VALSPAR CORP Form 10-Q September 08, 2010 Table of Contents

#### UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, DC 20549

### FORM 10-Q

#### x 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

#### 0 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

to

For the transition period from \_\_\_\_\_

**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. 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 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 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 Rule 12b-2 of the Exchange Act).							
o Yes x 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)	
•	442,054	471,088	459,866	
NET PROPERTY, PLANT AND EQUIPMENT	442,034	4/1,088	439,800	
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	2010	July 30, 2010 naudited)		October 30, 2009 (Note)		July 31, 2009 (Unaudited)	
CURRENT LIABILITIES:							
Notes payable and commercial paper	\$ 7	7,464	\$	7,278	\$	7,213	
Trade accounts payable	398	3,241		349,999		305,755	
Income taxes	43	3,130		4,762		21,337	
Other accrued liabilities	337	7,513		349,440		310,723	
TOTAL CURRENT LIABILITIES	786	5,348		711,479		645,028	
LONG-TERM DEBT, NET OF CURRENT PORTION	870	),726		873,095		872,169	
DEFERRED INCOME TAXES	243	3,457		235,975		233,092	
OTHER LONG-TERM LIABILITIES	162	2,495		185,968		154,294	
TOTAL LIABILITIES	2,063	3,026		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	9,220		59,220		59,220	
Additional paid-in capital	372	2,711		353,086		338,601	
Retained earnings	1,392	2,899		1,269,738		1,235,184	
Accumulated other comprehensive income (loss)	26	5,780		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	2,738)		(245,534)		(199,173)	
TOTAL STOCKHOLDERS EQUITY	1,548			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

#### THE VALSPAR CORPORATION AND SUBSIDIARIES

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

Т	THREE MONTHS ENDED			NINE MONTHS ENDED			
	July 30,	July 31,		July 30,		July 31,	
	2010		2009		2010		2009
\$	873,915	\$	794,580	\$	2,349,848	\$	2,102,461
	583,111		504,334		1,568,700		1,401,735
	290,804		290,246		781,148		700,726
	24,758		22,829		73,126		68,441
	145,921		156,988		423,705		430,519
	120,125		110,429		284,317		201,766
	14,322		13,433		43,433		35,940
	(898)		2,495		(2,357)		3,135
	106,701		94,501		243,241		162,691
	31,558		29,550		72,488		52,442
\$	75,143	\$	64,951	\$	170,753	\$	110,249
			(3,318)				(9,954)
\$	75,143	\$	61,633	\$	170,753	\$	100,295
\$	0.76	\$	0.61	\$	1.73	\$	1.00
\$	0.74	\$	0.61	\$	1.69	\$	1.00
	98,535,826		100,274,346		98,775,411		100,017,910
1	01,009,523		101,342,785		101,067,349		100,632,888
\$	0.16	\$	0.15	\$	0.48	\$	0.45
	\$ \$ \$ \$ \$	July 30, 2010 \$ 873,915 583,111 290,804 24,758 145,921 120,125 14,322 (898) 106,701 31,558 \$ 75,143 \$ 75,143 \$ 0.76 \$ 0.74 98,535,826 101,009,523	July 30, 2010 \$ 873,915 \$ 583,111 290,804 24,758 145,921 120,125 14,322 (898) 106,701 31,558 \$ 75,143 \$ \$ 75,143 \$ \$ 0.76 \$ \$ 0.74 \$ 98,535,826 101,009,523	$\begin{array}{c c c c c c c c c c c c c c c c c c c $	$\begin{array}{c c c c c c c c c c c c c c c c c c c $	July 30, 2010July 31, 2009July 30, 2010\$ 873,915\$ 794,580\$ 2,349,848583,111 $504,334$ 1,568,700290,804290,246781,14824,75822,82973,126145,921156,988423,705120,125110,429284,31714,32213,43343,433(898)2,495(2,357)106,70194,501243,24131,55829,55072,488\$ 75,143\$ 64,951\$ 170,753\$ 0,76\$ 0,61\$ 1,73\$ 0,76\$ 0,61\$ 1,6998,535,826100,274,34698,775,411101,009,523101,342,785101,067,349	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$

(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)

July 30, 2010  July 31, 2010    OPERATING ACTIVITIES:  *    Met income  \$ 170,753  \$ 110,249    Adjustments to reconcile net income to net cash (used in)/provided by operating activities:  *    Depreciation  55,797  \$75,602    Amortization  5,464  \$7,755    Stock-based compensation  4,729  3,789    (Gain)/loss on asset divestitures  (12,750)  \$64    Changes in certain assets and liabilities, net of effects of acquired businesses:  *  *    (Increase)/decrease in inventories and other assets  (55,796)  34,769    Increase/(decrease) in trade accounts payable and other accrued liabilities  \$0,447  (5,069)    Increase/(decrease) in income taxes payable  30,447  (5,069)    Increase/(decrease) in income taxes payable  (14,80)  (4,753)    Settlement of treasury lock contracts  11,600  11,600    Other  (13,747)  (55)    Net Cash (Used In)/Provided By Operating Activities  176,869  155,809    INVESTING ACTIVITIES:  *  *  *    Purchases of propery		NINE MONTHS ENDEI		
OPERATING ACTIVITIES:\$ 170,753\$ 110,249Adjustments to reconcile net income to net cash (used in)/provided by operating activities:Depreciation55,79757,602Amortization5,4645,755Stock-based compensation4,7293,789(Gain/Joss on asset divestitures(12,750)564Changes in certain assets and liabilities, net of effects of acquired businesses:(12,750)564(Increase)/decrease in accounts and notes receivable(56,984)4,473(Increase)/decrease in introde accounts payable and other accrued liabilities50,436(63,115)Increase/(decrease) in trade accounts payable and other accrued liabilities50,437(5,069)Increase/(decrease) in income taxes payable30,447(5,069)Increase/(decrease) in other deferred liabilities11,60000,447(5,069)Increase/(decrease) in other deferred liabilities11,60011,600Other(13,747)(55)15,809INVESTING ACTIVITIES:116,00015,848(33,339)Cash proceeds on disposal of assets27,808549Acquisition of businesses, net of cash acquired(15,034)(10,2370)Net Cash (Used In)/Provided By Investing Activities(35,044)(32,790)FINANCING ACTIVITIES:10,004(35,044)(32,790)PINANCING ACTIVITIES:10,4295,348(48,051)Proceeds from sale of treasury stock36,44010,429Proceeds from sale of treasury stock36,44010,429Proceeds		•		
Net income  \$ 170,753  \$ 110,249    Adjustments to reconcile net income to net cash (used in//provided by operating activities:		2010	2009	
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:Note of the task of th		ф 170 752	¢ 110.240	
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Amortization5.4645.755Stock-based compensation4.7293.789(Gain)/loss on asset divestitures(12,750)564Changes in certain assets and liabilities, net of effects of acquired businesses:(12,750)564(Increase)/decrease in accounts and notes receivable(56,984)4.473(Increase)/decrease in inventories and other assets(55,796)34,769Increase/(decrease) in trade accounts payable and other accrued liabilities50,436(63,115)Increase/(decrease) in income taxes payable30,447(5,069)Increase/(decrease) in other deferred liabilities(1,480)(4,753)Settlement of treasury lock contracts11,60011,600Other(13,747)(55)Net Cash (Used In)/Provided By Operating Activities176,869155,809INVESTING ACTIVITIES:27,808549Acquisition of businesses, net of cash acquired(15,034)(12,570)Vet Cash (Used In)/Provided By Investing Activities(12,570)Net Cash (Used In)/Provided By Investing Activities(35,044)(32,790)FINANCING ACTIVITIES:11,600(12,570)Net Cash (Used In)/Provided By Investing Activities(35,044)(32,790)FINANCING ACTIVITIES:12,570Net Cash (Used In)/Provided By Investing Activities(36,440)(10,429)Proceeds from sale of treasury stock36,44010,42924,81824,81824,818		55 808	57 (00	
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Purchases of property, plant and equipment(35,248)(33,339)Cash proceeds on disposal of assets27,808549Acquisition 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)FINANCING ACTIVITIES:5,348Net change in borrowings5,348Proceeds from sale of treasury stock36,440Payments on deferred liabilityexcess cashHuarun(4,818)	Net Cash (Used In)/Provided By Operating Activities	176,869	155,809	
Cash proceeds on disposal of assets27,808549Acquisition 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)FINANCING ACTIVITIES:5,348Net change in borrowings5,348Proceeds from sale of treasury stock36,440Payments on deferred liabilityexcess cashHuarun(4,818)	INVESTING ACTIVITIES:			
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)FINANCING ACTIVITIES:5,348Net change in borrowings5,348Proceeds from sale of treasury stock36,440Payments on deferred liabilityexcess cashHuarun(4,818)	Purchases of property, plant and equipment	(35,248)	(33,339)	
(Increase)/decrease in restricted cash(12,570)Net Cash (Used In)/Provided By Investing Activities(35,044)(32,790)FINANCING ACTIVITIES:Net change in borrowings5,348(48,051)Proceeds from sale of treasury stock36,44010,429Payments on deferred liabilityexcess cashHuarun(4,818)	Cash proceeds on disposal of assets	27,808	549	
Net Cash (Used In)/Provided By Investing Activities(35,044)(32,790)FINANCING ACTIVITIES:Net change in borrowings5,348(48,051)Proceeds from sale of treasury stock36,44010,429Payments on deferred liabilityexcess cashHuarun(4,818)	Acquisition of businesses, net of cash acquired	(15,034)		
FINANCING ACTIVITIES:Net change in borrowings5,348Proceeds from sale of treasury stock36,440Payments on deferred liabilityexcess cashHuarun(4,818)	(Increase)/decrease in restricted cash	(12,570)		
Net change in borrowings5,348(48,051)Proceeds from sale of treasury stock36,44010,429Payments on deferred liabilityexcess cashHuarun(4,818)	Net Cash (Used In)/Provided By Investing Activities	(35,044)	(32,790)	
Proceeds from sale of treasury stock36,44010,429Payments on deferred liabilityexcess cashHuarun(4,818)	FINANCING ACTIVITIES:			
Payments on deferred liability excess cash Huarun (4,818)	Net change in borrowings	5,348	(48,051)	
Payments on deferred liability excess cash Huarun (4,818)	Proceeds from sale of treasury stock	36,440	10,429	
			(4,818)	
Sites an energy for store cused compensation 5,055	Excess tax benefit from stock-based compensation	3,655		