

VALSPAR CORP
Form 10-Q
September 06, 2006
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 28, 2006

or

**o 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.)

**1101 Third Street South
Minneapolis, MN 55415**

(Address of principal executive offices, including zip code)

612/332-7371

(Registrant's telephone number, including area code)

Edgar Filing: VALSPAR CORP - Form 10-Q

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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 August 30, 2006, The Valspar Corporation had 101,674,941 shares of common stock outstanding, excluding 18,767,683 shares held in treasury. The Company had no other classes of stock outstanding.

Table of Contents

-1-

THE VALSPAR CORPORATION

Index to Form 10-Q
for the Quarter Ended July 28, 2006

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets July 28, 2006, July 29, 2005 and October 28, 2005</u>	2 3
<u>Condensed Consolidated Statements of Income Three months and nine months ended July 28, 2006 and July 29, 2005</u>	4
<u>Condensed Consolidated Statements of Cash Flows Nine months ended July 28, 2006 and July 29, 2005</u>	5
<u>Notes to Condensed Consolidated Financial Statements July 28, 2006</u>	6 14
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14 17
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	17 18
Item 4. <u>Controls and Procedures</u>	18
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	18

Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	Page No. 18
Item 6. <u>Exhibits</u>	19
<u>SIGNATURES</u>	19

Table of Contents

-2-

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (DOLLARS IN THOUSANDS)

	July 28, 2006 (Unaudited)	July 29, 2005 (Unaudited)	October 28, 2005 (Note)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 60,583	\$ 53,392	\$ 52,845
Accounts receivable less allowance (7/28/06 \$12,898; 7/29/05 \$17,072; 10/28/05 \$16,857)	534,475	472,549	462,396
Inventories:			
Manufactured products	167,022	159,941	142,458
Raw materials, supplies and work-in-process	86,849	91,250	88,182
	253,871	251,191	230,640
Deferred income taxes	39,791	39,401	39,075
Prepaid expenses and other	84,973	79,778	80,248
TOTAL CURRENT ASSETS	973,693	896,311	865,204
GOODWILL	1,328,958	1,058,697	1,064,931
INTANGIBLES, NET	360,241	316,871	315,537
OTHER ASSETS, NET	63,588	78,905	60,214
LONG-TERM DEFERRED INCOME TAX	25,910	25,527	27,455

Edgar Filing: VALSPAR CORP - Form 10-Q

	July 28, 2006	July 29, 2005	October 28, 2005
PROPERTY, PLANT AND EQUIPMENT	833,122	837,557	844,220
Less accumulated depreciation	(420,027)	(409,740)	(416,398)
	413,095	427,817	427,822
	\$ 3,165,485	\$ 2,804,128	\$ 2,761,163

NOTE: The Balance Sheet at October 28, 2005 has been derived from the audited consolidated financial statements at that date.
See Notes to Condensed Consolidated Financial Statements

Table of Contents

-3-

THE VALSPAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS CONTINUED
(DOLLARS IN THOUSANDS)

	July 28, 2006 (Unaudited)	July 29, 2005 (Unaudited)	October 28, 2005 (Note)
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable to banks	\$ 37,310	\$ 152,610	\$ 29,257
Current portion of long-term debt	350,026	84,057	24
Trade accounts payable	337,747	250,348	260,070
Income taxes	55,128	68,470	58,120
Accrued liabilities	273,771	234,938	278,160
TOTAL CURRENT LIABILITIES	1,053,982	790,423	625,631
LONG-TERM DEBT	550,124	615,367	706,415
DEFERRED INCOME TAXES	226,689	202,453	209,341
DEFERRED LIABILITIES	153,070	165,407	158,684
STOCKHOLDERS' EQUITY:			
Common Stock (Par Value \$.50; Authorized 500,000,000 shares; Shares issued, including shares in treasury 120,442,624)	60,220	30,110	60,220
Additional paid-in capital	311,548	283,154	289,158
Retained earnings	969,693	869,182	880,006
Other	19,183	6,481	11,695

Edgar Filing: VALSPAR CORP - Form 10-Q

	July 28, 2006	July 29, 2005	October 28, 2005
	1,360,644	1,188,926	1,241,079
Less cost of Common Stock in treasury (7/28/06 18,843,267 shares; 7/29/05 19,132,454 shares; 10/28/05 20,010,616 shares)	179,024	158,449	179,987
	1,181,620	1,030,478	1,061,092
	\$ 3,165,485	\$ 2,804,128	\$ 2,761,163

NOTE: The Balance Sheet at October 28, 2005 has been derived from the audited consolidated financial statements at that date.
See Notes to Condensed Consolidated Financial Statements

Table of Contents

-4-

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 28, 2006	July 29, 2005	July 28, 2006	July 29, 2005
Net sales	\$ 797,376	\$ 725,477	\$ 2,193,957	\$ 1,988,563
Cost of goods sold	550,718	512,222	1,534,715	1,423,487
Gross profit	246,658	213,255	659,242	565,076
Research and development	21,202	20,037	61,149	59,055
Selling and administrative	136,534	109,568	378,126	323,398
Income from operations	88,922	83,650	219,967	182,623
Interest expense	10,897	11,535	32,607	32,995
Other (income)/expense net	1,495	302	2,650	(167)
Income before income taxes	76,530	71,813	184,710	149,795
Income taxes	23,895	26,100	61,599	53,143
Net income	\$ 52,635	\$ 45,713	\$ 123,111	\$ 96,652

Edgar Filing: VALSPAR CORP - Form 10-Q

	THREE MONTHS ENDED		NINE MONTHS ENDED	
Net income per common share basic	\$ 0.52	\$ 0.45	\$ 1.22	\$ 0.95
Net income per common share diluted	\$ 0.51	\$ 0.44	\$ 1.20	\$ 0.92
Average number of common shares outstanding				
basic	101,437,514	101,756,802	101,095,368	102,242,560
diluted	103,069,697	104,052,304	102,673,401	104,615,388
Dividends paid per common share	\$ 0.11	\$ 0.10	\$ 0.33	\$ 0.30

See Notes to Condensed Consolidated Financial Statements

Table of Contents

-5-

THE VALSPAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(DOLLARS IN THOUSANDS)

	NINE MONTHS ENDED	
	July 28, 2006	July 29, 2005
OPERATING ACTIVITIES:		
Net income	\$ 123,111	\$ 96,652
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation	48,352	45,080
Amortization	3,594	3,577
Stock-based compensation	6,875	
(Gain)/loss on asset divestiture	2,675	3,448
Changes in certain assets and liabilities, net of effects of acquired businesses:		
(Increase)/decrease in accounts and notes receivable	(64,298)	(43,833)
(Increase)/decrease in inventories and other current assets	(26,223)	(24,507)
Increase/(decrease) in trade accounts payable and accrued liabilities	71,615	(29,560)
Increase/(decrease) in income taxes payable	(3,348)	22,867
Increase/(decrease) in other deferred liabilities	(5,985)	2,249
Other	(2,831)	(9,717)
Net Cash (Used In)/Provided By Operating Activities	153,537	66,256
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(40,459)	(40,895)
Acquired Businesses, net of cash	(290,387)	(78,691)
Cash proceeds on disposal of assets	7,374	

Edgar Filing: VALSPAR CORP - Form 10-Q

	NINE MONTHS ENDED	
Net Cash Used In Investing Activities	(323,472)	(119,586)
FINANCING ACTIVITIES:		
Net proceeds from (payments on) borrowings	195,895	123,092
Proceeds from sale of treasury stock	26,043	19,954
Excess tax benefit from stock-based compensation	2,398	
Treasury stock purchases	(13,196)	(59,851)
Dividends paid	(33,467)	(30,617)
Net Cash (Used In)/Provided By Financing Activities	177,673	52,578
Increase/(Decrease) in Cash and Cash Equivalents	7,738	(751)
Cash and Cash Equivalents at Beginning of Period	52,845	54,143
Cash and Cash Equivalents at End of Period	\$ 60,583	\$ 53,392

See Notes to Condensed Consolidated Financial Statements

Table of Contents

-6-

THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JULY 28, 2006

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of The Valspar Corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for any interim period are not necessarily indicative of the results that may be expected for the year.

The Condensed Consolidated Balance Sheet at October 28, 2005 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For further information refer to the consolidated financial statements and footnotes thereto included in The Valspar Corporation's annual report on Form 10-K for the year ended October 28, 2005.

NOTE 2: ACCOUNTS PAYABLE

Trade accounts payable includes \$35.8 million at July 28, 2006, \$36.8 million at October 28, 2005 and \$27.3 million at July 29, 2005 of issued checks that had not cleared the Company's bank accounts.

NOTE 3: ACQUISITIONS AND DIVESTITURES

Edgar Filing: VALSPAR CORP - Form 10-Q

On July 26, 2006, the Company acquired 80% of the share capital of Huarun Paints Holdings Company Limited (Huarun Paints), one of China's largest independent coatings companies, from Champion Regal Limited, a Hong Kong based investment company, and certain other shareholders. Huarun Paints is one of China's leading domestic suppliers of wood and furniture coatings, and a rapidly growing supplier of architectural coatings. Huarun Paints sells its products primarily through an extensive network of distributors and retail paint stores throughout China. Huarun Paints' revenue for fiscal year 2005 was approximately \$180 million. The balance sheet at July 28, 2006 reflects the entire purchase price as allocated to goodwill. The Company will make a preliminary allocation of the purchase price in its consolidated financial statements for the year ending October 27, 2006. The final purchase price allocation will be made within one year of the date of the acquisition. The pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

NOTE 4: COMPREHENSIVE INCOME

For the nine months ended July 28, 2006 and July 29, 2005, Comprehensive Income, a component of Stockholders' Equity, was as follows:

Table of Contents

-7-

THE VALSPAR CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JULY 28, 2006 CONTINUED

(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	July 28, 2006	July 29, 2005	July 28, 2006	July 29, 2005
Net Income	\$ 52,635	\$ 45,71		