

VALSPAR CORP
Form 10-Q
September 08, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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 or other jurisdiction of
incorporation or organization)

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

901 3rd Avenue South
Minneapolis, MN 55402

(Address of principal executive offices, including zip code)

612/851-7000

(Registrant's telephone number, including area code)

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 such filing requirements for the past 90 days. Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of September 1, 2010, The Valspar Corporation had 98,472,169 shares of common stock outstanding, excluding 19,970,455 shares held in treasury. We had no other classes of stock outstanding.

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THE VALSPAR CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (DOLLARS IN THOUSANDS)

ASSETS	July 30, 2010 (Unaudited)	October 30, 2009 (Note)	July 31, 2009 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	\$ 232,124	\$ 187,719	\$ 127,305
Restricted cash	12,570		
Accounts and notes receivable less allowance (7/30/10-\$20,016; 10/30/09-\$21,768; 7/31/09-\$21,701)	563,446	518,188	548,985
Inventories	270,719	238,449	234,091
Deferred income taxes	36,264	34,479	33,149
Prepaid expenses and other	82,610	83,631	88,647
TOTAL CURRENT ASSETS	1,197,733	1,062,466	1,032,177
GOODWILL	1,327,339	1,337,997	1,334,586
INTANGIBLES, NET	622,205	629,923	630,202
OTHER ASSETS	18,047	4,192	5,003
LONG-TERM DEFERRED INCOME TAXES	4,520	5,358	3,100
GROSS PROPERTY, PLANT AND EQUIPMENT	1,073,416	1,085,147	1,053,170
Less accumulated depreciation	(631,362)	(614,059)	(593,304)
NET PROPERTY, PLANT AND EQUIPMENT	442,054	471,088	459,866
TOTAL ASSETS	\$ 3,611,898	\$ 3,511,024	\$ 3,464,934

NOTE: The Balance Sheet at October 30, 2009 has been derived from the audited consolidated financial statements at that date.

See Notes to Condensed Consolidated Financial Statements

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THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS - CONTINUED
(DOLLARS IN THOUSANDS)

LIABILITIES AND STOCKHOLDERS EQUITY	July 30, 2010 (Unaudited)	October 30, 2009 (Note)	July 31, 2009 (Unaudited)
CURRENT LIABILITIES:			
Notes payable and commercial paper	\$ 7,464	\$ 7,278	\$ 7,213
Trade accounts payable	398,241	349,999	305,755
Income taxes	43,130	4,762	21,337
Other accrued liabilities	337,513	349,440	310,723
TOTAL CURRENT LIABILITIES	786,348	711,479	645,028
LONG-TERM DEBT, NET OF CURRENT PORTION	870,726	873,095	872,169
DEFERRED INCOME TAXES	243,457	235,975	233,092
OTHER LONG-TERM LIABILITIES	162,495	185,968	154,294
TOTAL LIABILITIES	2,063,026	2,006,517	1,904,583
HUARUN REDEEMABLE STOCK			43,531
STOCKHOLDERS EQUITY:			
Common Stock (Par Value - \$0.50; Authorized 250,000,000 shares; Shares issued, including shares in treasury 118,442,624)	59,220	59,220	59,220
Additional paid-in capital	372,711	353,086	338,601
Retained earnings	1,392,899	1,269,738	1,235,184
Accumulated other comprehensive income (loss)	26,780	67,997	82,988
Less cost of Common Stock in treasury (7/30/10-19,754,712 shares; 10/30/09-18,960,410 shares; 7/31/09-17,703,937 shares)	(302,738)	(245,534)	(199,173)
TOTAL STOCKHOLDERS EQUITY	1,548,872	1,504,507	1,516,820
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,611,898	\$ 3,511,024	\$ 3,464,934

NOTE: The Balance Sheet at October 30, 2009 has been derived from the audited consolidated financial statements at that date.

See Notes to Condensed Consolidated Financial Statements

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THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	July 30, 2010	July 31, 2009	July 30, 2010	July 31, 2009
Net sales	\$ 873,915	\$ 794,580	\$ 2,349,848	\$ 2,102,461
Cost of sales	583,111	504,334	1,568,700	1,401,735
Gross profit	290,804	290,246	781,148	700,726
Research and development	24,758	22,829	73,126	68,441
Selling, general and administrative	145,921	156,988	423,705	430,519
Income from operations	120,125	110,429	284,317	201,766
Interest expense	14,322	13,433	43,433	35,940
Other (income)/expense net	(898)	2,495	(2,357)	3,135
Income before income taxes	106,701	94,501	243,241	162,691
Income taxes	31,558	29,550	72,488	52,442
Net income	\$ 75,143	\$ 64,951	\$ 170,753	\$ 110,249
Huarun redeemable stock accrual (1)		(3,318)		(9,954)
Net income available to common stockholders	\$ 75,143	\$ 61,633	\$ 170,753	\$ 100,295
Net income per common share basic	\$ 0.76	\$ 0.61	\$ 1.73	\$ 1.00
Net income per common share diluted	\$ 0.74	\$ 0.61	\$ 1.69	\$ 1.00
Average number of common shares outstanding				
- basic	98,535,826	100,274,346	98,775,411	100,017,910
- diluted	101,009,523	101,342,785	101,067,349	100,632,888
Dividends paid per common share	\$ 0.16	\$ 0.15	\$ 0.48	\$ 0.45

(1) For more information on the Huarun redeemable stock accrual see Note 3.

See Notes to Condensed Consolidated Financial Statements

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THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(DOLLARS IN THOUSANDS)

	NINE MONTHS ENDED	
	July 30, 2010	July 31, 2009
OPERATING ACTIVITIES:		
Net income	\$ 170,753	\$ 110,249
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation	55,797	57,602
Amortization	5,464	5,755
Stock-based compensation	4,729	3,789
(Gain)/loss on asset divestitures	(12,750)	564
Changes in certain assets and liabilities, net of effects of acquired businesses:		
(Increase)/decrease in accounts and notes receivable	(56,984)	4,473
(Increase)/decrease in inventories and other assets	(55,796)	34,769
Increase/(decrease) in trade accounts payable and other accrued liabilities	50,436	(63,115)
Increase/(decrease) in income taxes payable	30,447	(5,069)
Increase/(decrease) in other deferred liabilities	(1,480)	(4,753)
Settlement of treasury lock contracts		11,600
Other	(13,747)	(55)
Net Cash (Used In)/Provided By Operating Activities	176,869	155,809
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(35,248)	(33,339)
Cash proceeds on disposal of assets	27,808	549
Acquisition of businesses, net of cash acquired	(15,034)	
(Increase)/decrease in restricted cash	(12,570)	
Net Cash (Used In)/Provided By Investing Activities	(35,044)	(32,790)
FINANCING ACTIVITIES:		
Net change in borrowings	5,348	(48,051)
Proceeds from sale of treasury stock	36,440	10,429
Payments on deferred liability excess cash Huarun		(4,818)
Excess tax benefit from stock-based compensation	3,655	