VALSPAR CORP
Form 10-K
December 21, 2007
Table of Contents

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, 2007

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.)
1101 Third Street South **Minneapolis, Minnesota**	**55415**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (612) 332-7371

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
Common Stock Purchase Rights	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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer o   Non-accelerated filer 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 5% stockholders of the registrant as of April 27, 2007 was $2.2 billion based on the closing sales price of $27.30 per share as reported on the New York Stock Exchange. As of December 14, 2007, 100,200,565 shares of Common Stock, $.50 par value per share (net of 18,242,059 shares in treasury), were outstanding.

DOCUMENTS INCORPORATED IN PART BY REFERENCE

The Valspar Corporation Notice of 2008 Annual Meeting of Stockholders and Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of fiscal year ended October 26, 2007 (to the extent described herein) is incorporated by reference into Part III hereof.

The Valspar Corporation
Form 10-K

Table of Contents

		Page
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	5
Item 1B.	Unresolved Staff Comments	7

Item 2.	Properties	7
Item 3.	Legal Proceedings	8
Item 4.	Submission of Matters to a Vote of Security Holders	8
PART II		
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6.	Selected Financial Data	13
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 8.	Financial Statements and Supplementary Data	21
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	44
Item 9A.	Controls and Procedures	44
Item 9B.	Other Information	45
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	45
Item 11.	Executive and Director Compensation	45
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	45
Item 13.	Certain Relationships and Related Transactions and Director Independence	45
Item 14.	Principal Accountant Fees and Services	45
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	46
	Signatures	48

Table of Contents

PART I

ITEM 1 BUSINESS

OVERVIEW

The Valspar Corporation is a leading global coatings and paints manufacturer and distributor, based on revenues and trade publication rankings. We manufacture and distribute a broad portfolio of coatings, paints and related products. We operate our business in two reportable segments: Coatings and Paints. Our net sales in 2007 from our Coatings and Paints segments were $1,851.7 million and $1,088.8 million, respectively. Our total net sales in 2007 were $3,249.3 million.

Our Coatings segment includes a broad range of decorative and protective coatings for metal, wood, plastic and glass, primarily for sale to OEM customers. Products within our Coatings segment include fillers, primers, varnishes, inks, sprays, stains and other coatings used by customers in a wide range of manufacturing industries, including building products, appliances, automotive parts, furniture, transportation, agricultural and construction equipment, metal packaging and metal fabrication. We utilize a wide variety of coatings technologies to meet our customers coatings requirements, including electrodeposition, powder, solvent-borne, water-borne and UV light-cured coatings. This segment includes our packaging product line and our three industrial product lines: general industrial, coil and wood.

Our packaging product line includes coatings for the interior and exterior of metal packaging containers, principally food containers and beverage cans. 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 been apparent in this product line, and we have responded by offering a wide variety of packaging coatings products throughout the world.

Our general industrial product line provides customers in a wide variety of industries with a single source for powder, liquid and electrodeposition coatings technologies. We have expanded our infrastructure to support customers in Europe, Latin America and Asia with general industrial products. We opened a powder coatings facility in Shanghai in 2006, and through the H.B. Fuller powder coatings business acquisition, we added a new powder coatings facility in the United Kingdom.

Our coil coatings are applied to metal coils that are used to manufacture pre-engineered buildings and building components, other metal building and architectural products and appliances. We believe we are the largest supplier of coil coatings in North America. With our broad technology portfolio, we are poised for growth in Asia, South America and Northern and Eastern Europe. The joint venture we established in January 2007 with Tekno S.A. in Brazil strengthens our position in South America. Our August 2007 acquisition of Teknos Nova Coil TNC Oy in Finland strengthens our position in Northern and Eastern Europe.

Our wood product line within the Coatings segment includes decorative and protective coatings for wood furniture, building products, cabinets and floors. With the acquisition of an 80% interest in Huarun Paints in 2006, we believe we are the world s largest supplier of wood coatings. Portions of the wood furniture industry have moved to Asia, and we have color design, manufacturing and technical service capabilities in the region to support this business.

Our architectural product line comprises the largest part of our Paints segment. We offer a broad portfolio of interior and exterior paints, stains, primers, varnishes, high performance floor paints and specialty decorative products. We sell these products primarily into the do-it-yourself and professional markets through home centers, mass merchants, hardware wholesalers and independent dealers. We develop customized merchandising and marketing support programs for our architectural paints customers, enabling them to differentiate their paint departments through point-of-purchase materials, labeling and product and color selection assistance. We offer our own branded products and exclusive private label brands for customers. At key customers such as Lowe s, we also offer additional marketing and customer support by providing Valspar personnel to train paint department employees and to answer coatings questions in stores.

In 2007, we began a major initiative to build consumer awareness of the Valspar brand through an integrated marketing campaign. At Lowe s, our largest customer, we offer an innovative in-store experience intended to simplify the paint shopping process for consumers. We will also continue with a strong field sales support organization and offer a newly designed consumer website at www.valspar.com.

Within the Paints segment, we also offer automotive refinish paints and aerosol spray paints that are sold through automotive refinish distributors, body shops, automotive supply distributors and automotive supply retailers. Our Valspar Refinish, De Beer and House of Kolor brands are offered in many countries around the world.

Table of Contents

In addition to the main product lines within our two segments, we manufacture and sell specialty polymers, colorants and gelcoats, and we sell furniture protection plans. The specialty polymers and colorants are manufactured for internal use and for external sale to other coatings and building products manufacturers. Our gelcoats and related products are sold to boat manufacturers, shower and tub manufacturers and others.

The Valspar Corporation is a Delaware corporation and was founded in 1806. Our principal executive offices are located at 1101 Third Street South, Minneapolis, Minnesota 55415, and our telephone number at that address is (612) 332-7371. Our corporate website address is www.valsparglobal.com. The information on our website is not part of this filing.

ACQUISITIONS

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

In June 2005, we completed the acquisition of Samuel Cabot Incorporated, a privately owned manufacturer of premium quality exterior and interior stains and finishes. Cabot, based in Newburyport, Massachusetts, had sales of approximately $58 million in the year ended September 30, 2004, and had been family-owned since 1877. In 2006, we introduced premium Cabot branded products into Lowe s, our largest customer.

In July 2006, we completed the acquisition of an 80% interest in Huarun Paints Holdings Company Limited, one of China s largest independent coatings companies, from Champion Regal Limited, a Hong Kong based investment company, and certain other shareholders. Founded in 1991, Huarun Paints had grown to become one of China s leading domestic suppliers of wood and furniture coatings and a rapidly growing supplier of architectural coatings, with sales of approximately $200 million in 2006.

In December 2006, we completed the acquisition of H.B. Fuller Company s powder coatings business. This business, which had net sales of approximately $75 million in 2005, serves customers in more than 20 countries from manufacturing facilities in the United States and the United Kingdom.

In January 2007, we acquired a majority of the voting shares of a coil coatings business in Brazil from Tekno S.A.

In August 2007, we acquired Teknos Nova Coil TNC Oy (TNC), a privately owned manufacturer of high-performance coil coatings based in Helsinki, Finland. TNC s revenues for calendar 2006 were approximately €31 million.

PRODUCTS

Coatings Segment

The Coatings segment includes a broad range of decorative and protective coatings for metal, wood, plastic and glass, primarily for sale to OEM customers in North America, South America, Europe and Asia. Products within our Coatings segment include fillers, primers, varnishes, inks, sprays, stains and other coatings used by customers in a wide range of manufacturing industries, including building products, appliances, automotive parts, furniture, transportation, agricultural and construction equipment, metal packaging and metal fabrication.

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

The packaging product line within our Coatings segment includes coatings for both interior and exterior use in 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, producing coatings for the entire can. Consolidation and

globalization of our customers has been apparent in this product line, and we have responded to these trends by offering a wide variety of packaging coatings products throughout the world.

Within our general industrial product line, we offer a single source for powder, liquid and electrodeposition coatings technologies to customers in a wide variety of industries, including transportation, automotive parts and agricultural and construction equipment. We continue to follow our customers with manufacturing and technical service as they move into Europe, Latin America and Asia.

Our coil coatings are applied to pre-engineered buildings and building components, other metal building and architectural products and appliances. We believe

we are the leading coil coatings manufacturer in North America, with particular strength in coil coatings for metal buildings and appliances. With our broad technology portfolio, we have a product for nearly every type of coil coatings application requirement.

Our wood product line supplies decorative and protective coatings for wood furniture, building products, cabinets and floors. We offer color design, manufacturing and technical service for customers throughout North America and Asia. Our investment in Huarun Paints provides us with additional sales and distribution opportunities in the fast-growing Chinese wood coatings market.

Paints Segment

Our architectural paints products comprise the largest portion of our Paints segment. We offer a broad portfolio of interior and exterior paints, stains, primers, varnishes, high performance floor paints and specialty decorative products, such as enamels, aerosols and faux finishes, used in both the do-it-yourself and professional markets. The primary distribution channels for these products are home centers, mass merchants, hardware wholesalers, distributors and independent dealers in the U.S. and Canada. In China, the primary distribution channel is a network of exclusive Huarun distributors. Sales of our architectural products are seasonal, with the lowest levels occurring in the first quarter of our fiscal year.

We develop highly customized merchandising and marketing support programs for our architectural paints customers, enabling them to differentiate their paint departments from their competitors through point-of-purchase materials, labeling and product and color selection assistance. Through such programs, we offer branded product lines under the names Valspar, Cabot, Plasti-Kote, McCloskey, Goof Off and, in China, Huarun and Idol. In 2007, we began a major initiative to build consumer awareness of the Valspar brand through an integrated marketing campaign. At key customers such as Lowe s, we also offer additional marketing and customer support by providing Valspar personnel to train paint department employees and to answer coatings questions in stores. We have been recognized as the paint supplier of the year eight times for Lowe s and twice for Wal-Mart.

Within the Paints segment, we also manufacture and distribute automotive refinish paints under the brand names Valspar, De Beer and House of Kolor. We also supply aerosol spray paints for automotive supply distributors and large automotive supply retailers under the brand names Plasti-Kote, Tempo and Mr. Spray.

All Other

In addition to our main product lines, we make and sell specialty polymers, gelcoats and colorants, and we sell furniture protection plans. We manufacture specialty polymers and colorants for internal use and for external sale to

other coatings and building products manufacturers. Our gelcoats and related products are sold to boat manufacturers, shower and tub manufacturers and others.

COMPETITION

All aspects of the coatings and paints business are highly competitive. We face strong competitors in all areas of our business, some of which are larger and better capitalized than us.

Competition in our Coatings segment is based on formulating products for specific customer applications, the ability to meet customer delivery requirements, technical assistance to the customer in product application, price and new technology offerings. In addition, the markets for industrial coatings are becoming increasingly global, and customers are looking for global coatings solutions. We believe we can provide global coatings solutions to customers due to our position as one of the world s largest industrial coatings manufacturers and our commitment to developing innovative technologies.

Competition in our Paints segment is based on factors such as consumer brand recognition, product quality, distribution and price. In this segment, we offer highly customized merchandising and marketing support programs to our customers. We also support brand awareness through advertising and by offering high quality products, including a major initiative in 2007 to build consumer awareness of the Valspar brand.

RAW MATERIALS

We obtain raw materials from a number of suppliers. The raw materials are derived from petrochemicals, minerals and metals. Historically, all of these materials have been generally available on the open market, with pricing and availability subject to fluctuation. The chemical industry economic cycle for the past two to three years has reflected strong demand globally with high capacity utilization. In some cases we have experienced or are experiencing tight supply and demand dynamics, resulting in continuing price increases for certain types of raw materials. Raw material demand and price increases are being managed to minimize the impact on our operations. In general, higher crude oil and natural gas prices and higher supplier capacity utilization result in higher prices for our raw materials. Because our raw material costs average approximately

---

Table of Contents

80% of our cost of goods sold, the efficient use of raw materials is a critical cost component of the products we manufacture.

PATENTS

Our policy is to seek patent protection for our products and manufacturing processes when appropriate. We also license some patented technology from other sources. Our business is not materially dependent upon licenses or similar rights or on any single patent or group of related patents. Although we believe our patent rights are valuable, our knowledge and trade secret information regarding our manufacturing processes and materials have also been important in maintaining our competitive position. As a condition of employment, except where otherwise prohibited by law or union rules, we require each employee to sign a confidentiality agreement relating to proprietary information.

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

harm our business.

SEASONALITY AND WORKING CAPITAL ITEMS

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

SIGNIFICANT CUSTOMERS

In 2007, our sales to Lowe s Companies, Inc. exceeded 10% of net sales, and our ten largest customers accounted for approximately 32% of net sales. Our sales to Lowe s Companies, Inc. are in the Paints segment. In 2007, our five largest customers in the Paints segment accounted for approximately 59% of our net sales in the segment.

BACKLOG AND GOVERNMENT CONTRACTS

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

RESEARCH AND DEVELOPMENT

Many of the products we offer today have resulted from continuous improvements of our proprietary technologies. Many of these improvements have been brought to market in the last five years. We have adopted a best practices approach to technology development by combining our technology efforts with those of the businesses we have acquired. This has resulted in several successful new product developments. For example, in our packaging product line, we are focusing on universal coatings for two-piece food cans. In industrial coatings, we have developed new electrodeposition technology. We have continued to expand our line of polymers, and we now have a full portfolio of both water-based and conventional polymers for architectural, industrial and packaging products.

Research and development costs for fiscal 2007 were $90.3 million, representing a 9.3% increase over fiscal 2006 ($82.6 million). Fiscal 2006 costs increased 4.2% over those of fiscal 2005 ($79.3 million). Our primary emphasis has been on developing and refining emerging technologies in our Coatings segment.

ENVIRONMENTAL COMPLIANCE

We undertake to comply with applicable regulations relating to protection of the environment and workers safety. Capital expenditures for this purpose were not material in fiscal 2007, and capital expenditures for fiscal 2008 to comply with existing laws and regulations are also not expected to be material.

EMPLOYEES

We employ approximately 10,000 persons, approximately 650 of whom are subject to collective bargaining agreements in the United States. We believe that our relationship with our unionized employees is good.

FOREIGN OPERATIONS AND EXPORT SALES

Our foreign operations are conducted primarily through majority-owned subsidiaries and, to a lesser extent, joint ventures. Sales from foreign operations continue to increase.

In July 2006, we acquired an 80% interest in Huarun Paints, with manufacturing and distribution in China. In December 2006, we acquired the powder coatings business of H.B. Fuller Company, with a manufacturing facility in the United Kingdom. In August 2007, we acquired Teknos Nova Coil TNC Oy (TNC) in Finland. We now have manufacturing plants in Australia, Brazil,

---

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

Our various acquisitions and joint ventures over the past several years have increased revenues from foreign subsidiaries and operations, which comprised approximately 37% of the Company s total revenues in fiscal 2007. During fiscal 2007, export sales from the United States represented approximately 2.9% 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 us, our business and your investment in us.

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

We purchase the raw and intermediate materials needed to manufacture our products from a number of suppliers. The majority of our raw materials are petroleum-based derivatives and minerals and metals. Under normal market conditions, these materials are generally available on the open market. From time to time, however, the prices and availability of these raw materials may fluctuate significantly, which could impair our ability to procure necessary materials, or increase the cost of manufacturing our products. During the past three to four years, our raw material costs have increased significantly. 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 continue to increase, and if we are unable to pass along, or are delayed in passing along, raw material cost 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, especially for our industrial products, are in businesses and industries that are cyclical in nature and sensitive to changes in general economic conditions. As a result, the demand for our products by these customers depends, in part, upon general economic conditions. In 2007, the downward trend in the U.S. housing market negatively affected sales of our architectural paints and other coatings applied to consumer products used in the home. Downward economic cycles affecting the industries of our customers will reduce sales of our products. If general economic conditions deteriorate, we may suffer reductions in our sales and profitability.

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

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

or could require price reductions or increased spending on marketing and sales, any of which could adversely affect our results of operations.

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

We have a significant amount of indebtedness.

Our total debt, including notes payable, was $1,016.5 million at October 26, 2007. Our level of indebtedness may have important consequences. For example, it:

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

Table of Contents

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

Our strategy of growth through 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 pursuing acquisitions of complementary businesses or products and joint ventures. If we are successful in completing such 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;
- diversion of our management s time and attention from other business concerns;
- 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;
- problems enforcing the indemnification obligations of sellers of businesses or joint venture partners for claims and liabilities;
- unexpected losses of customers of, or suppliers to, the acquired business;

- difficulty in conforming the acquired business standards, processes, procedures and controls with our operations;
- variability in financial information arising from the implementation of purchase price accounting;
- difficulties in retaining key employees of the acquired businesses; and
- challenges arising from the increased scope, geographic diversity and complexity of our operations.

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. Any of these factors may make it more difficult to repay our debt. We can give no assurance that we will continue to be able to identify, acquire and integrate successful strategic acquisitions in the future or be able to implement successfully our operating and growth strategies within our existing markets or with respect to any future product or geographic diversification efforts.

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 and our joint ventures 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, Ireland, Malaysia, Mexico, The Netherlands, Singapore, South Africa, Switzerland, Thailand, the United Kingdom and Vietnam. In 2007, revenues from products sold outside the United States accounted for approximately 37% of our net sales.

We expect sales from international markets to continue to represent a significant portion of our net sales. Notwithstanding the benefits of geographic diversification, our business 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 difficult to collect;
- foreign customers may 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 staffing difficulties 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;

general economic conditions in the countries in which we operate could have an adverse effect on our earnings from operations in those countries;

our business and profitability in a particular country could be affected by political or economic repercussions on a domestic, country specific or global level from terrorist activities and the response 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 2005 through 2007, sales to our largest customer, Lowe s Companies, Inc., have ranged from 16.0% to 17.6% of our total net sales. In 2007, our ten largest customers accounted for approximately 32% of our total net sales. Although we sell various types of products through various channels of distribution, we believe that the loss of a substantial portion of our sales to Lowe s Companies, Inc. could have a material adverse impact on us.

Environmental laws and regulations could subject us to significant future liabilities.

We are subject to numerous environmental laws and regulations that impose various environmental controls on us, including 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 laws and regulations govern actions that may have adverse environmental effects and also require compliance with certain practices when handling and disposing of hazardous wastes. These laws and regulations also 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.

ITEM 1B UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 PROPERTIES

We own our principal offices located in Minneapolis, Minnesota. North America manufacturing operations are conducted at thirty-six locations (34 owned; 2 leased), primarily in California, Illinois, Indiana, North Carolina, Pennsylvania and Texas, including two owned manufacturing facilities in Canada and one owned manufacturing facility in Mexico. The total combined square footage for our principal offices and manufacturing operations in North America is approximately 5,070,000, which includes 225,000 square feet at our principal offices. Asia Pacific manufacturing operations are conducted at ten locations (7 owned; 3 leased) in Australia, China, Malaysia, Singapore, Thailand and Vietnam with a total combined square footage of approximately 1,213,000. European manufacturing operations are conducted at nine locations (8 owned; 1 leased) in France, Germany, Ireland, the Netherlands, Switzerland and the United Kingdom with a total combined square footage of approximately 929,000. In South America, we own one manufacturing facility in Brazil with square footage of approximately 400,000. In South Africa, we own one manufacturing facility with square footage of approximately 54,000.

Set forth below is a breakdown of the approximate square footage of principal facilities by Region:

Region	Approximate Square Footage Owned	Approximate Square Footage Leased	Total
North America	4,677,000	393,000	5,070,000
Asia Pacific	1,105,000	108,000	1,213,000
Europe	834,000	95,000	929,000
Other	454,000		454,000
Total	7,070,000	596,000	7,666,000

7

Table of Contents

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

Business Segment	Approximate Square Footage
Paints	2,388,000
Coatings	4,105,000
All Other	1,173,000
Total	7,666,000

Management believes our manufacturing properties are well maintained, in good operating condition and adequate for the purposes for which they are being used. Operating capacity varies by product line, but additional production capacity is available for most product lines by increasing the number of days and/or shifts worked.

ITEM 3 LEGAL PROCEEDINGS

Environmental Matters

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

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

Other Legal Matters

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

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no matter submitted during the fourth quarter of fiscal year 2007 to a vote of security holders.

Table of Contents

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**
William L. Mansfield	59	Chairman since August 2007, President and Chief Executive Officer since February 2005
Paul C. Reyelts	61	Executive Vice President since February 2005 and Chief Financial Officer since November 1998
Steven L. Erdahl	55	Executive Vice President since April 2004
Rolf Engh	54	Executive Vice President since July 2005, General Counsel and Secretary since April 1993
Anthony L. Blaine	40	Senior Vice President Human Resources since January 2007
Gary E. Hendrickson	51	Senior Vice President since July 2005
Donald A. Nolan	47	Senior Vice President since July 2005
Lori A. Walker	50	Vice President, Treasurer and Controller since October 2004

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

Prior to February 2005, Mr. Mansfield was Executive Vice President and Chief Operating Officer since April 2004. Prior to April 2004, Mr. Mansfield was Executive Vice President Architectural, Packaging and Specialty Coatings since January 2002.

Prior to February 2005, Mr. Reyelts was Senior Vice President, Finance and Chief Financial Officer since November 1998.

Prior to April 2004, Mr. Erdahl was Executive Vice President Industrial and Automotive Coatings since January 2002.

Prior to July 2005, Mr. Engh was Senior Vice President since November 1998.

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

Prior to July 2005, Mr. Hendrickson was Group Vice President Wood Coatings since April 2004. Prior to April 2004, Mr. Hendrickson was Vice President and President Asia Pacific since 2001.

Prior to July 2005, Mr. Nolan was Group Vice President Packaging since April 2004. Prior to April 2004, Mr. Nolan was Vice President Packaging Coatings, Americas since 2001.

Prior to October 2004, Ms. Walker was Vice President and Controller since June 2001.

Table of Contents

PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s 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 2007 and 2006 as quoted on the New York Stock Exchange.

For the Fiscal Year	Market Price (high/low) 2007		2006	
First Quarter	**$ 29.48**	**26.28**	$ 27.30	21.54

Second Quarter	**$ 29.25**	**25.74**	$ 29.20	25.69
Third Quarter	**$ 29.58**	**26.88**	$ 29.62	23.83
Fourth Quarter	**$ 29.06**	**24.00**	$ 27.50	23.88

The quarterly dividend declared December 12, 2007, to be paid on January 14, 2008 to common stockholders of record December 31, 2007, was increased to 14 cents per share. The table below sets forth the quarterly dividend paid for fiscal years 2007 and 2006.

	Per Share Dividends	
For the Fiscal Year	**2007**	**2006**
First Quarter	**$ 0.13**	$ 0.11
Second Quarter	**$ 0.13**	$ 0.11
Third Quarter	**$ 0.13**	$ 0.11
Fourth Quarter	**$ 0.13**	$ 0.11
	$ 0.52	$ 0.44

The number of record holders of the Company s Common Stock at December 14, 2007 was 1,470.

Stock Performance Graphs

The following graphs compare the Company s cumulative total shareholder return for the last five fiscal years and the last ten fiscal years with the cumulative total return of (1) the Standard & Poor s 500 Stock Index and (2) a peer group of companies selected by the Company on a line-of-business basis. The graphs assume the investment of $100 in the Company s Common Stock, the S&P 500 Index and the peer group at the end of fiscal 2002 and fiscal 1997, respectively, and the reinvestment of all dividends.

The companies selected to form the peer group index are: PPG Industries, Inc.; Rohm and Haas Company; Ferro Corporation; NL Industries, Inc.; H.B. Fuller Company; The Sherwin-Williams Company; RPM, Inc.; and Detrex Corporation. Grow Group, Inc., Guardsman Products, Inc., Pratt & Lambert, Inc., Lawter International, Inc. and Lilly Industries, Inc. have been excluded from the peer group during the periods indicated as a result of being acquired, and Standard Brands Paint Company has been excluded as a result of bankruptcy.

The Company included the ten-year graph because it believes the ten-year graph provides useful information regarding performance of the Company s Common Stock over an extended period.

Table of Contents

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

	Cumulative Total Return					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**

Valspar	$ 100	$ 116	$ 115	$ 111	$ 137	$ 130
Peer Group	$ 100	$ 120	$ 140	$ 141	$ 173	$ 189
S&P 500	$ 100	$ 121	$ 132	$ 144	$ 167	$ 192

Assumes $100 invested on October 31, 2002 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										
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Valspar	$ 100	$ 96	$ 105	$ 97	$ 121	$ 152	$ 176	$ 175	$ 168	$ 208	$ 198
Peer Group	$ 100	$ 105	$ 109	$ 92	$ 102	$ 110	$ 132	$ 153	$ 155	$ 190	$ 208
S&P 500	$ 100	$ 122	$ 153	$ 163	$ 122	$ 104	$ 125	$ 137	$ 149	$ 173	$ 199

Assumes $100 invested on October 31, 1997 in the Common Stock of The Valspar Corporation, the peer group and the S&P 500 Index, including reinvestment of dividends.

Table of Contents

EQUITY COMPENSATION PLANS

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)**
Equity Compensation Plans Approved by Security Holders	11,873,804	$ 21.21	6,380,664
Equity Compensation Plans Not Approved by Security Holders	None	None	None
Total	11,873,804	$ 21.21	6,380,664

(1) The number of securities remaining available for future issuance under equity compensation plans consists of shares issuable under the following corporate plans: The Valspar Corporation 1991 Stock Option Plan, The Valspar Corporation Key Employee Annual Bonus Plan, The Valspar Corporation Stock Option Plan for Non-Employee Directors and the 2001 Stock Incentive Plan.

Table of Contents

ITEM 6 SELECTED FINANCIAL DATA

The following selected financial data has been derived from the audited Consolidated Financial Statements of the Company 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.

		Fiscal Years				
(Dollars in thousands, except per share amounts)		**2007**	**2006**	**2005**	**2004**	**2003**
Operating Results	Net Sales	**$ 3,249,287**	$ 2,978,062	$ 2,713,950	$ 2,440,692	$ 2,247,926
	Cost and Expenses					
	Cost of Sales	**2,277,490**	2,072,157	1,928,352	1,697,176	1,542,144
	Operating Expense	**662,224**	598,468	514,735	473,719	478,279
	Income from Operations	**309,573**	307,437	270,863	269,797	227,503
	Other (Income) Expense - Net	**(11,860)**	3,799	621	(139)	186
	Interest Expense	**61,662**	46,206	44,522	41,399	45,843
	Income Before Income Taxes	**259,771**	257,432	225,720	228,537	181,474
	Net Income	**172,115**	175,252	147,618	142,836	112,514
	Net Income as a Percent of Sales	**5.3%**	5.9%	5.4%	5.9%	5.0%
	Return on Average Equity	**13.1%**	15.2%	14.3%	15.3%	14.0%
	Per Common Share:					
	Net Income - Basic	**$ 1.52***	$ 1.73	$ 1.45	$ 1.39	$ 1.12
	Net Income - Diluted	**1.50***	1.71	1.42	1.35	1.08
	Dividends Paid	**0.52**	0.44	0.40	0.36	0.30
	Stockholders Equity	**13.72**	12.17	10.57	9.75	8.57

Financial Position	Total Assets	**$ 3,452,281**	$ 3,191,535	$ 2,732,383	$ 2,634,258	$ 2,496,524
	Working Capital	**495**	(228,560)	239,573	84,104	207,768
	Property, Plant and Equipment, Net	**514,396**	459,605	427,822	428,431	414,219
	Long-Term Debt, Excluding Current Portion	**648,988**	350,267	706,415	549,073	749,199
	Stockholders Equity	**1,380,797**	1,240,063	1,061,092	1,000,363	869,317
Other Statistics	Property, Plant and Equipment Expenditures	**$ 76,940**	$ 75,417	$ 62,731	$ 61,375	$ 51,042
	Depreciation and Amortization Expense	**71,811**	68,716	68,395	60,537	55,622
	Research and Development Expense	**90,322**	82,608	79,286	75,880	69,667
	Total Cash Dividends	**$ 52,670**	$ 44,655	$ 40,658	$ 36,911	$ 30,247
	Average Diluted Common Shares Outstanding (000 s)	**102,617**	102,726	104,150	105,418	103,848
	Number of Stockholders	**1,474**	1,532	1,524	1,558	1,614
	Number of Employees at Year-End	**9,946**	9,556	7,540	7,504	7,013
	Market Price Range - Common Stock: High	**$ 29.58**	$ 29.62	$ 25.52	$ 25.76	$ 24.25
	Low	**24.00**	21.54	20.41	22.34	18.80

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

Per share data has been adjusted to reflect a 2 for 1 stock split effective in September 2005. The number of stockholders is based on record holders at year-end.

* In 2007, net income per common share, basic and diluted, includes 18 cents for a non-cash accrual related to Mandatorily Redeemable Stock in connection with the Company s acquisition of the remaining minority interest of Huarun Paints Holding Company Limited. Adjusted net income per common share diluted was $1.68 for 2007. Please see related reconciliation in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Earnings per Share for more information.

Table of Contents

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

OVERVIEW

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

General Economic and Industry-Wide Factors

General economic conditions in 2007 were challenging, driven by weakness in the U.S. housing market. Our architectural paints and wood coatings were the product lines most affected by the downturn. Total net sales increased 9.1% from 2006, primarily driven by acquisitions. We expanded our global presence in 2007 by completing three transactions that have increased our international strength. In addition to the challenges posed by the weakness in the U.S. housing market, the Company continued to experience increases in the costs of raw materials in the U.S and abroad, although the increases were not as sharp as in 2006 and 2005. This continues a trend of raw material cost increases that began in the second half of fiscal 2004.

Business Performance

Net sales increased to $3,249,287,000 from $2,978,062,000 in 2006, primarily driven by acquisitions. Our global presence expanded as international net sales accounted for 36.8% of our total business in 2007, compared to 30.0% in 2006.

In August 2007, the Company acquired Teknos Nova Coil TNC Oy (TNC), a privately-owned manufacturer of high-performance coil coatings based in Helsinki, Finland. TNC s revenues for calendar 2006 were approximately €31,000,000, or approximately $44,600,000 at October 26, 2007 exchange rates.

In January 2007, we acquired a majority of the voting shares of a coil coatings business in Brazil from Tekno S.A.

In December 2006, the Company acquired the powder coatings business of H.B. Fuller Company. H.B. Fuller s powder coatings business, which had net sales of approximately $75,000,000 in 2005, serves customers in 26 countries from manufacturing facilities in the United States and the United Kingdom.

We continue to invest in the long-term strength of our Paints segment with an initiative to build our premium brands. In 2007, we officially launched our Valspar branding initiative, including a transition to the Valspar brand at our largest customer, Lowe s Companies, Inc.

During the year the Company continued to repurchase its stock, reducing the number of shares outstanding by purchasing 2,596,300 shares for $71,840,000. Additionally, the board raised the annual dividend in fiscal year 2007 by 18.2% to $0.52 per share.

Earnings Per Share

The Company accrued $18,619,000 in 2007 for the Mandatorily Redeemable Stock related to the Huarun Paints acquisition (See Note 2 to Consolidated Financial Statements for further details). The accrual reduced basic and diluted income available to common shareholders by 18 cents per share in 2007. The net income per share available to common shareholders was $1.50 for 2007.

The table below includes a non-GAAP financial measure Adjusted net income per common share-diluted which excludes a non-cash accrual relating to mandatorily redeemable stock in connection with the Huarun Paints acquisition.

	2007
Net income per common share diluted	$ 1.50
Mandatorily redeemable stock accrual	0.18
Adjusted net income per common share diluted	$ 1.68

Management discloses this measure because it believes this measure may assist investors in comparing the Company s results of operations in the respective periods without regard to the effect on results in the 2007 period of the non-cash accrual related to the Huarun acquisition. When the Mandatorily Redeemable Stock is redeemed, the accruals for the redemption value will be reversed and acquisition accounting applied.

OPERATIONS 2007 VS. 2006

Net sales of the Company increased 9.1% to $3,249,287,000 in 2007 from $2,978,062,000 in 2006. Sales growth was negative 0.6% after excluding the favorable impact of acquisitions of 7.9% and foreign currency of 1.8%.

Net sales of the Paints segment increased 10.5% to $1,088,819,000 in 2007 from $985,698,000 in 2006. Excluding the favorable impact of the Huarun acquisition and foreign currency, net sales growth in the Paints segment was negative 1.3%. The decrease was primarily driven by weakness in the U.S. residential construction and housing markets which affected sales in the architectural product line.

Table of Contents

Net sales of the Coatings segment increased 10.0% to $1,851,687,000 in 2007 from $1,683,482,000 in 2006. Excluding the favorable impact of the acquisitions of Huarun and H.B. Fuller s powder coatings business and foreign currency, net sales growth in the Coatings segment was negative 0.1%. Coatings core sales were affected by soft sales in the wood coatings product line related to weakness in the furniture and new construction markets.

The 2007 gross profit margin decreased to 29.9% from 30.4% as a result of lower U.S. volume in our higher-margin Paints segment, manufacturing inefficiencies resulting from the inventory reduction and increased raw material costs.

Operating expenses (research and development, selling, administrative and amortization) increased 10.7% to $662,224,000 (20.4% of net sales) in 2007 compared to $598,468,000 (20.1% of net sales) in 2006. The dollar increase was driven by our investment in building the Valspar brand and incremental expenses of H.B. Fuller powder coatings and TNC, partially offset by lower incentive compensation.

Earnings before interest and taxes (EBIT) of the Paints segment decreased 1.1% from the prior year to $105,947,000. EBIT as a percent of net sales of the Paints segment decreased to 9.7% in 2007 compared to 10.9% in 2006. The decrease in EBIT as a percent of net sales was largely attributable to an increase in expense related to our investment in building the Valspar brand, partially offset by lower incentive compensation and improvement in automotive refinish profitability. Foreign currency fluctuation had no material effect on EBIT of the Paints segment.

EBIT of the Coatings segment decreased 2.2% from the prior year to $198,073,000. EBIT as a percent of net sales of the Coatings segment decreased to 10.7% in 2007 compared to 12.0% in 2006. The decrease in EBIT as a percent of net sales was primarily due to lower operating profits from our wood coatings product line related to weakness in the furniture and new construction markets, partially offset by lower incentive compensation. Foreign currency fluctuation had no material effect on EBIT of the Coatings segment.

EBIT of the Company increased 5.9% from the prior year to $321,433,000. EBIT as a percent of net sales decreased to 9.9% in 2007 compared to 10.2% in 2006. The decrease in EBIT as a percent of net sales was primarily driven by lower operating profits related to weakness in the furniture and new construction markets, an increase in expense related to our investment in building the Valspar brand, partially offset by lower incentive compensation and a gain on the sale of certain intellectual property assets.

The Company reported other income of $11,860,000 in 2007 compared to other expense of $3,799,000 in 2006. The increase in income was driven primarily by the sale of certain intellectual property assets in the fourth quarter of 2007.

Interest expense increased to $61,662,000 in 2007 from $46,206,000 in 2006, primarily due to an increase in average debt outstanding.

The effective tax rate increased from 31.9% to 33.7% due to favorable 2006 items: tax adjustments related to prior tax periods, the approval of favorable tax credits and statutory rate reductions in foreign jurisdictions. Depending on the mix of income by jurisdiction, the Company expects its ongoing tax rate to be in the range of 33.0% to 33.5%.

Net income for 2007 was $172,115,000 or adjusted net income per common share diluted of $1.68, compared to $175,252,000 or $1.71 per diluted share in 2006. Net income available to common shareholders was $153,496,000, or $1.50 per diluted share.

OPERATIONS 2006 VS. 2005

Net sales of the Company increased 9.7% to $2,978,062,000 in 2006 from $2,713,950,000 in 2005. Sales growth was 6.9% after excluding the favorable impact of foreign currency of 0.1% and acquisitions of 2.7%.

Net sales of the Paints segment increased 13.4% to $985,698,000 in 2006 from $869,347,000 in 2005. Excluding the favorable impact of the Huarun and Cabot acquisitions, net sales growth in the Paints segment was 6.9%. Revenue growth in the Paints segment was primarily driven by favorable price/mix, and higher volumes in the architectural product line.

Net sales of the Coatings segment increased 7.0% to $1,683,482,000 in 2006 from $1,573,067,000 in 2005. Excluding the favorable impact of the Huarun acquisition and foreign currency, net sales growth in the Coatings segment was 5.6%. Revenue growth in the Coatings segment was primarily driven by higher selling prices to customers and growth in the industrial coatings product line.

The 2006 gross profit margin increased to 30.4% from 28.9% as a result of increases in selling prices and manufacturing efficiencies, partially offset by higher raw material costs.

Operating expenses (research and development, selling, administrative and amortization) increased 16.3% to $598,468,000 (20.1% of net sales) in 2006 compared

to $514,735,000 (19.0% of net sales) in 2005. The dollar increase in operating expenses was driven by Cabot advertising and promotion, incremental Cabot and Huarun expenses and stock based and incentive compensation. The Company expects operating expenses to increase in 2007 in connection with increased advertising and promotion expense.

EBIT of the Paints segment increased 20.0% from the prior year to $107,129,000. EBIT as a percent of net sales of the Paints segment increased to 10.9% in 2006 compared to 10.3% in 2005. The increase in EBIT as a percent of net sales was largely attributable to higher selling prices and manufacturing efficiencies, partially offset by raw material cost increases. Foreign currency fluctuation had no material effect on EBIT of the Paints segment.

EBIT of the Coatings segment increased 14.1% from the prior year to $202,432,000. EBIT as a percent of net sales of the Coatings segment increased to 12.0% in 2006 compared to 11.3% in 2005. The increase in EBIT as a percent of net sales was primarily due to higher selling prices and growth in our coil product line. Foreign currency fluctuation had no material effect on EBIT of the Coatings segment.

EBIT of the Company increased 12.4% from prior year to $303,638,000. EBIT as a percent of net sales increased to 10.2% in 2006 compared to 10.0% in 2005. The increase in EBIT as a percent of net sales was primarily driven by higher selling prices and manufacturing efficiencies.

Other expense increased to $3,799,000 in 2006 from $621,000 in 2005, which included the favorable settlement of a lawsuit in 2005.

Interest expense increased to $46,206,000 in 2006 from $44,522,000 in 2005, primarily due to increased average interest rates, offset by a slight decrease in average debt outstanding.

The effective tax rate decreased from 34.6% to 31.9% due to tax adjustments related to prior tax periods, the approval of favorable tax credits and statutory rate reductions in foreign jurisdictions.

Net income for the full year was $175,252,000 or $1.71 per diluted share. On a year-over-year basis, diluted earnings per share increased 20.4% from 2005.

FINANCIAL CONDITION

Cash provided by operating activities was $190,682,000 in 2007, compared with $284,672,000 in 2006 and $228,631,000 in 2005. In 2007, the cash provided by operating activities and proceeds from borrowings were used to fund $171,008,000 in acquisitions, $76,940,000 in capital expenditures, $52,670,000 in dividend payments and $71,840,000 in share repurchases.

Accounts and notes receivable increased by $16,475,000, primarily due to timing of customer payments. Trade accounts payable and accrued liabilities decreased by $63,445,000 as a result of lower incentive compensation, lower raw material purchases and timing of disbursements. Inventories and other current assets decreased $22,096,000, primarily due to decreased inventories in the U.S. in anticipation of continued sales softness in 2008. Income taxes payable decreased by $15,521,000 as a result of timing of income tax disbursements.

Capital expenditures for property, plant and equipment were $76,940,000 in 2007, compared with $75,417,000 in 2006. The Company anticipates capital spending in fiscal 2008 to be approximately $65,000,000.

The ratio of total debt to capital increased to 42.4% at the end of 2007 compared to 40.4% in 2006. Average debt outstanding during 2007 was $1,037,677,000 at a weighted average interest rate of 5.94% versus $778,988,000 at 5.93% last year. Interest expense for 2007 was $61,662,000 compared to $46,206,000 in 2006.

Under various agreements, the Company is obligated to make future cash payments in fixed amounts. These include payments under the multi-currency credit facilities, commercial paper program, senior notes, industrial development bonds, employee benefit plans, capital leases and non-cancelable operating leases with initial or remaining terms in excess of one year. Interest charges are variable and assumed at today s rates.

Table of Contents

The following table summarizes the Company s fixed cash obligations as of October 26, 2007 for the fiscal years ending in October:

CONTRACTUAL CASH OBLIGATIONS

(Dollars in thousands)	2008	2009	2010	2011	2012	2013 and thereafter	Total
Notes & Interest to Banks	$ 34,746	$ 7,016	$ 143,491	$	$	$	$ 185,253
Commercial Paper	253,173						253,173
Senior Notes & Interest	135,725	27,975	27,975	27,975	227,975	368,325	815,950
Industrial Development Bonds & Interest	425	425	425	425	425	14,066	16,191
Medical Retiree/SERP/Pension	3,218	1,838	2,061	2,438	2,331	55,273	67,159
Capital Leases & Interest	28	13					41
Operating Lease	14,755	11,980	8,273	4,938	2,848	1,636	44,430
Total Contractual Cash Obligations	$ 442,070	$ 49,247	$ 182,225	$ 35,776	$ 233,579	$ 439,300	$ 1,382,197

Effective March 21, 2007, the Company expanded its revolving credit facility by $100,000,000 to $600,000,000. The credit facility was established in October 2005 and expires in October 2010.

On April 17, 2007, the company issued $200,000,000 of unsecured, senior notes that mature on May 1, 2012 with a coupon rate of 5.625%, and $150,000,000 of unsecured, senior notes that mature on May 1, 2017 with a coupon rate of 6.05%. These public offerings were made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission. The net proceeds of $347,200,000 were used to repay $350,000,000 of senior notes that matured on May 1, 2007.

At October 26, 2007, the Company had unused lines of credit available from banks of $386,222,000. During November 2007, the Company entered into a 364 day, $150,000,000 unsecured committed revolving credit facility with a syndicate of banks maturing November 25, 2008, subject to an option to extend for an additional year in some circumstances. Under this facility, the Company can borrow at optional interest rates of prime or LIBOR-based rates. At November 27, 2007 the Company had unused lines of credit available from banks of $485,438,000.

Common stock dividends of $52,670,000 in 2007 represented a 17.9% increase over 2006. The annual dividend in 2007 was increased to $0.52 per share from $0.44 per share in 2006.

The Company has continuing authorization to purchase shares of its common stock at management s discretion for general corporate purposes. Shares repurchased in 2007 were 2,596,300 shares totaling $71,840,000. The Company

retired 2,000,000 of those shares in 2007. The Company repurchased 585,500 shares totaling $15,377,000 in 2006. The Company repurchased 3,531,200 shares totaling $82,116,200 in 2005.

The Company is involved in various claims relating to environmental and waste disposal matters at a number of current and former plant sites. The Company engages or participates in remedial and other environmental compliance activities at certain of these sites. At other sites, the Company has been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous waste. The Company s management reviews each individual site, considering the number of parties involved, the level of potential liability or contribution of the Company relative to the other parties, the nature and magnitude of the wastes involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site, and the time period over which any costs would likely be incurred. Based on the above analysis, management estimates the remediation or other 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.

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

Table of Contents

The Company is 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 the Company is 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 the Company s products or waste disposal. The Company believes these claims and proceedings are not out of the ordinary course for a business of the type and size in which it is engaged. While the Company is unable to predict the ultimate outcome of these claims and proceedings, management believes there is not a reasonable possibility that the costs and liabilities of such matters will have a material adverse effect on the Company s financial condition or results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s 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 the Company 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. The Company regularly reviews its 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.

The Company believes the following critical accounting policies are affected by significant judgments and estimates used in the preparation of its 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. The Company sells extended furniture protection plans for which revenue is deferred and recognized over the life of the contract. An actuarial study utilizing historical claims data is used to forecast claims payments over the contract period, and revenue is recognized 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.

The most important factors considered by the Company in reviewing its furniture protection plan business and estimating future claims expense are the number of claims submitted (frequency) and the dollar amount per claim (severity). Based on analyses of claim frequency and claim severity under the plan and estimates of future claims, the Company recorded a pre-tax charge of $24,500,000 in 2003. During 2004, following a comprehensive review of this business, the Company implemented a number of strategic initiatives and operational changes, including changes in the terms of the plans and changes in the Company s claims administration policies. Based on claim frequency and claim severity decreases, the Company reduced the accrual by $6,898,000 in 2004. In 2005, the Company also began to analyze when an open claim is inactive and unlikely to require any payment. As a result of a decrease in claim frequency from 2004 to 2005 and the analysis of open claims, the Company reduced the accrual by an additional $8,000,000 in 2005. In 2006 and 2007, the Company did not experience a significant change in the frequency or severity of claims for plans sold in 2003 or prior years. The majority of the plans related to 2003 and prior years will expire in 2008, and we do not expect any significant change to the frequency or severity of claims.

Supplier and Customer Rebates

The Company records supplier and customer rebates as a reduction of cost of goods sold or a reduction to revenue, respectively, as they are earned, in accordance with the underlying agreement. 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 historical experience plus current activity for the Company s purchases. 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.

Table of Contents

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.

Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), requires that goodwill for each reporting unit be reviewed for impairment at least annually. The Company has five reporting units at October 26, 2007 (see Note 14). The Company tests goodwill for impairment using the two-step process prescribed by SFAS 142. In the first step, the Company compares the fair value of each reporting unit, as computed primarily by present value cash flow calculations, to its book carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and the Company would then complete step 2 in order to measure the impairment loss. In step 2, the Company would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in step 1). If the implied fair value of goodwill is less than the carrying value of goodwill, the Company would recognize an impairment loss

equal to the difference.

Management also reviews other intangible assets with finite lives for impairment at least annually to determine if any adverse conditions exist that would indicate impairment. If the carrying value of the finite-lived intangible assets exceeds the undiscounted cash flows resulting from the use and disposition of the asset, the carrying value is written down to fair value in the period identified. Indefinite-lived intangible assets are reviewed at least annually for impairment by calculating the fair value of the assets and comparing with their carrying value. In assessing fair value, management generally utilizes present value cash flow calculations using a cash flow approach.

During the fourth quarters of 2007 and 2006, management completed its annual goodwill and intangible asset impairment reviews with no impairments to the carrying values identified.

The discount rate and sales growth assumptions are the two material assumptions utilized in the Company s calculations of the present value cash flows used to estimate the fair value of the reporting units when performing the annual goodwill impairment test and in testing indefinite-lived intangible assets for impairment. The Company utilizes a cash flow approach in estimating the fair value of the reporting units, where the discount rate reflects a weighted average cost of capital rate. The cash flow model used to derive fair value is most sensitive to the discount rate and sales growth assumptions used. The estimated fair value of the reporting units and indefinite-lived intangible assets have historically exceeded the carrying value of such reporting units or indefinite-lived intangible assets by a substantial amount. The Company performs a sensitivity analysis on the discount rate and revenue growth assumptions. Either the discount rate could increase by 20% of the discount rate utilized or the sales growth assumption could decline to a zero growth environment and the Company s reporting units and indefinite-lived intangible assets would continue to have fair value in excess of carrying value.

Pension and Post-Retirement Medical Obligations

The Company sponsors several defined benefit plans for certain hourly, salaried and foreign employees. The Company also sponsors post-retirement medical benefits for certain U.S. employees. The Company accounts for its defined benefit pension plans and post-retirement medical plans in accordance with GAAP, which requires the amount recognized in financial statements be determined on an actuarial basis. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical trend rates and discount rates. A change in these assumptions could cause actual results to differ from those reported. A reduction of 50 basis points in the long-term rate of return and a reduction of 50 basis points in the discount rate would have increased the Company s pension expense $2,341,000 in 2007. 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 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 contingent tax risks. In the normal course of business, our tax returns are subject to exam-

---

Table of Contents

ination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities for uncertain tax positions. We accrue a liability when we believe an assessment may be probable and the amount is estimable. In accordance with generally accepted accounting principles, the impact of revisions to these estimates is recorded as income tax expense or benefit in the period in which they become known. Accordingly, the accounting estimates used to compute the provision for income taxes have and will change as new events occur, as more experience is acquired, as additional information is obtained and our tax environment changes.

FORWARD-LOOKING STATEMENTS

This discussion contains certain forward-looking statements. These forward-looking statements are based on management s expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company that could cause actual results to differ materially from such statements. These uncertainties and other factors include, but are not limited to, dependence of internal earnings growth on economic conditions and growth in the domestic and international coatings industry; risks related to any future acquisitions, including risks of adverse changes in the results of acquired businesses and the assumption of unforeseen liabilities; risks of disruptions in business resulting from the integration process and higher interest costs resulting from further borrowing for any such acquisitions; our reliance on the efforts of vendors, government agencies, utilities and other third parties to achieve adequate compliance and avoid disruption of our business; risks of disruptions in business resulting from the Company s relationships with customers and suppliers; unusual weather conditions adversely affecting sales; changes in raw materials pricing and availability; delays in passing along cost increases to customers; changes in governmental regulation, including more stringent environmental, health and safety regulations; the nature, cost and outcome of pending and future litigation and other legal proceedings; the outbreak of war and other significant national and international events; and other risks and uncertainties. The foregoing list is not exhaustive, and the Company disclaims any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s foreign sales and results of operations are subject to the impact of foreign currency fluctuations. The Company has not hedged its exposure to translation gains and losses; however, it has reduced its exposure by borrowing funds in local currencies. A 10% adverse change in foreign currency rates would not have a material effect on the Company s results of operations or financial position.

The Company is also subject to interest rate risk. At October 26, 2007, approximately 51% of the Company s total debt consisted of floating rate debt. If interest rates were to increase 10% from the rates in effect on October 26, 2007, assuming no change in debt balances, the additional interest expense would not have a material effect on the Company s results of operations or financial position.

Table of Contents

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, 2007 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, 2007. 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, 2007. That report is included herein.

William L. Mansfield
Chairman, President and Chief Executive Officer

Paul C. Reyelts
Executive Vice President and Chief Financial Officer

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Shareholders
The Valspar Corporation

We have audited the accompanying consolidated balance sheets of The Valspar Corporation and subsidiaries as of October 26, 2007, and October 27, 2006 and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended October 26, 2007. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of the Company 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 from 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, 2007, and October 27, 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 26, 2007, 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, 2007, 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, 2007, expressed an unqualified opinion thereon.

As discussed in Note 9, Stock-Based Compensation, to the consolidated financial statements, effective October 29, 2005, the Company adopted Statement of Financial Accounting Standards No. 123R (revised 2004), *Share-Based Payment*, using the modified prospective method. Also, as discussed in Note 13, Pensions and other Postretirement Benefits, to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans as of October 26, 2007 to conform with the provisions of Statement of Financial Accounting Standards No. 158, *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans*.

Minneapolis, Minnesota
December 19, 2007

Table of Contents

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

The Board of Directors and Shareholders
The Valspar Corporation

We have audited The Valspar Corporation s internal control over financial reporting as of October 26, 2007, 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 company 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 company 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 maintained, in all material respects, effective internal control over financial reporting as of October 26, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of The Valspar Corporation and subsidiaries as of October 26, 2007, and October 27, 2006, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended October 26, 2007, of The Valspar Corporation and our report dated December 19, 2007, expressed an unqualified opinion thereon.

Minneapolis, Minnesota
December 19, 2007

Table of Contents

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

		October 26, 2007	October 27, 2006
Assets			
Current Assets	Cash and cash equivalents	**$ 84,948**	$ 88,238
	Accounts and notes receivable, less allowances for doubtful accounts (2007 - $10,598; 2006 - $13,145)	**537,890**	475,736
	Inventories	**291,688**	281,817
	Deferred income taxes	**25,597**	32,422

	Prepaid expenses and other current assets	**89,519**	90,104
	Total Current Assets	**1,029,642**	968,317
Goodwill		**1,298,951**	1,336,098
Intangibles, net		**590,649**	361,957
Other Assets		**15,156**	63,470
Long Term Deferred Income Taxes		**3,487**	2,088
Property, Plant and Equipment	Land	**37,488**	33,323
	Buildings	**319,148**	296,243
	Machinery and equipment	**646,278**	547,825
		1,002,914	877,391
	Less accumulated depreciation	**488,518**	417,786
	Net Property, Plant and Equipment	**514,396**	459,605
	Total Assets	**$ 3,452,281**	$ 3,191,535
Liabilities and Stockholders Equity			
Current Liabilities	Notes payable and commercial paper	**$ 267,493**	$ 139,136
	Trade accounts payable	**371,437**	368,159
	Income taxes	**19,316**	38,455
	Accrued liabilities	**270,873**	301,100
	Current portion of long-term debt	**100,028**	350,027
	Total Current Liabilities	**1,029,147**	1,196,877
Long-Term Debt, net of current portion		**648,988**	350,267
Deferred Income Taxes		**239,321**	199,816
Deferred Liabilities		**116,686**	185,789
	Total Liabilities	**2,034,142**	1,932,749
Mandatorily Redeemable Stock		**37,342**	18,723
Stockholders Equity	Common stock (par value $0.50 per share); shares authorized 250,000,000; shares issued, including shares in treasury: (2007 118,442,624; 2006 120,442,624)	**59,220**	60,220
	Additional paid-in capital	**312,343**	326,011
	Retained earnings	**1,108,051**	1,007,225
	Other	**81,871**	24,084
		1,561,485	1,417,540
	Less cost of common stock in treasury (2007 17,807,651 shares) (2006 18,538,360 shares)	**180,688**	177,477
	Total Stockholders Equity	**1,380,797**	1,240,063

Total Liabilities and Stockholders Equity	**$ 3,452,281**	$ 3,191,535

See Notes to Consolidated Financial Statements

24

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)

For the Year Ended	**October 26, 2007 (52 weeks)**	**October 27, 2006 (52 weeks)**	**October 28, 2005 (52 weeks)**
Net Sales	**$ 3,249,287**	$ 2,978,062	$ 2,713,950
Cost and Expenses			
Cost of Sales	**2,277,490**	2,072,157	1,928,352
Research and Development	**90,322**	82,608	79,286
Selling and Administrative	**565,959**	510,894	430,683
Amortization Expense	**5,943**	4,966	4,766
Income from Operations	**309,573**	307,437	270,863
Other Expense (Income), net	**(11,860)**	3,799	621
Interest Expense	**61,662**	46,206	44,522
Income before Income Taxes	**259,771**	257,432	225,720
Income Taxes	**87,656**	82,180	78,102
Net Income	**$ 172,115**	$ 175,252	$ 147,618
Mandatorily Redeemable Stock Accrual[1]	**(18,619)**		
Net Income Available to Common Shareholders	**$ 153,496**	$ 175,252	$ 147,618
Net Income Per Common Share Basic	**$ 1.52**	$ 1.73	$ 1.45
Net Income Per Common Share Diluted	**$ 1.50**	$ 1.71	$ 1.42

1 Mandatorily redeemable stock accrual reduced basic and diluted earnings per share by eighteen cents in 2007 as further described in Note 2.

See Notes to Consolidated Financial Statements

Table of Contents

STATEMENT OF CHANGES IN EQUITY
(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, October 29, 2004	$ 30,110	$ 269,599	$ 803,156	$ (102,442)	$ (60)	$ 1,000,363
Net Income			147,618			147,618
Foreign Currency Translation					9,898	9,898
Minimum Pension Liability Adjustment, net of tax of $888					(1,580)	(1,580)
Net Unrealized Gain on Financial Instruments, net of tax of $1,820					3,235	3,235
Comprehensive Income						$ 159,171
Restricted Stock Granted for 140,102 Shares		2,467		890		3,357
Common Stock Options Exercised of 1,450,503 Shares		17,092		3,681		20,773
Purchase of Shares of Common Stock for Treasury of 3,531,200 Shares				(82,116)		(82,116)
Cash Dividends on Common Stock - $0.40 per Share			(40,658)			(40,658)
Stock Split	30,110		(30,110)			
Other					202	202
Balance, October 28, 2005	$ 60,220	$ 289,158	$ 880,006	$ (179,987)	$ 11,695	$ 1,061,092
Net Income			175,252			175,252
Foreign Currency Translation					4,508	4,508
Minimum Pension Liability Adjustment, net of tax of $4,968					9,097	9,097
Net Unrealized Loss on Financial Instruments, net of					(1,242)	(1,242)

tax of $761						
Comprehensive Income						$ 187,615
Restricted Stock Granted for 201,900 Shares		3,425		1,829		5,254
Common Stock Options Exercised of 1,911,729 Shares		21,997		16,058		38,055
Purchase of Shares of Common Stock for Treasury of 585,000 Shares				(15,377)		(15,377)
Cash Dividends on Common Stock - $0.44 per Share			(44,655)			(44,655)
Stock Option Expense FAS 123R		11,273				11,273
Mandatorily Redeemable Stock Accrual			(3,378)			(3,378)
Other		158			26	184
Balance, October 27, 2006	$ 60,220	$ 326,011	$ 1,007,225	$ (177,477)	$ 24,084	$ 1,240,063
Net Income			172,115			172,115
Foreign Currency Translation					70,108	70,108
Minimum Pension Liability Adjustment, net of tax of $11,752					28,632	28,632
Net Unrealized Loss on Financial Instruments, net of tax of $136					(217)	(217)
Comprehensive Income						270,638
Cumulative effect of adopting SFAS 158, net of tax of $16,710					(40,711)	(40,711)
Restricted Stock Granted for 4,286 Shares		46		70		116
Common Stock Options Exercised of 1,348,896 Shares		16,393		12,540		28,933
Purchase of Shares of Common Stock for Treasury of 596,300 Shares				(15,821)		(15,821)
Retirement of Common Stock of 2,000,000 Shares	(1,000)	(55,019)				(56,019)
Cash Dividends on Common Stock - $0.52 per Share			(52,670)			(52,670)
		11,575				11,575

Stock Option Expense FAS 123R						
Mandatorily Redeemable Stock Accrual			(18,619)			(18,619)
Huarun Minority Interest Shares (LTIP See Note 2)		13,337				13,337
Other					(25)	(25)
Balance, October 26, 2007	$ 59,220	$ 312,343	$ 1,108,051	$ (180,688)	$ 81,871	$ 1,380,797

See Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

For the Year Ended		**October 26, 2007 (52 weeks)**	**October 27, 2006 (52 weeks)**	**October 28, 2005 (52 weeks)**
Operating Activities	Net Income	**$ 172,115**	$ 175,252	$ 147,618
	Adjustments to Reconcile Net Income to Net Cash Provided by (used in) Operating Activities:			
	Depreciation	**65,868**	63,750	63,629
	Amortization	**5,943**	4,966	4,766
	Deferred Income Taxes	**2,827**	1,798	3,928
	Loss on Sales or Abandonment of Property, Plant and Equipment	**444**	3,068	6,544
	Stock Option Expense	**11,575**	11,273	
	Changes in Certain Assets and Liabilities, Net of Effects of Acquired Businesses:			
	Decrease (Increase) in Accounts and Notes Receivable	**(16,475)**	12,172	(33,804)
	Decrease (Increase) in Inventories and Other Assets	**22,096**	(49,990)	(4,393)
	Increase (Decrease) in Trade Accounts Payable and Accrued Liabilities	**(63,445)**	94,380	23,820
	Increase (Decrease) in Income Taxes Payable	**(15,521)**	(18,290)	24,413
	Increase (Decrease) in Other Deferred Liabilities	**333**	(1,088)	1,105
	Other	**4,922**	(12,619)	(8,995)
		190,682	284,672	228,631

	Net Cash Provided by (Used in) Operating Activities			
Investing Activities	Purchases of Property, Plant and Equipment	**(76,940)**	(75,417)	(62,731)
	Acquired Businesses, (net of cash)	**(171,008)**	(290,386)	(78,691)
	Cash proceeds on Disposal of Assets	**1,712**	8,738	
	Net Cash Provided by (Used in) Investing Activities	**(246,236)**	(357,065)	(141,422)
Financing Activities	Net Proceeds from (Payments on) Borrowings	**160,576**	98,006	10,224
	Proceeds from Sales of Treasury Stock	**25,328**	32,685	21,545
	Purchase of Shares of Common Stock for Treasury	**(15,821)**	(15,377)	(82,116)
	Retirement of Common Stock	**(56,019)**		
	Excess Tax Benefit from Stock-Based Compensation	**2,086**	2,889	
	Deferred Liability-Excess Cash Huarun	**(19,734)**	34,370	
	Dividends Paid	**(52,670)**	(44,655)	(40,658)
	Net Cash Provided by (Used in) Financing Activities	**43,746**	107,918	(91,005)
	Effect of Exchange Rates on Cash and Cash Equivalents	**8,518**	(132)	2,498
	Increase (Decrease) in Cash and Cash Equivalents	**(3,290)**	35,393	(1,298)
Cash and Cash Equivalents at Beginning of Year		**88,238**	52,845	54,143
Cash and Cash Equivalents at End of Year		**$ 84,948**	$ 88,238	$ 52,845

See Notes to Consolidated Financial Statements

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Valspar Corporation Years Ended October 2007, 2006 and 2005
(Dollars in thousands, except per share amounts)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: The Valspar Corporation has a 4-4-5 week accounting cycle with the fiscal year ending on the Friday on or immediately preceding October 31. Fiscal years 2007, 2006 and 2005 each include 52 weeks.

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

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

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

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

Cash Equivalents: The Company considers all highly-liquid instruments purchased with an original maturity of less than three months to be cash equivalents.

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

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

Impairment of Long-Lived Tangible and Intangible Assets: The Company evaluates long-lived assets, including intangible assets with finite lives, in compliance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). An impairment loss is recognized whenever events or changes in circumstances indicate the carrying amount of an asset is not recoverable. In applying SFAS 144, assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of impairment. If the carrying amount of the asset exceeds expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the

carrying amount of the asset to its fair value, generally measured by discounting expected future cash flows.

Table of Contents

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

As required by SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), the Company continues to amortize intangibles with finite lives. Included in finite-lived intangible assets are patents and customer lists.

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

SFAS 142 requires that goodwill for each reporting unit be reviewed for impairment at least annually. The Company has five reporting units at October 26, 2007 (see Note 14). The Company tests goodwill for impairment using the two-step process prescribed by SFAS 142. In the first step, the Company compares the fair value of each reporting unit, as computed primarily by present value cash flow calculations, to its book carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and the Company would then complete step 2 in order to measure the impairment loss. In step 2, the Company would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in step 1). If the implied fair value of goodwill is less than the carrying value of goodwill, the Company would recognize an impairment loss equal to the difference.

Management reviews indefinite-lived intangible assets at least annually for impairment by calculating the fair value of the assets and comparing with their carrying value. In assessing fair value, management generally utilizes present value cash flow calculations using a cash flow approach. If the carrying value of the indefinite-lived intangible assets exceeds the fair value of the asset, the carrying value is written down to fair value in the period identified.

During the fourth quarters of 2007 and 2006, management completed its annual goodwill and intangible asset impairment reviews with no impairments to the carrying values identified.

Stock-Based Compensation: The Company s stock-based employee compensation plans are comprised primarily of fixed stock options, but also include restricted stock. Options generally have a contractual term of 10 years, vest ratably over three years or five years for employees and immediately upon grant for non-employee directors. Restricted shares vest after three or five years.

Effective October 29, 2005, the Company adopted SFAS No. 123R, *Share-Based Payment* (SFAS 123R), which requires the use of the fair value method for accounting for all stock-based compensation. Please see Note 9 for additional information.

Contingent Liabilities: The Company is involved in various claims relating to environmental and waste disposal matters at a number of current and former plant sites. The Company engages or participates in remedial and other environmental compliance activities at certain of these sites. At other sites, the Company has been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous

waste. The Company s management reviews each individual site, considering the number of parties involved, the level of potential liability or contribution of the Company relative to the other parties, the nature and magnitude of the wastes involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site, and the time period over which any costs would likely be incurred. Based on the above analysis, management estimates the remediation or other 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.

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

The Company is 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

---

Table of Contents

claims and proceedings include cases where the Company is 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 the Company s products or waste disposal. The Company believes these claims and proceedings are not out of the ordinary course for a business of the type and size in which it is engaged. While the Company is unable to predict the ultimate outcome of these claims and proceedings, management believes there is not a reasonable possibility that the costs and liabilities of such matters will have a material adverse effect on the Company s financial condition or results of operations.

Asset Retirement Obligations: The Financial Accounting Standards Board (FASB) issued SFAS Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), an interpretation of SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), in March 2005. FIN 47 states that a conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional upon a future event that may or may not be within control of the entity. FIN 47 is effective for fiscal years ending after December 31, 2005 and was adopted by the Company for its year ending October 27, 2006. The adoption of FIN 47 did not have a material impact on our results of operations for the years ending October 26, 2007 and October 27, 2006 and we do not expect this interpretation to have a material impact on the Company s future results of operations, financial position or liquidity.

Tax Assesssed by a Governmental Authority on Revenue-Producing Transactions: In June 2006, FASB ratified Emerging Issues Task Force (EITF) No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF 06-3). The scope of EITF 06-3 includes any tax assessed by a governmental authority that is imposed concurrent with a revenue-producing transaction between a seller and a customer. The Company shows these taxes net. That is, they are excluded from both revenue and cost of goods sold. This guidance is effective for the first interim reporting period beginning after December 15, 2006. The Company adopted this policy for the second quarter of fiscal year 2007 and there was no impact to the financial statements.

Advertising Costs: Advertising costs are expensed as incurred and totaled $101,010, $56,789 and $38,791 in 2007, 2006 and 2005, respectively.

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

Net Income Per Share: The following table reflects the components of common shares outstanding for the three most recent fiscal years in accordance with SFAS No. 128, *Earnings per Share* (SFAS 128):

	2007	2006	2005
Weighted-average common shares outstanding basic	**100,938,940**	101,152,608	101,900,764
Dilutive effect of stock options and unvested restricted stock	**1,678,238**	1,573,724	2,248,800
Equivalent average common shares outstanding diluted	**102,617,178**	102,726,332	104,149,564

Under the provisions of SFAS 128, basic earnings per share are based on the weighted average number of common shares outstanding during each year. In computing diluted earnings per share, the number of common shares outstanding is increased by common stock options with exercise prices lower than the average market prices of common shares during each year and reduced by the number of shares assumed to have been purchased with proceeds from the exercised options. Potential common shares of 1,151,502, 291,725 and 1,507,691 related to the Company s outstanding stock options were excluded from the computation of diluted earnings per share for 2007, 2006 and 2005, respectively, as inclusion of these shares would have been antidilutive.

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

Table of Contents

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

	Year ended October 26, 2007	Year ended October 27, 2006	Year ended October 28, 2005
Foreign currency translation	**$ 121,675**	$ 51,567	$ 47,059
Cumulative effect of adopting SFAS 158	**(40,711)**		
Minimum pension liability	**(1,226)**	(29,858)	(38,955)
Net unrealized gain (loss) on financial instruments	**2,133**	2,350	3,592
Other		25	(1)
Accumulated other comprehensive income (loss)	**$ 81,871**	$ 24,084	$ 11,695

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

Reclassification: Certain amounts in the prior years financial statements have been reclassified to conform to the 2007 presentation. Such reclassifications had no effect on net income or stockholders equity as previously reported.

NOTE 2 ACQUISITIONS AND DIVESTITURES

In August 2007, the Company acquired Teknos Nova Coil TNC Oy (TNC), a privately owned manufacturer of high-performance coil coatings based in Helsinki, Finland. TNC s revenues for calendar 2006 were approximately €31,000. This transaction was accounted for as a purchase. The net assets and operating results have been included in the Company s fiscal year 2007 financial statements from the date of acquisition. The purchase price allocation is preliminary. The pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

In January 2007, we acquired a majority of the voting shares of a coil coatings business in Brazil from Tekno S.A.

In December 2006, the Company acquired the powder coatings business of H.B. Fuller Company. H.B. Fuller s powder coatings business, which had net sales of approximately $75,000 in 2005, serves customers in 26 countries from manufacturing facilities in the United States and the United Kingdom. This transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company s financial statements from the date of acquisition. The pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

In July 2006, the Company acquired approximately 80% of the share capital of Huarun Paints Holdings Company Limited (Huarun Paints), one of China s largest independent coatings companies, from Champion Regal Limited, a Hong Kong based investment company, and certain other shareholders. Huarun Paints is one of China s leading domestic suppliers of wood and furniture coatings, and a rapidly growing supplier of architectural coatings. Huarun Paints sells its products primarily through an extensive network of distributors and retail paint stores throughout China. Huarun Paints revenue for fiscal year 2005 was approximately $180,000. The cash purchase price was approximately $290,386. Certain of the shares not purchased by the Company at the closing are subject to various put and call rights. The combination of put and call rights makes certain of the minority shares of Huarun Paints mandatorily redeemable, and therefore, subject to classification outside of shareholders equity in Mandatorily Redeemable Stock. The balance in Mandatorily Redeemable Stock was $37,342 at October 26, 2007 and $18,723 at October 27, 2006.

The Mandatorily Redeemable Stock will be accrued to redemption value at each balance sheet date. The accrual, as well as any dividends, is shown as an adjustment below net income to arrive at the net income available to common shareholders. The Company accrued $18,619 during 2007. This accrual reduced basic and diluted income available to common shareholders by 18 cents for 2007. The net income per share available to common shareholders was $1.50 for 2007. The accruals for the redemption value will be subsequently reversed to net income available to common shareholders and acquisition accounting applied upon exercise of the put or call option and acquisition of the underlying shares.

Certain other shares were awarded as part of a Long Term Incentive Plan (LTIP) by Huarun prior to the acquisition closing. The shares covered by the LTIP award were initially treated as liability awards under SFAS 123R. During 2007, the pre-acquisition share awards were reclassified to equity awards and were modified to make fair value the relevant re-purchase price as it was determined that the Company has no obligation to purchase the shares and if they do, the share awards will be based on fair market value.

The terms of the acquisition also require the Company to pay to Champion Regal and certain other shareholders an amount equal to the excess cash, as defined in the purchase agreement, held by Huarun as of the

Table of Contents

closing date. The liability shall be paid as soon as practical before the third anniversary of the closing date, including interest at 6%. The excess cash of $34,370 was recorded as a deferred liability under purchase accounting. In 2007, the Company paid $19,734 plus accrued interest to reduce this deferred liability.

The net assets and operating results have been included in the Company s financial statements from the date of acquisition. Goodwill has been allocated to the Paints (approximately 60%) and Coatings (approximately 40%) segments. The pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

In June 2005, the Company acquired Samuel Cabot Incorporated, a privately owned manufacturer of premium quality exterior and interior stains and finishes based in Newburyport, Massachusetts. Samuel Cabot s revenue for calendar year 2004 was approximately $58,000. This transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company s financial statements from the date of acquisition. The pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

NOTE 3 INVENTORIES

The major classes of inventories consist of the following:

	2007	2006
Manufactured products	**$ 172,431**	$ 172,561
Raw Materials, supplies and work-in-progress	**119,257**	109,256
	$ 291,688	$ 281,817

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate $146,983 at October 26, 2007 and $169,062 at October 27, 2006, approximately $55,757 and $58,140 lower, respectively, than such costs determined under the first-in, first-out (FIFO) method.

NOTE 4 SUPPLEMENTAL DISCLOSURES RELATED TO CURRENT LIABILITIES

Trade accounts payable include $39,239 and $36,733 of issued checks which had not cleared the Company s bank accounts as of October 26, 2007 and October 27, 2006, respectively.

Accrued liabilities include the following:

	2007	2006
Employee compensation	**$ 75,633**	$ 102,130
Uninsured loss reserves and deferred revenue	**68,144**	69,790
Customer volume rebates and incentives	**48,783**	54,658
Contribution to employees retirement trusts	**9,659**	15,804
Interest	**16,480**	16,274
Taxes, insurance, professional fees and services	**23,772**	14,723
Advertising and promotions	**10,680**	9,030

Other	**17,722**	18,691
	$ 270,873	$ 301,100

NOTE 5 DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2007	2006
Notes to Banks (4.783% - 7.217% at October 26, 2007)	**$ 136,474**	$ 87,725
Senior Notes (5.10% - 7.75% at October 26, 2007 payable in 2008, 2012, 2015 and 2017)	**600,000**	600,000
Industrial development bonds (3.38% - 3.43% at October 26, 2007 payable in 2014 and 2015)	**12,502**	12,502
Obligations under capital lease (5.30% at October 26, 2007)	**40**	67
	749,016	700,294
Less Current maturities	**(100,028)**	(350,027)
	$ 648,988	$ 350,267

On April 17, 2007, the company issued $200,000 of unsecured, senior notes that mature on May 1, 2012 with a coupon rate of 5.625%, and $150,000 of unsecured, senior notes that mature on May 1, 2017 with a coupon rate of 6.05%. These public offerings were made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission. The net proceeds of $347,200 were used to repay $350,000 in senior notes that matured on May 1, 2007.

The fair market value of all of the senior notes as of October 26, 2007 and October 27, 2006, was $589,093 and $594,095, respectively.

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

	Maturities
2008	$ 100,028
2009	12
2010	136,474
2011	
2012	200,000
Thereafter	312,502

Table of Contents

At October 26, 2007, the Company had a five-year $600,000 unsecured committed revolving multi-currency credit facility with a syndicate of banks maturing on October 25, 2010. Under this facility, the Company can borrow at

optional interest rates of prime or LIBOR-based rates. The Company had notes to banks totaling $136,474 at October 26, 2007 and $87,725 at October 27, 2006. This credit facility is also a backstop to the Company s $350,000 U.S. Commercial Paper program established during 2006; $253,173 and $131,539 was outstanding as of October 26, 2007 and October 27, 2006, respectively. The weighted average interest rate on the commercial paper borrowings was 5.23% for 2007 and 5.35% for 2006.

The revolving credit facility contains covenants that require the Company to maintain certain financial ratios. The Company was in compliance with these covenants as of October 26, 2007.

Under other short-term bank lines of credit around the world, the Company may borrow up to $190,190 on such terms as the Company and the banks may mutually agree. Borrowings under these facilities totaled $14,320 and $7,597 at October 26, 2007 and October 27, 2006, respectively. These arrangements are reviewed periodically for renewal and modification. Borrowings under these debt arrangements had an average annual rate of 6.16% in 2007 and 5.06% in 2006.

To ensure availability of funds, the Company maintains bank credit lines sufficient to cover outstanding short-term borrowings. The Company s available liquidity under the short-term bank lines and revolving credit facilities was $790,190 with outstanding borrowings of $403,967 at October 26, 2007. The company had unused lines of credit under the short-term bank lines and revolving credit facilities of $386,223 at October 26, 2007 and $781,230 at October 27, 2006.

During November 2007, the Company entered into a 364 day, $150,000 unsecured committed revolving credit facility with a syndicate of banks maturing November 25, 2008, subject to an option to extend for an additional year in some circumstances. Under this facility, the Company can borrow at optional interest rates of prime or LIBOR-based rates.

As discussed in Note 6, the Company has entered into an interest-rate swap arrangement to modify the interest characteristics of a senior note so that the interest associated with this debt instrument effectively becomes variable.

Interest paid during 2007, 2006 and 2005 was $61,582, $45,100 and $42,229, respectively.

NOTE 6 FINANCIAL INSTRUMENTS

The Company s involvement with derivative financial instruments is limited principally to managing well-defined interest rate and foreign currency exchange risks.

The company enters into derivative financial instruments with high-credit quality counterparties and diversifies its positions among such counterparties to reduce its exposure to credit losses.

At October 26, 2007, the Company had a $100,000 notional amount interest rate swap contract designated as a fair value hedge under SFAS No. 133, *Accounting for Derivatives* (SFAS 133), to pay floating rates of interest based on LIBOR and to receive a fixed interest rate. The interest rate swap contract is reflected at fair value in the condensed consolidated balance sheet. Amounts to be received or paid under the contract have been recognized in interest expense over the life of the contract. As the critical terms of the interest rate swap and hedged debt match, there is an assumption of no ineffectiveness for these hedges. This contract matured on December 1, 2007.

At October 26, 2007, the Company has $10,500 notional amount of forward foreign currency exchange contracts maturing during fiscal year 2008. These forward foreign exchange contracts have been designated as hedges under FAS 133 with unrealized gains or losses recorded in accumulated other comprehensive income. Unrealized gains and losses will be recognized in Other Expense (Income) when they occur. There was no ineffectiveness for these hedges.

During 2007, the company entered into $200,000 notional amount of treasury locks to hedge, or lock-in, interest rates on anticipated long-term debt the company planned to issue during fiscal year 2007. This is in addition to the $100,000 notional amount of treasury locks to hedge, or lock-in, interest rates the company had outstanding as of October 27, 2006. We had designated the treasury locks entered into as cash flow hedges under FAS 133 and recorded unrealized gains and losses in accumulated other comprehensive income. During April 2007, the company issued $350,000 of senior notes. At that time, the $300,000 treasury locks were terminated, yielding a deferred pre-tax gain of approximately $4,566. This gain was recorded in accumulated other comprehensive income in our consolidated balance sheet and is being recognized in our statements of income as a decrease to interest expense over the five and ten-year term of the related debt, respectively.

33

Table of Contents

NOTE 7 GUARANTEES AND CONTRACTUAL OBLIGATIONS

The Company accounts for guarantees under FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). The interpretation requires disclosure in periodic financial statements of certain guarantee arrangements. The interpretation also clarifies situations where a guarantor is required to recognize the fair value of certain guarantees in the financial statements. The Company does not have any guarantees that require recognition at fair value under the interpretation.

The Company sells extended furniture protection plans and offers warranties for certain of its products. Revenue related to furniture protection plans is deferred and recognized over the contract life. Historical claims data is used to forecast claims payments over the contract period and revenue is recognized based on the forecasted claims payments. Actual claims costs are reflected in earnings in the period incurred. Anticipated losses on programs in progress are charged to earnings when identified. For product warranties, the Company estimates the costs that may be incurred under these warranties based on historical claims data and records a liability in the amount of such costs at the time revenue is recognized. The Company periodically assesses the adequacy of these recorded amounts and adjusts as necessary.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are estimable. Extended furniture protection plans entered into by the Company have fixed prices. To the extent the actual costs to complete contracts are higher than the amounts estimated as of the date of the financial statements, gross margin would be negatively affected in future quarters when the Company revises its estimates. The Company s practice is to revise estimates as such changes in estimates become known.

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

Balance, October 29, 2004	$ 88,376
Change in accrual from previous fiscal year	(8,000)
Additional net deferred revenue/accrual made during the period	37,001
Payments made during the period	(21,690)
Balance, October 28, 2005	$ 95,687
Change in accrual from previous fiscal year	(2,342)
Additional net deferred revenue/accrual made during the period	15,359
Payments made during the period	(21,417)

Balance, October 27, 2006	$ 87,287
Change in accrual from previous fiscal year	(1,280)
Additional net deferred revenue/accrual made during the period	16,118
Payments made during the period	(16,983)
Balance, October 26, 2007	**$ 85,142**

NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the fiscal years ended October 27, 2006 and October 26, 2007 are as follows:

	Paints	**Coatings**	**Other**	**Total**
Balance, October 28, 2005	$ 144,583	$ 898,528	$ 21,820	$ 1,064,931
Goodwill acquired (disposed/adjusted)	150,992	120,043		271,035
Currency translation gain (loss)	1,137	(1,683)	678	132
Balance, October 27, 2006	$ 296,712	$ 1,016,888	$ 22,498	$ 1,336,098
Goodwill acquired (disposed/adjusted)	(85,218)	15,377		(69,841)
Currency translation gain (loss)	10,642	19,643	2,409	32,694
Balance, October 26, 2007	**$ 222,136**	**$ 1,051,908**	**$ 24,907**	**$ 1,298,951**

Table of Contents

Information regarding the Company s other intangible assets is as follows:

	Estimated Useful Life	**Carrying Amount**	**Accumulated Amortization**	**Net**
Balance, October 27, 2006				
Customer Lists	40 years	$ 165,764	$ (23,837)	$ 141,927
Technology	Indefinite	139,310		139,310
Trademarks	Indefinite	74,958		74,958
Other	10 years	13,792	(8,030)	5,762
		$ 393,824	$ (31,867)	$ 361,957
Balance, October 26, 2007				

Customer Lists	40 years	$ 267,211	$ (28,373)	$ 238,838
Technology	Indefinite	190,812		190,812
Trademarks	Indefinite	158,925		158,925
Other	10 years	11,511	(9,437)	2,074
		$ 628,459	**$ (37,810)**	**$ 590,649**

The balance as of October 26, 2007 reflects the final purchase price allocation related to the acquisition of H.B. Fuller s powder coatings business ($51,105 was reclassified from goodwill to other intangible assets) and Huarun Paints ($177,100 was reclassified from goodwill to other intangible assets, and $8,900 was reclassified from goodwill to property, plant and equipment). The balance as of October 27, 2006 also reflects the final purchase price allocation related to the Cabot acquisition ($48,524 was reclassified from goodwill to other intangible assets).

Amortization lives are based on management s estimates. Amortization lives for intangible assets range from 10 to 40 years. The remaining life averages for assets included in the Customer List and Other categories are 36 years and 4 years, respectively.

Total amortization expense was $5,943, $4,966 and $4,766 in 2007, 2006 and 2005, respectively. Estimated amortization expense for each of the five succeeding fiscal years based on intangibles assets as of October 26, 2007 is approximately $8,000 annually.

NOTE 9 STOCK-BASED COMPENSATION

The Company s stock-based employee compensation plans are comprised primarily of fixed stock options, but also include restricted stock. Under the Company s Stock Option Plans, options for the purchase of 26,000,000 shares of common stock may be granted to officers, employees and non-employee directors. Options generally have a contractual term of 10 years, vest ratably over three years or five years for employees and vest immediately upon grant for non-employee directors. Restricted shares vest after three or five years.

Stock Options: Prior to fiscal year 2006, the Company accounted for stock-based compensation programs using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related Interpretations and applied SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148), for disclosure purposes only. The SFAS 123 disclosures include pro forma net income and earnings per share as if the fair value-based method of accounting had been used. Under the provisions of APB 25, no stock-based employee compensation cost is reflected in net income for stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying stock on the date of grant.

Effective October 29, 2005, the Company adopted SFAS 123R, which requires the use of the fair value method for accounting for all stock-based compensation. The statement was adopted using the modified prospective method of application, and the Company has elected to recognize the fair value of the awards ratably over the vesting period. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized for the remaining vesting periods of awards that had been included in pro-forma expense in prior periods. Total stock-based compensation expense included in our Consolidated Statements of Income in fiscal 2007 and 2006 was $11,575 ($7,324 net of tax) and $11,273 ($6,989 net of tax), respectively.

As of October 26, 2007, there was $11,856 of total unrecognized before-tax compensation cost related to non-vested awards that is expected to be recognized over a weighted-average period of 2.1 years.

Employees who retire from the company after age 60 and officers who retire after age 55 generally become

fully vested in their stock options. Under SFAS 123 accounting, pro-forma compensation cost for stock options was calculated on a straight-line basis over the stated vesting period. Under SFAS 123R, compensation cost for awards granted after the adoption date is recognized over the period to the earlier of the retirement eligibility date or the stated vesting date (the non-substantive vesting period approach). If this approach had been used under SFAS 123, the before-tax compensation cost for fiscal 2007, 2006 and 2005 would have been $9,800, $7,900 and $8,300, respectively.

Stock option activity for the three years ended October 26, 2007 is summarized as follows:

	Shares Reserved	Options Outstanding	Weighted Average Exercise Price per share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($ Thousands)
Balance, October 29, 2004	2,873,674	12,309,320	$ 18.47	6.7 years	$ 55,290
Shares Reserved	500,000				
Granted	(1,912,470)	1,912,470	21.86		
Exercised		(1,450,503)	14.85		13,566
Canceled	180,468	(180,468)	22.33		
Balance, October 28, 2005	1,641,672	12,590,819	$ 19.34	6.4 years	$ 38,107
Shares Reserved	5,000,000				
Granted	(1,480,142)	1,480,142	27.01		
Exercised		(1,911,729)	17.10		17,528
Canceled	113,725	(113,725)	22.18		
Balance, October 27, 2006	5,275,255	12,045,507	$ 20.50	6.2 years	$ 74,535
Granted	(1,396,250)	1,396,250	25.56		
Exercised		(1,348,896)	18.78		12,921
Canceled	219,057	(219,057)	25.09		
Balance, October 26, 2007	**4,098,062**	**11,873,804**	**$ 21.21**	**5.9 years**	**$ 44,605**
Exercisable		9,145,993	19.99	4.9 years	43,119

Options exercisable of 9,113,190 at October 27, 2006 and 9,413,690 at October 28, 2005 had weighted average exercise prices of $19.23 and $18.11, respectively. The exercise price for options outstanding as of October 26, 2007 range from $11.82 to $28.58, with 2,962,784 shares outstanding in the $11.82 - $16.80 range, 2,942,920 shares outstanding in the $17.34 - $21.57 range and 3,240,289 shares outstanding in the $22.10 - $28.58 range.

The total intrinsic value at October 26, 2007 is based on the Company s closing stock price on the last trading day of the year for in-the-money options. The strike prices of the options granted during these periods are equal to the market price of the underlying stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following table sets forth the weighted average fair values and assumptions on which the fair values are determined:

	2007	2006	2005
Expected dividend yield	**2.0%**	1.6%	1.8%
Expected stock price volatility	**21.6%**	23.4%	23.3%
Risk-free interest rate	**4.3%**	4.8%	4.3%
Expected life of options	**6 years**	6 years	6 years
Weighted average fair value on the date of grant	**$ 5.95**	$ 7.34	$ 5.56

The following table illustrates the effect on net income and earnings per share for the year ended October 28, 2005 if the Company had applied the fair-value recognition of SFAS 123:

	2005
Net income, as reported	$ 147,618
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	5,935
Pro forma net income	$ 141,683
Net Income per common share:	
Basic as reported	1.45
Basic pro forma	1.39
Diluted as reported	1.42
Diluted pro forma	1.38

Key Employee Bonus Plan: The Company has a Key Employee Bonus Plan for certain employees. Under the Plan, participants receive grants of restricted stock with the size of the grant determined according to satisfaction of performance goals. The restricted stock vests three years from the date of grant.

Stock Incentive Plan: The Company has a Stock Incentive Plan for certain employees. The Plan is used to award restricted shares on a discretionary basis for outstanding performance so that the Company can maintain a competitive position to attract and retain personnel necessary for continued growth and profitability.

Table of Contents

The following table sets forth a reconciliation of restricted shares from the Key Employee Bonus Plan and the Stock Incentive Plan for the years ended October 26, 2007 and October 27, 2006:

	Shares Reserved	Shares Outstanding	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Balance, October 28, 2005	2,488,788	341,466	$ 23.40	$ 7,444
Granted	(201,900)	201,900	26.02	5,253
Forfeited				
Vested		(168,769)	22.68	4,195
Balance, October 27, 2006	2,286,888	374,597	$ 25.14	$ 9,979
Granted	(28,566)	28,566	26.30	751

Forfeited	24,280	(24,280)	26.20	(636)
Vested		(83,301)	24.57	2,389
Balance, October 26, 2007	**2,282,602**	**295,582**	**$ 25.32**	**$ 7,262**

Employee Stock Ownership Plans: Under the Company s Employee Stock Ownership Plans, substantially all of the Company s domestic employees are eligible to participate and may contribute up to 20% of their eligible compensation (up to 8% for highly compensated employees) subject to Section 401 and 415 limits. The Company matches one-half of employee contributions up to 3% of employees compensation. Based on the financial performance of the Company, there may be an additional 50% match up to 3%. The Company s contributions were $6,109, $5,500 and $5,406 for 2007, 2006 and 2005, respectively.

Executive Retirement Plans: The Company has a limited number of Supplemental Executive Retirement Plans (SERP s) to provide designated executives with retirement, death and disability benefits. Annual benefits under the SERP s are based on years of service and individual compensation near retirement.

NOTE 10 INCOME TAXES

Income before income taxes consisted of the following:

Year Ended	**2007**	**2006**	**2005**
Domestic	**$ 190,598**	$ 195,324	$ 167,401
Foreign	**69,173**	62,108	58,319
	$ 259,771	$ 257,432	$ 225,720

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

Year Ended	**2007**	**2006**	**2005**
Current			
Federal	**$ 61,183**	$ 55,076	$ 40,641
State	**5,732**	4,605	5,077
Foreign	**15,695**	20,701	26,250
Total Current	**82,610**	80,382	71,968
Deferred			
Federal	**232**	2,498	9,779
State	**(6)**	(137)	1,092
Foreign	**4,820**	(563)	(4,737)
Total Deferred	**5,046**	1,798	6,134
Total Income Taxes	**$ 87,656**	$ 82,180	$ 78,102

Table of Contents

Significant components of the Company s deferred tax assets and liabilities are as follows:

	2007	2006	2005
Deferred tax assets:			
Product liability accruals	**$ 4,476**	$ 4,547	$ 5,904
Insurance accruals	**3,387**	4,214	4,233
Deferred compensation	**17,418**	13,689	11,182
Deferred revenue	**10,451**	12,598	11,041
Workers compensation accruals	**1,508**	1,578	1,504
Employee compensation accruals	**6,634**	6,381	5,947
Pension	**3,775**	646	6,672
Other	**27,003**	22,287	27,024
Total deferred tax assets	**74,652**	65,940	73,507
Deferred tax liabilities:			
Tax in excess of book depreciation	**(34,263)**	(37,006)	(40,791)
Amortization	**(232,100)**	(178,889)	(158,515)
Other	**(20,775)**	(16,545)	(18,337)
Total deferred tax liabilities	**(287,138)**	(232,440)	(217,643)
Net deferred tax liabilities	**$ (212,486)**	$ (166,500)	$ (144,136)

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

	2007	2006	2005
Tax at U.S. statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**1.5%**	1.1%	1.4%
Non-U.S. taxes	**(1.7%)**	(1.4%)	0.6%
Other	**(1.1%)**	(2.8%)	(2.4%)
	33.7%	31.9%	34.6%

No provision has been made for U.S. federal income taxes on certain undistributed earnings of foreign subsidiaries that the Company intends to permanently invest or that may be remitted substantially tax-free. The total of undistributed earnings that would be subject to federal income tax if remitted under existing law is approximately $180,131 at October 26, 2007. Determination of the unrecognized deferred tax liability related to these earnings is not practicable because of the complexities with its hypothetical calculation. Upon distribution of these earnings, the Company will be subject to U.S. taxes and withholding taxes payable to various foreign governments. A credit for foreign taxes already paid would be available to reduce the U.S. tax liability.

The Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) in June 2006. This statement clarifies the accounting for uncertainty in income taxes

recognized in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be adopted by the Company in the first quarter of fiscal year 2008. The Company is currently assessing the impact on retained earnings and expects the adoption to reduce retained earnings by less than $20,000.

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 contingent tax risks. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities for uncertain tax positions. We accrue a liability when we believe an assessment may be probable and the amount is estimable. In accordance with generally accepted accounting principles, the impact of revisions to these estimates is recorded as income tax expense or benefit in the period in which they become known. Accordingly, the accounting estimates used to compute the provision for income taxes have and will change as new events occur, as more experience is acquired, as additional information is obtained and our tax environment changes.

Income taxes paid during 2007, 2006 and 2005 were $105,084, $94,270, and $50,555, respectively.

Table of Contents

NOTE 11 LEASING ARRANGEMENTS

The Company has operating lease commitments outstanding at October 26, 2007, for plant and warehouse equipment, office and warehouse space and automobiles. The leases have initial periods ranging from one to ten years, with minimum future rental payments as follows:

	Minimum Lease Payments
2008	$ 14,755
2009	11,980
2010	8,273
2011	4,938
2012	2,848
2013 and beyond	1,636
	$ 44,430

Rent expense for operating leases was $22,597 in 2007, $20,766 in 2006 and $19,134 in 2005.

NOTE 12 LITIGATION

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

NOTE 13 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Profit Sharing Plan: The Company sponsors a Profit Sharing Plan for substantially all of its U.S. employees. Under the Plan, the Company makes a contribution based on earnings growth as defined in the Plan up to a maximum of 10% of the aggregate compensation of eligible participants. Contributions to the Profit Sharing Plan totaled $15,381, $18,798 and $18,168, for 2007, 2006 and 2005, respectively.

Pension Plans: The Company also sponsors several defined benefit pension plans for certain hourly, salaried and non-U.S. employees. The benefits for most of these plans are generally based on stated amounts for each year of service. The Company funds the plans in amounts consistent with the limits of allowable tax deductions. During fiscal year 2007, the Company made discretionary contributions of approximately $3,598 to its pension plans. For the fiscal year ending October 31, 2008, the Company expects its total contributions to its funded pension plans, unfunded pension, non-qualified plans and post-retirement medical plans to be between $2,800 and $13,700. The measurement date for both the U.S. and non-U.S. plans is July 31.

Incremental Effect of Adopting SFAS 158:

FASB issued SFAS No. 158 *Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158) in September 2006. SFAS 158 requires companies to fully recognize the funded status of each pension and other post-retirement benefit plan as a liability or asset on their balance sheets with all unrecognized amounts to be recorded in other comprehensive income. The following table shows the impact on the consolidated balance sheet of the adoption, which became effective for fiscal years ending after December 15, 2006. Valspar adopted SFAS 158 for the year ending October 26, 2007.

	At October 26, 2007		
	Prior to Adopting SFAS 158	**Effect of Adopting SFAS 158**	**As Reported at October 26, 2007**
Assets			
Current assets	$	$	$
Non-current assets	53,001	(51,413)	1,588
Intangible assets	280	(280)	
Deferred tax asset	611	23,968	24,579
Total assets	53,892	(27,725)	26,167
Liabilities and Stockholders Equity			

Current liabilities		1,298	1,298
Non-current liabilities	25,495	11,689	37,184
Accumulated other comprehensive loss	(1,837)	(64,679)	(66,516)
Accumulated other comprehensive loss, net of tax	(1,226)	(40,711)	(41,937)

39

Table of Contents

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

	Pension		
Net Periodic Benefit Cost	**2007**	**2006**	**2005**
Service cost	**$ 3,593**	$ 3,927	$ 2,886
Interest cost	**12,697**	11,603	11,141
Expected return on plan assets	**(14,969)**	(13,897)	(12,855)
Amortization of transition asset obligation	**(125)**	(122)	(122)
Amortization of prior service cost	**673**	685	795
Recognized actuarial loss	**3,511**	4,452	3,443
Net periodic benefit cost	**$ 5,380**	$ 6,648	$ 5,288

	Post-Retirement Medical		
Net Periodic Benefit Cost	**2007**	**2006**	**2005**
Service cost	**$ 819**	$ 807	$ 655
Interest cost	**715**	719	740
Expected return on plan assets	**N/A**	N/A	N/A
Amortization of transition asset			
Amortization of prior service cost	**(128)**	(128)	(79)
Recognized actuarial loss	**253**	366	341
Net periodic benefit cost	**$ 1,659**	$ 1,764	$ 1,657

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

	Pension		Post-Retirement Medical	
Change in Benefit Obligation	**2007**	**2006**	**2007**	**2006**
Benefit obligation beginning of year	**$ 213,648**	$ 222,688	**$ 11,773**	$ 12,690

	Pension 2007	Pension 2006	Post-Retirement Medical 2007	Post-Retirement Medical 2006
Service cost	**3,593**	3,927	**819**	807
Interest cost	**12,697**	11,603	**715**	719
Plan participants contributions	**446**	395		
Plan amendments	**1,168**	(328)	**526**	
Actuarial loss (gain)	**(3,150)**	(17,937)	**2,336**	(1,269)
Benefits paid	**(10,698)**	(9,654)	**(897)**	(1,174)
Currency impact	**5,936**	2,954		
Plans included for the first time in 2007	**2,404**	N/A	**N/A**	N/A
Benefit obligation at end of year	**$ 226,044**	$ 213,648	**$ 15,272**	$ 11,773

	Pension		Post-Retirement Medical	
Change in Plan Assets	**2007**	**2006**	**2007**	**2006**
Fair value of plan assets at beginning of year	**$ 185,629**	$ 174,138	**$**	$
Actual return on plan assets	**21,211**	6,840		
Employer contributions	**3,598**	11,930	**897**	1,174
Plan participants contributions	**446**	395		
Benefit payments	**(10,698)**	(9,654)	**(897)**	(1,174)
Currency impact	**3,935**	1,980		
Fair value of assets at end of year	**$ 204,121**	$ 185,629	**$**	$

	Pension		Post-Retirement Medical	
Funded Status	**2007**	**2006**	**2007**	**2006**
Projected benefit obligation	**$ (226,044)**	$ (213,648)	**$ (15,272)**	$ (11,773)
Plan assets at fair value	**204,121**	185,629		
Company contributions after measurement date	**301**	271		
Net funded status over (under)	**$ (21,622)**	$ (27,748)	**$ (15,272)**	$ (11,773)
Funded status overfunded plans	**$ 1,588**	$	**$**	$
Funded status underfunded plans	**(23,210)**	(27,748)	**(15,272)**	(11,773)

Table of Contents

	Pension		Post-Retirement Medical	
Net amounts recognized in consolidated balance sheet consist of:	**2007**	**2006**	**2007**	**2006**
Prepaid benefit cost	**$ 1,588**	$ 53,380	**$**	$

Liability for pension benefits/additional minimum liability	**(23,210)**	(63,631)	**(15,272)**	(8,711)
Intangible asset	**N/A**	4,960	**N/A**	N/A
Accumulated other comprehensive loss	**60,717**	49,479	**5,799**	N/A
Net amount recognized in consolidated balance sheet	**$ 39,095**	$ 44,188	**$ (9,473)**	$ (8,711)

	Pension		Post-Retirement Medical	
Net Pension (Liability)/Asset consists of:	**2007**	**2006**	**2007**	**2006**
Noncurrent assets	**$ 1,588**	$ 53,380	**$**	$
Current liabilities	**(428)**	N/A	**(870)**	N/A
Noncurrent liabilities	**(22,782)**	(63,631)	**(14,402)**	(8,711)

	Pension		Post-Retirement Medical	
Amortization Expense Expected to be Recognized During Next Fiscal Year	**2007**	**2006**	**2007**	**2006**
Prior service cost (credits)	**$ 735**	$ 673	**$ (82)**	$ (128)
Net loss	**3,053**	3,511	**388**	253
Transition obligation (asset)	**(34)**	(125)		

The Company s pension and post-retirement medical plans with accumulated benefit obligations in excess of Plan Assets were as follows:

	Pension		Post-Retirement Medical	
	2007	**2006**	**2007**	**2006**
Projected /accumulated post-retirement benefit obligation	**$ 22,650**	$ 177,786	**$ 15,272**	$ 11,773
Accumulated benefit obligation	**20,044**	168,565	**N/A**	N/A
Fair value of plan assets	**7,981**	155,195		

The Company s pension plans with projected benefit obligations in excess of Plan Assets were as follows:

	Pension		Post-Retirement Medical	
	2007	**2006**	**2007**	**2006**
Projected benefit obligation	**$ 182,397**	$ 213,648	**N/A**	N/A
Accumulated benefit obligation	**163,683**	197,702	**N/A**	N/A
Fair value of plan assets	**158,886**	185,629	**N/A**	N/A

The Company s pension plans with projected benefit obligations less than Plan Assets were as follows:

	Pension		Post-Retirement Medical	

	2007	2006	2007	2006
Projected benefit obligation	**$ 43,647**	$	**N/A**	N/A
Accumulated benefit obligation	**43,647**		**N/A**	N/A
Fair value of plan assets	**45,235**		**N/A**	N/A

Table of Contents

Actuarial Assumptions: The Company determines its actuarial assumptions on an annual basis. These assumptions are weighted to reflect each country that may have an impact on the cost of providing retirement benefits.

	Pension		Post-Retirement Medical	
Assumption ranges used in net periodic benefit cost	**2007**	**2006**	**2007**	**2006**
Discount rate	**4.50% - 6.25%**	4.25% - 5.50%	**6.25%**	5.50%
Expected long-term return on plan assets	**5.25% - 8.50%**	5.50% - 8.50%	**N/A**	N/A
Average increase in compensation	**2.25% - 4.00%**	2.25% - 4.00%	**N/A**	N/A
Initial medical trend rate	**N/A**	N/A	**7.00%**	8.00%
Ultimate medical trend rate	**N/A**	N/A	**5.00%**	5.00%
Years to ultimate rate	**N/A**	N/A	**3 Years**	4 Years

	Pension		Post-Retirement Medical	
Assumption ranges used to determine benefit obligation:	**2007**	**2006**	**2007**	**2006**
Discount rate	**5.25% - 6.50%**	4.75% - 6.25%	**6.25%**	6.25%
Rate of compensation increase	**2.25% - 4.25%**	2.25% - 4.00%	**N/A**	N/A
Initial medical trend rate	**N/A**	N/A	**9.00%**	7.00%
Ultimate medical trend rate	**N/A**	N/A	**5.00%**	5.00%
Years to ultimate rate	**N/A**	N/A	**5 Years**	3 Years

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

long-term rate of return assumption.

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

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

	Pension Plans		
Asset Allocation	**2007**	**2006**	**Target Allocation**
Equity securities	**60%**	56%	50 - 60%
Debt securities	**36%**	36%	40 - 50%
Other	**4%**	8%	0%
Total	**100%**	100%	100%

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

	Pension	**Post-retirement Medical**
2008	$ 10,692	$ 878
2009	11,025	1,023
2010	11,434	1,225
2011	12,043	1,395
2012	12,247	1,511
2013 - 2017	69,603	9,671
	$ 127,044	$ 15,703

NOTE 14 SEGMENT INFORMATION

In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), and based on the nature of the Company s products, technology, manufacturing processes, customers and regulatory environment, the Company aggregates its operating segments into two reportable segments: Coatings and Paints.

SFAS 131 requires an enterprise to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. The Company evaluates the performance of operating

Table of Contents

segments and allocates resources based on profit or loss from operations before interest expense and taxes (EBIT).

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

The Paints segment aggregates the Company s architectural and automotive product lines. Architectural products include interior and exterior decorative paints, primers, varnishes, high performance floor paints and specialty decorative products, such as enamels, aerosols and faux varnishes for the do-it-yourself and professional markets in North America. Other Paints products include automotive refinish paints.

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

In the following table, sales between segments are recorded at selling prices that are below market prices, generally intended to recover internal costs. Segment EBIT includes income realized on inter-segment sales. Identifiable assets are those directly identified with each reportable segment. Corporate assets included within All Other include cash and cash equivalents, deferred pension assets, intangibles and the headquarters property, plant and equipment. The accounting policies of the reportable segments are the same as those described in Note 1 Significant Accounting Policies. Comparative segment data for the years ended 2007, 2006 and 2005 are as follows:

	2007	**2006**	**2005**
Net Sales:			
Paints	**$ 1,088,819**	$ 985,698	$ 869,347
Coatings	**1,851,687**	1,683,482	1,573,067
All Other	**421,382**	428,192	388,518
Less Intersegment sales	**(112,601)**	(119,310)	(116,982)
	$ 3,249,287	$ 2,978,062	$ 2,713,950
EBIT:			
Paints	**$ 105,947**	$ 107,129	$ 89,293
Coatings	**198,073**	202,432	177,470
All Other	**17,413**	(5,923)	3,479
Total EBIT	**$ 321,433**	$ 303,638	$ 270,242
Interest Expense	**$ 61,662**	$ 46,206	$ 44,522
Income before Income Taxes	**$ 259,771**	$ 257,432	$ 225,720
Depreciation and Amortization:			
Paints	**$ 15,660**	$ 12,742	$ 10,443
Coatings	**39,427**	38,909	41,222
All Other	**16,724**	17,065	16,730

	$ 71,811	$ 68,716	$ 68,395
Identifiable Assets:			
Paints	**$ 764,051**	$ 721,451	$ 499,242
Coatings	**2,337,518**	2,045,700	1,880,154
All Other	**350,712**	424,384	352,987
	$ 3,452,281	$ 3,191,535	$ 2,732,383
Capital Expenditures:			
Paints	**$ 15,643**	$ 15,847	$ 25,700
Coatings	**46,348**	40,557	23,648
All Other	**14,949**	19,013	13,383
	$ 76,940	$ 75,417	$ 62,731

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

	2007	**2006**	**2005**
Net sales External			
United States	**$ 2,053,810**	$ 2,085,667	$ 1,890,756
China	**328,750**	128,154	95,005
Other Countries	**866,727**	764,241	728,189
	$ 3,249,287	$ 2,978,062	$ 2,713,950

	2007	**2006**	**2005**
Long-lived assets:			
United States	**$ 1,559,735**	$ 1,497,921	$ 1,486,279
China	**423,111**	361,303	22,940
Other Countries	**421,150**	298,436	299,071
	$ 2,403,996	$ 2,157,660	$ 1,808,290

The Company has one significant customer in the Paints segment whose net sales ranged from 16.0% to 17.6% of total sales over the last three years.

43

Table of Contents

NOTE 15 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results for the years ended October 26, 2007 and October 27, 2006:

	Net Sales	Gross Margin	Net Income	Mandatorily Redeemable Stock Accrual	Mandatorily Redeemable Stock Accrual - per Share	Net Income Available to Common Shareholders	Net Income per Share Diluted
2007 Quarter Ended:							
January 26	**$ 694,523**	**$ 199,084**	**$ 23,598**	**$ ($5,067)**	**$ ($0.05)**	**$ 18,531**	**$ 0.18**
April 27	**808,471**	**246,881**	**41,516**	**(5,067)**	**(0.05)**	**36,449**	**0.35**
July 27	**893,498**	**278,522**	**58,217**	**(5,067)**	**(0.05)**	**53,150**	**0.52**
October 26	**852,795**	**247,310**	**48,784**	**(3,418)**	**(0.03)**	**45,366**	**0.45**
	$ 3,249,287	**$ 971,797**	**$ 172,115**	**$ ($18,619)**	**$ ($0.18)**	**$ 153,496**	**$ 1.50**
2006 Quarter Ended:							
January 27	$ 629,765	$ 180,476	$ 22,541	$	$	$ 22,541	$ 0.22
April 28	766,816	232,108	47,935			47,935	0.46
July 28	797,376	246,658	52,635			52,635	0.51
October 27	784,105	246,663	52,141			52,141	0.51
	$ 2,978,062	$ 905,905	$ 175,252	$	$	$ 175,252	$ 1.71

In 2006, net income included favorable tax adjustments of approximately $6,900: $0.03 per share in each of the third and fourth quarters. In 2007, net income included an after-tax benefit of approximately $10,240, or $0.10 per share, for the one-time sale of certain intellectual property assets during the fourth quarter.

NOTE 16 RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157) in September 2006. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice. In November 2007, the FASB Board unanimously agreed to expose for comment their decision to provide a one year deferral for the implementation of SFAS 157 solely for non-financial assets and non-financial liabilities, except those non-financial items that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The Board indicated that the partial deferral would not be available to entities that have previously early adopted SFAS 157 in its entirety. Therefore, for fiscal years beginning after November 15, 2007, all companies would be required to implement SFAS 157 for all financial assets and financial liabilities measured at fair value (whether on a recurring or non-recurring basis), as well as for any other assets and liabilities that are carried at fair value on a recurring basis in the financial statements. The Company is currently evaluating the impact of SFAS 157 on its financial statements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

For the Company, this statement will be effective for the beginning of fiscal year 2009.

FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158) in September 2006. SFAS 158 was adopted by the Company in 2007. SFAS will further require the Company to measure the plans assets and obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions). This will be required to be adopted for fiscal years ending after December 15, 2008, which would be the fiscal year ending October 30, 2009 for the Company. The Company is currently evaluating the impact of this further requirement of SFAS 158 on its financial statements.

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

None.

ITEM 9A CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) are our

Table of Contents

controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of October 26, 2007. Based on that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in recording, processing, summarizing and timely reporting information required to be disclosed in the reports that we file or submit under the Exchange Act.

Management s Annual Report on Internal Control over Financial Reporting

The report of management required under this Item 9A is set forth on page 21.

Attestation Report of Registered Public Accounting Firm

The attestation report required under this Item 9A is set forth on page 23.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the fourth quarter of fiscal 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B OTHER INFORMATION

Not Applicable.

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding directors set forth on pages 1 through 3 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference. The information in the section titled Section 16(a) Beneficial Ownership Reporting Compliance on page 6 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference. The information in the section titled Corporate Governance on pages 4 through 6 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference. The information regarding executive officers is set forth in Part I of this report.

ITEM 11 EXECUTIVE AND DIRECTOR COMPENSATION

The information in the section titled Executive and Director Compensation on pages 7 through 27 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference.

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

The information in the section titled Share Ownership of Certain Beneficial Owners and Share Ownership of Management on pages 28 and 29 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference. The information in the section titled Equity Compensation Plans is included in Item 5 of this Form 10-K.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information in the section titled Corporate Governance Director Independence on page 5 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference. The information in the section titled Certain Relationships and Related Transactions on page 6 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the sections titled Audit Fee Information and Pre-Approval of Services by Independent Auditors set forth on page 28 of the Company s Proxy Statement dated January 18, 2008 is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report.

(1) **Financial Statements**

	Page
Report of Management on Internal Control Over Financial Reporting	21
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	22
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	23

Consolidated Balance Sheets October 26, 2007 and October 27, 2006	24
Consolidated Statements of Income Years ended October 26, 2007, October 27, 2006 and October 28, 2005	25
Consolidated Statement of Changes in Equity Years ended October 26, 2007, October 27, 2006 and October 28, 2005	26
Consolidated Statements of Cash Flows Years ended October 26, 2007, October 27, 2006 and October 28, 2005	27
Notes to Consolidated Financial Data (Unaudited)	28 44
Selected Quarterly Financial Data (Unaudited)	44

(2) **Financial Statement Schedules**

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

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) **Exhibits**

Exhibit Number	Description
2.1	Agreement for Sale and Purchase of Shares in Huarun Paints Holdings Company Limited dated June 20, 2006 (incorporated by reference to Form 10-Q for the quarter ended July 28, 2006)
3.1	Certificate of Incorporation as amended to and including June 30, 1970, with further amendments to Article Four dated February 29, 1984, February 25, 1986, February 26, 1992, February 26, 1997 and May 22, 2003 and to Article Eleven dated February 25, 1987 (incorporated by reference to Form 10-K for the period ended October 31, 1997, amendment filed with Form 10-Q for the quarter ended April 25, 2003)
3.2	By-Laws as amended to and including October 15, 1997 (incorporated by reference to Form 10-K for the period ended October 31, 1997)
4.1	Rights Agreement dated as of May 1, 2000, between the Registrant and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (incorporated by reference to Form 8-A filed on May 3, 2000)
4.2	Indenture dated April 24, 2002, between the Registrant and Bank One Trust Company, N.A., as Trustee, relating to Registrant s 6% Notes due 2007 (The Bank of New York Trust Company, N.A. is the successor in interest to Bank One) (incorporated by reference to Form 10-K for the period ended October 25, 2002, amendment filed with Form 10-Q for the quarter ended April 30, 2004)
4.3	Second Supplemental Indenture, dated as of April 17, 2007, to indenture dated as of April 24, 2002, between the Registrant and The Bank of New York Trust Company, N.A. relating to the Registrant s 5.625% Notes due 2012 and 6.050% Notes due 2017 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on April 18, 2007)
4.4	Indenture dated July 15, 2005 between the Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to the Company s 5.100% Notes due 2015, including form of Registrant s 5.100% Notes due 2015 (incorporated by reference to Form 8-K filed on July 18, 2005)
10.1	The Valspar Corporation Key Employees Supplementary Retirement Plan (incorporated by reference to Form 10-K for the period ended October 31, 1981)**
10.2*	The Valspar Corporation 1991 Stock Option Plan as amended through August 21, 2007 (incorporated by reference to Form 10-K for the period ended October 26, 2007)**
10.3*	The Valspar Corporation Key Employee Annual Bonus Plan For Officers as amended through August 21, 2007 (incorporated by reference to Form 10-K for the period ended October 26, 2007)**

10.4*	The Valspar Corporation Stock Option Plan For Non-Employee Directors as amended through October 17, 2007 (incorporated by reference to Form 10-K for the period ended October 26, 2007)**
10.5	The Valspar Corporation Annual Bonus Plan as amended through December 11, 2002 (incorporated by reference to Form 10-Q for the quarter ended April 25, 2003)**

Exhibit Number	Description
10.6	The Valspar Corporation Incentive Bonus Plan (incorporated by reference to Form 10-K for the period ended October 30, 1992)**
10.7	The Valspar Corporation 2001 Stock Incentive Plan (incorporated by reference to Form 10-K for the period ended October 25, 2002)**
10.8*	The Valspar Corporation Key Employee Long-Term Incentive Bonus Program as amended through December 12, 2007 (incorporated by reference to Form 10-K for the period ended October 26, 2007)**
10.9*	Change of Control Agreement between the Registrant and the Company s Named Executives as amended through December 12, 2007 (incorporated by reference to Form 10-K for the period ended October 26, 2007)
10.10	The Valspar Corporation Supplemental Executive Retirement Plan for William L. Mansfield, effective June 22, 2005 (incorporated by reference to Form 10-Q for the quarter ended July 29, 2005)**
10.11	Resolutions adopted by The Valspar Corporation Board of Directors on July 22, 2005 Election and Compensation of Thomas R. McBurney as Non-Executive Chairman of the Board of Directors (incorporated by reference to Form 10-Q for the quarter ended July 29, 2005)**
10.12*	Form of Nonstatutory Stock Option Agreement for Officers under the Corporation s 1991 Stock Option Plan as amended August 21, 2007 (incorporated by reference to Form 10-K for the period ended October 26, 2007)**
10.13	Arrangements with New President and Chief Executive Officer (incorporated by reference to Form 10-Q for the quarter ended January 28, 2005)**
10.14	Confidentiality and Noncompetition Agreement between Registrant and William L. Mansfield (incorporated by reference to Form 10-Q for the quarter ended January 28, 2005)
10.15	Five-Year Credit Agreement dated October 25, 2005 among the Registrant and Certain Subsidiaries of the Registrant and JP Morgan Chase Bank, N.A., as Administrative Manager (incorporated by reference to Form 8-K filed on October 26, 2005; amendment filed with Form 8-K filed on March 23, 2007)
10.16*	Form of Stock Option Granted to Non-Employee Directors as amended October 17, 2007 (incorporated by reference to Form 10-K for the period ended October 26, 2007)**
10.17	Form of Restricted Stock Granted to Certain Executive Officers (incorporated by reference to Form 10-Q for the quarter ended April 28, 2006)**
10.18	Form of Stock Option Granted to Certain Executive Officers (incorporated by reference to Form 10-Q for the quarter ended April 28, 2006)**
10.19	364-Day Credit Agreement dated November 27, 2007 among the Registrant and other Lenders named therein, and JPMorgan Chase Bank, as Administrative Agent (incorporated by reference to Form 8-K filed on November 30, 2007)

14.1	Code of Ethics and Business Conduct (incorporated by reference to Form 10-K for the period ended October 29, 2004)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Independent Registered Public Accounting Firm Ernst & Young LLP
31.1*	Section 302 Certification of the Chief Executive Officer
31.2*	Section 302 Certification of the Chief Financial Officer
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Filed electronically herewith.

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

Portions of the 2008 Proxy Statement are incorporated herein by reference as set forth in Items 10, 11, 12, 13 and 14 of this report. Only those portions expressly incorporated by reference herein shall be deemed filed with the Commission.

Table of Contents

SIGNATURES

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

THE VALSPAR CORPORATION

/s/ Rolf Engh 12/19/07
Rolf Engh, Secretary

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

/s/ William L. Mansfield William L. Mansfield, Director Chairman, President and Chief Executive Officer (principal executive officer)	12/19/07	/s/ Thomas R. McBurney Thomas R. McBurney, Lead Director	12/19/07
		/s/ John S. Bode John S. Bode, Director	12/19/07
/s/ Paul C. Reyelts Paul C. Reyelts, Executive Vice President and Chief Financial Officer (principal financial officer)	12/19/07	/s/ Susan S. Boren Susan S. Boren, Director	12/19/07
		/s/ Jeffrey H. Curler Jeffrey H. Curler, Director	12/19/07
/s/ Lori A. Walker	12/19/07	/s/ Charles W. Gaillard	12/19/07

Lori A. Walker, Vice President, Treasurer
and Controller (principal accounting officer)

Charles W. Gaillard, Director

/s/ Janel S. Haugarth 12/19/07
Janel S. Haugarth, Director

/s/ Mae C. Jemison 12/19/07
Mae C. Jemison, Director

/s/ Stephen D. Newlin 12/19/07
Stephen D. Newlin, Director

/s/ Gregory R. Palen 12/19/07
Gregory R. Palen, Director

/s/ Richard L. White 12/19/07
Richard L. White, Director

Table of Contents

The Valspar Corporation
Schedule II Valuation and Qualifying Accounts and Reserves

COL. A	COL. B	COL. C	COL. C	COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expense or (Income)	Charged to Other Accounts Describe	Deductions Describe	Balance at End of Period
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts:					
Year ended October 26, 2007	$ 13,145,000	$ 1,319,878		$ 4,455,867[1]	$ 10,598,000
				(588,989)[2]	
Year ended October 27, 2006	$ 16,857,000	$ 2,562,876		$ 7,910,966[1]	$ 13,145,000
				(1,636,090)[2]	
Year ended October 28, 2005	$ 13,278,000	8,100,994		4,849,041[1]	$ 16,857,000
				(327,047)[2]	

1 Uncollectible accounts written off.

2 Recoveries on accounts previously written off.

49