VALSPAR CORP
Form 10-K
December 18, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended October 30, 2015
or	
..	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from ______________________ to ___________________

Commission File Number 1-3011

THE VALSPAR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	36-2443580 (I.R.S. Employer Identification No.)
1101 South 3rd Street Minneapolis, Minnesota (Address of principal executive offices)	55415 (Zip Code)

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

901 3rd Avenue South, Minneapolis MN 55402
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $.50 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
o Yes xNo

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.
x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Act). oYes ý No
The aggregate market value of the voting stock held by persons other than officers, directors and more than 10% stockholders of the registrant as of May 1, 2015 was approximately $6.5 billion based on the closing sales price of $81.90 per share as reported on the New York Stock Exchange. As of December 7, 2015, 78,999,941 shares of Common Stock, $0.50 par value per share (net of 39,442,683 shares in treasury), were outstanding.
DOCUMENTS INCORPORATED IN PART BY REFERENCE
Portions of The Valspar Corporation's definitive Proxy Statement (the "Proxy Statement"), to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended October 30, 2015, are incorporated by reference into Part III to the extent described in this report.

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PART I

ITEM 1 BUSINESS

BUSINESS & PRODUCT OVERVIEW

The Valspar Corporation is a global leader in the paints and coatings industry. We develop, manufacture and distribute a broad range of coatings, paints and related products, and operate our business in two reportable segments: Coatings and Paints. Our consolidated net sales in 2015 were $4,392.6 million. Net sales in the Coatings and Paints segments in 2015 were $2,496.5 million and $1,661.2 million, respectively. By providing high quality products with technologies that add superior value and performance, Valspar's business has grown organically. Our global growth has also been fueled by the well-executed integration of acquisitions which have further expanded our scale, technology platforms and worldwide portfolio of respected brands.

The Valspar Corporation is a Delaware corporation founded in 1806. Our principal executive offices are located at 1101 South 3rd Street, Minneapolis, Minnesota 55415, and our telephone number at that address is (612) 851-7000. Our corporate website address is www.valspar.com. The information on our website is not part of this filing.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, are made available free of charge on our website as soon as reasonably practicable after we electronically file such materials with, or furnish such materials to, the Securities and Exchange Commission. You may access these documents on the "Investors" page of our website referred to above.

Coatings Segment

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

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

Our packaging product line includes coatings for the interior and exterior of metal packaging containers, principally metal 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. We supply our packaging products throughout the world via a global manufacturing footprint in all major countries.

Paints Segment

Our Paints segment includes our consumer paints and automotive paint refinish product lines. We offer a wide variety of paints, primers, topcoats and aerosol spray paints through retailers, distribution networks and company-owned stores.

Our consumer paints product line comprises the largest part of our Paints segment. We offer a broad portfolio of interior and exterior decorative paints, stains, primers, varnishes and specialty decorative products, such as enamels, aerosols and faux finishes, used in both the do-it-yourself and professional markets. In the U.S. and Canada, we offer our branded products and private-label brands through more than 10,000 points of sale. The primary distribution channels for these products are home centers, hardware stores, distributors and independent dealers. In China, we sell branded consumer paints primarily through exclusive distribution to both exclusive and non-exclusive brand retailers. In Australia and New Zealand, we sell branded consumer paints through independent dealers, hardware chains, home centers and Valspar company-owned stores. In the U.K. and Ireland, we sell branded products primarily through a large home center customer.

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We develop highly customized merchandising and marketing support programs for our consumer paint customers, enabling them to differentiate their paint departments from their competitors' through customer service, paint tinting technology, product and color selection assistance and in-store displays. Our primary brands include VALSPAR and CABOT in the U.S., HUARUN in China, WATTYL, SOLVER, VALSPAR and PASCOL in Australia and New Zealand and VALSPAR and PLASTI-KOTE in the U.K. and Ireland.

Our automotive product line primarily includes refinish paints and body shop accessories sold through automotive refinish distributors, automotive supply retailers and body shops. We distribute these products under the DE BEER, MATRIX, VALSPAR, PRO-SPRAY, USC, OCTORAL and HOUSE OF KOLOR brands in many countries around the world.

Other and Administrative

In addition to the main product lines within our Coatings and Paints segments, we manufacture and sell specialty resins and colorants. The specialty resins and colorants are manufactured for internal use and for external sale to other coatings manufacturers. We also sell furniture protection plans and furniture care and repair products under the GUARDSMAN brand.

COMPETITION

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

Competition in our Coatings segment is based on formulating products for specific customer applications, meeting customer delivery and application requirements, new technology offerings and pricing. As one of the world's largest industrial coatings manufacturers, we can provide coatings solutions globally and are committed to developing new technologies.

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

RAW MATERIALS

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

INTELLECTUAL PROPERTY

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

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

SEASONALITY AND WORKING CAPITAL ITEMS

Our sales volume is traditionally lowest during the first quarter of the fiscal year (November, December and January), and highest in the third quarter of the fiscal year (May, June and July), primarily due to weather and the buying cycle in our Coatings and Paints segments. When sales are lowest, we build inventory, financed by internally generated funds and short-term and long-term debt facilities discussed in Note 9 of Notes to Consolidated Financial Statements.

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SIGNIFICANT CUSTOMERS
In 2015, our sales to Lowe's Companies, Inc. exceeded 10% of consolidated net sales. Our ten largest customers accounted for approximately 31% of consolidated net sales. Our five largest customers in the Paints segment accounted for approximately 50% of our net sales in the segment. Our five largest customers in the Coatings segment accounted for approximately 18% 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
Valspar's technology innovation has enabled strong product differentiation, competitive advantage and cost savings. The base technologies that support our products' performance and applications have been developed and optimized over many years. Our on-going applied research and development efforts provide excellent value for our customers, as we focus on delivering premium, differentiated coatings solutions that deliver high performance and quality.
Research and development costs for fiscal 2015 were $132.8 million, or 3.0% of net sales, compared to $134.1 million, or 2.9% of net sales, for fiscal 2014 and $128.3 million, or 3.1% of net sales, for fiscal 2013. Valspar employs approximately 1,000 technologists in a worldwide laboratory network, anchored by innovation centers in Minneapolis, MN and Guangzhou, China.

ENVIRONMENTAL COMPLIANCE
We undertake to comply with applicable environmental regulations. Capital expenditures for this purpose were not material in fiscal 2015, and we do not expect such expenditures will be material in fiscal 2016.
EMPLOYEES
We employ approximately 11,100 people globally, approximately 420 of whom are subject to collective bargaining agreements in the U.S. We believe our relationship with our union employees is good.
FOREIGN OPERATIONS, EXPORT SALES AND BUSINESS SEGMENT INFORMATION
Our foreign operations are conducted primarily through majority-owned subsidiaries and, to a limited extent, through joint ventures. Revenues from foreign subsidiaries and operations comprised approximately 46% of our total consolidated net sales in 2015.
In addition to our manufacturing plants in the U.S., we have manufacturing plants in Australia, Brazil, Canada, China, France, Germany, India, Ireland, Italy, Malaysia, Mexico, The Netherlands, New Zealand, Poland, Singapore, South Africa, Switzerland, the United Kingdom and Vietnam. We also have joint ventures in Japan, South Africa, Switzerland and Vietnam and sales offices in other countries.
During fiscal 2015, export sales from the U.S. represented 3.6% of our business.
For additional financial information regarding our international operations and geographical areas, and our reportable business segments, see Note 15 in Notes to Consolidated Financial Statements.
ITEM 1A RISK FACTORS
You should consider the following risk factors, in addition to the other information presented or incorporated by reference into this Annual Report on Form 10-K, in evaluating our business and any investment in us.
Deterioration of economic conditions could harm our business.
Our business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, access to and the functioning of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions. Deterioration of national or global economic conditions may reduce demand for our products and overall growth of the paints and coatings industry.

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

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

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

We have goodwill and intangible assets recorded on our balance sheet. We periodically evaluate the recoverability of the carrying value of our goodwill and intangible assets whenever events or changes in circumstances indicate that such value may not be recoverable. Impairment assessment involves judgment as to assumptions regarding future sales and cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions and may result in changes in our estimates of future sales and cash flows that may result in us incurring substantial impairment charges, which would adversely affect our results of operations or financial condition.

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

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

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

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

Many of our customers are in businesses or industries that are cyclical and sensitive to changes in general economic conditions. As a result, the demand for our products depends, in part, upon economic cycles affecting our customers' businesses or industries and general economic conditions. Downward economic cycles affecting the industries of our customers and the deterioration of global economic conditions may reduce our sales and profitability.

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

All aspects of the paints and coatings 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. Many of our competitors are larger than we are and may have greater financial resources than we do. Competition with these companies could curtail price increases or require price reductions or increased spending on marketing, sales and research and development, any of which could adversely affect our results of operations.

Industry sources estimate that the 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, and may have more resources or capabilities to conduct business with large suppliers or large customers in our industry. Finally, many of our larger competitors operate businesses in addition to paints and coatings and so may be better able to compete during coatings industry downturns.

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We have a significant amount of debt.

Our total long-term and short-term debt was $2,041.1 million at October 30, 2015. Our debt categorized as short-term was $334.2 million at October 30, 2015. Our level of debt may have important consequences. For example, it:

- may require us to dedicate a material portion of our cash flows from operations to make payments on our indebtedness, thereby reducing our ability to fund working capital, capital expenditures or other general corporate purposes;
- could make us less attractive to prospective or existing customers or less able to fund potential acquisitions; and
- may limit our flexibility to adjust to changing business and market conditions and make us more vulnerable to a downturn in general economic conditions as compared to a competitor that may have less indebtedness.

Global economic and capital market conditions may cause our access to capital to be more difficult in the future and/or costs to secure such capital more expensive.

We may need new or additional financing in the future to provide liquidity to conduct our operations, expand our business or refinance existing indebtedness. Any sustained weakness in general economic conditions and/or U.S. or global capital markets could adversely affect our ability to raise capital on favorable terms or at all. From time to time we have relied, and we may also rely in the future, on access to financial markets as a source of liquidity for working capital requirements, acquisitions and general corporate purposes. Longer term volatility and continued disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect our access to the liquidity needed for our businesses in the longer term. Such disruptions could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged.

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

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

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

Any of these factors may make it more difficult to repay our debt or have an adverse effect on results of operations. In addition, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize acquisition-related costs or the cost of acquired assets.

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

We conduct a substantial portion of our business outside of the U.S. We currently have production facilities, research and development facilities and administrative and sales offices located outside the U.S., including facilities and offices located in Australia, Brazil, Canada, China, Finland, France, Germany, Greece, India, Indonesia, Ireland, Italy, Japan, Malaysia, Mexico, The Netherlands, New Zealand, Poland, Russia, Singapore, South Africa, South Korea, Spain, Switzerland, the United Arab Emirates, the United Kingdom and Vietnam. In 2015, revenues from products sold outside the U.S. accounted for approximately 46% of our consolidated net sales. Accordingly, the majority of our cash and cash equivalents are held by our foreign subsidiaries.

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

- agreements may be difficult to enforce, and receivables may be difficult to collect or have longer payment cycles;
- foreign countries may impose additional withholding taxes or otherwise tax our foreign income or adopt other restrictions on foreign trade or investment, including currency exchange controls;
- foreign operations may experience labor disputes and difficulties in attracting and retaining key employees;
- transportation and other shipping costs may increase;
- foreign governments may nationalize private enterprises;
- unexpected adverse changes may occur in export duties, quotas and tariffs and difficulties in obtaining export licenses;
- intellectual property rights may be more difficult to enforce;
- fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services we provide in international markets where payment for our products and services is made in the local currency;
- our business and profitability in a particular country could be affected by political or economic changes or terrorist activities and responses to such activities;
- unexpected adverse changes in foreign laws or regulatory requirements may occur; and
- compliance with a variety of foreign laws and regulations may be burdensome.

Fluctuations in foreign currency exchange rates could affect our financial results.

We conduct business in various regions throughout the world and are subject to market risk due to changes in the exchange rate of foreign currencies in relation to our reporting currency, the U.S. dollar. The functional currencies of our foreign operations are generally the local currency in the corresponding country. Because our consolidated financial statements are presented in U.S. dollars, we translate revenues and expenses into U.S. dollars at the average exchange rate during each reporting period, as well as assets and liabilities into U.S. dollars at exchange rates in effect at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against other major currencies will affect our net revenues, operating income and the value of balance sheet items denominated in foreign currencies. We have not used derivative financial instruments to hedge our exposure to translation gains and losses. Fluctuations in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against major currencies, could materially affect our financial results. At October 30, 2015, the regions where we have the largest exposure to our net sales, net income and financial position were China (CNY), Europe (EUR), Mexico (MXN), Australia (AUD), Brazil (BRL), the UK (GBP) and Malaysia (MYR).

We have certain key customers, and the loss of key customers could negatively affect our business.

Our relationships with certain key customers are important to us. From 2013 through 2015, sales to our largest customer exceeded 10% of our consolidated net sales. In 2015, our ten largest customers accounted for approximately 31% of our consolidated net sales. Our five largest customers in the Paints segment accounted for approximately 50% of our net sales in the segment. Although we sell various types of products through various channels of distribution, we believe that the loss of a substantial portion of net sales to our largest customers could have a material adverse effect on us.

We have not typically entered into long-term contracts with our major customers for minimum purchase requirements. One of our key Paints customers in North America changed a product line offering effective in the first quarter of 2015, which has resulted in lower sales in 2015. If any one of our key customers cease making purchases at historical levels, with little or no notice, we could experience a material adverse effect.

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Our ability to innovate, develop, produce and market products that meet the demands of our customers could have a negative impact on our results of operations and financial condition.

Our business relies on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to customers. This is dependent on a number of factors, including our ability to produce products that meet the quality, volumes demands, performance and price expectations of our customers. Future growth will depend on our ability to continue to innovate our existing products and to develop and introduce new products that adapt to our customers' specific preferences. If we fail to keep pace with product innovation on a competitive basis or to predict market demands for our products, our business, financial condition and results of operations could be adversely affected.

Supply disruptions, temporary plant and/or power outages, work stoppages, natural disasters and severe weather events could increase the cost of doing business or otherwise harm our operations, our customers and our suppliers. It is not always possible for us to predict the occurrence or consequence of any such events. However, such events could reduce demand for our products or make it difficult or impossible for us to receive raw materials from suppliers or to deliver products to customers.

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

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

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

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

Interruption, failure or compromise of our information systems could adversely affect our business.

We rely on information systems to run most aspects of our business, including sales and distribution of products, purchases of raw materials and supplies, accounting for purchase and sale transactions, manufacturing processes, billing and collections and managing data and records for employees and other parties. Our business may be adversely affected if these systems are interrupted, damaged or compromised or if they fail for any extended period of time due to user errors, programming errors, computer viruses, security breaches or other problems. Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of cyber attackers. Although we strive to have appropriate security controls in place, prevention of security breaches cannot be assured, particularly as cyber threats continue to evolve. We may be required to expend additional resources to continue to enhance our security measures or to investigate and remediate any security vulnerabilities. In addition, third-party service providers manage a portion of our information systems, and we are subject to risk as a result of interruption, failure or security breaches of those systems. The consequences of these risks could adversely impact our results of operations and cash flows.

Numerous laws and regulations affect our business.

We are subject to a wide variety of complex domestic and foreign laws and regulations, and legal compliance risks, including securities laws, tax laws, employment and pension-related laws, competition laws, U.S. and foreign export and trading laws and laws governing improper business practices. We are affected by new laws and regulations, and changes to existing laws and regulations, including interpretations by courts and regulators. From time to time, our Company, our operations and the industries in which we operate are being reviewed or investigated by regulators, which could lead to enforcement actions or the assertion of private litigation claims and damages.

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We are subject to tax laws and regulations in the United States and multiple foreign jurisdictions. We are affected by changes in tax laws and regulations, as well as changes in related interpretations and other tax guidance. In the ordinary course of our business, we are subject to examinations and investigations by various tax authorities. In addition to existing examinations and investigations, there could be additional examinations and investigations in the future, and existing examinations and investigations could be expanded.

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

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

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

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

ITEM 1B UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 PROPERTIES

Our principal offices are located in Minneapolis, Minnesota. Our North American manufacturing operations are conducted at 26 locations (22 owned; 4 leased) in the U.S., Canada and Mexico. The total combined square footage for our principal offices and manufacturing operations in North America is approximately 4,908,000. Asia Pacific manufacturing operations are conducted at 14 locations (12 owned; 2 leased) in Australia, China, Malaysia, New Zealand, Singapore and Vietnam, with a total combined square footage of approximately 2,540,000. European manufacturing operations are conducted at 13 locations (10 owned; 3 leased) in France, Germany, Ireland, Italy, The Netherlands, Poland, Switzerland and the United Kingdom, with a total combined square footage of approximately 1,454,000. In South America, we own two manufacturing facilities in Brazil with square footage of approximately 471,000. In India, we own one manufacturing facility with square footage of approximately 113,000. In South Africa, we own one manufacturing facility with square footage of approximately 89,000.

Shown below is a breakdown of the approximate square footage of principal facilities by region as of October 30, 2015:

Region	Approximate Square Footage Owned	Approximate Square Footage Leased	Total
North America	4,143,000	765,000	4,908,000

Asia Pacific	2,437,000	103,000	2,540,000
Europe	1,290,000	164,000	1,454,000
Other	673,000	—	673,000
Total	8,543,000	1,032,000	9,575,000

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

Business Segment	Approximate Square Footage
Coatings	5,399,000
Paints	3,393,000
Other and Administrative	783,000
Total	9,575,000

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

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ITEM 3 LEGAL PROCEEDINGS

Environmental Matters

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

We accrue appropriate reserves for potential environmental liabilities when the amount of the costs that will be incurred can be reasonably determined. Accruals are reviewed and adjusted as additional information becomes available. While uncertainties exist with respect to the amounts and timing of our ultimate environmental liabilities, we believe it is neither probable nor reasonably possible that such liabilities, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

Other Legal Matters

We are involved in a variety of legal claims and proceedings relating to personal injury, product liability, warranties, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These claims and proceedings include cases where we are one of a number of defendants in proceedings alleging that the plaintiffs suffered injuries or contracted diseases from exposure to chemicals or other ingredients used in the production of some of our products or waste disposal. We are also subject to claims related to the performance of our products. We believe these claims and proceedings are in the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, we believe it is neither probable nor reasonably possible that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position
Gary E. Hendrickson	59	Chairman since June 2012, Chief Executive Officer since June 2011 and President since February 2008
James L. Muehlbauer	54	Executive Vice President and Chief Financial and Administrative Officer since March 2013
Rolf Engh	62	Executive Vice President since July 2005, General Counsel and Secretary since April 1993
Howard Heckes	50	Executive Vice President and President, Global Coatings since December 2014
Les Ireland	51	Executive Vice President and President, Global Consumer Paints since December 2014

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

Mr. Hendrickson was also Chief Operating Officer from February 2008 to June 2011.

Prior to March 2013, Mr. Muehlbauer was Executive Vice President and Chief Financial Officer at Best Buy Co., Inc. since April 2008.

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Prior to December 2014, Mr. Heckes was Senior Vice President, Global Consumer since October 2008.
Prior to December 2014, Mr. Ireland was an independent consultant from April 2010 to December 2014, President at Ames True Temper from November 2012 to July 2013, and President, North America Power Tools & Accessories at Black & Decker Corporation from October 2008 to March 2010.

PART II

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

Our Common Stock is listed on the New York Stock Exchange under the trading symbol VAL. The table below sets forth the quarterly high and low market prices of Common Stock for fiscal years 2015 and 2014 as quoted on the New York Stock Exchange.

	Market Price (high/low)	
For the Fiscal Year	2015	2014
First Quarter	$88.36 - 80.97	$73.74 - 68.18
Second Quarter	$90.91 - 81.04	$76.18 - 66.94
Third Quarter	$88.17 - 78.66	$82.00 - 71.78
Fourth Quarter	$84.05 - 70.58	$82.26 - 72.15

The quarterly dividend declared November 24, 2015, to be paid on December 16, 2015 to common stockholders of record December 7, 2015, was increased to $0.33 per share. The table below sets forth the quarterly dividends paid for fiscal years 2015 and 2014.

	Per Share Dividends	
For the Fiscal Year	2015	2014
First Quarter	$0.30	$0.26
Second Quarter	$0.30	$0.26
Third Quarter	$0.30	$0.26
Fourth Quarter	$0.30	$0.26
	$1.20	$1.04

The number of record holders of our Common Stock at December 7, 2015 was 1,199.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Amount that May Yet be Purchased Under the Plans or Programs[1]
8/1/15 - 8/28/15				
Repurchase program	300,000	$81.04	300,000	$1,240,449,791
8/29/15 - 9/25/15				
Repurchase program	305,000	$73.76	305,000	$1,217,944,291
9/26/15 - 10/30/15				
Repurchase program	320,000	$75.53	320,000	$1,193,764,303
Other Transactions[2]	1,578	$75.54		

[1] On November 21, 2014, the Board approved a share repurchase program, with no expiration date, authorizing us to purchase up to $1.5 billion of outstanding shares of Common Stock. We repurchased a total of 3,891,545 shares in fiscal 2015.

[2] Our other transactions include our acquisition of common stock in satisfaction of tax-payment obligations upon vesting of restricted stock.

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Stock Performance Graph

The following graph compares our cumulative total stockholder return for the last five fiscal years with the cumulative total return of the Standard & Poor's 500 Stock Index and a peer group of companies selected by us on a line-of-business basis. The graph assumes the investment of $100 in our Common Stock, the S&P 500 Index and the peer group at the end of fiscal 2010 and the reinvestment of all dividends.

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

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

Among The Valspar Corporation, a Peer Group and the S&P 500 Index

	Cumulative Total Return					
Fiscal Year End	2010	2011	2012	2013	2014	2015
Valspar	$100	$114	$178	$230	$273	$273
Peer Group	$100	$105	$137	$203	$225	$257
S&P 500	$100	$108	$125	$158	$186	$195

Assumes $100 invested on October 29, 2010 in the Common Stock of The Valspar Corporation, the Peer Group and the S&P 500 Index, including reinvestment of dividends.

The information required by this item with respect to equity compensation plans is set forth in Item 12 of this report.

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ITEM 6 SELECTED FINANCIAL DATA

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

		Fiscal Years				
(Dollars in thousands, except per share amounts)		2015	2014	2013	2012	2011
Operating Results	Net Sales[1]	$4,392,622	$4,625,624	$4,194,977	$4,106,888	$4,041,629
	Cost and Expenses					
	Cost of Sales	2,841,233	3,086,578	2,836,919	2,753,184	2,809,821
	Operating Expense	951,403	979,137	865,634	871,434	862,160
	Gain on Sale of Certain Assets	48,001	—	—	—	—
	Impairment of Goodwill and Intangible Assets	—	—	—	—	409,714
	Income (Loss) from Operations	647,987	559,909	492,424	482,270	(40,066)
	Interest Expense	81,348	65,330	64,758	67,604	61,511
	Other (Income) Expense – Net	2,838	2,697	3,871	(2,558)	1,577
	Income (Loss) Before Income Taxes	563,801	491,882	423,795	417,224	(103,154)
	Net Income (Loss)	399,506	345,401	289,255	292,497	(138,601)
	Net Income as a Percent of Sales	9.1%	7.5%	6.9%	7.1%	N/A
	Return on Average Equity	42.8%	32.4%	24.7%	24.0%	N/A
	Per Common Share:					
	Net Income (Loss) – Basic	$4.97	$4.13	$3.29	$3.20	$(1.47)
	Net Income (Loss) – Diluted[2]	4.85	4.01	3.20	3.10	(1.47)
	Dividends Paid	1.20	1.04	0.92	0.80	0.72
Financial Position	Total Assets	$4,318,575	$4,033,951	$4,025,509	$3,626,836	$3,500,151
	Working Capital	264,491	(127,164)	99,717	422,405	65,204
	Property, Plant and Equipment, Net	632,765	645,102	633,475	550,968	548,253
	Long-Term Debt, Net of Current Portion	1,706,933	950,035	1,037,392	1,012,578	679,805
	Stockholders' Equity	855,009	1,011,091	1,122,550	1,223,523	1,212,550
Other Statistics	Property, Plant and Equipment Expenditures	$97,126	$121,271	$116,749	$89,363	$66,469
	Depreciation and Amortization Expense	92,603	100,910	88,159	93,704	97,747
	Research and Development Expense	132,813	134,134	128,265	123,401	120,056
	Total Cash Dividends	$96,890	$87,427	$81,189	$73,351	$68,164
	Average Diluted Common Shares Outstanding (000's)	82,447	86,046	90,526	94,380	94,310
	Number of Stockholders at Year End	1,201	1,219	1,290	1,365	1,405
		11,130	10,513	10,702	9,755	10,020

Number of Employees at Year End					
Market Price Range – Common Stock:					
High	$90.91	$82.26	$74.25	$59.81	$40.60
Low	70.58	66.94	55.17	33.17	27.44

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

1 Certain amounts in the financial statements have been reclassified to conform to the 2015 presentation. In the first quarter of 2015, we reclassified freight costs on shipments to customers as cost of sales. Previously, these costs were recorded as a deduction from net sales. Reclassifications had no effect on net income (loss), cash flows or stockholders' equity as previously reported.

2 In 2015, 2014, 2013, 2012, and 2011, net income (loss) per common share diluted includes $0.18, $0.34, $0.32, $0.18 and $0.24 per share in restructuring charges, respectively. See Note 18 in Notes to Consolidated Financial Statements for more information on 2015, 2014 and 2013 restructuring charges. Net income (loss) per common share diluted for 2011 includes an impairment charge on goodwill and intangible assets of $3.75. In 2015, 2013, and 2011, net income (loss) per common share diluted includes $0.04, $0.02 and $0.09 in acquisition-related charges, respectively. Net income (loss) per common share diluted in 2015 includes gains on sale of certain assets of $(0.45). Adjusted net income per common share diluted, excluding the items mentioned above, was $4.62 for 2015, $4.35 for 2014, $3.54 for 2013, $3.28 for 2012, and $2.65 for 2011 (2011 includes a dilutive share impact of $0.04). See related reconciliation in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures” for more information on 2015 and 2014.

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ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, except per share amounts)

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Unless otherwise noted, transactions, trends and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. In addition, unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior year. Our MD&A is presented in seven sections:

- Overview
- Results of Operations
- Financial Condition
- Non-GAAP Financial Measures
- Critical Accounting Estimates
- Off-Balance Sheet Arrangements
- Forward-Looking Statements

Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

OVERVIEW

The Valspar Corporation is a global leader in the paints and coatings industry. We develop, manufacture and distribute a broad range of coatings, paints and related products and we operate our business in two reportable segments: Coatings and Paints. Our Coatings segment aggregates our industrial and packaging product lines. Our Paints segment aggregates our consumer paints and automotive refinish product lines. See Note 15 in Notes to Consolidated Financial Statements for further information on our reportable segments.

We operate in over 25 countries, and approximately 46% of our total net sales in 2015 was generated outside of the U.S. In the discussions of our operating results, we sometimes refer to the impact of changes in foreign currency exchange rates or the impact of foreign currency exchange rate fluctuations, which are references to the differences between the foreign currency exchange rates we use to translate international operating results from local currencies into U.S. dollars for reporting purposes. The impact of foreign currency exchange rate fluctuations is calculated as the difference between current period activity translated using the current period's currency exchange rates and the comparable prior-year period's currency exchange rates. We use this method to calculate the impact of changes in foreign currency exchange rates for all countries where the functional currency is not the U.S. dollar.

We have a 4-4-5 week accounting cycle with the fiscal year ending on the Friday on or immediately preceding October 31. Fiscal years 2015 and 2013 included 52 weeks while fiscal year 2014 included 53 weeks.

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

- Focusing on Customer Success by delivering coatings products and solutions that add value for our customers;
- Building Strong Brands and Distribution Partners by investing in brands that are well recognized in the markets in which we operate and building differentiated distribution networks in key markets;
- Developing Differentiated Technologies by investing in technologies that enhance our competitive position and add value for our customers;
- Driving Industry-Leading Innovation by developing unique products and services that differentiate us in the marketplace with our customers; and
- Attracting and Developing the Best People by creating a world class team with deep expertise and stockholder value orientation.

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In addition to creating value for our stockholders, we are committed to:

- Adhering to our values, engaging in ethical business conduct and doing business with integrity;
- Improving the safety and reducing the environmental footprint of our business and the products we manufacture while also delivering solutions that enable our customers to meet their safety and environmental objectives; and
- Demonstrating our corporate citizenship by supporting the communities in which we work and live through volunteer efforts and philanthropy.

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

RESULTS OF OPERATIONS

Overview

Net sales in 2015 were $4,392,622 compared to $4,625,624 in 2014. The decline was primarily due to the impact of foreign currency exchange and lower sales in our Consumer Paints product line due to a change in product line offering at a key North America customer that took effect in the first quarter of 2015. Additionally, fiscal year 2015 included one fewer week than fiscal year 2014 (53rd week). This decline was partially offset by net new business in our Coatings segment and the acquisition of the performance coating businesses of Quest Specialty Chemicals (Quest) in our Paints segment.

Our raw material costs were approximately 80% of our cost of goods sold. Raw material costs in our industries declined in 2015.

Gross profit as a percent of sales increased to 35.3% from 33.3% in the prior year driven by improved productivity and favorable price/cost comparison. Operating expenses as a percentage of net sales increased to 21.7% from 21.2%. Net income as a percent of sales of 9.1% increased from 7.5% in the prior year primarily due to improved gross margin and the benefit from a pre-tax gain on sale of certain assets of a non-strategic specialty product line.

Restructuring

Fiscal year 2015 restructuring expenses, included the following: (i) actions in the Coatings and Paints segments to rationalize manufacturing operations in the Australia region, (ii) actions to consolidate administrative operations in the Europe region, and (iii) initiatives in the Paints segment to improve our North American cost structure through non-manufacturing headcount reductions and other activities to rationalize our manufacturing operations. Most of these restructuring activities are expected to be completed within the next 12 months. Total pre-tax restructuring charges were $21,569 or $0.18 per share in fiscal year 2015. Included in fiscal year 2015 restructuring charges were $2,842 non-cash pre-tax asset impairment charges.

Fiscal year 2014 restructuring expenses, relating primarily to initiatives that began in fiscal year 2013, included the following: (i) actions in the Paints segment to consolidate manufacturing and distribution operations following the acquisition of Ace Hardware Corporation's paint manufacturing business, ongoing profit improvement plans in Australia, and other actions in Asia, (ii) actions in our Coatings segment to consolidate manufacturing operations in Europe following the acquisition of the Inver Group, and other actions to rationalize manufacturing operations and lower operating expenses, (iii) overall initiatives to improve our global cost structure, including non-manufacturing headcount reductions, and (iv) in the fourth quarter of 2014, activities initiated to rationalize manufacturing operations in the Coatings segment in the Australia region. These restructuring activities resulted in pre-tax charges of $41,139 or $0.34 per share for fiscal year 2014, including non-cash pre-tax asset impairment charges of $11,141.

See Note 18 in Notes to Consolidated Financial Statements for further information on restructuring. See reconciliation in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for more information on the per share impact of restructuring charges.

Financial Results 2015 vs. 2014

The following tables present selected financial data for the years ended October 30, 2015 and October 31, 2014.

Net Sales	2015	2014	% Change
Coatings	$2,496,528	$2,585,416	(3.4)%
Paints	1,661,186	1,806,051	(8.0)%
Other and Administrative	234,908	234,157	0.3%
Consolidated Net Sales	$4,392,622	$4,625,624	(5.0)%

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- Consolidated Net Sales – Consolidated net sales for the year decreased 5.0%, including a negative impact of 5.0% from foreign currency. Lower sales in our Consumer Paints product line due to a change in product line offering at a key North America customer that took effect in the first quarter of 2015 and the 53rd week in 2014, were primarily offset by net new business in our Coatings segment and the acquisition of Quest in our Paints segment.
- Coatings Segment Net Sales – Our Coatings segment net sales for the year decreased 3.4%, including a negative impact of 6.0% from foreign currency. Excluding foreign currency exchange, the increase was due to new business, partially offset by the impact of the 53rd week in 2014.
- Paints Segment Net Sales – Our Paints segment net sales for the year decreased 8.0%, including a negative impact of 4.0% from foreign currency. Excluding foreign currency exchange, the decrease in net sales was driven primarily by a change in our product line offering at a North America home improvement channel customer that took effect in the first quarter of 2015, a change in price/mix and the 53rd week in 2014, partially offset by the acquisition of Quest in the third quarter of 2015 and volume growth outside the U.S due to new business.

Paints segment sales in North America in fiscal year 2015 have declined versus the previous year primarily due to an adjustment in our product line offering by a significant customer in the home improvement channel. This customer informed us that in fiscal year 2015 they were discontinuing one of the several products that we supply. The impact of this adjustment on the fiscal year 2015 net sales was significant, and we expect net sales in North America to be approximately $40,000 lower than the prior year period through the first half of fiscal year 2016 as a result of this adjustment. The total net impact of this adjustment on fiscal year 2015 net sales was approximately $150,000. We took actions to mitigate a portion of the effect on our business of this expected sales decline, including reductions in operating expenses as well as restructuring activities in the Paints segment (see Note 18 in the Consolidated Financial Statements for more information on restructuring activities).

- Other and Administrative Net Sales – The Other and Administrative category includes the following product lines: resins, furniture protection plans and colorants. Other and Administrative net sales increased 0.3%, including a negative impact of 2.5% from foreign currency. Excluding foreign currency exchange, the increased sales was primarily due to furniture protection plans and resins.

Gross Profit	2015		2014	
Consolidated Gross Profit	$1,551,389		$1,539,046	
As a percent of Net Sales	35.3	%	33.3	%

- Gross Profit – The gross profit rate increased 2.0 percentage points. The increase in gross profit rate was primarily driven by improved productivity, favorable price/cost comparison and lower restructuring charges, partially offset by acquisition-related charges from Quest. Productivity includes procurement efficiencies, product reformulations and benefits from previously completed restructuring actions. Cost/price comparison reflects the impact of market changes in raw material costs, offset by changes in product pricing and promotions. Restructuring charges of $14,007 or 0.3% of net sales and $28,471 or 0.6% of net sales were included in the 2015 and 2014 periods, respectively. Acquisition-related charges of $4,428 or 0.1% of net sales were included in fiscal year 2015.

Operating Expenses	2015		2014	
Consolidated Operating Expenses[1]	$951,403		$979,137	
As a percent of Net Sales	21.7	%	21.2	%

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

- Consolidated Operating Expenses (dollars) – Consolidated operating expenses decreased $27,734 or 2.8% including a favorable impact of 5.0% from foreign currency. Excluding foreign currency exchange, dollars in fiscal year 2015 increased primarily due to investments to support our growth initiatives, Quest operating expenses and higher bad debt expense, partially offset by lower incentive compensation accruals and lower restructuring charges. Restructuring charges of $7,562 or 0.2% of net sales and $12,668 or 0.3% of net sales were included in the 2015 and 2014 periods, respectively. Acquisition-related charges of $892 were included in fiscal year 2015.

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EBIT[1]	2015		2014	
Coatings	$483,649		$389,390	
As a percent of Net Sales	19.4	%	15.1	%
Paints	173,435		192,222	
As a percent of Net Sales	10.4	%	10.6	%
Other and Administrative	(11,935	)	(24,400	)
As a percent of Net Sales	(5.1	)%	(10.4	)%
Consolidated EBIT	$645,149		$557,212	
As a percent of Net Sales	14.7	%	12.0	%

[1] EBIT is defined as earnings before interest and taxes.

- Consolidated EBIT – EBIT for 2015 increased $87,937 or 15.8% or 2.7 percentage points as a percent of net sales from the prior year. Fiscal year 2015 results included a pre-tax gain on sale of certain assets of a non-strategic specialty product line of $48,001. Restructuring charges were $21,569 or 0.5% of net sales, compared to $41,139 or 0.9% of net sales in fiscal year 2014. Acquisition-related charges of $5,320 or 0.1% of net sales were included in fiscal year 2015.

Foreign currency exchange had a negative impact of $23,001 on EBIT. The effect of foreign currency exchange on Consolidated EBIT in 2015 may not be indicative of the effect of foreign currency exchange in subsequent quarters or fiscal years.

- Coatings Segment EBIT – EBIT as a percent of net sales increased 4.3 percentage points from the prior year. The increase was primarily due to the gain on sale of certain assets of a non-strategic specialty product offering of $48,001, improved productivity, favorable price/cost comparison and lower restructuring charges, partially offset by higher operating expense. Restructuring charges for the 2015 and 2014 periods were $9,574 or 0.4% of net sales and $28,902 or 1.1% of net sales, respectively.
- Paints Segment EBIT – EBIT as a percent of net sales decreased 0.2 percentage points from the prior year. The decrease was driven by the effect of lower volumes in our Consumer Product line in North America and acquisition-related charges from the Quest acquisition, partially offset by improved productivity. Restructuring charges for 2015 and 2014 periods were $11,913 or 0.7% of net sales and $11,934 or 0.7% of net sales, respectively. Acquisition-related charges of $5,320 or 0.3% were included in fiscal year 2015.
- Other and Administrative EBIT – Other and Administrative EBIT includes corporate expenses. EBIT as a percent of net sales increased 5.3 percentage points from the prior year primarily due to lower operating expenses and improved operating performance. Restructuring charges of $82 or 0.0% of net sales and $303 or 0.1% of net sales were included in the 2015 and 2014 periods, respectively.

Interest Expense	2015	2014
Consolidated Interest Expense	$81,348	$65,330

- Interest Expense – Interest expense increased in fiscal year 2015 primarily due to higher average debt levels and higher average interest rates.

Effective Tax Rate	2015		2014	
Effective Tax Rate	29.1	%	29.8	%

- Effective Tax Rate – The lower 2015 effective tax rate was primarily due to the U.S. foreign tax credit and the sale of a specialty product offering in a foreign location, which is taxed at a lower rate than the U.S. federal statutory rate, partially offset by a reversal of valuation allowances in 2014, which did not recur in 2015.

Net Income (Loss)	2015	2014	% Change	
Consolidated Net Income (Loss)	$399,506	$345,401	15.7	%

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Financial Results 2014 vs. 2013

The following tables present selected financial data for the years ended October 31, 2014 and October 25, 2013.

Net Sales	2014	2013	% Change	
Coatings	$2,585,416	$2,272,104	13.8	%
Paints	1,806,051	1,689,500	6.9	%
Other and Administrative	234,157	233,373	0.3	%
Consolidated Net Sales	$4,625,624	$4,194,977	10.3	%

- Consolidated Net Sales – Consolidated net sales for the year increased 10.3%, including a positive impact of 4.9% from the fiscal year 2013 acquisitions of the Inver Group and the paint manufacturing business of Ace Hardware (Ace paints), a positive impact of 1.0% from the 53rd week in fiscal year 2014 and a negative impact of 0.7% from foreign currency. The remaining increase in sales of 5.1% was due to new business across all significant product lines and growth of existing business in our consumer product lines.
- Coatings Segment Net Sales – Our Coatings segment net sales for the year increased 13.8%, including a positive impact of 8.8% from our Inver Group acquisition, a positive impact of 1.1% from the 53rd week in fiscal year 2014 and a negative impact of 0.6% from foreign currency. The remaining increase in sales of 4.5% was due to volume growth driven by new business in all product lines, partially offset by continued weakness in our North America general industrial product line.
- Paints Segment Net Sales – Our Paints segment net sales for the year increased 6.9%, including a positive impact of 0.8% from the 53rd week in fiscal 2014, a positive impact of 0.5% from our Ace paints acquisitions and a negative impact of 1.1% from foreign currency. The remaining increase in sales of 6.7% reflects new business in all regions and growth in our North America home improvement channel.
- Other and Administrative Net Sales – The Other and Administrative category includes the following product lines: resins, furniture protection plans and colorants. Other and Administrative net sales increased 0.3%, including a positive impact of 1.4% from the 53rd week in fiscal 2014 and a negative impact of 0.5% from foreign currency. The offsetting decrease of 1.6% was primarily due to decreased sales of resins.

Gross Profit	2014		2013	
Consolidated Gross Profit	$1,539,046		$1,358,058	
As a percent of Net Sales	33.3	%	32.4	%

- Gross Profit – The gross profit rate increased 0.9 percentage points. This was primarily due to improved productivity, favorable price/cost comparison and leverage from increased volumes, partially offset by investments in strategic acquisitions, which had lower initial margins. Restructuring charges of $28,471 or 0.6% of net sales and $21,916 or 0.5% of net sales were included in the 2014 and 2013 periods, respectively. There were no acquisition-related charges in 2014 compared to $513, or 0.01% of net sales in 2013.

Operating Expenses	2014		2013	
Consolidated Operating Expenses[1]	$979,137		$865,634	
As a percent of Net Sales	21.2	%	20.6	%

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

- Consolidated Operating Expenses (dollars) – Consolidated operating expenses increased $113,503 or 13.1% compared to the prior year primarily due to investments to support our growth initiatives, the effect of our Inver Group acquisition and higher incentive compensation. Restructuring charges of $12,668 or 0.3% of net sales and $14,517 or 0.3% of net sales were included in the 2014 and 2013 periods, respectively. There were no acquisition-related charges in 2014, compared to $1,729 or 0.04% of net sales in 2013.

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EBIT[1]	2014		2013	
Coatings	$389,390		$329,886	
As a percent of Net Sales	15.1	%	14.5	%
Paints	192,222		168,395	
As a percent of Net Sales	10.6	%	10.0	%
Other and Administrative	(24,400	)	(9,728	)
As a percent of Net Sales	(10.4	)%	(4.2	)%
Consolidated EBIT	$557,212		$488,553	
As a percent of Net Sales	12.0	%	11.6	%

[1] EBIT is defined as earnings before interest and taxes.

- Consolidated EBIT – EBIT for 2014 increased $68,659 or 14.1% from the prior year. Fiscal year 2014 results included restructuring charges of $41,139 or 0.9% of net sales, compared to $36,433 or 0.9% of net sales in fiscal year 2013. There were no acquisition-related charges in fiscal year 2014, compared to charges of $2,242 or 0.1% of net sales in fiscal year 2013. Foreign currency exchange fluctuation had an immaterial effect on Consolidated and segment EBIT.
- Coatings Segment EBIT – EBIT as a percent of net sales increased 0.6 percentage points from the prior year, primarily due to improved productivity, including the benefits from previously completed restructuring actions, leverage from higher volumes and a favorable price/cost comparison, partially offset by higher restructuring charges and the effect of the Inver Group acquisition. Restructuring charges for the 2014 and 2013 periods were $28,902 or 1.1% of net sales and $19,492 or 0.9% of net sales, respectively. There were no acquisition-related charges in 2014 period, compared to $2,242 or 0.1% of net sales in 2013.
- Paints Segment EBIT – EBIT as a percent of net sales increased 0.6 percentage points from the prior year, primarily due to improved sales mix, productivity, including the benefits from previously completed restructuring actions, and lower restructuring charges, partially offset by investments to support our growth initiatives. Restructuring charges for the 2014 and 2013 periods were $11,934 or 0.7% of net sales and $14,953 or 0.9% of net sales, respectively.
- Other and Administrative EBIT – Other and Administrative EBIT includes corporate expenses. EBIT as a percent of net sales decreased 6.2 percentage points from the prior year primarily due to higher incentive compensation accruals, partially offset by lower restructuring charges. EBIT included restructuring charges of $303 or 0.1% of net sales and $1,988 or 0.9% of net sales in the 2014 and 2013 periods, respectively.

Interest Expense	2014	2013
Consolidated Interest Expense	$65,330	$64,758

- Interest Expense – Interest expense increased slightly in fiscal year 2014 primarily due to a higher average debt balance, partially offset by lower average interest rates.

Effective Tax Rate	2014		2013	
Effective Tax Rate	29.8	%	31.7	%

- Effective Tax Rate – The lower 2014 effective tax rate was primarily due to favorable changes in geographical mix of earnings.

Net Income (Loss)	2014	2013	% Change	
Consolidated Net Income (Loss)	$345,401	$289,255	19.4	%

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FINANCIAL CONDITION

Cash Flow

Cash flow provided by operations was $383,200 in 2015, compared to $347,104 in 2014 and $398,504 in 2013. Cash flow provided by operations in 2015 increased due to higher net income, improvements in inventory and lower restructuring payments, partially offset by increased incentive compensation payments from prior year performance and higher income tax payments.

In 2015, we used cash flow from operations and net proceeds from issuance of debt and bank borrowings and cash on hand to fund $346,680 for acquisitions of businesses, net of cash, $322,420 in share repurchases and $97,126 in capital expenditures. We used cash on hand and proceeds from stock options exercised to fund $96,890 in dividend payments.

Debt and Capital Resources

Our debt classified as current was $334,153 at October 30, 2015 compared to $606,356 at October 31, 2014. Total debt was $2,041,086 at October 30, 2015 and $1,556,391 at October 31, 2014. The increase in total debt from October 31, 2014 was primarily due to borrowings to fund the Quest acquisition, share repurchases, and capital expenditures, partially offset by cash provided by operations. The ratio of total debt to capital was 70.5% at October 30, 2015, compared to 60.6% at October 31, 2014. Average debt outstanding during 2015 was $1,908,101 at a weighted average interest rate of 4.26% versus $1,608,935 at 4.06% last year. Interest expense for 2015 was $81,348 compared to $65,330 in 2014.

On August 3, 2015, we retired $150,000 of Senior Notes in accordance with their scheduled maturity using commercial paper and our revolving credit facility.

On July 27, 2015, we issued $350,000 of unsecured Senior Notes that mature on January 15, 2026 with a coupon rate of 3.95%. The net proceeds of the issuance were approximately $345,000. The public offering was made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission (SEC). We used the net proceeds from this offering for the repayment of borrowings under the term loan credit facility that was entered into on May 29, 2015.

On May 29, 2015, we entered into a $350,000 term loan credit agreement with a syndicate of banks with a maturity date of November 29, 2016. This facility was used to provide funding for the acquisition of Quest. See Note 2 in the Consolidated Financial Statements for further information on the acquisition. This facility was repaid and terminated on July 29, 2015 primarily using the net proceeds from the unsecured Senior Notes issued in July 2015.

On January 21, 2015, we issued $250,000 of unsecured Senior Notes that mature on February 1, 2025 with a coupon rate of 3.30%, and $250,000 of unsecured Senior Notes that mature on February 1, 2045 with a coupon rate of 4.40%. The net proceeds of both issuances were approximately $492,000 in the aggregate. The public offering was made pursuant to a registration statement filed with the SEC. We used the net proceeds to repay short-term borrowings under our commercial paper program and credit facility in the first quarter of 2015.

We maintain an unsecured revolving credit facility with a syndicate of banks. On December 16, 2013, we entered into an amended and restated $750,000 credit facility with a syndicate of banks with a maturity date of December 14, 2018. Under certain circumstances we have the option to increase this credit facility to $1,000,000.

In July 2013, we entered into a U.S. dollar equivalent unsecured committed revolving bilateral credit facility, expiring July 2014. In July 2014, this facility was extended for one year to July 2015. We paid off and terminated the bilateral credit facility in December 2014.

In certain geographies we have accepted bankers' acceptance drafts and commercial acceptance drafts as payment from customers. When we sell these instruments with recourse to a financial institution, we record them as short-term borrowings from the time they are sold until they reach maturity. These instruments are classified as short-term debt and the balance outstanding was $0 at October 30, 2015 and $23,838 at October 31, 2014.

As of October 30, 2015 and October 31, 2014, our bank facilities consisted of the following:

	October 30, 2015	
	Total Outstanding	Facility Size

December 2018 unsecured committed credit revolving facility[1]	$327,869	$750,000
Uncommitted bank lines of credit	6,153	97,512
Total Bank Credit Facilities	$334,022	$847,512

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	October 31, 2014	
	Total Outstanding	Facility Size
December 2018 bank syndicate facility[1]	$488,876	$750,000
July 2015 bilateral facility	13,938	13,938
Total unsecured committed revolving credit	502,814	763,938
Uncommitted bank lines of credit	17,202	196,301
Bankers Acceptance Drafts and Commercial Acceptance Drafts	23,838	—
Total Bank Credit Facilities	$543,854	$960,239

[1] Our bank syndicate facility includes $327,869 and $388,876 of commercial paper as of October 30, 2015 and October 31, 2014, respectively, along with $100,000 of revolving credit facility borrowings as of October 31, 2014. We have a $450,000 commercial paper program backed by our $750,000 credit facility, as amended and restated.

We maintain uncommitted bank lines of credit to meet short-term funding needs in certain of our international locations. These arrangements are reviewed periodically for renewal and modification.

Our credit facilities have covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of October 30, 2015. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

As of October 30, 2015, we had total committed liquidity of $608,092, comprised of $185,961 in cash and cash equivalents and $422,131 in unused committed bank credit facilities, compared to $389,327 of total committed liquidity as of October 31, 2014. At October 30, 2015 we had unused lines of committed and uncommitted credit available from banks of $513,490.

Our cash and cash equivalent balances consist of high quality, short-term money market instruments and cash held by our international subsidiaries that are used to fund those subsidiaries' day-to-day operating needs. Those balances have also been used to finance international acquisitions. Our investment policy on excess cash is to preserve principal. As of October 30, 2015, $181,370 of the $185,961 of cash (on the Consolidated Balance Sheets) was held by foreign subsidiaries. If these funds were repatriated to the U.S. we would be required to accrue and pay income taxes. No provision has been made for U.S. federal income taxes on certain undistributed earnings of foreign subsidiaries that we intend to permanently invest or that may be remitted substantially tax-fee.

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

We use derivative instruments with a number of counterparties principally to manage interest rate and foreign currency exchange risks. We evaluate the financial stability of each counterparty and spread the risk among several financial institutions to limit our exposure. We will continue to monitor counterparty risk on an ongoing basis. We do not have any credit-risk related contingent features in our derivative contracts as of October 30, 2015.

We paid common stock dividends of $96,890 or $1.20 per share in 2015, an increase of 15.4% per share over 2014 common stock dividends of $87,427 or $1.04 per share.

We have continuing authorization to purchase shares of our common stock for general corporate purposes. We repurchased 3,891,545 shares totaling $322,420 in 2015 compared to 4,705,081 shares totaling $349,181 in 2014 and 5,889,945 shares totaling $378,141 in 2013. On November 21, 2014, the Board approved a new share repurchase program, with no expiration date, authorizing us to purchase up to $1.5 billion of outstanding shares of common stock. This new program was effective immediately and replaced the previous repurchase authorization. As of October 30, 2015, $1,193,764 remained available for purchase under our repurchase authorization.

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

We accrue appropriate reserves for potential environmental liabilities when the amount of the costs that will be incurred can be reasonably determined. Accruals 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 it is neither probable nor reasonably possible that such liabilities, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

We are involved in a variety of legal claims and proceedings relating to personal injury, product liability, warranties, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These claims and proceedings include cases where we are one of a number of defendants in proceedings alleging that the plaintiffs suffered injuries or contracted diseases from exposure to chemicals or other ingredients used in the production of some of our products or waste disposal. We are also subject to claims related to the performance of our products. We believe these claims and proceedings are in the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, we believe it is neither probable nor reasonably possible that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

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

Contractual Obligations

The following table summarizes our contractual obligations as of October 30, 2015 for the fiscal years ending in October:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Notes & Interest to Banks	$334,485	$—	$—	$—	$—	$5	$334,490
Senior Notes & Interest	80,700	226,288	71,625	363,469	49,875	1,644,118	2,436,075
Bank Fees	1,125	1,125	1,125	141	—	—	3,516
Capital Leases	1,061	1,047	1,047	1,047	1,047	14,066	19,315
Medical Retiree/SERP/Pension	3,057	1,363	1,372	1,462	1,663	21,769	30,686
Operating Leases	35,951	27,095	18,361	9,870	8,699	26,381	126,357
Capital Expenditures	44,442	—	—	—	—	—	44,442
Commodity Purchase Commitments	5,700	1,536	—	—	—	—	7,236
Telecommunication Commitments	3,440	2,133	—	—	—	—	5,573
IT Commitments	2,288	—	—	—	—	—	2,288
Marketing Commitments	23,596	17,351	17,551	15,001	15,001	125,001	213,501

Total Contractual Cash Obligations	$535,845	$277,938	$111,081	$390,990	$76,285	$1,831,340	$3,223,479

We expect to make cash outlays in the future related to uncertain tax positions. However, due to the uncertainty of the timing of future cash flows, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits of $15,600 as of October 30, 2015, have been excluded from the contractual obligations table above. For further information related to unrecognized tax benefits, see Note 12 in Notes to Consolidated Financial Statements.

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NON-GAAP FINANCIAL MEASURES

This section includes financial information prepared in accordance with accounting principles generally accepted in the United States (GAAP), as well as certain non-GAAP financial measures such as adjusted gross profit, adjusted operating expense, adjusted earnings before interest and taxes (EBIT), adjusted net income and adjusted net income per common share – diluted. Generally, a non-GAAP financial measure is a numerical measure of financial performance that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures should be viewed as a supplement to, and not a substitute for, financial measures presented in accordance with GAAP. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies.

We believe that the non-GAAP financial measures provide meaningful information to assist investors in understanding our financial results and assessing prospects for future performance without regard to restructuring and acquisition-related charges. We believe adjusted gross profit, adjusted operating expense, adjusted EBIT, adjusted net income and adjusted net income per common share – diluted are important indicators of our operations because they exclude items that we believe may not be indicative of or are unrelated to our core operating results and provide a baseline for analyzing trends in our underlying business. To measure adjusted gross profit, adjusted operating expense and adjusted EBIT, we remove the impact of before-tax restructuring, acquisition-related charges and gain on sale of certain assets. Adjusted net income and adjusted net income per common share – diluted are calculated by removing the after-tax impact of restructuring, acquisition-related charges and gain on sale of certain assets from our calculated net income and net income per common share – diluted. Since non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures. These non-GAAP financial measures are an additional way to view aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures below, provide a more complete understanding of our business. We strongly encourage investors and shareholders to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

The following table reconciles gross profit, operating expense, EBIT, net income and net income per common share – diluted (GAAP financial measures) to adjusted gross profit, adjusted operating expense, adjusted EBIT, adjusted net income and adjusted net income per common share – diluted (non-GAAP financial measures) for the periods presented:

	Fiscal Years	
	2015	2014
Coatings Segment		
Earnings before interest and taxes (EBIT)	$483,649	$389,390
Restructuring charges – cost of sales	4,456	18,269
Acquisition-related charges – cost of sales	—	—
Restructuring charges – operating expense	5,118	10,633
Acquisition-related charges – operating expense	—	—
Gain on sale of certain assets	(48,001)	—
Adjusted EBIT	$445,222	$418,292
Paints Segment		
EBIT	$173,435	$192,222
Restructuring charges – cost of sales	9,551	10,216
Acquisition-related charges – cost of sales	4,428	—
Restructuring charges – operating expense	2,362	1,718
Acquisition-related charges – operating expense	892	—
Adjusted EBIT	$190,668	$204,156
Other and Administrative		
EBIT	$(11,935)	$(24,400)
Restructuring charges – cost of sales	—	(14)
Restructuring charges – operating expense	82	317
Adjusted EBIT	$(11,853)	$(24,097)

Consolidated		
Gross profit	$1,551,389	$1,539,046
Restructuring charges – cost of sales	14,007	28,471
Acquisition-related charges – cost of sales	4,428	—
Adjusted gross profit	$1,569,824	$1,567,517
Operating expense	$951,403	$979,137
Restructuring charges – operating expense	(7,562)	(12,668)
Acquisition-related charges – operating expense	(892)	—
Adjusted operating expense	$942,949	$966,469
EBIT	$645,149	$557,212
Restructuring charges – total	21,569	41,139
Acquisition-related charges – total	5,320	—
Gain on sale of certain assets	(48,001)	—
Adjusted EBIT	$624,037	$598,351
Net income	$399,506	$345,401
After tax restructuring charges – total[1]	15,158	28,941
After tax acquisition-related charges – total[1]	3,637	—
After tax gain on sale of certain assets	(37,216)	—
Adjusted net income	$381,085	$374,342
Net income per common share – diluted	$4.85	$4.01
Restructuring charges – total	0.18	0.34
Acquisition-related charges – total	0.04	—
Gain on sale of certain assets	(0.45)	—
Adjusted net income per common share – diluted	$4.62	$4.35

[1] The tax effect of restructuring, acquisition-related charges and gain on sale of certain assets is calculated using the effective tax rate of the jurisdiction in which the charges were incurred.See Note 18 in Notes to Consolidated Financial Statements for further information on restructuring.

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CRITICAL ACCOUNTING ESTIMATES

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

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

Revenue Recognition

Our revenue from product sales is recognized at the time the product is delivered or title has passed, 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 reductions in revenue as the products are sold. We offer promotional and rebate programs to our customers. These programs require estimates of customer participation and performance and are recorded at the time of sale as deductions from revenue. We also offer consumer programs to promote the sale of our products and record them as a reduction in revenue at the time the consumer offer is made using estimated redemption and participation. Revenues exclude sales taxes collected from our customers.

Additionally, in the U.S., we sell extended furniture protection plans for which revenue is deferred and recognized over the life of the contract. An actuarial study utilizing historical claims data is used to forecast claim payments over the contract period and revenue is recognized based on the forecasted claims payments. Actual claims costs are reflected in earnings in the period incurred. Anticipated losses on programs in progress are charged to earnings when identified. Differences between estimated and actual results, which have been insignificant historically, are recognized as a change in management estimate in a subsequent period.

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. Evaluating goodwill for impairment involves the determination of the fair value of our reporting units in which we have recorded goodwill. A reporting unit is an operating segment or a component of an operating segment for which discrete financial information is available and reviewed by management on a regular basis. We have determined that we have four separate reporting units with goodwill.

Goodwill for each of our reporting units is reviewed for impairment at least annually using a two-step process, as we have chosen not to perform a qualitative assessment for impairment. In the first step, we compare the fair value of each reporting unit to its carrying value, including goodwill. We use the following four material assumptions in our fair value analysis: (a) discount rates; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss. In step 2, we would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss, in the period identified, equal to the difference.

We review indefinite-lived intangible assets at least annually for impairment by calculating the fair value of the assets and comparing those fair values to the carrying value, as we have chosen not to perform a qualitative assessment for impairment. In assessing fair value, we generally utilize a relief from royalty method. If the carrying value of the indefinite-lived intangible assets exceeds the fair value of the asset, the carrying value is written down to fair value in the period identified.

During the fourth quarters of 2015, 2014 and 2013, we completed our annual goodwill and indefinite-lived intangible asset impairment reviews with no impairments to the carrying values identified. There was no change to our reporting units in 2015, 2014 or 2013.

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

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

For reporting units that pass step 1, we perform a sensitivity analysis on the discount rate, long-term sales growth rate and forecasted operating margin assumptions. The discount rate could increase by more than 10% of the discount rate utilized, the long-term sales growth rate assumption could decline to zero or costs could remain at the current spending level with no cost savings realized in future periods and our reporting units and indefinite-lived intangible assets would continue to have fair value in excess of carrying value. In fiscal 2015, we have no reporting units that are at risk of failing step 1 of our goodwill or indefinite-lived intangible asset impairment tests as the fair values of the reporting units substantially exceed their respective carrying values. There have been no significant events since the timing of our impairment tests that would have triggered additional impairment testing.

The assumptions used in our impairment testing could be adversely affected by certain risks discussed in “Risk Factors” in Item 1A of this report. For additional information about goodwill and intangible assets, see Notes 1 and 4 in Notes to Consolidated Financial Statements.

Pension and Post-Retirement Medical Obligations

We sponsor several defined benefit plans for certain hourly and salaried employees. We sponsor post-retirement medical benefits for certain U.S. employees. The amounts recognized in our financial statements are determined on an actuarial basis. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical trend rates and discount rates. A change in these assumptions could cause actual results to differ from those reported. A reduction of 50 basis points in the long-term rate of return and a reduction of 50 basis points in the discount rate would have increased our pension expense $2,210 in fiscal 2015. 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 11 in Notes to Consolidated Financial Statements, for further details regarding accounting for pensions and post-retirement medical benefits.

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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 projections of the proportion of income (or loss) earned and taxed in the foreign jurisdictions and the extent to which this income (or loss) may also be taxed in the United States, permanent and temporary differences, the likelihood of deferred tax assets being recovered and the outcome of uncertain tax positions. Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. We record an accrual for more likely than not exposures after evaluating the positions associated with our various income tax filings. A number of years may elapse before a particular matter for which we have established an accrual is audited and fully resolved or clarified. We adjust our tax contingencies accrual and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from our established accrual, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. The Internal Revenue Service (IRS) has nearly completed the audit of our fiscal year 2010 U.S. federal amended tax return, along with our fiscal year 2013 U.S. federal tax return. We do not anticipate any material adjustments to our income tax expense or balance of unrecognized tax benefits as a result. We are currently under audit in several state and foreign jurisdictions. We also expect various statutes of limitation to expire during the next 12 months. While we do not expect any material adjustments in the next 12 months due to the pending audit activity or expiring statutes, we are unable to estimate a range of outcomes at this time.

Stock-based Compensation

The valuation of stock options requires us to use judgments and assumptions. Annually, we make predictive assumptions regarding future stock price volatility, employee exercise behavior, dividend yield and the forfeiture rate. We estimate our future stock price volatility using historical volatility over the expected life of the option. If all other assumptions are held constant, a one percentage point increase in our fiscal 2015 volatility assumption would increase the grant-date fair value of our fiscal 2015 option awards by 4 percent. Our expected life represents the period of time that options granted are expected to be outstanding based on historical data to estimate option exercises and employee terminations within the valuation model. An increase in the expected life by 1 year, leaving all other assumptions constant, would increase the grant date fair value of our 2015 stock option grants by 5 percent. The risk-free interest rate for periods during the expected term of the options is based on yields available on the grant date for US Treasury STRIPS with maturity consistent with the expected life assumption. We recognize compensation expense for these options ratably over the requisite period, which considers retirement eligibility.

Certain restricted stock units have performance-based features that are subject to three-year cliff vesting and a cumulative three-year EPS target. The valuation of these performance awards requires judgment to assess the probability of reaching the targets and the achievement level within the target. If the estimate of the probability or achievement level changes during the performance period, a cumulative adjustment will be recorded in the period the probability or achievement level changes. We currently believe the achievement of the performance targets is probable, and, therefore, we have recognized compensation expense over the requisite service period using the average results of the performance period. The average results include the actual performance for the completed periods associated with these awards and our estimate of the target performance for the remaining performance periods associated with the awards.

Inventories

We record inventories at the lower of cost or net realizable value, with expense estimates made for obsolescence or unsaleable inventory equal to the difference between the recorded cost of inventories and their estimated market value based upon assumptions about future demand and market conditions. On an ongoing basis, we monitor these estimates and record adjustments for differences between estimates and actual experience. Historically, actual results have not significantly deviated from those determined using these estimates. Our domestic inventories, except for Quest, are recorded using the last-in, first-out (LIFO) method, while all other inventories are recorded using the first-in, first-out (FIFO) method. If inventories accounted for using the LIFO method are reduced on a year-over-year basis, liquidation of certain quantities carried at costs prevailing in prior years occurs. If inventories accounted for using the LIFO method are increased on a year-over-year basis, certain quantities are carried at costs prevailing in the current year. An actual valuation of inventory under the LIFO method can be made only at the end of the year based on inventory levels and costs at that time. Interim LIFO calculations are based on management reviews of price changes, as well as estimates of expected year-end inventory levels and costs, and are subject to the final year-end LIFO inventory valuation.

OFF-BALANCE SHEET ARRANGEMENTS

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our foreign sales and results of operations are subject to the impact of foreign currency fluctuations. As most of our underlying costs are denominated in the same currency as our sales, the effect has not been material. We have not used derivative financial instruments to hedge our exposure to translation gains and losses. A 10% adverse change in foreign currency rates is not expected to have a material effect on our results of operations or financial position. A change of greater than 10% in the exchange rates for individual currencies in geographies where we have a significant presence could have a material impact on our net income or financial position. At October 30, 2015, the regions where we have the largest exposure to our net sales, net income and financial position were China (CNY), Europe (EUR), Mexico (MXN), Australia (AUD), Brazil (BRL), the UK (GBP) and Malaysia (MYR).

We are also subject to interest rate risk. At October 30, 2015, approximately 16.4% of our total debt consisted of floating rate debt. From time to time, we may enter into interest rate derivatives to hedge a portion of either our variable or fixed rate debt. Assuming the current level of borrowings, a 10% increase in interest rates from those in effect at the end of the fourth quarter would not have a material impact on our results of operations or financial position.

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Stockholders
The Valspar Corporation

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

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, the Company's management assessed the design and operating effectiveness of internal control over financial reporting as of October 30, 2015 based on criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO).

The Company purchased the performance coatings businesses of Quest Specialty Chemicals (Quest) on June 15, 2015. As permitted by the Securities and Exchange Commission, management's assessment did not include the internal controls of Quest, which is included in the consolidated financial statements of the Company and constituted $80,962,180 of total assets as of October 30, 2015.

Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of October 30, 2015. 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 30, 2015. That report is included herein.

Gary E. Hendrickson
Chairman and Chief Executive Officer

James L. Muehlbauer
Chief Financial and Administrative Officer

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

The Board of Directors and Stockholders
The Valspar Corporation

We have audited The Valspar Corporation and subsidiaries' internal control over financial reporting as of October 30, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Valspar Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the corporation's internal control over financial reporting based on our audit.

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

A 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.

As indicated in the accompanying Report of Management on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Quest Specialty Chemicals (Quest), which is included in the 2015 consolidated financial statements of The Valspar Corporation and subsidiaries and constituted $80,962,180 of total assets as of October 30, 2015. Our audit of internal control over financial reporting of The Valspar Corporation and subsidiaries also did not include an evaluation of the internal control over financial reporting of Quest.

In our opinion, The Valspar Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 30, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Valspar Corporation as of October 30, 2015 and October 31, 2014, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended October 30, 2015, and our report dated December 18, 2015, expressed an unqualified opinion thereon.

Minneapolis, Minnesota
December 18, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Stockholders
The Valspar Corporation

We have audited the accompanying consolidated balance sheets of The Valspar Corporation and subsidiaries (the Corporation) as of October 30, 2015 and October 31, 2014, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended October 30, 2015. Our audits also included the financial statement schedule listed in Item 15 (a). These financial statements and schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Valspar Corporation and subsidiaries at October 30, 2015 and October 31, 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 30, 2015, 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 30, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated December 18, 2015, expressed an unqualified opinion thereon.

Minneapolis, Minnesota
December 18, 2015

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The Valspar Corporation and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

		October 30, 2015	October 31, 2014
Assets			
Current Assets	Cash and cash equivalents	$185,961	$128,203