

VALSPAR CORP
Form 10-Q
March 10, 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 January 29, 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 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).

Yes No

As of March 1, 2010, The Valspar Corporation had 99,266,696 shares of common stock outstanding, excluding 19,175,928 shares held in treasury. We had no other classes of stock outstanding.

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THE VALSPAR CORPORATION

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for the Quarter Ended January 29, 2010

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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 | January 29, 2010 (Unaudited) | January 30, 2009 (Unaudited) | October 30, 2009 (Note) |
|--|------------------------------------|------------------------------------|-------------------------------|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 129,636 | \$ 81,072 | \$ 187,719 |
| Accounts and notes receivable less allowance (1/29/10-\$21,236; 1/30/09-\$19,361; 10/30/09-\$21,768) | 449,485 | 453,943 | 518,188 |
| Inventories | 247,373 | 265,561 | 238,449 |
| Deferred income taxes | 34,401 | 31,817 | 34,479 |
| Prepaid expenses and other | 79,169 | 85,658 | 83,631 |
| TOTAL CURRENT ASSETS | 940,064 | 918,051 | 1,062,466 |
| GOODWILL | 1,337,555 | 1,320,946 | 1,337,997 |
| INTANGIBLES, NET | 628,283 | 632,017 | 629,923 |
| OTHER ASSETS | 4,251 | 4,217 | 4,192 |
| LONG-TERM DEFERRED INCOME TAXES | 5,425 | 2,801 | 5,358 |
| GROSS PROPERTY, PLANT AND EQUIPMENT | 1,084,931 | 1,025,569 | 1,085,147 |
| Less accumulated depreciation | (625,503) | (553,836) | (614,059) |
| NET PROPERTY, PLANT AND EQUIPMENT | 459,428 | 471,733 | 471,088 |
| TOTAL ASSETS | \$ 3,375,006 | \$ 3,349,765 | \$ 3,511,024 |

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 | January 29, 2010 (Unaudited) | January 30, 2009 (Unaudited) | October 30, 2009 (Note) |
|---|------------------------------------|------------------------------------|-------------------------------|
| CURRENT LIABILITIES: | | | |
| Notes payable and commercial paper | \$ 6,278 | \$ 231,218 | \$ 7,278 |
| Current portion of long-term debt | | 5 | |
| Trade accounts payable | 285,983 | 266,722 | 349,999 |
| Income taxes | 10,641 | 43 | 4,762 |
| Other accrued liabilities | 274,816 | 243,991 | 349,440 |
| TOTAL CURRENT LIABILITIES | 577,718 | 741,979 | 711,479 |
| LONG-TERM DEBT, NET OF CURRENT PORTION | 873,278 | 767,080 | 873,095 |
| DEFERRED INCOME TAXES | 239,766 | 228,826 | 235,975 |
| OTHER LONG-TERM LIABILITIES | 170,686 | 159,607 | 185,968 |
| TOTAL LIABILITIES | 1,861,448 | 1,897,492 | 2,006,517 |
| HUARUN REDEEMABLE STOCK | | 36,895 | |
| 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 | 362,788 | 333,218 | 353,086 |
| Retained earnings | 1,287,773 | 1,175,860 | 1,269,738 |
| Accumulated other comprehensive income (loss) | 66,243 | 53,212 | 67,997 |
| Less cost of Common Stock in treasury (1/29/10-19,139,479 shares; 1/30/09-18,322,477 shares; 10/30/09-18,960,410 shares) | (262,466) | (206,132) | (245,534) |
| TOTAL STOCKHOLDERS EQUITY | 1,513,558 | 1,415,378 | 1,504,507 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 3,375,006 | \$ 3,349,765 | \$ 3,511,024 |

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 | |
|---|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Net sales | \$ 672,363 | \$ 639,497 |
| Cost of sales | 455,372 | 450,153 |
| Gross profit | 216,991 | 189,344 |
| Research and development | 23,665 | 23,069 |
| Selling, general and administrative | 133,437 | 132,032 |
| Income from operations | 59,889 | 34,243 |
| Interest expense | 14,385 | 11,926 |
| Other (income)/expense net | (204) | 554 |
| Income before income taxes | 45,708 | 21,763 |
| Income taxes | 11,771 | 7,595 |
| Net income | \$ 33,937 | \$ 14,168 |
| Huarun redeemable stock accrual (1) | | (3,318) |
| Net income available to common stockholders | \$ 33,937 | \$ 10,850 |
| Net income per common share basic | \$ 0.34 | \$ 0.11 |
| Net income per common share diluted | \$ 0.34 | \$ 0.11 |
| Average number of common shares outstanding | | |
| - basic | 99,133,315 | 99,782,705 |
| - diluted | 101,115,945 | 100,188,774 |
| Dividends paid per common share | \$ 0.16 | \$ 0.15 |

(1) Huarun redeemable stock accrual reduced basic and diluted net income per common share \$0.03 in the first quarter of 2009 as further described in 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)

| | THREE MONTHS ENDED | |
|---|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 33,937 | \$ 14,168 |
| Adjustments to reconcile net income to net cash (used in)/provided by operating activities: | | |
| Depreciation | 19,987 | 18,007 |
| Amortization | 1,834 | 2,023 |
| Stock-based compensation | 1,802 | 1,267 |
| (Gain)/loss on asset divestiture | (95) | 111 |
| Changes in certain assets and liabilities, net of effects of acquired businesses: | | |
| (Increase)/decrease in accounts and notes receivable | 66,720 | 93,467 |
| (Increase)/decrease in inventories and other current assets | (4,313) | 3,983 |
| Increase/(decrease) in trade accounts payable and other accrued liabilities | (129,742) | (160,875) |
| Increase/(decrease) in income taxes payable | 2,069 | (28,792) |
| Increase/(decrease) in other deferred liabilities | (2,974) | (2,654) |
| Other | (4,807) | (908) |
| Net Cash (Used In)/Provided By Operating Activities | (15,582) | (60,203) |
| INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (8,486) | (10,811) |
| Cash proceeds on disposal of assets | 18 | 54 |
| Net Cash (Used In)/Provided By Investing Activities | (8,468) | (10,757) |
| FINANCING ACTIVITIES: | | |
| Net change in borrowings | (14) | 79,404 |
| Proceeds from sale of treasury stock | 9,407 | 645 |
| Payments on deferred liability excess cash Huarun | | (4,818) |
| Excess tax benefit from stock-based compensation | 651 | |
| Treasury stock purchases | (27,591) | |
| Dividends paid | (15,902) | (15,001) |
| Net Cash (Used In)/Provided By Financing Activities | (33,449) | 60,230 |
| Increase/(Decrease) in Cash and Cash Equivalents | (57,499) | (10,730) |
| Effect of exchange rate changes on Cash and Cash Equivalents | (584) | 1,729 |
| Cash and Cash Equivalents at Beginning of Period | 187,719 | 90,073 |
| Cash and Cash Equivalents at End of Period | \$ 129,636 | \$ 81,072 |
| See Notes to Condensed Consolidated Financial Statements | | |

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THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JANUARY 29, 2010

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of The Valspar Corporation 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 generally accepted accounting principles (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 quarter ended January 29, 2010 are not necessarily indicative of the results that may be expected for the year ending October 29, 2010. We have evaluated subsequent events and have determined no events have occurred that require disclosure.

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications had no effect on net income or stockholders' equity as previously reported.

The Condensed Consolidated Balance Sheet at October 30, 2009 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, 2009.

NOTE 2: ACCOUNTS PAYABLE

Trade accounts payable includes \$22.6 million at January 29, 2010, \$26.7 million at October 30, 2009 and \$11.5 million at January 30, 2009, of issued checks that had not cleared our bank accounts.

NOTE 3: ACQUISITIONS

In July 2006, we acquired approximately 80% of the share capital of Huarun Paints Holdings Company Limited (Huarun) from Champion Regal and certain other stockholders. Certain of the shares not purchased by us in July 2006 were subject to various put and call rights. The put and call rights were classified outside of stockholders' equity in Huarun Redeemable Stock. During the fourth quarter of 2008, certain minority stockholders exercised their right to sell shares to us. During the fourth quarter of 2009, we acquired the remaining Huarun Redeemable Stock, reducing the balance to zero. Acquisition accounting was applied upon the acquisition of the shares in 2009 and 2008. The balance in Huarun Redeemable Stock was zero at January 29, 2010, zero at October 30, 2009 and \$36.9 million at January 30, 2009.

The Huarun Redeemable Stock was accrued to redemption value and the amount of accretion is shown as an adjustment below net income to arrive at the net income available to common stockholders. We accrued \$3.3 million for the three-month period ended January 30, 2009, which reduced basic and diluted net income per common share \$0.03 in the first quarter of 2009.

NOTE 4: INVENTORIES

The major classes of inventories consist of the following:

| (Dollars in thousands) | January 29, 2010 | January 30, 2009 |
|--|---------------------|---------------------|
| Manufactured products | \$ 144,874 | \$ 156,215 |
| Raw materials, supplies and work-in-progress | 102,499 | 109,346 |

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| | | |
|--|------------|------------|
| Total Inventories | \$ 247,373 | \$ 265,561 |
| <u>NOTE 5: COMPREHENSIVE INCOME (LOSS)</u> | | |

For the three-month periods ended January 29, 2010 and January 30, 2009, Comprehensive Income, a component of Stockholders' Equity, was as follows:

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THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JANUARY 29, 2010

| (Dollars in thousands) | Three Months Ended | |
|---|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Net Income | \$ 33,937 | \$ 14,168 |
| Other Comprehensive Income, net of tax: | | |
| Foreign currency translation gain (loss) | (1,910) | (36,889) |
| Net unrealized gain (loss) on financial instruments | 156 | 65 |
| Total Comprehensive Income (Loss) | \$ 32,183 | \$ (22,656) |

The period end balances of accumulated other comprehensive income (loss), net of tax, were comprised of the following:

| (Dollars in thousands) | January 29, 2010 | January 30, 2009 | October 30, 2009 |
|---|---------------------|---------------------|---------------------|
| Foreign currency translation | \$ 136,135 | \$ 92,970 | \$ 138,045 |
| Pension and postretirement benefits, net | (77,679) | (42,356) | (77,679) |
| Net unrealized gain (loss) on financial instruments | 7,787 | 2,598 | 7,631 |
| Accumulated other comprehensive income (loss) | \$ 66,243 | \$ 53,212 | \$ 67,997 |

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill as of January 29, 2010 decreased from the end of fiscal year 2009 by \$0.4 million to \$1,337.6 million. The decrease is primarily due to foreign currency translation.

Total intangible asset amortization expense for the three months ended January 29, 2010 was \$1.8 million, compared to \$2.0 million for the same period last year. Estimated amortization expense for each of the five succeeding fiscal years based on the intangible assets as of January 29, 2010 is expected to be approximately \$7.5 million annually.

NOTE 7: SEGMENT INFORMATION

Based on the nature of our products, technology, manufacturing processes, customers and regulatory environment, we aggregate our operating segments into two reportable segments: Coatings and Paints. We are required to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. We evaluate the performance of operating segments and allocate resources based on profit or loss from operations before interest expense and taxes (EBIT).

The Coatings segment aggregates our industrial and packaging product lines. Industrial products include a broad range of decorative and protective coatings for metal, wood and plastic. Packaging products include both interior and exterior coatings used in metal packaging containers, principally food containers and beverage cans. The products of this segment are sold throughout the world.

The Paints segment aggregates our architectural and automotive refinish product lines. Architectural products include interior and exterior decorative paints, stains, primers, varnishes, high performance floor paints and specialty decorative products, such as enamels, aerosols and faux varnishes for consumers in the do-it-yourself and professional markets in North America and China.

Our remaining activities are included in All Other. These activities include specialty polymers and colorants that are used internally and sold to other coatings manufacturers, as well as gelcoats and related products and furniture protection plans. Also included within All Other are our Corporate administrative expenses. The administrative expenses include interest and amortization expense, certain environmental-related expenses and other expenses not directly allocated to any other operating segment.

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In the following table, sales between segments are recorded at selling prices that are below market prices, generally intended to recover internal costs. Segment EBIT includes income realized on inter-segment sales. Comparative first quarter results on this basis are as follows:

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THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JANUARY 29, 2010

| (Dollars in thousands) | Three Months Ended | |
|-----------------------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Net Sales: | | |
| Coatings | \$ 391,321 | \$ 374,652 |
| Paints | 233,413 | 212,700 |
| All Other | 66,615 | 67,100 |
| Less Intersegment Sales | (18,986) | (14,955) |
| Total Net Sales | \$ 672,363 | \$ 639,497 |
| EBIT | | |
| Coatings | \$ 42,955 | \$ 24,898 |
| Paints | 27,832 | 15,951 |
| All Other | (10,694) | (7,160) |
| Total EBIT | \$ 60,093 | \$ 33,689 |
| Interest | \$ 14,385 | \$ 11,926 |
| Income before Income Taxes | \$ 45,708 | \$ 21,763 |

NOTE 8: FINANCIAL INSTRUMENTS

We use derivative financial instruments to manage well-defined interest rate and foreign currency exchange risks. We enter into derivative financial instruments and money market funds with high-credit quality counterparties and diversify our positions among such counterparties to reduce our exposure to credit losses.

In March 2008, the Financial Accounting Standards Board (FASB) expanded the disclosure requirements for financial instruments. The expanded disclosures include qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value gains and losses on derivative instruments and their location in the financial statements and disclosures about credit-risk-related contingent features in derivative agreements. We do not have any credit-risk-related contingent features in our derivative contracts as of January 29, 2010. These additional disclosures are required for financial statements issued for fiscal periods beginning after November 15, 2008.

In September 2006, the FASB issued new fair value and disclosure requirements that defined fair value, established a framework in GAAP for measuring fair value and expanded disclosures about fair value measurements. The changes did not increase the required use of fair value measurement in our financial statements. The requirements are effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities, and are effective for nonfinancial assets and liabilities for years beginning after November 15, 2008. The adoption for nonfinancial assets and liabilities in the first quarter of 2010 did not impact our financial statements.

During the first quarter of 2009, we adopted the fair value disclosure requirements for our financial assets and liabilities. As of January 29, 2010, our financial assets subject to fair value measurement disclosures consist of money market funds and forward foreign currency exchange contracts (foreign currency contracts). The money market funds are included in our cash and cash equivalents balance with a fair value of \$21.4 million. These assets have observable prices that are quoted on an active exchange, and are therefore classified as Level 1 inputs under the fair value hierarchy. The carrying value of the money market funds approximates fair value, as the maturities are less than three months. The foreign currency contracts have a fair value of \$0.1 million. As of January 29, 2010, our financial liabilities subject to fair value measurement rules consist of interest rate swaps with a fair value totaling \$1.3 million. As of January 30, 2009, our financial assets subject to fair value measurement disclosure consist of foreign currency contracts and treasury lock contracts totaling \$0.9 million and \$3.6 million, respectively. As of January 30, 2009, our financial liabilities subject to fair value measurement disclosure consist of interest rate swaps totaling \$3.3 million. In both reporting periods, the foreign currency contracts, treasury lock contracts and interest rate swaps have observable prices that are not quoted on active exchanges, and are therefore classified as Level 2 inputs under the hierarchy.

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At January 29, 2010, we had an aggregate \$50 million of notional amount interest rate swap contracts, which have been designated as cash flow hedges, to pay fixed rates of interest and receive a floating interest rate based on LIBOR. All contracts mature during fiscal year 2011. The interest rate swap contracts are reflected at fair value in the condensed consolidated balance sheet. Unrealized gains and losses are recorded in accumulated other comprehensive income. Amounts to be received or paid under the contracts are recognized as interest expense over the life of the contracts. There was no ineffectiveness for these swaps recognized in interest expense for the quarter ended January 29, 2010. We had \$100 million of notional amount interest rate swap contracts in place as of January 30, 2009. There was no ineffectiveness for these swaps recognized in interest expense for the quarter ended January 30, 2009.

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THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JANUARY 29, 2010

At January 29, 2010, we had \$8.6 million notional amount of foreign currency contracts maturing during fiscal year 2010. These foreign currency contracts have been designated as cash flow hedges with unrealized gains or losses recorded in accumulated other comprehensive income. Realized gains and losses will be recognized in Other Expense (Income) when they occur. At January 30, 2009, we had approximately \$5.6 million notional amount of foreign currency contracts. There was no ineffectiveness for these hedges during the quarter ended January 29, 2010 or for the quarter ended January 30, 2009.

At January 29, 2010 we had no treasury lock contracts in place. At January 30, 2009, we had \$150 million notional amount of treasury locks to hedge, or lock-in, interest rates on anticipated long-term debt to be issued. We designated the treasury locks as cash flow hedges with unrealized gains and losses recorded, net of tax, to accumulated other comprehensive income. In the third quarter of 2009, we terminated the \$150 million of treasury lock contracts as a result of our bond issuance, yielding a pretax gain of \$11.6 million. The unamortized gain is reflected, net of tax, in accumulated other comprehensive income in our consolidated balance sheet as of January 29, 2010 and is being reclassified ratably to our statements of income as a decrease to interest expense over the term of the related debt.

Derivative Balance Sheet Location as of January 29, 2010

(Dollars in thousands)

| | Balance Sheet Classification | Fair Value |
|-----------------------------------|------------------------------|------------|
| <u>Asset derivatives</u> | | |
| Derivatives designated as hedges: | | |
| Foreign currency contracts | Prepaid expenses and other | \$ 122 |
| Total Asset derivatives | | \$ 122 |
| <u>Liability derivatives</u> | | |
| Derivatives designated as hedges: | | |
| Interest rate swap contracts | Other long-term liabilities | \$ 1,307 |
| Total liability derivatives | | \$ 1,307 |

Derivative Gains (Losses) for the Quarter ended January 29, 2010

(Dollars in thousands)

| | Amount of Gain (Loss) Recognized in AOCI * | Statement of Income Classification | Gain (Loss) in Income ** |
|--|---|---------------------------------------|-----------------------------|
| Foreign currency contracts | \$ 248 | Other income / (expense), net | \$ (144) |
| Interest rate swap contracts | (804) | Interest expense | (341) |
| Total derivatives designated as cash flow hedges | \$ (556) | | \$ (485) |

* Accumulated other comprehensive income (loss) (AOCI) is included on the Consolidated Balance Sheet in the Stockholders' Equity section and is reported net of tax

** Amounts reported are pretax

Additionally, as of the quarter ended January 29, 2010, the AOCI balance includes a net unrealized after-tax gain of \$8.3 million that resulted from treasury locks that have been settled. The gain is recognized as a benefit to interest expense over the life of the related debt that was issued, which resulted in a pretax benefit of \$0.4 million for the first quarter of 2010.

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THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JANUARY 29, 2010

Derivative Balance Sheet Location as of January 30, 2009

(Dollars in thousands)

| | Balance Sheet Classification | Fair Value |
|-----------------------------------|------------------------------|------------|
| <u>Asset derivatives</u> | | |
| Derivatives designated as hedges: | | |
| Treasury lock contracts | Prepaid expenses and other | \$ 3,568 |
| Foreign currency contracts | Prepaid expenses and other | 878 |
| Total Asset derivatives | | \$ 4,446 |
| <u>Liability derivatives</u> | | |
| Derivatives designated as hedges: | | |
| Interest rate swap contracts | Other long-term liabilities | \$ 3,299 |
| Total liability derivatives | | \$ 3,299 |

Derivative Gains (Losses) for the Quarter ended January 30, 2009

(Dollars in thousands)

| | Amount of Gain (Loss) Recognized in AOCI * | Statement of Income Classification | Gain (Loss) in Income ** |
|--|---|---------------------------------------|-----------------------------|
| Foreign currency contracts | \$ 735 | Other income / (expense), net | \$ (50) |
| Treasury lock contracts | 2,194 | N/A | |
| Interest rate swap contracts | (2,284) | Interest expense | (303) |
| Total derivatives designated as cash flow hedges | \$ 645 | | \$ (353) |

* Accumulated other comprehensive income (loss) (AOCI) is included on the Consolidated Balance Sheet in the Stockholders Equity section and is reported net of tax

** Amounts reported are pretax

Additionally, as of the quarter ended January 30, 2009, the AOCI balance includes a net unrealized after-tax gain of \$2.0 million that resulted from treasury locks that have been settled. The gain is recognized as a benefit to interest expense over the life of the related debt that was issued, which resulted in a pretax benefit of \$0.1 million for the first quarter of 2009.

NOTE 9: DEBT SECURITIES

The tables below summarize the carrying value and fair market value of our outstanding debt. The fair market value of our publicly traded debt is based on observable market prices. The fair market 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.

| (Dollars in thousands) | January 29, 2010 | |
|--------------------------|-----------------------------------|----------------------|
| | Balance Sheet (carrying value) | Fair Market Value |
| Publicly traded debt | \$ 800,000 | \$ 873,664 |
| Non-publicly traded debt | 79,556 | 76,946 |

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| | | | | |
|------------|----|---------|----|---------|
| Total debt | \$ | 879,556 | \$ | 950,610 |
|------------|----|---------|----|---------|

| (Dollars in thousands) | January 30, 2009 | |
|--------------------------|-----------------------------------|----------------------|
| | Balance Sheet (carrying value) | Fair Market Value |
| Publicly traded debt | \$ 500,000 | \$ 480,501 |
| Non-publicly traded debt | 498,303 | 494,575 |
| Total debt | \$ 998,303 | \$ 975,076 |

We did not elect the option to report our debt at fair value in our Consolidated Balance Sheets.

We have a credit facility with covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of January 29, 2010. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

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THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JANUARY 29, 2010

NOTE 10: GUARANTEES AND CONTRACTUAL OBLIGATIONS

We are required to disclose information about certain guarantees and contractual obligations in our periodic financial statements. We do not have any guarantees that require recognition at fair value.

We sell extended furniture protection plans and offer warranties for certain of our products. 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 on programs in progress 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.

We periodically assess the adequacy of these recorded amounts and adjust as necessary. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are estimable. The extended furniture protection plans that we enter into have fixed prices. To the extent the actual costs to complete contracts are higher than the amounts estimated as of the date of the financial statements, gross margin would be negatively affected in future quarters when we revise our estimates. Our practice is to revise estimates as soon as such changes in estimates become known.

Changes in the recorded amounts, both short-term and long-term, during the period are as follows:

| (Dollars in thousands) | Three Months Ended | |
|--|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Beginning balance, October | \$ 70,503 | \$ 77,993 |
| Additional net deferred revenue/accrual made during the period | 3,224 | 285 |
| Payments made during the period | (1,676) | (1,835) |
| Ending balance | \$ 72,051 | \$ 76,443 |

NOTE 11: STOCK BASED COMPENSATION

Compensation expense associated with our stock-based compensation plans was \$1.8 million (\$1.2 million after tax) for the three-month period ended January 29, 2010, compared to \$1.3 million (\$0.8 million after tax) for the three-month period ended January 30, 2009.

NOTE 12: PENSION 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. We fund the plans in amounts consistent with the limits of allowable tax deductions.

The net periodic benefit cost of the pension benefits is as follows:

| (Dollars in thousands) | Three Months Ended | |
|------------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Service cost | \$ 834 | \$ 688 |

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| | | |
|------------------------------------|----------|---------|
| Interest cost | 3,261 | 3,348 |
| Expected return on plan assets | (4,097) | (3,875) |
| Amortization of prior service cost | 114 | 154 |
| Recognized actuarial (gain)/loss | 1,235 | 512 |
| Net periodic benefit cost | \$ 1,347 | \$ 827 |

The net periodic benefit cost of the post-retirement medical benefits is as follows:

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THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JANUARY 29, 2010

| (Dollars in thousands) | Three Months Ended | |
|------------------------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Service cost | \$ 53 | \$ 71 |
| Interest cost | 119 | 150 |
| Amortization of prior service cost | (718) | (947) |
| Recognized actuarial (gain)/loss | 657 | 804 |
| Net periodic benefit cost | \$ 111 | \$ 78 |

NOTE 13: INCOME TAXES

At October 30, 2009, we had a \$33.4 million liability recorded for gross unrecognized tax benefits (excluding interest and penalties). Of this total, \$29.9 million represents the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. As of October 30, 2009, we had accrued approximately \$13.2 million of interest and penalties relating to unrecognized tax benefits.

During the first quarter of fiscal year 2010 we settled certain income tax audits, which reduced our liability for gross unrecognized tax benefits by \$7.2 million (excluding interest and penalties). The net impact to tax expense for audit settlements (including interest, penalties, and other offsetting items) was a reduction of \$4.8 million. There were no material adjustments to our recorded liability for unrecognized tax benefits during the first quarter of fiscal year 2009.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and numerous state and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2004. The Internal Revenue Service (IRS) has concluded its examination of our U.S. federal tax returns for the fiscal years ended 2004 and 2005. There were no material adjustments to our income tax expense or balance of unrecognized tax benefits as a result of the IRS examination. We are currently under audit in several state and foreign jurisdictions. We also expect various statutes of limitation to expire during the year. Due to the uncertain response of taxing authorities, a range of outcomes cannot be reasonably estimated at this time.

NOTE 14: RESTRUCTURING

During the third quarter of 2008, we initiated a comprehensive series of actions to lower our cost structure and further increase our operational efficiency. The restructuring activities are now substantially complete. We incurred total restructuring charges of \$0.16, \$0.18 and \$0.02 per share after tax, in fiscal years 2008, 2009 and 2010, respectively. The restructuring activities for the quarter ended January 29, 2010 resulted in pre-tax charges of \$4.0 million or \$0.02 per share after tax. The restructuring activities for the quarter ended January 30, 2009 resulted in pre-tax charges of \$9.1 million or \$0.06 per share after tax.

The expenses included severance and employee benefits, asset impairments, professional services and site cleanup. We plan to pay the majority of the current restructuring liabilities by the end of fiscal year 2010.

The restructuring initiatives included plant closures, reductions to research and development and selling and administrative expenses, manufacturing consolidation and relocation, and the exit of non-strategic product lines in certain geographies. We reduced our manufacturing capacity and our overall global headcount to lower our costs in light of the challenging global economic conditions.

The following net restructuring and impairment charges by segment were recorded in the first quarter of 2010 and 2009:

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THE VALSPAR CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 JANUARY 29, 2010

Three-Month Period Ending January 29, 2010

(Dollars in thousands)

| | Liability Beginning Balance 10/30/2009 | Expense | Activity | Liability Ending Balance 1/29/2010 |
|---------------------------------------|---|----------|------------|---|
| Coatings | | | | |
| Severance and employee benefits | \$ 1,694 | \$ 51 | \$ (896) | \$ 849 |
| Asset impairments | | 2,487 | (2,487) | |
| Exit costs (consulting/site clean-up) | 1,012 | 18 | | 1,030 |
| Total Coatings | 2,706 | 2,556 | (3,383) | 1,879 |
| Paints | | | | |
| Severance and employee benefits | 827 | 158 | (903) | 82 |
| Asset impairments | | 249 | (249) | |
| Exit costs (consulting/site clean-up) | 2,556 | 858 | (853) | 2,561 |
| Total Paints | 3,383 | 1,265 | (2,005) | 2,643 |
| All Other | | | | |
| Severance and employee benefits | 55 | | (31) | 24 |
| Asset impairments | | 114 | (114) | |
| Exit costs (consulting/site clean-up) | | 66 | (66) | |
| Total All Other | 55 | 180 | (211) | 24 |
| Total | \$ 6,144 | \$ 4,001 | \$ (5,599) | \$ 4,546 |

Three-Month Period Ending January 30, 2009

(Dollars in thousands)

| | Liability Beginning Balance 10/31/2008 | Expense | Activity | Liability Ending Balance 1/30/2009 |
|---------------------------------------|---|----------|------------|---|
| Coatings | | | | |
| Severance and employee benefits | \$ 7,842 | \$ 6,361 | \$ (6,298) | \$ 7,905 |
| Asset impairments | | 250 | (250) | |
| Exit costs (consulting/site clean-up) | 423 | 294 | (519) | 198 |
| Contract term costs (leases) | | 342 | (15) | 327 |
| Total Coatings | 8,265 | 7,247 | (7,082) | 8,430 |
| Paints | | | | |
| Severance and employee benefits | | 298 | (49) | 249 |
| Exit costs (consulting/site clean-up) | 2,252 | | | 2,252 |
| Total Paints | 2,252 | 298 | (49) | 2,501 |
| All Other | | | | |
| Severance and employee benefits | 806 | 320 | (507) | 619 |

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| | | | | |
|---------------------------------------|-----|-------|---------|-----|
| Asset impairments | | 692 | (692) | |
| Exit costs (consulting/site clean-up) | 64 | 557 | (580) | 41 |
| Total All Other | 870 | 1,569 | (1,779) | 660 |

Total \$ 11,387 \$ 9,114 \$ (8,910) \$ 11,591

The ending liability balance at January 29, 2010 and at January 30, 2009 is included in other accrued liabilities on our Consolidated Balance Sheet. The restructuring reserve balances presented are considered adequate to cover committed restructuring actions. The restructuring expenses recorded are included in the Consolidated Statement of Income. For the first quarter of 2010, \$4.0 million was charged to Cost of Sales. For the first quarter of 2009, \$4.9 million was charged to Cost of Sales and \$4.2 million was charged to Selling, General and Administrative expense.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview: Our 2010 first quarter net income increased over the prior year due to a combination of improved raw material cost comparisons, benefits from previously completed restructuring actions, leverage from improved volume and a benefit from the settlement of certain tax audits. Sales for the quarter increased compared to the prior year primarily due to favorable foreign currency exchange rates and a modest improvement in volume. The sales improvement was driven by our foreign operations where we had increased sales in all regions. In the U.S. our sales were flat. Sales in our Coatings segment increased due to positive foreign currency translation. New business in our industrial product lines helped to mitigate continued weakness in U.S. industrial markets. Sales in our Paints segment increased for the first quarter of 2010 primarily due to higher volumes in our global architectural and global automotive refinish product lines. Gross profit as a percent of net sales in the first quarter of 2010 increased compared to last year as a result of favorable raw material cost comparisons, leverage from increased sales volume and productivity gains from previously completed restructuring actions. Operating expenses as a percent of net sales decreased in the quarter compared to the prior year primarily due to leverage from higher sales volume.

During the third quarter of 2008, we initiated a comprehensive series of actions to lower our cost structure and further increase our operational efficiency. The restructuring activities are now substantially complete. We incurred total restructuring charges of \$0.16, \$0.18 and \$0.02 per share after tax, in fiscal years 2008, 2009 and 2010, respectively. The restructuring activities for the quarter ended January 29, 2010 resulted in pre-tax charges of \$4.0 million or \$0.02 per share after tax. The restructuring activities for the quarter ended January 30, 2009 resulted in pre-tax charges of \$9.1 million or \$0.06 per share after tax.

Earnings Per Share: Net income per share available to common stockholders was \$0.34 and \$0.11 for the first quarter of 2010 and 2009, respectively. Huarun Redeemable Stock had no effect on the first quarter of 2010 as we acquired the remaining shares in the fourth quarter of 2009. We accrued \$3.3 million, or \$0.03 per common share basic and diluted, in the first quarter of 2009 for the Huarun Redeemable Stock (see Note 3 in Notes to Condensed Consolidated Financial Statements for further details). The table below presents adjusted net income per common share diluted, which excludes the non-cash accrual relating to Huarun Redeemable Stock. The table also presents restructuring charges included in net income in the respective periods.

| | Three Months Ended | |
|--|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Net income per common share - diluted | \$ 0.34 | \$ 0.11 |
| Huarun redeemable stock accrual | | 0.03 |
| Adjusted net income per common share - diluted | \$ 0.34 | \$ 0.14 |
| Restructuring Charges | \$ 0.02 | \$ 0.06 |

Adjusted net income per common share diluted is a non-GAAP financial measure. Management discloses this measure because we believe the measure may assist investors in comparing our results of operations in the respective periods without regard to the effect on results in the 2009 period of the non-cash accrual related to the Huarun Redeemable Stock. As the Huarun Redeemable Stock was redeemed, acquisition accounting was applied; refer to Note 3 in Notes to Condensed Consolidated Financial Statements for further details. In addition, the first quarter of 2010 and 2009 included after-tax restructuring charges of \$0.02 and \$0.06 per share, respectively.

Critical Accounting Policies: There were no material changes in our critical accounting policies during the three-month period ended January 29, 2010.

Operations:

Net Sales
(Dollars in millions)

Three Months Ended

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| | January 29, 2010 | January 30, 2009 | % Change |
|------------------------|---------------------|---------------------|-------------|
| Coatings | \$ 391.3 | \$ 374.7 | 4.4% |
| Paints | 233.4 | 212.7 | 9.7% |
| All Other | 47.7 | 52.1 | (8.7)% |
| Consolidated Net Sales | \$ 672.4 | \$ 639.5 | 5.1% |

Consolidated Net Sales The core sales increase for 2010 was 1.2%, excluding a 3.9% positive effect of foreign currency. The increase in core sales was primarily due to an increase in volume.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Coatings Segment Net Sales The core sales decline for 2010 was 0.8%, excluding a 5.2% positive effect of foreign currency. The decrease in core sales was primarily due to unfavorable product mix and price. Although market conditions appear to have stabilized in our industrial product lines, the global markets remain down compared to last year. New business in our industrial product lines has partially offset the continued weakness in the U.S. industrial markets.

Paints Segment Net Sales The core sales increase for 2010 was 7.8%, excluding a 1.9% positive effect of foreign currency. The increase in core sales was primarily due to volume growth in our global architectural and automotive refinish product lines driven by improved market demand. Our global architectural product line benefited from strengthening of the U.S. Do-It-Yourself channel, the continued investment in our brands and improved market conditions in Asia.

All Other Net Sales The All Other category includes resins, colorants, gelcoats and our furniture protection plan business. The core sales decrease for 2010 was 11.5%, excluding a 2.8% positive effect of foreign currency. The lower sales were due to weak demand in the U.S. coatings markets.

Due to the seasonal nature of portions of our business, sales for the first quarter are not necessarily indicative of sales for subsequent quarters or for the full year.

Gross Profit

(Dollars in millions)

| | Three Months Ended | |
|---------------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Consolidated Gross Profit | \$ 217.0 | \$ 189.3 |
| As a percent of Net Sales | 32.3% | 29.6% |

Gross Profit The gross profit increase, as a percent of net sales, was driven primarily by improved raw material cost comparisons, leverage from increased sales volume and productivity gains from previously completed restructuring actions. Restructuring charges of \$4.0 million or 0.6% of net sales and \$4.9 million or 0.8% of net sales were included in the 2010 and 2009 periods, respectively.

Operating Expenses *

(Dollars in millions)

| | Three Months Ended | |
|---------------------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Consolidated Operating Expenses | \$ 157.1 | \$ 155.1 |
| As a percent of Net Sales | 23.4% | 24.3% |

* Includes research and development, selling, general and administrative costs. For breakout see Consolidated Statements of Income.

Consolidated Operating Expenses (dollars) Consolidated operating expenses increased 1.3% to \$157.1 million compared to the prior year. The increase was driven primarily by unfavorable foreign currency. There were no restructuring charges included in operating expenses in the 2010 period. Restructuring charges of \$4.2 million or 0.7% of net sales were included in the 2009 period.

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Consolidated Operating Expenses (percent of net sales) As a percent of consolidated net sales, operating expenses decreased 0.9 percentage points compared to last year. The improvement was primarily due to leverage from higher sales.

EBIT *

(Dollars in millions)

| | Three Months Ended | |
|---------------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Coatings | \$ 43.0 | \$ 24.9 |
| As a percent of Net Sales | 11.0% | 6.6% |
| Paints | \$ 27.8 | \$ 16.0 |
| As a percent of Net Sales | 11.9% | 7.5% |
| All Other | \$ (10.7) | \$ (7.2) |
| As a percent of Net Sales | (22.5)% | (13.7)% |
| Consolidated EBIT | \$ 60.1 | \$ 33.7 |
| As a percent of Net Sales | 8.9% | 5.3% |

* Defined as profit or loss from operations before interest expense and taxes.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidated EBIT EBIT for the first quarter of 2010 increased \$26.4 million or 78.4% from the prior year. Restructuring charges of \$4.0 million or 0.6% of net sales and \$9.1 million or 1.4% of net sales were included in the 2010 and 2009 periods, respectively. Foreign currency exchange fluctuation had an immaterial effect on EBIT.

Coatings Segment EBIT EBIT included restructuring charges of \$2.5 million or 0.7% of net sales and \$7.2 million or 1.9% of net sales in the 2010 and 2009 periods, respectively. The increase in EBIT as a percent of net sales was driven primarily by improved raw material cost comparisons, productivity gains from previously completed restructuring actions and lower 2010 restructuring charges compared to 2009.

Paints Segment EBIT EBIT included restructuring charges of \$1.3 million or 0.5% of net sales and \$0.3 million or 0.1% of net sales in the 2010 and 2009 periods, respectively. The increase in EBIT as a percent of net sales was driven primarily by improved raw material cost comparisons, leverage from increased sales volumes and productivity gains from previously completed restructuring actions.

All Other EBIT All Other EBIT includes corporate expenses. EBIT included restructuring charges of \$0.2 million or 0.4% of net sales and \$1.6 million or 3.0% of net sales in the 2010 and 2009 periods, respectively. The decrease in EBIT as a percent of net sales was driven primarily by the decline in revenue and timing of corporate expenses.

Due to the seasonal nature of portions of our business, EBIT for the first quarter is not necessarily indicative of EBIT for subsequent quarters or for the full year.

Interest Expense

| (Dollars in millions) | Three Months Ended | |
|-------------------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Consolidated Interest Expense | \$ 14.4 | \$ 11.9 |

Interest Expense The first quarter increase is primarily due to higher average interest rates resulting from our third quarter 2009 bond issuance partially offset by lower average debt levels in 2010.

Effective Tax Rate

| | Three Months Ended | |
|--------------------|---------------------|---------------------|
| | January 29, 2010 | January 30, 2009 |
| Effective Tax Rate | 25.8% | 34.9% |

Effective Tax Rate The first quarter 2010 effective tax rate reflects the settlement of certain income tax audits that decreased income tax expense by \$0.04 per share. We expect the effective tax rate for the full year to be 32.5% to 33%.

Net Income

(Dollars in millions)

Three Months Ended

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| | | January 29, 2010 | | January 30, 2009 | % Change |
|-------------------------|----|---------------------|----|---------------------|-------------|
| Consolidated Net Income | \$ | 33.9 | \$ | 14.2 | 139.5% |

Financial Condition: Net cash used in operations was \$15.6 million for the first quarter of 2010, compared to net cash used in operations of \$60.2 million for the first quarter of 2009. The use of cash for operations in 2010 was primarily related to decreases in trade accounts payable and other accrued liabilities, partially offset by net income and a reduction in accounts receivable. The decline of \$129.7 million in trade accounts payable and other accrued liabilities is due to seasonality of purchases and timing of disbursements. The decrease of \$66.7 million in accounts receivable is due to normal seasonality of sales.

During the first quarter of 2010, we used cash on hand and \$9.4 million in proceeds from the sale of treasury stock to fund normal seasonal working capital needs, \$27.6 million in share repurchases, \$15.9 million in dividend payments and \$8.5 million in capital expenditures.

Capital expenditures for property, plant and equipment were \$8.5 million in 2010, compared with \$10.8 million in 2009. We anticipate capital spending in 2010 to be approximately \$80 million.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The ratio of total debt to capital was 36.8% at January 29, 2010, compared to 36.9% at October 30, 2009 and 41.4% at January 30, 2009. Short-term debt (notes payable plus current portion of long-term debt) was \$6.3 million at January 29, 2010. This debt was comprised of foreign subsidiary borrowings. We ended our 2010 first quarter with \$557.3 million of liquidity that includes \$427.7 million of available committed credit facilities and \$129.6 million of cash. 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 current and projected financing needs.

We have a credit facility with covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of January 29, 2010. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

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 day-to-day operating needs. Those balances have also been used to finance acquisitions. Our investment policy on excess cash is to preserve principal.

We use derivative instruments with a number of counterparties principally to manage well-defined 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.

Off-Balance Sheet Financing: 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.

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 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. These forward-looking statements are based on management's current expectations, estimates, assumptions and beliefs concerning future events, conditions and financial performance. Forward-looking statements are necessarily 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 and may be identified by the use of words and phrases such as expects, anticipates, believes, will, will likely result, will continue, plans to and similar expressions. Uncertainties and other factors include, but are not limited to, changes in general economic conditions both domestic and international, including recessions and other external economic and political factors, which may adversely affect our business, the value of our investments, the financial stability of our customers and suppliers and our ability to obtain financing; dependence of internal earnings growth on economic conditions and growth in the domestic and international coatings industry; competitive factors including pricing pressure and product competition; risks related to any future acquisitions, including risks of adverse changes in the results of acquired businesses and the assumption of unforeseen liabilities; risks of disruptions in business resulting from the integration process and higher interest costs resulting from further borrowing for any such acquisitions; our reliance on the efforts of vendors, government agencies, utilities and other third parties to achieve adequate compliance and avoid disruption of our business; risks of disruptions in business resulting from our relationships with customers and suppliers; risks and uncertainties associated with operations and achievement of growth in developing markets, including China and Central and South America; unusual weather conditions adversely affecting sales; changes in raw materials pricing and availability; delays in passing along cost increases to customers; 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; civil unrest and the outbreak of war and other significant national and international events; and other risks and uncertainties. The foregoing list is not exhaustive, and we disclaim any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our foreign sales and results of operations are subject to the impact of foreign currency fluctuations. We have not hedged our exposure to translation gains and losses; however, we have reduced our exposure by borrowing funds in local currencies. A 10% adverse change in foreign currency rates would not have a material effect on our results of operations or financial position.

We are also subject to interest rate risk. At January 29, 2010, approximately 3.4% of our total debt consisted of floating rate debt. From time to time, we may enter into interest rate swaps 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 first quarter would not have a material impact on our results of operations or financial position.

ITEM 4: CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of January 29, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting during the quarter ended January 29, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

During the period covered by this report, there were no legal proceedings instituted that are reportable, and there were no material developments in any of the legal proceedings that were previously reported on our Form 10-K for the year ended October 30, 2009.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) Not applicable
- (b) Not applicable
- (c) We made the following repurchases of equity securities during the quarter ended January 29, 2010:

| Period | | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|----------|----------|----------------------------------|------------------------------|--|--|
| 10/31/09 | 11/27/09 | | \$ | | 4,000,000 |
| 11/28/09 | 12/25/09 | 420,000 | 26.88 | 420,000 | 3,580,000 |
| 12/26/09 | 1/29/10 | 580,000 | 28.06 | 580,000 | 3,000,000 |

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ITEM 5: OTHER INFORMATION

At the Annual Meeting of Stockholders on February 18, 2010, the stockholders took the following actions:

- (i) The stockholders elected four directors in Class III for a three-year term. The stockholders present in person or by proxy cast the following numbers of votes in connection with the election of directors, resulting in the election of all nominees:

| | Votes For | Votes Withheld | Non-Votes |
|---------------------|------------|----------------|-----------|
| Charles W. Gaillard | 80,437,964 | 6,829,424 | 8,015,922 |
| Gary E. Hendrickson | 82,238,732 | 5,028,656 | 8,015,922 |
| Mae C. Jemison | 85,698,775 | 1,568,613 | 8,015,922 |
| Gregory R. Palen | 75,986,851 | 11,280,537 | 8,015,922 |

The directors whose term of office continued after the meeting are: John S. Bode, Jeffrey H. Curler, Ian R. Friendly, Janel S. Haugarth, William L. Mansfield and Stephen D. Newlin.

- (ii) The stockholders approved an increase in the shares reserved under the Corporation's 2009 Omnibus Equity Plan.

| Votes For | Votes Against | Abstentions | Non-Votes |
|------------|---------------|-------------|-----------|
| 58,837,865 | 28,120,383 | 309,840 | 8,015,922 |

- (iii) The stockholders ratified the appointment of Ernst & Young LLP as the Corporation's independent registered public accounting firm for fiscal 2010.

| Votes For | Votes Against | Abstentions |
|------------|---------------|-------------|
| 91,517,090 | 3,682,294 | 83,926 |

ITEM 6: EXHIBITS

Exhibits

- 10.1 Three-Year Credit Agreement with Wells Fargo Bank, National Association, as Administrative Agent and an issuing bank, Wachovia Bank, National Association, as an issuing bank, and certain other lenders
- 10.2 First Amendment to Credit Agreement, dated August 17, 2009, among the registrant, the lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent
- 31.1 Section 302 Certification of the Chief Executive Officer
- 31.2 Section 302 Certification of the Chief Financial Officer
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 10, 2010

THE VALSPAR CORPORATION

By /s/Rolf Engh
Rolf Engh
Secretary

Date: March 10, 2010

By /s/Lori A. Walker
Lori A. Walker
Senior Vice President and
Chief Financial Officer
