VALSPAR CORP
Form 10-Q
September 07, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 29, 2016
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	36-2443580
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1101 South 3rd Street,	
Minneapolis, Minnesota	55415
(Address of principal executive offices)	(Zip Code)

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

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 ¨ 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 ¨ 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.

Large accelerated filer x	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 x No

As of September 1, 2016, The Valspar Corporation had 79,353,449 shares of common stock outstanding, excluding 39,089,175 shares held in treasury. The company had no other classes of stock outstanding.

THE VALSPAR CORPORATION

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for the Quarter Ended July 29, 2016

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

ASSETS	July 29, 2016 (Unaudited)	October 30, 2015 (Note)	July 31, 2015 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	$170,223	$185,961	$342,647
Restricted cash	836	1,307	1,628
Accounts and notes receivable less allowance (7/29/16 – $8,362; 10/30/15 – $9,550; 7/31/15 – $12,803)	828,689	857,256	876,800
Inventories	523,637	451,909	512,609
Deferred income taxes	32,898	37,707	28,120
Prepaid expenses and other	137,228	97,090	103,241
TOTAL CURRENT ASSETS	1,693,511	1,631,230	1,865,045
GOODWILL	1,286,591	1,287,703	1,304,831
INTANGIBLES, NET	627,939	643,100	653,020
OTHER ASSETS	125,462	112,735	117,415
LONG-TERM DEFERRED INCOME TAXES	10,056	11,042	6,893
Property, plant and equipment, gross	1,638,765	1,582,338	1,585,308
Less accumulated depreciation	(992,243)	(949,573)	(954,494)
PROPERTY, PLANT AND EQUIPMENT, NET	646,522	632,765	630,814
TOTAL ASSETS	$4,390,081	$4,318,575	$4,578,018

Note: The Balance Sheet at October 30, 2015 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, EXCEPT PER SHARE AMOUNTS)

LIABILITIES AND STOCKHOLDERS' EQUITY	July 29, 2016 (Unaudited)	October 30, 2015 (Note)	July 31, 2015 (Unaudited)
CURRENT LIABILITIES:			
Short-term debt	$242,208	$334,022	$474,169
Current portion of long-term debt	150,101	131	158,091
Trade accounts payable	563,078	553,737	554,493
Income taxes payable	19,485	36,010	43,530
Other accrued liabilities	421,717	442,839	390,590
TOTAL CURRENT LIABILITIES	1,396,589	1,366,739	1,620,873
LONG-TERM DEBT, NET OF CURRENT PORTION	1,557,001	1,706,933	1,706,950
LONG-TERM DEFERRED INCOME TAXES	242,977	240,919	226,798
OTHER LONG-TERM LIABILITIES	152,112	148,975	139,188
TOTAL LIABILITIES	3,348,679	3,463,566	3,693,809
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	488,138	474,044	459,567
Retained earnings	2,380,754	2,209,628	2,131,106
Accumulated other comprehensive income (loss)	(200,355)	(195,498)	(139,166)
Less cost of common stock in treasury (7/29/16 – 39,107,550 shares; 10/30/15 – 39,458,773 shares; 7/31/15 – 38,657,543 shares)	(1,686,355)	(1,692,385)	(1,626,518)
TOTAL STOCKHOLDERS' EQUITY	1,041,402	855,009	884,209
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$4,390,081	$4,318,575	$4,578,018

Note: The Balance Sheet at October 30, 2015 has been derived from the audited consolidated financial statements at that date.

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THE VALSPAR CORPORATION AND SUBSIDIARIES

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

	Three Months Ended		Nine Months Ended	
	July 29, 2016	July 31, 2015	July 29, 2016	July 31, 2015
Net sales	$1,141,942	$1,149,126	$3,084,495	$3,243,084
Cost of sales	718,052	733,572	1,935,176	2,094,956
Restructuring charges - cost of sales	1,943	1,319	7,304	7,398
Acquisition-related charges - cost of sales	—	2,952	—	2,952
Gross profit	421,947	411,283	1,142,015	1,137,778
Research and development	36,211	34,951	104,330	99,590
Selling, general and administrative	207,461	206,432	610,006	600,310
Restructuring charges	3,302	3,280	8,708	5,994
Proposed merger-related charges	4,616	—	22,856	—
Acquisition-related charges	16	892	1,141	892
Operating expenses	251,606	245,555	747,041	706,786
Gain on sale of certain assets	—	—	—	48,001
Income from operations	170,341	165,728	394,974	478,993
Interest expense	23,082	22,622	68,286	59,178
Other (income)/expense - net	103	70	1,469	799
Income before income taxes	147,156	143,036	325,219	419,016
Income taxes	30,168	40,174	75,773	121,866
Net income	$116,988	$102,862	$249,446	$297,150
Net income per common share - basic	$1.48	$1.29	$3.16	$3.68
Net income per common share - diluted	$1.44	$1.25	$3.08	$3.58
Average number of common shares outstanding				
- basic	79,124,763	80,020,089	78,947,072	80,857,078
- diluted	81,185,695	81,999,701	80,904,905	82,910,996
Dividends paid per common share	$0.33	$0.30	$0.99	$0.90

See Notes to Condensed Consolidated Financial Statements

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THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	July 29, 2016	July 31, 2015	July 29, 2016	July 31, 2015
Net income	$116,988	$102,862	$249,446	$297,150
Other comprehensive income (loss)	(25,684)	4,025	(4,857)	(119,496)
Comprehensive income	$91,304	$106,887	$244,589	$177,654

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 29, 2016		July 31, 2015	
OPERATING ACTIVITIES:				
Net income	$ 249,446		$ 297,150	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	62,445		61,346	
Amortization	8,718		6,712	
Stock-based compensation	23,032		9,481	
Gain on asset divestitures	(527	)	(51,193	)
Impairment of certain long-lived assets	5,867		—	
Changes in certain assets and liabilities:				
(Increase)/decrease in accounts and notes receivable	29,918		(91,046	)
(Increase)/decrease in inventories and other assets	(88,929	)	(88,891	)
Increase/(decrease) in trade accounts payable and other accrued liabilities	(8,282	)	(30,897	)
Increase/(decrease) in income taxes, net	(24,084	)	8,385	
Increase/(decrease) in other liabilities	(1,917	)	(3,616	)
Other	(5,284	)	(4,835	)
Net cash provided by operating activities	250,403		112,596	
INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(89,159	)	(60,846	)
Acquisition of businesses, net of cash acquired	(24,408	)	(348,749	)
Proceeds from divestiture of businesses	—		54,552	
Cash proceeds on disposal of assets	10,131		5,663	
Decrease in restricted cash	471		1,240	
	(102,965	)	(348,140	)

Net cash used in investing activities		
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	—	1,187,357
Payments of debt	(2,035)	(477,676)
Net change in other borrowings	1,842	7,377
Net proceeds (repayments) of commercial paper	(93,238)	56,960
Proceeds from stock options exercised	14,714	9,878
Treasury stock purchases	(18,134)	(251,415)
Excess tax benefit from stock-based compensation	12,452	11,297
Dividends paid	(78,307)	(73,056)
Net cash (used in)/provided by financing activities	(162,706)	470,722
Increase/(decrease) in cash and cash equivalents	(15,268)	235,178
Effect of exchange rate changes on cash and cash equivalents	(470)	(20,734)
Cash and cash equivalents at beginning of period	185,961	128,203
Cash and cash equivalents at end of period	$ 170,223	$ 342,647

See Notes to Condensed Consolidated Financial Statements

THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JULY 29, 2016
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of The Valspar Corporation ("Valspar," "we," "us" or "our") have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) 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 GAAP 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 the three and nine months ended July 29, 2016 are not necessarily indicative of the results that may be expected for the year ending October 28, 2016.

The Condensed Consolidated Balance Sheet at October 30, 2015 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended October 30, 2015.

Proposed Merger with The Sherwin-Williams Company

On March 19, 2016, Valspar entered into an Agreement and Plan of Merger (the “Merger Agreement”) with The Sherwin-Williams Company (“Sherwin-Williams”) and Viking Merger Sub Inc., a wholly owned subsidiary of Sherwin-Williams (“Merger Sub”).

The Merger Agreement provides that, among other things and subject to the terms and conditions of the Merger Agreement, Merger Sub will be merged with and into Valspar (the “Merger”), with Valspar surviving and continuing as the surviving corporation in the Merger, and, at the effective time of the Merger, each outstanding share of common stock of Valspar will be converted into the right to receive the Merger Consideration. The “Merger Consideration” means $113.00 per share in cash, except that if Sherwin-Williams is required, in order to obtain the necessary antitrust approvals, to commit to any divestiture, license, hold separate, sale or other disposition of or with respect to assets, businesses or product lines of Valspar, Sherwin-Williams or their subsidiaries representing, in the aggregate, in excess of $650 million of Net Sales (as defined in the Merger Agreement), then the Merger Consideration will be $105.00 per share in cash. The merger agreement contains certain termination rights in which we may be required to pay Sherwin-Williams a termination fee of $300 million. For further information on the Merger Agreement, refer to the Merger Agreement, a copy of which is Exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2016 and incorporated by reference herein.

On June 29, 2016, Valspar stockholders voted to adopt the Merger Agreement at a special meeting of stockholders held for that purpose. The Merger remains subject to certain closing conditions, including the expiration or termination of the applicable waiting period under the U.S. Hart-Scott-Rodino Antitrust Improvements Act and the receipt of regulatory approvals in certain other jurisdictions.

In connection with the proposed Merger, we recognized costs of $4,616 and $22,856 for the three and nine months ended July 29, 2016, respectively, in "Proposed merger-related charges" in the Condensed Consolidated Statements of Operations, for employee-related expenses, professional services and regulatory fees.

NOTE 2 – ACQUISITIONS AND DIVESTITURES

On February 4, 2016, we purchased ISVA Vernici (ISVA), a European coil coatings manufacturer headquartered in Turin, Italy, for total consideration of approximately $23,000. The ISVA acquisition extends our manufacturing footprint in Europe and brings customers an expanded product offering and increased customer service capabilities.

The acquisition was recorded at fair value in our Coatings segment and an allocation of the purchase price has been substantially completed, with the exception of certain tax items. These adjustments are not expected to have a material impact on our condensed consolidated financial statements. We expect to finalize the purchase price allocation within one year of the date of acquisition. The assets, liabilities and operating results have been included in our financial statements from the date of acquisition.

On June 1, 2015, we purchased the performance coating businesses of Quest Specialty Chemicals (Quest), which include automotive refinish, aerosol and related specialty paint products, for total consideration of approximately $350,000. The acquisition strengthens

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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our value proposition in automotive refinish and broadens distribution and range of high-performance products. The acquisition was recorded at fair value primarily in our Paints segment and an allocation of the purchase price has been completed. The assets, liabilities and operating results have been included in our financial statements from the date of acquisition.

On December 17, 2014, we completed the divestiture of a non-strategic specialty product offering in our Coatings segment. The divested assets consisted primarily of goodwill, working capital and intellectual property. We recorded the sale in the first quarter of fiscal year 2015 and recorded a pre-tax gain of $48,001 to income from operations.

Pro forma results of operations for the acquisitions and divestiture noted above are not presented, as they were immaterial to the reported results.

NOTE 3 – INVENTORIES

Our major classes of inventories consist of the following:

	July 29, 2016	October 30, 2015	July 31, 2015
Manufactured products	$331,614	$ 268,832	$327,171
Raw materials, supplies and work-in-progress	192,023	183,077	185,438
Total Inventories	$523,637	$ 451,909	$512,609

Our international inventories are recorded using the first-in, first-out method. Domestic inventories, except for Quest, are recorded using the last-in, first-out (LIFO) method. 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.

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill as of July 29, 2016 is $1,286,591, a decrease of $1,112 from the end of fiscal year 2015. The decrease is due to foreign currency translation, offset by acquisitions.

Intangibles, net, as of July 29, 2016 are $627,939, a decrease of $15,161 from the end of fiscal year 2015. The decrease is primarily due to foreign currency translation and amortization, offset by acquisitions.

Total intangible asset amortization expense for the nine months ended July 29, 2016 was $8,718 compared to $6,712 for the same period last year. The increase in amortization expense is primarily due to the Quest acquisition in the third quarter of fiscal 2015. Estimated annual amortization expense for fiscal 2016 and for each of the five succeeding fiscal years based on the intangible assets as of July 29, 2016 is expected to be approximately $12,000.

NOTE 5 – GUARANTEES AND CONTRACTUAL OBLIGATIONS

Furniture Protection Plans and Warranties: We sell extended furniture protection plans and offer warranties for certain products. In the U.S., revenue related to furniture protection plans is deferred and recognized over the contract life. Historical claims data is used to forecast claims payments over the contract period and revenue is recognized based on the forecasted claims payments. Actual claims costs are reflected in earnings in the period incurred. Anticipated losses are charged to earnings when identified. For product warranties, we estimate the costs that may be incurred under these warranties based on historical claims data and record a liability in the amount of such costs at the time revenue is recognized. Anticipated losses are charged to earnings when identified. The range of contractual lives for our extended furniture protection plans is 3 years to lifetime warranty (estimated as 20 years). We have not sold lifetime warranty plans since 2005. Our furniture protection plans outstanding as of July 29, 2016 have a weighted average contractual life of approximately 11 years; however, we expect to pay substantially all of the claims for such plans within five years.

We periodically assess the adequacy of these recorded amounts and adjust as necessary. Provisions for estimated losses on uncompleted furniture protection plan contracts are made in the period in which such losses can be estimated. The extended furniture protection plans that we enter into have fixed prices. To the extent the actual costs to complete contracts differ from the

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amounts estimated as of the date of the financial statements, gross margin would be affected in future periods when we revise our estimates.

Changes in the recorded amounts included in other accrued liabilities and other long-term liabilities during the period are as follows:

	Nine Months Ended	
	July 29, 2016	July 31, 2015
Beginning balance	$82,871	$80,627
Additional net deferred revenue/accrual made during the period	14,632	8,631
Payments made during the period	(6,878)	(6,792)
Ending balance	$90,625	$82,466

Contractual Purchase Commitments: We are obligated to make payments under contractual purchase commitments, including unconditional purchase obligations. The majority of our unconditional purchase obligations relate to the supply of raw materials with five-year initial terms. The contracts require the purchase of minimum quantities of raw materials, at current market prices. We have estimated our payment obligations under existing contracts using current market prices and currently expect our purchases to exceed our minimum payment obligations. Payments for contracts with remaining terms in excess of one year are summarized below:

	July 29, 2016
Remainder of 2016	$—
2017	1,559
2018	—
2019	—
2020	—
Thereafter	—
Total	$1,559

Total payments relating to unconditional purchase obligations were approximately $556 and $5,579 in the three and nine months ended July 29, 2016, respectively, compared to $7,992 and $29,858 in the three and nine months ended July 31, 2015, respectively.

NOTE 6 – FAIR VALUE MEASUREMENT

We measure certain assets and liabilities at fair value and disclose the fair value of certain assets and liabilities recorded at cost on both a recurring and nonrecurring basis. Fair value is defined as an exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value accounting rules establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes use of unobservable inputs. Observable inputs must be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability based upon the best information available. Assets and liabilities measured at fair value are to be categorized into one of the three hierarchy levels based on the inputs used in the valuation. We classify assets and liabilities in their entirety based on the lowest level of input significant to the fair value measurement. Transfers of instruments between levels are recorded based on end of period values. There were no transfers between levels for all periods presented. The three levels are defined as follows:

- Level 1: Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Observable inputs based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.

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- Level 3: Unobservable inputs that reflect an entity's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

Recurring Fair Value Measurements

The following tables provide information by level for assets and liabilities that are recorded at fair value on a recurring basis:

	Fair Value at July 29, 2016	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets				
Cash equivalents	$18,145	$18,145	$—	$ —
Restricted cash[1]	836	836	—	—
Foreign currency contracts[2]	117	—	117	—
Deferred compensation plan assets[3]	12,608	12,608	—	—
Total Assets	$31,706	$31,589	$117	$ —

	Fair Value at October 30, 2015	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets				
Cash equivalents	$26,139	$26,139	$—	$ —
Restricted cash[1]	1,307	1,307	—	—
Foreign currency contracts[2]	207	—	207	—
Deferred compensation plan assets[3]	6,579	6,579	—	—
Total Assets	$34,232	$34,025	$207	$ —

	Fair Value at July 31, 2015	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets				
Cash equivalents	$195,504	$195,504	$—	$ —
Restricted cash[1]	1,628	1,628	—	—
Foreign currency contracts[2]	485	—	485	—
Deferred compensation plan assets[3]	6,721	6,721	—	—
Total Assets	$204,338	$203,853	$485	$ —

[1] Restricted cash represents cash that is restricted from withdrawal for contractual or legal reasons.
[2]Foreign currency contracts are included in prepaid expenses and other when in an asset position and other accrued liabilities when in a liability position. The fair market value was estimated using observable market data for similar

financial instruments.

[3] The Deferred Compensation Plan Assets consist of the investment funds maintained for the future payments under the Corporation's deferred compensation plan, which is structured as a rabbi trust. Investments held in the rabbi trust are publicly traded mutual funds. Rabbi trust assets are considered irrevocable, and may only be used to pay participant benefits under the plan. The only exception is the event of bankruptcy, in which case the assets in the rabbi trust would be subject to the claims of creditors of the Corporation. In the Condensed Consolidated Balance Sheets, rabbi trust assets are included in other assets.

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The following tables provide information regarding the estimated fair value of our outstanding debt, which is recorded at carrying value:

	Fair Value at July 29, 2016	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Debt[1]				
Publicly traded debt	$1,813,769	$1,813,769	$—	$ —
Non-publicly traded debt	249,311	—	249,311	—
Total Debt	$2,063,080	$1,813,769	$249,311	$ —

	Fair Value at October 30, 2015	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Debt[1]				
Publicly traded debt	$1,741,003	$1,741,003	$—	$ —
Non-publicly traded debt	341,086	—	341,086	—
Total Debt	$2,082,089	$1,741,003	$341,086	$ —

	Fair Value at July 31, 2015	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Debt[1]				
Publicly traded debt	$1,897,759	$1,897,759	$—	$ —
Non-publicly traded debt	487,789	—	487,789	—
Other[2]	1,420	—	1,420	—
Total Debt	$2,386,968	$1,897,759	$489,209	$ —

[1] Debt is recorded at carrying value of $1,949,310, $2,041,086 and $2,339,210 as of July 29, 2016, October 30, 2015 and July 31, 2015, respectively. The fair value of our publicly traded debt is based on quoted prices (unadjusted) in active markets. The fair value of our non-publicly traded debt was estimated using a discounted cash flow analysis based on our current borrowing costs for debt with similar maturities. In addition, the carrying values of our commercial paper included in non-publicly traded debt approximate the financial instrument’s fair value as the maturities are less than three months. See Note 7 for additional information on debt.
[2] Other consists of bankers' acceptance drafts and commercial acceptance drafts from our customers that have been sold with recourse to financial institutions but have not yet matured and are included in long-term debt.

Nonrecurring Fair Value Measurements

We measure certain assets at fair value on a nonrecurring basis. These assets primarily include assets acquired and liabilities assumed as part of a business acquisition, as well as property, plant and equipment that is impaired when the planned use of the asset changes. See Note 2 for additional information on acquisitions and Note 15 for additional information on restructuring.

THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JULY 29, 2016
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 7 – DEBT

Debt consists of the following:

	July 29, 2016	October 30, 2015	July 31, 2015
Short-term debt	$242,208	$334,022	$474,169
Current portion of long-term debt	150,101	131	158,091
Long-term debt	1,557,001	1,706,933	1,706,950
Total Debt	$1,949,310	$2,041,086	$2,339,210

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

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 Condensed 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.

During the three months ended July 29, 2016, $150,000 of Senior Notes that mature on May 1, 2017 were reclassified as Current portion of long-term debt.

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.

Our credit facilities have covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of July 29, 2016. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

Our short-term debt consists primarily of commercial paper. The weighted-average annual interest rates on outstanding short-term borrowings were 1.1%, 0.6% and 0.8% as of July 29, 2016, October 30, 2015 and July 31, 2015, respectively. To ensure availability of funds, we maintain uncommitted bank lines of credit sufficient to cover outstanding short-term borrowings. These arrangements are reviewed periodically for renewal and modification.

NOTE 8 – STOCK-BASED COMPENSATION

Compensation expense associated with our stock-based compensation plans was $6,107 and $23,032 for the three and nine months ended July 29, 2016, respectively, compared to $2,105 and $9,481 for the three and nine months ended July 31, 2015, respectively.

THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JULY 29, 2016
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

In January 2016 and 2015, we granted stock-settled restricted stock units to certain officers and key employees. Stock-settled restricted stock units granted through our 2015 Omnibus Equity Plan ("2015 Omnibus Plan") will reduce the pool of reserved shares at a multiple of 3.51 times the actual number of units awarded upon vesting, three years after the date of grant. The fair value of a stock-settled restricted stock unit is equal to the market value of a share of our stock on the date of grant. Certain units have time-based vesting features while other units have both time-based and performance-based vesting features. Time-based stock-settled restricted stock units cliff vest at the end of the three-year period following the date of grant, unless forfeited, and will be paid out in the form of stock at the end of the three-year vesting period. Performance-based stock-settled restricted stock units vest based on achieving annual performance targets for earnings per share growth over the three fiscal year-end periods following the date of grant. Unless forfeited, the performance-based stock-settled restricted stock units will be paid out in the form of stock at the end of the three-year performance period if the performance targets are achieved. If the performance targets are achieved, the amount paid for the awards may range from 50% to 250% of the target award. Compensation expense associated with grants of stock-settled restricted stock units has been included in the statement of operations since the date of grant.

NOTE 9 – PENSIONS AND OTHER POSTRETIREMENT BENEFITS
We sponsor a number of defined benefit pension plans for certain hourly and salaried employees. The benefits for most of these plans are generally based on stated amounts for each year of service.
The net periodic benefit cost of our pension benefits is as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2016	July 31, 2015	July 29, 2016	July 31, 2015
Service cost	$683	$ 764	$2,046	$2,782
Interest cost	3,288	3,491	9,878	10,570
Expected return on plan assets	(4,839)	(4,891)		