	16.02

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

[1] In 2012, 2011, 2010, 2009 and 2008, net income (loss) per common share diluted includes $0.18, $0.24, $0.08, $0.18 and $0.16 per share in restructuring charges, respectively. See Note 15 in Notes to Consolidated Financial Statements for more information on 2012, 2011 and 2010. Net income (loss) per common share diluted for 2011 includes an impairment charge on goodwill and intangible assets of $3.75. See Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 1 and Note 8 in Notes to Consolidated Financial Statements for more information. In 2011 and 2010, net income (loss) per common share diluted includes $0.09 and $0.03 in acquisition-related charges, respectively, related to the step-up of inventory to fair value and acquisition fees, respectively. Net income (loss) per common share diluted in 2010 and 2008 includes gains on sale of certain assets of $0.08 and $0.09, respectively. Huarun Redeemable Stock accrual reduced net income (loss) per common share diluted by $0.10 in 2009 and $0.12 in 2008. The accrual was related to our minority interest shares of Huarun Paints Holding Company Limited. Adjusted net income per common share diluted, excluding the items mentioned above, was $3.28 for 2012, $2.65 for 2011, which includes a dilutive share impact of $0.04, $2.23 for 2010, $1.77 for 2009 and $1.57 for 2008. See related reconciliation in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Earnings per Share for more information on 2012 and 2011.

[2] Working Capital is defined as accounts and notes receivable plus inventory less trade 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 fiscal year 2012 net sales of $4,020,851 and more than 9,800 employees in over 25 countries, we believe we are the fifth largest paint and coatings supplier in the world. Our strong consumer brands and leading technologies, together with our technical expertise and customer service, differentiate us from our competition and allow us to grow and create value with customers in a wide variety of geographic and end-use markets.

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

- focusing on our customers and delivering coatings products and solutions based on a deep understanding of their needs;
- investing in our brands and developing innovative, proprietary technologies;
- expanding our global presence;
- enhancing the productivity of our business by maximizing efficiencies in procurement, manufacturing and process adherence;
- maintaining operational discipline and prudent cost control;
- generating strong cash flow; and
- optimizing our allocation of capital to maintain and grow the business, increase dividends, fund internal growth initiatives and strategic acquisitions, and repurchase shares.

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

- adhering to our values, ethical business conduct and doing business with integrity;
- improving the safety and reducing the environmental footprint of our business and the products we manufacture while also delivering coatings solutions that enable our customers to meet their environmental and safety objectives; and
- demonstrating our corporate citizenship 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

The global demand environment remained challenging in 2012. In the U.S., market conditions have been slow to recover after the global recession. Additionally, we saw softening demand in international markets, particularly in Europe. Residential construction markets weakened in China and Australia. Demand in Latin America continued to grow, though at a slower rate than in prior years. We expect market conditions to be similar in 2013.

Raw material costs in the chemical industry have been volatile over the past several years. In 2012, the Paint industry continued to be affected by year-over-year increases in raw material costs, though these costs began to moderate in the second half of the year. We expect raw material costs to remain near current levels in the short term.

Despite the challenging global economic conditions, we continued to make solid progress on our long-term growth initiatives by:

- Continuing to invest in our consumer brands – Valpsar, Cabot, Huarun and Wattyl.

Introducing the Love Your Color Guarantee consumer marketing program in the United States and Australia. This branding initiative ensures consumers are satisfied with the color of their Valspar paint purchase. The campaign has resonated with consumers and we announced an extension of the program into 2013.

Entering into an agreement with B&Q, an operating company of Kingfisher plc, the world s third largest DIY retail conglomerate, to supply a full selection of premium Valspar paint to all 350 of its locations in the United Kingdom and Ireland. This initiative substantially expands our presence in the European decorative paint market.

Continuing our technology investments, enabling us to deliver product lines that are differentiated from our competition. To further support our global technology platform, we opened a state of the art research and development (R&D) facility in Guangzhou, China and announced the expansion of our primary R&D campus in Minneapolis.

Focusing on productivity improvements, including initiatives to improve processes that generate savings across all product lines and corporate functions. Additionally, we successfully completed a series of initiatives to improve profitability in our Australian consumer paints product line.

Expanding our presence in China with the construction of a new manufacturing facility in Tianjin. This new plant will increase our capacity in a growing region and provides additional manufacturing and distribution flexibility.

Returning cash to shareholders by increasing our annual dividend 11.1% to $0.80 per share in fiscal year 2012, our 34th consecutive year with a dividend increase, and by repurchasing 5,708,300 shares for $272,537, which more than offset the exercise of stock options.

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Business Performance

Net sales in 2012 increased 1.7% to $4,020,851 from $3,952,954 in 2011. Excluding the impact of foreign currency exchange and acquisitions, sales increased 2.6% due to carryover selling price increases across all product lines and new business gains across most of our product lines. The increase was partially offset by volume declines due to uneven demand in our global markets and our decision to exit a small number of relatively high volume, unprofitable products and customers. Our international sales accounted for approximately 46% of consolidated net sales. Net income, excluding the impairment charges related to goodwill and intangible assets (impairment charge) in 2011, increased by 30.1%. The improvement was driven by the benefit from carryover selling price increases, productivity gains, new business at higher average gross margins, lower restructuring charges in our Coatings segment in 2012 and acquisition-related charges recognized in 2011. The improvement was partially offset by volume declines due to market softness, higher raw material costs and the impact of interest expense and a higher tax rate.

During the 2012 fiscal year, we generated $186,154 in free cash flow (net cash provided by operating activities of $348,868 less capital expenditures and dividends), an increase of $29,613 from the prior year due to improved operating results. We believe the non-GAAP measure (free cash flow) provides useful information to both management and investors by including the amount reinvested in the business for capital expenditures and the return on investment to our shareholders through payment of dividends. Our total debt of $1,151,109, including notes payable, increased by $93,985 due to our bond issuance and share repurchases, partially offset by operating cash flow and option exercise proceeds. In January 2012, we strengthened our liquidity position by issuing $400,000 of Senior Notes due January 15, 2022 with a coupon rate of 4.20%. We used the net proceeds for general corporate purposes, including paying down our commercial paper and retiring our $200,000 of 5.625% Senior Notes that matured on May 1, 2012. Our liquidity position is strong, with $253,327 in cash and cash equivalents and $507,328 in unused committed bank credit facilities providing total committed liquidity of $760,655 at year-end, compared to $601,802 at the end of 2011.

Restructuring

We continually evaluate our cost structure in the normal course of our business. In fiscal year 2012, we exited the gelcoat products market, initiated the consolidation of a manufacturing facility in our Paints segment and continued our 2011 efforts to improve the profitability of our Australian paints product line. Additionally, in fiscal year 2011, we initiated restructuring actions in our Coatings segment, primarily in our wood product line, which further rationalized our manufacturing capacity and reduced our overall global headcount. The total cost was $0.42 per share after tax, which includes $0.24 per share after tax charges incurred in fiscal year 2011. Restructuring activities during fiscal year 2012 resulted in pre-tax charges of $25,845 or $0.18 per share after tax. See Note 15 in Notes to Consolidated Financial Statements for further information on restructuring.

Earnings Per Share

Net income (loss) per common share diluted was $3.10 for 2012 and ($1.47) for 2011. The table below presents adjusted net income per common share diluted, which excludes in the respective periods (i) restructuring charges, (ii) acqusition-related charges and (iii) the non-cash impairment charge on goodwill and intangible assets.

		2012		**2011**
Net income (loss) per common share diluted	**$**	**3.10**	$	(1.47)
Restructuring charges		**0.18**		0.24
Acquisition-related charges				0.09
Impact of dilutive shares[1]				0.04
Non-cash impairment charge on goodwill and intangible assets[2]				3.75
Adjusted net income per common share diluted	**$**	**3.28**	$	2.65

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

[2] In the fourth quarter of 2011, we completed our annual goodwill and indefinite-lived intangible asset impairment reviews. As a result, we recorded a pre-tax impairment loss of $409,714 in the fourth quarter of 2011. This represents impairment of goodwill and intangible assets in our wood coatings reporting unit, part of our Coatings segment, and in our gelcoat reporting unit, part of All Other. The impairment charge resulted from changes in the structure of our reporting units used to conduct our impairment testing, as well as changes in our forecasts for the respective reporting units in light of economic conditions prevailing in the markets for these product lines. See Note 1 and Note 8 in Notes to Consolidated Financial Statements for further information related to our 2011 impairment charge.

Adjusted net income per common share diluted is a non-GAAP financial measure. We disclose this measure because we believe the measure may assist investors in comparing our results of operations without regard to restructuring charges, the impact of the non-cash impairment charge on goodwill and intangible assets and/or acquisition-related charges. The acquisition-related charges are primarily related to the step-up of inventory from our Australian acquisition in the Paints segment to fair value. This non-GAAP measure is provided to enhance investors overall understanding of our current financial performance. We believe the non-GAAP measure provides useful information to both management and investors by excluding certain expenses and non-cash charges, which may not be indicative of our core operating results. In

addition, because we have historically reported certain non-GAAP results to investors, we believe the inclusion of this non-GAAP measure provides consistency in our presentation of financial information. See Note 8 and Note 15 in Notes to Consolidated Financial Statements for further information on goodwill and intangible assets and restructuring, respectively.

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OPERATIONS 2012 VS. 2011

Net Sales	**2012**	**2011**	**% Change**
Coatings	**$ 2,176,732**	$ 2,092,490	4.0%
Paints	**1,604,599**	1,612,219	-0.5%
All Other	**239,520**	248,245	-3.5%
Consolidated Net Sales	**$ 4,020,851**	$ 3,952,954	1.7%

Consolidated Net Sales Adjusting for the negative impact of 1.3% from foreign currency and the positive impact of 0.4% from acquisitions, sales for 2012 increased 2.6%. The increase in sales was due to carryover selling price increases in all product lines and new business, primarily in our Coatings segment. The increase was partially offset by volume declines caused by uneven demand in our global markets.

Coatings Segment Net Sales Adjusting for the negative impact of 2.3% from foreign currency and the positive impact of 0.8% from acquisitions, sales for 2012 increased 5.5%. The increase in sales was primarily due to new business and carryover selling price increases in all product lines. The increase was partially offset by volume declines caused by our decision to exit a small number of relatively high volume, unprofitable products and customers, and overall market softness.

Paints Segment Net Sales Sales for 2012 decreased 0.5%. There was no net foreign currency impact. The decrease in sales was primarily driven by declines in our Australia region due to a weak residential housing market, our efforts to rationalize company stores and loss of a large retail customer. This was partially offset by higher sales volumes in our China consumer paints product line.

All Other Net Sales The All Other category includes the following product lines: resins, furniture protection plans, colorants and gelcoats. Adjusting for the negative impact of 0.7% from foreign currency, sales for the 2012 period decreased 2.8%. The decline was primarily due to lower sales in the gelcoat products market which we exited in the fourth quarter of 2012.

Gross Profit	**2012**	**2011**
Consolidated Gross Profit	**$ 1,353,704**	$ 1,231,808
As a percent of Net Sales	**33.7%**	31.2%

Gross Profit Gross profit as a percent of net sales increased primarily due to our carryover selling price increases, productivity improvements, including savings from our previously completed restructuring actions, new business at higher average gross margins, acquisition-related charges recognized in 2011 and lower restructuring charges in 2012. The improvement was partially offset by higher raw material costs. Restructuring charges of $16,199 or 0.4% of net sales and $25,563 or 0.6% of net sales were included in the 2012 and 2011 periods, respectively. There were no acquisition-related charges included in gross profit in the 2012 period. Acquisition-related charges of $11,416 or 0.3% of net sales related to the step-up of inventory to fair value were included in the 2011 period.

Operating Expenses	**2012**	**2011**
Consolidated Operating Expenses[1]	**$ 871,434**	$ 862,160
As a percent of Net Sales	**21.7%**	21.8%

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

Consolidated Operating Expenses (dollars) Consolidated operating expenses increased 1.1% or $9,274 compared to the prior year. The increase was driven primarily by higher incentive compensation and investments in growth initiatives, partially offset by savings from previously completed restructuring initiatives. Restructuring charges of $9,646 or 0.2% of net sales and $8,876 or 0.2% of net sales were included in the 2012 and 2011 periods, respectively. There were no acquisition-related charges included in operating expenses in the 2012 period. Acquisition-related charges of $1,859 or 0.1% of net sales were included in operating expenses in the 2011 period.

Consolidated Operating Expenses (percent of net sales) Operating expenses as a percent of consolidated net sales decreased 0.1 percentage points compared to last year.

EBIT	2012	2011
Coatings	**$ 356,389**	$ (112,209)
As a percent of Net Sales	**16.4%**	-5.4%
Paints	**159,598**	134,886
As a percent of Net Sales	**9.9%**	8.4%
All Other	**(31,159)**	(64,320)
As a percent of Net Sales	**-13.0%**	-25.9%
Consolidated EBIT	**$ 484,828**	$ (41,643)
As a percent of Net Sales	**12.1%**	-1.1%

Consolidated EBIT EBIT for 2012 increased $526,471 from the prior year. Fiscal year 2012 includes restructuring charges of $25,845 or 0.6% of net sales. Fiscal year 2011 includes the impairment charge of $409,714 or 10.4% of net sales, restructuring charges of $34,439 or 0.9% of net sales and acquisition-related charges of $13,275 or 0.3% net sales. Foreign currency exchange fluctuation had an immaterial effect on Consolidated EBIT, as well as EBIT of the segments discussed below.

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Coatings Segment EBIT EBIT as a percent of net sales increased primarily due to the impairment charge recognized in 2011, carryover selling price increases, productivity improvements, including savings from our previously completed restructuring actions, higher margin new business and lower restructuring charges in 2012. The increase was partially offset by higher raw material costs. The restructuring charges for 2012 and 2011 periods were $1,418 or 0.1% of net sales and $20,940 or 1.0% of net sales, respectively. There were no acquisition-related charges included in EBIT in the 2012 period. EBIT included acquisition-related charges of $1,859 or 0.1% of net sales in the 2011 period. There was no impairment charge on goodwill and intangible assets included in EBIT in the 2012 period. EBIT included an impairment charge of $368,062 or 17.6% of net sales in the 2011 period.

Paints Segment EBIT EBIT as a percent of net sales increased primarily due to selling price increases, productivity improvements, including savings from our previously completed restructuring actions particularly in our Australia paints product line, and acquisition-related charges recognized in the first half of 2011. These improvements were partially offset by higher raw material costs and higher restructuring charges in 2012 versus 2011. The restructuring charges for 2012 and 2011 periods were $18,392 or 1.1% of net sales and $13,013 or 0.8% of net sales, respectively. There were no acquisition-related charges included in EBIT in the 2012 period. EBIT included acquisition-related charges of $11,416 or 0.7% of net sales in the 2011 period.

All Other EBIT All Other EBIT includes corporate expenses. EBIT as a percent of net sales increased compared to the prior year primarily due to the impairment charge of $41,652 or 16.8% of net sales recognized in the fourth quarter of 2011, partially offset by higher restructuring charges in the 2012 period. EBIT included restructuring charges of $6,035 or 2.5% of net sales and $486 or 0.2% of net sales in the 2012 and 2011 periods, respectively.

Interest Expense	**2012**	**2011**
Consolidated Interest Expense	**$ 67,604**	$ 61,511

Interest Expense The 2012 increase reflects the issuance of $400,000 in Senior Notes in the first quarter of 2012 and an increase in our weighted average interest rate to 5.70% in 2012 from 5.36% in 2011.

Effective Tax Rate	**2012**	**2011**
Effective Tax Rate	**29.9%**	34.4%

Effective Tax Rate The lower effective tax rate in 2012 is due to the impact of impairment charges in 2011, which are nondeductible for tax purposes. Excluding the impact of the impairment charges, our fiscal 2011 effective tax rate was 26.7%. The comparatively higher 2012 effective tax rate of 29.9% was driven by an unfavorable geographic mix of earnings in 2012, favorable tax rulings in 2011 and lower discrete benefits from statute lapses in 2012.

Net Income (Loss)	**2012**	**2011**	**% Change**
Consolidated Net Income (Loss)	**$ 292,497**	$ (138,601)	311.0%

OPERATIONS 2011 VS. 2010

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

Consolidated Net Sales Adjusting for the positive impact of 12.4% from acquisitions and 2.5% from foreign currency, sales for 2011 increased 7.6%. The increase in sales was primarily due to selling price increases and new business predominantly in our Coatings segment.

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

Paints Segment Net Sales Adjusting for the positive impact of 31.9% from acquisitions and 1.4% from foreign currency, sales for 2011 increased 3.7%. The increase in sales was primarily due to selling price increases and growth in our China consumer business, partially offset by the loss of a large U.S. retailer.

All Other Net Sales The All Other category includes the following product lines: resins, furniture protection plans, colorants and gelcoats. Adjusting for the positive impact of 1.1% from foreign currency, sales for the 2011 period increased 4.5%. The higher sales were primarily due to increased selling prices, partially offset by lower volume.

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

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

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Operating Expenses		**2011**		**2010**
Consolidated Operating Expenses[1]	**$**	**862,160**	$	695,601
As a percent of Net Sales		**21.8%**		21.6%

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

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

Consolidated Operating Expenses (percent of net sales) Operating expenses as a percent of consolidated net sales increased 0.2 percentage points compared to last year. The increase in expense dollars was largely offset by leverage on improved sales.

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

Consolidated EBIT EBIT for 2011 decreased $419,107 from the prior year. Fiscal year 2011 includes the impairment charge on goodwill and intangible assets of $409,714 or 10.4% of net sales, restructuring charges of $34,439 or 0.9% of net sales and acquisition-related charges of $13,275 or 0.3% net sales. Fiscal year 2010 includes restructuring charges of $12,383 or 0.4% of net sales, acquisition-related charges of $3,173 or 0.1% of net sales and a net gain on sale of certain assets of $11,497 or 0.4% of net sales. Foreign currency exchange fluctuation had an immaterial effect on Consolidated EBIT, as well as EBIT of the segments discussed below.

Coatings Segment EBIT EBIT as a percent of net sales decreased primarily due to the impairment charge on goodwill and intangible assets of $368,062 or 17.6% of net sales, the lag between higher raw material costs and selling price increases, restructuring charges, a net gain on the sale of certain assets recognized in 2010 of $11,497 or 0.5% of net sales and acquisition-related charges of $1,859 or 0.1% of net sales in 2011. The decline was partially offset by new business and operating leverage on higher net sales. The restructuring charges for 2011 and 2010 periods were $20,940 or 1.0% of net sales and $10,563 or 0.6% of net sales, respectively.

Paints Segment EBIT EBIT as a percent of net sales decreased primarily due to the lag between higher raw material costs and selling price increases, as well as restructuring charges and acquisition-related charges. The restructuring charges for 2011 and 2010 periods were $13,013 or 0.8% of net sales and $1,595 or 0.1% of net sales, respectively. EBIT included acquisition-related charges of $11,416 or 0.7% of net sales and $3,173 or 0.3% of net sales in the 2011 and 2010 periods, respectively.

All Other EBIT All Other EBIT includes corporate expenses. EBIT as a percent of net sales declined compared to the prior year due to the impairment charge on goodwill and intangibles assets of $41,652 or 16.8% of net sales, partially offset by lower incentive compensation expense. EBIT included restructuring charges of $486 or 0.2% of net sales in 2011 and $225 in 2010.

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

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

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

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

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

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FINANCIAL CONDITION

Our financial condition, cash flow and liquidity remained strong in 2012. Cash flow from operations was $348,868 in 2012, compared to $291,174 in 2011 and $265,881 in 2010. The improvement in cash flow in 2012 was primarily driven by higher earnings, along with efficient working capital management. A key metric we use to measure the effectiveness of our working capital management is net working capital as a percentage of annual net sales:

	October 26, 2012	% of Net Sales	October 28, 2011	% of Net Sales
Accounts and notes receivable, net	$ 681,099	16.9%	$ 664,855	16.8%
Inventories	360,427	9.0%	336,750	8.5%
Trade accounts payable	(502,967)	-12.5%	(463,580)	-11.7%
Net Working Capital	**$ 538,559**	**13.4%**	**$ 538,025**	**13.6%**

Our net working capital as a percentage of net sales decreased to 13.4% from 13.6%. This improvement was driven by our effective working capital management, in particular, accounts payable where we have implemented several initiatives to increase our days payable outstanding.

During the 2012 period, we used the strong cash flow from operations and $88,263 in net proceeds from bank borrowings to fund $272,537 in share repurchases and $89,363 in capital expenditures. We used cash on hand and $49,989 in proceeds from the sale of treasury stock to fund $73,351 in dividend payments.

In the first quarter of 2012, we issued $400,000 of unsecured Senior Notes that mature on January 15, 2022 with a coupon rate of 4.20%. The proceeds, net of issuance costs, were $396,816. The public offering was made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission. We used the net proceeds for general corporate purposes, including paying down our commercial paper borrowings and retiring our $200,000 of 5.625% Senior Notes that matured on May 1, 2012.

See Notes 1 and 18 in Notes to Consolidated Financial Statements for more information related to our restricted cash primarily associated with cash collateralization of our liability insurance programs.

The ratio of total debt to capital was 48.5% at October 26, 2012, compared to 46.6% at October 28, 2011. Average debt outstanding during 2012 was $1,185,272 at a weighted average interest rate of 5.70% versus $1,146,699 at 5.36% last year. Interest expense for 2012 was $67,604 compared to $61,511 in 2011.

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

The following table summarizes our fixed cash obligations as of October 26, 2012 for the fiscal years ending in October:

	2013	2014	2015	2016	2017	2018 and thereafter	Total
Notes & Interest to Banks	$ 140,796	$ 23	$ 63	$	$	$	$ 140,882
Senior Notes & Interest	55,275	55,275	203,363	47,625	193,087	806,744	1,361,369
Industrial Development Bonds & Interest	45	45	12,531				12,621
Medical Retiree/SERP/Pension	5,453	1,703	1,722	1,511	1,843	18,107	30,339
Operating Leases	35,250	24,056	16,444	12,019	10,396	28,549	126,714
Capital Expenditures	1,258						1,258
Commodity Purchase Commitments	1,880						1,880
Telecommunication Commitments	2,350	833					3,183
Total Contractual Cash Obligations	**$ 242,307**	**$ 81,935**	**$ 234,123**	**$ 61,155**	**$ 205,326**	**$ 853,400**	**$ 1,678,246**

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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 $9,965 as of October 26, 2012, 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.

We maintain an unsecured revolving credit facility with a syndicate of banks expiring in December 2014 and a U.S. dollar equivalent unsecured committed revolving bilateral credit facility expiring September 2013. As of October 26, 2012 and October 28, 2011 our bank credit facilities consisted of the following:

	October 26, 2012	
	Total Outstanding	**Facility Size**
December 2014 bank syndicate facility[1]	$ 91,984	$ 550,000
September 2013 bilateral facility	44,090	93,402
Total unsecured committed revolving credit	136,074	643,402
Uncommitted bank lines of credit	2,533	147,461
Total Bank Credit Facilities	**$ 138,607**	**$ 790,863**

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

[1] Our bank syndicate facility includes $91,984 and $153,955 of commercial paper as of October 26, 2012 and October 28, 2011, respectively. We have a $350,000 commercial paper program backstopped by our $550,000 credit facility.

Our credit facilities have covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of October 26, 2012. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

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

At October 26, 2012, we had unused lines of committed and uncommitted credit available from banks of $652,256.

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

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

We use derivative instruments with a number of counterparties principally to manage well-defined interest rate and foreign currency exchange risks. We evaluate the financial stability of each counterparty and spread the risk among several financial institutions to limit our exposure. We will continue to monitor counterparty risk on an ongoing basis. We do not have any credit-risk related contingent features in our derivative contracts as of October 26, 2012.

We paid common stock dividends of $73,351 or $0.80 per share in 2012, an increase of 11.1% per share over 2011 common stock dividends of $68,164 or $0.72 per share.

We have continuing authorization to purchase shares of our common stock at management s discretion for general corporate purposes. We repurchased 5,708,300 shares totaling $272,537 in 2012 compared to 6,750,000 shares totaling $241,831 in 2011 and 4,000,000 shares totaling $118,671 in 2010. At October 26, 2012 we had 2,541,700 shares remaining under our current authorization. In December 2012, the board increased that share repurchase authorization to 15,000,000 shares.

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

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

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

CRITICAL ACCOUNTING 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 areas are affected by significant judgments and estimates used in the preparation of our Consolidated Financial Statements and that the judgments and estimates are reasonable:

Revenue Recognition

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

Supplier and Customer Rebates

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

Valuation of Goodwill and Indefinite-Lived Intangible Assets

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

Goodwill for our reporting units is reviewed for impairment at least annually using a two-step process. In the first step, we compare the fair value of each reporting unit to its carrying value, including goodwill. We use the following four material assumptions in our fair value analysis: (a) discount rates; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss. In step 2, we would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss, in the period identified, equal to the difference.

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

During the fourth quarter of 2012, we completed our annual goodwill and indefinite-lived intangible asset impairment reviews with no impairments to the carrying values identified. For purposes of the 2012 impairment analysis, we reconsidered the appropriate reporting units as a result of the impairment charge recognized in the fourth quarter of 2011. There was no change to our reporting units, other than our exit from the gelcoat products market in the current year.

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

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

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

For reporting units that do not fail step 1, we perform a sensitivity analysis on the discount rate, long-term sales growth rate and forecasted operating margin assumptions. The discount rate could increase by more than 10% of the discount rate utilized, the long-term sales growth rate assumption could decline to a zero growth environment, or costs could remain at the current spending level with no cost savings realized in future periods and our reporting units and indefinite-lived intangible assets would continue to have fair value in excess of carrying value. In fiscal 2012, we have no reporting units that are at risk of failing step 1 of our goodwill or indefinite-lived intangible asset impairment tests. There have been no significant events since the timing of our impairment tests that would have triggered additional impairment testing.

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

Pension and Post-Retirement Medical Obligations
We sponsor several defined benefit plans for certain hourly and salaried employees. We sponsor post-retirement medical benefits for certain U.S. employees. The amounts recognized in our financial statements are 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 $2,616 in 2012. A 1% increase in the medical trend rates would not have a material effect on post-retirement medical expense or the post-retirement benefit obligation. See Note 13 in Notes to Consolidated Financial Statements, for further details regarding accounting for pensions and post-retirement medical benefits.

Income Taxes
At each period end, it is necessary for us to make certain estimates and assumptions to compute the provision for income taxes including, but not limited to the expected operating income (or loss) for the year, projections of the proportion of income (or loss) earned and taxed in the foreign jurisdictions and the extent to which this income (or loss) may also be taxed in the United States, permanent and temporary differences, the likelihood of deferred tax assets being recovered and the outcome of uncertain tax positions. Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. We record an accrual for more likely than not exposures after evaluating the positions associated with our various income tax filings. A number of years may elapse before a particular matter for which we have established an accrual is audited and fully resolved or clarified. We adjust our tax contingencies accrual and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from our established accrual, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. The Internal Revenue Service (IRS) concluded its examination of our U.S. federal tax returns for the fiscal years ended 2009 and 2010 in October 2012. 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.

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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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements.

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are also subject to interest rate risk. At October 26, 2012, approximately 13.1% of our total debt consisted of floating rate debt. From time to time, we may enter into interest rate derivatives to hedge a portion of either our variable or fixed rate debt. Assuming the current level of borrowings, a 10% increase in interest rates from those in effect at the end of the fourth quarter would not have a material impact on our results of operations or financial position.

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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 26, 2012 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 26, 2012. 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 26, 2012. That report is included herein.

Gary E. Hendrickson
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 internal control over financial reporting as of October 26, 2012, 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 company 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 company; (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 company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

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

In our opinion, The Valspar Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 26, 2012, 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 26, 2012 and October 28, 2011 and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended October 26, 2012 of The Valspar Corporation and subsidiaries and our report dated December 19, 2012 expressed an unqualified opinion thereon.

Minneapolis, Minnesota
December 19, 2012

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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 26, 2012 and October 28, 2011, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended October 26, 2012. Our audits also included the financial statement schedule listed in Item 15 (a). These financial statements and schedule are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Valspar Corporation and subsidiaries at October 26, 2012, and October 28, 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 26, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Valspar Corporation s internal control over financial reporting as of October 26, 2012, 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 19, 2012 expressed an unqualified opinion thereon.

Minneapolis, Minnesota
December 19, 2012

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Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

		October 26, 2012	October 28, 2011
Assets			
Current Assets	Cash and cash equivalents	**$ 253,327**	$ 178,167
	Restricted Cash	**19,907**	20,378
	Accounts and notes receivable less allowance (2012 $13,223; 2011 $14,977)	**681,099**	664,855
	Inventories	**360,427**	336,750
	Deferred income taxes	**42,083**	50,685
	Prepaid expenses and other	**92,334**	74,302
	Total Current Assets	**1,449,177**	1,325,137
Goodwill		**1,056,669**	1,058,006
Intangibles, net		**550,106**	553,286
Other Assets		**14,738**	13,560
Long-Term Deferred Income Taxes		**5,178**	1,909
Property, Plant and Equipment			
	Land	**81,878**	72,838
	Buildings	**402,914**	390,389
	Machinery and equipment	**928,642**	889,055
	Gross property, plant and equipment	**1,413,434**	1,352,282
	Less accumulated depreciation	**(862,466)**	(804,029)
	Net Property, Plant and Equipment	**550,968**	548,253
	Total Assets	**$ 3,626,836**	$ 3,500,151
Liabilities and Stockholders Equity			
Current Liabilities	Short-term debt	**$ 94,441**	$ 169,516
	Current portion of long-term debt	**44,090**	207,803
	Trade accounts payable		