VALSPAR CORP
Form 10-Q
September 04, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 26, 2013
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.)
901 3rd Avenue South,	
Minneapolis, Minnesota	**55402**
(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. 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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of August 26, 2013, The Valspar Corporation had 86,678,603 shares of common stock outstanding, excluding 31,764,021 shares held in treasury. We had no other classes of stock outstanding.

THE VALSPAR CORPORATION

Index to Form 10-Q

for the Quarter Ended July 26, 2013

Table of Contents

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 26, 2013	October 26, 2012	July 27, 2012
	(Unaudited)	(Note)	(Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	$ 349,142	$ 253,327	$ 181,478
Restricted cash	13,539	19,907	19,828
Accounts and notes receivable less allowance (7/26/13 – $9,176; 10/26/12 – $13,223; 7/27/12 – $17,713)	716,033	681,099	745,933
Inventories	416,749	360,427	377,226
Deferred income taxes	37,791	42,083	47,720
Prepaid expenses and other	102,656	92,334	91,609
TOTAL CURRENT ASSETS	1,635,910	1,449,177	1,463,794
GOODWILL	1,065,071	1,056,669	1,050,942
INTANGIBLES, NET	549,468	550,106	547,604
OTHER ASSETS	32,595	14,738	18,876
LONG-TERM DEFERRED INCOME TAXES	4,903	5,178	1,916
Property, plant and equipment, gross	1,423,795	1,413,434	1,382,893
Less accumulated depreciation	(868,227)	(862,466)	(840,915)
PROPERTY, PLANT AND EQUIPMENT, NET	555,568	550,968	541,978
TOTAL ASSETS	$ 3,843,515	$ 3,626,836	$ 3,625,110

NOTE:

The Balance Sheet at October 26, 2012 has been derived from the audited consolidated financial statements at that date.

See Notes to Condensed Consolidated Financial Statements

Table of Contents
- 3 -

THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS - CONTINUED

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

LIABILITIES AND STOCKHOLDERS' EQUITY	July 26, 2013	October 26, 2012	July 27, 2012
	(Unaudited)	(Note)	(Unaudited)
CURRENT LIABILITIES:			
Short-term debt	$412,394	$94,441	$115,993
Current portion of long-term debt	3,661	44,090	—
Trade accounts payable	575,667	502,967	521,654
Income taxes	29,835	4,612	40,239
Other accrued liabilities	338,352	380,662	349,224
TOTAL CURRENT LIABILITIES	1,359,909	1,026,772	1,027,110
LONG-TERM DEBT, NET OF CURRENT PORTION	1,012,550	1,012,578	1,056,955
DEFERRED INCOME TAXES	208,928	216,314	208,299
OTHER LONG-TERM LIABILITIES	155,676	147,649	136,091
TOTAL LIABILITIES	2,737,063	2,403,313	2,428,455
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	420,823	421,281	399,240
Retained earnings	1,605,335	1,440,896	1,385,229
Accumulated other comprehensive income (loss)	14,310	50,272	48,667
Less cost of common stock in treasury (7/26/13 – 31,432,963 shares; 10/26/12 – 28,276,819 shares; 7/27/12 – 27,690,857 shares)	(993,236)	(748,146)	(695,701)
TOTAL STOCKHOLDERS' EQUITY	1,106,452	1,223,523	1,196,655
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,843,515	$3,626,836	$3,625,110

NOTE: The Balance Sheet at October 26, 2012 has been derived from the audited consolidated financial statements at that date.

See Notes to Condensed Consolidated Financial Statements

Table of Contents
- 4 -

THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Net sales	$1,089,013	$1,078,348	$2,995,474	$2,996,567
Cost of sales	718,000	710,086	1,984,888	1,974,889
Restructuring charges – cost of sales	1,652	4,312	8,321	8,972
Gross profit	369,361	363,950	1,002,265	1,012,706
Research and development	30,073	29,703	93,055	86,038
Selling, general and administrative	182,118	189,325	525,338	555,508
Restructuring charges	838	2,552	3,489	7,407
Acquisition-related charges	758	—	758	—
Operating expenses	213,787	221,580	622,640	648,953
Income (loss) from operations	155,574	142,370	379,625	363,753
Interest expense	16,000	16,482	47,861	51,559
Other (income)/expense – net	1,065	(1,056)	2,042	(1,212)
Income (loss) before income taxes	138,509	126,944	329,722	313,406
Income taxes	44,701	40,538	103,977	94,678
Net income (loss)	$93,808	$86,406	$225,745	$218,728
Net income (loss) per common share – basic	$1.08	$0.95	$2.55	$2.38
Net income (loss) per common share – diluted	$1.04	$0.92	$2.48	$2.31
Average number of common shares outstanding				
- basic	87,227,248	90,601,291	88,373,620	91,843,596
- diluted	89,910,681	93,573,205	91,163,437	94,775,436
Dividends paid per common share	$0.23	$0.20	$0.69	$0.60

See Notes to Condensed Consolidated Financial Statements

Table of Contents

THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Net income (loss)	$ 93,808	$ 86,406	$ 225,745	$ 218,728
Other comprehensive income (loss):				
Foreign currency translation	(33,144)	(36,694)	(36,630)	(9,595)
Net gain (loss) on financial instruments	358	543	1,037	(7,368)
Income tax benefit (expense)	(123)	(123)	(369)	2,851
Other comprehensive income (loss)	(32,909)	(36,274)	(35,962)	(14,112)
Comprehensive income (loss)	$ 60,899	$ 50,132	$ 189,783	$ 204,616

See Notes to Condensed Consolidated Financial Statements

THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	Nine Months Ended	
	July 26, 2013	July 27, 2012
OPERATING ACTIVITIES:		
Net income (loss)	$225,745	$218,728
Adjustments to reconcile net income (loss) to net cash (used in)/provided by operating activities:		
Depreciation	57,128	63,677
Amortization	4,900	4,939
Stock-based compensation	12,783	7,735
(Gain)/loss on asset divestitures	(518)	1,043
Changes in certain assets and liabilities, net of effects of acquired businesses:		
(Increase)/decrease in accounts and notes receivable	(44,460)	(85,276)
(Increase)/decrease in inventories and other assets	(85,822)	(60,848)
Increase/(decrease) in trade accounts payable and other accrued liabilities	29,831	28,703
Increase/(decrease) in income taxes payable	5,706	10,173
Increase/(decrease) in other deferred liabilities	7,757	7,999
Settlement of treasury lock contracts	—	(27,875)
Other	(3,447)	(2,833)
Net Cash (Used In)/Provided By Operating Activities	209,603	166,165
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(67,311)	(61,358)
Acquisition of businesses, net of cash acquired	(34,811)	—
Cash proceeds on disposal of assets	6,235	3,126
(Increase)/decrease in restricted cash	6,367	550
Net Cash (Used In)/Provided By Investing Activities	(89,520)	(57,682)
FINANCING ACTIVITIES:		
Net proceeds from issuance of debt	—	396,816
Payment on retirement of debt	—	(200,000)
Net change in other borrowings	71,775	(42,375)
Net proceeds (repayments) of commercial paper	208,956	(42,975)
Proceeds from sale of treasury stock	23,253	35,246
Treasury stock purchases	(276,003)	(202,934)
Excess tax benefit from stock-based compensation	16,673	10,867

Dividends paid	(61,306)	(55,249)
Purchase of equity award shares	—	(7,614)
Net Cash (Used In)/Provided By Financing Activities	(16,652)	(108,218)
Increase/(Decrease) in Cash and Cash Equivalents	103,431	265
Effect of exchange rate changes on Cash and Cash Equivalents	(7,616)	3,046
Cash and Cash Equivalents at Beginning of Period	253,327	178,167
Cash and Cash Equivalents at End of Period	$349,142	$181,478

See Notes to Condensed Consolidated Financial Statements

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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 July 26, 2013 are not necessarily indicative of the results that may be expected for the year ending October 25, 2013.

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation. Such reclassifications had no effect on net income or stockholders' equity as previously reported.

The Condensed Consolidated Balance Sheet at October 26, 2012 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 included in our annual report on Form 10-K for the year ended October 26, 2012.

NOTE 2 – ACQUISITIONS AND DIVESTITURES

On August 1, 2013, subsequent to the end of our third quarter, we purchased all the outstanding shares of Inver Holding S.r.l. (Inver Group), an Italian-based industrial coatings company serving customers in Italy, France, the UK, Germany and other countries. The acquisition strengthens our presence in the large European industrial coatings market and broadens our range of technologies for the general industrial product line. Inver Group had net sales of approximately €160,000 in 2012. The acquisition will be recorded at fair value in our Coatings segment in the fourth quarter of fiscal year 2013.

On December 28, 2012, we purchased Ace Hardware Corporation's paint manufacturing business, including two manufacturing facilities near Chicago, IL, for approximately $34,811 in cash. We will manufacture and supply paint to Ace Hardware Corporation for sale at Ace retail locations. The acquisition was recorded in our Paints segment in the first quarter of fiscal year 2013 at preliminary fair values and a preliminary allocation of the purchase price has been completed. The assets and operating results have been included in our financial statements from the date of acquisition.

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

NOTE 3 – INVENTORIES

The major classes of inventories consist of the following:

	July 26, 2013	October 26, 2012	July 27, 2012
Manufactured products	$250,399	$215,790	$218,208
Raw materials, supplies and work-in-progress	166,350	144,637	159,018
Total Inventories	$416,749	$360,427	$377,226

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill as of July 26, 2013 is $1,065,071, an increase of $8,402 from the end of fiscal year 2012. The increase is due to an acquisition made in the first quarter of 2013 (see Note 2 for further details), partially offset by foreign currency translation.

Total intangible asset amortization expense for the nine months ended July 26, 2013 was $4,900, compared to $4,939 for the same period last year. Estimated annual amortization expense for each of the five succeeding fiscal years based on the intangible assets as of July 26, 2013 is expected to be approximately $7,000.

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 5 – ACCOUNTS PAYABLE

Trade accounts payable includes $41,158 at July 26, 2013, $39,762 at October 26, 2012 and $39,092 at July 27, 2012, of issued checks that had not cleared our bank accounts.

NOTE 6 – GUARANTEES

We sell extended furniture protection plans and offer warranties for certain 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. 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 on programs in progress are charged to earnings when identified.

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 can be estimated, and estimates are revised as soon as such changes in estimates become known. The extended furniture protection plans that we enter into have fixed prices. To the extent the actual costs to complete contracts are higher or lower than the amounts estimated as of the date of the financial statements, gross margin would be adjusted in future quarters 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 26, 2013	July 27, 2012
Beginning balance, October	$80,272	$73,679
Additional net deferred revenue/accrual made during the period	5,420	14,830
Payments made during the period	(5,981)	(7,513)
Ending Balance	$79,711	$80,996

NOTE 7 – FAIR VALUE MEASUREMENT

We measure certain assets and liabilities at fair value or disclose the fair value of certain assets and liabilities recorded at cost in the Condensed Consolidated Financial Statements on both a recurring and nonrecurring basis. Fair value is defined as an exit price, or the amount that would be received upon the sale of 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 the 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. 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.

- **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.

Table of Contents

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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 26, 2013	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets				
Cash equivalents	**$90,023**	$ 90,023	$ —	$ —
Restricted cash [1]	**13,539**	13,539	—	—
Foreign currency contracts [2]	**94**	—	94	—
Total Assets	**$103,656**	$ 103,562	$ 94	$ —

	Fair Value at October 26, 2012	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets				
Cash equivalents	**$ 122,273**	$ 122,273	$ —	$ —
Restricted cash [1]	**19,907**	19,907	—	—
Foreign currency contracts [2]	**16**	—	16	—
Total Assets	**$ 142,196**	$ 142,180	$ 16	$ —

	Fair Value at July 27, 2012	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets				
Cash equivalents	**$76,325**	$ 76,325	$ —	$ —

Restricted cash [1]	**19,828**		19,828		—		—
Foreign currency contracts [2]	**42**		—		42		—
Total Assets	**$96,195**	$	96,153	$	42	$	—

1. Restricted cash represents cash that is restricted from withdrawal and primarily serves as collateral for our liability insurance programs.

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 in the Condensed Consolidated Balance Sheets. The fair value was estimated using observable market data for similar financial instruments. See Note 8 for additional information on derivative financial instruments.

Table of Contents

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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

	Fair Value at July 26, 2013	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Debt [3]				
Publicly traded debt	**$1,099,837**	$ 1,099,837	$ —	$ —
Non-publicly traded debt	**428,093**	—	428,093	—
Total Debt	**$1,527,930**	$ 1,099,837	$ 428,093	$ —

	Fair Value at October 26, 2012	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Debt [3]				
Publicly traded debt	**$ 1,141,105**	$ 1,141,105	$ —	$ —
Non-publicly traded debt	**150,575**	—	150,575	—
Total Debt	**$ 1,291,680**	$ 1,141,105	$ 150,575	$ —

	Fair Value at July 27, 2012	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Debt [3]				
Publicly traded debt	**$1,130,506**	$ 1,130,506	$ —	$ —
Non-publicly traded debt	**172,044**	—	172,044	—
Total Debt	**$1,302,550**	$ 1,130,506	$ 172,044	$ —

[3] Debt is recorded at carrying value of $1,428,605, $1,151,109 and $1,172,948 in the Condensed Consolidated Balance Sheets as of July 26, 2013, October 26, 2012 and July 27, 2012, 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 9 for additional information on 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 an acquisition. See Note 2 for additional information on our acquisitions.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments to manage interest rate and foreign currency exchange risks. We enter into derivative financial instruments with high-credit quality counterparties and diversify our positions among such counterparties to reduce our exposure to credit losses. We do not have any credit-risk-related contingent features in our derivative contracts as of July 26, 2013.

At July 26, 2013, we had $2,895 and $2,572 notional amount of foreign currency contracts that mature during fiscal year 2013 and 2014, respectively. These foreign currency contracts have been designated as cash flow hedges with unrealized gains or losses recorded in accumulated other comprehensive income (loss). Gains and losses are reclassified from accumulated other comprehensive income (loss) to other expense (income) in the Statement of Operations when the underlying hedged item is realized. At July 27, 2012, we had $3,249 and $2,786 notional amount of foreign currency contracts that matured in fiscal year 2012 and 2013, respectively. There was no material ineffectiveness related to these hedges during the quarter or year-to-date periods ended July 26, 2013 or July 27, 2012.

At July 26, 2013 and July 27, 2012, we had no treasury lock contracts in place. During the first quarter of 2012, we settled $200,000 notional amount of treasury lock contracts as a result of issuing $400,000 of Senior Notes, yielding a pretax loss of $27,875. This loss was recognized net of tax, in accumulated other comprehensive income (loss) in the first quarter of fiscal year 2012. The accumulated other comprehensive loss amount in our Condensed Consolidated Balance Sheets as of July 26, 2013 and July 27, 2012 represents the unamortized net losses, net of tax, from our settled contracts. Unamortized net losses are reclassified ratably to interest expense in our Condensed Consolidated Statements of Operations over the term of the related debt. There was no material ineffectiveness related to these hedges.

Table of Contents

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Our derivative assets and liabilities subject to fair value measurement (see Note 7) include the following:

	Fair Value at July 26, 2013	Fair Value at October 26, 2012	Fair Value at July 27, 2012
Assets			
Prepaid expenses and other			
Foreign currency contracts	$ 94	$ 16	$ 42
Total Assets	$ 94	$ 16	$ 42

Derivative gains (losses) recognized in AOCI[1] and on the Condensed Consolidated Statements of Operations for the three and nine months ended July 26, 2013 and July 27, 2012, respectively, are as follows:

Three Months Ended July 26, 2013	**Amount of Gain (Loss) recognized in AOCI[1]**	**Statement of Operations Classification**	**Gain (Loss) recognized in Net Income[1]**
Derivatives designated as cash flow hedges			
Foreign currency contracts	$ 38	Other income / (expense), net	$ 42
Treasury lock contracts	320	Interest expense	(320)
Total derivatives designated as cash flow hedges	$ 358	Total	$ (278)
Three Months Ended July 27, 2012	**Amount of Gain (Loss) recognized**	**Statement of Operations Classification**	**Gain (Loss) recognized in**

	in AOCI[1]		Net Income[1]
Derivatives designated as cash flow hedges			
Foreign currency contracts	$ 224	Other income / (expense), net	$ 62
Treasury lock contracts	319	Interest expense	(319)
Total derivatives designated as cash flow hedges	$ 543	Total	$ (257)

Nine Months Ended July 26, 2013	**Amount of Gain (Loss) recognized in AOCI[1]**	**Statement of Operations Classification**	**Gain (Loss) recognized in Net Income[1]**
Derivatives designated as cash flow hedges			
Foreign currency contracts	$ 79	Other income / (expense), net	$ 84
Treasury lock contracts	958	Interest expense	(958)
Total derivatives designated as cash flow hedges	$ 1,037	Total	$ (874)

Nine Months Ended July 27, 2012	**Amount of Gain (Loss) recognized in AOCI[1]**	**Statement of Operations Classification**	**Gain (Loss) recognized in Net Income[1]**
Derivatives designated as cash flow hedges			
Foreign currency contracts	$ 38	Other income / (expense), net	$ 414
Treasury lock contracts	(7,406)	Interest expense	(464)
Total derivatives designated as cash flow hedges	$ (7,368)	Total	$ (50)

1 Accumulated other comprehensive income (loss) (AOCI) is included in the Condensed Consolidated Balance Sheets in the Stockholders' Equity section and is reported net of tax. The amounts disclosed in the above table are reported pretax and represent the quarterly derivative activity.

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 9 – DEBT

Our debt consists of the following:

	July 26, 2013	October 26, 2012	July 27, 2012
Short-term debt	$412,394	$94,441	$115,993
Current portion of long-term debt	3,661	44,090	—
Long-term debt	1,012,550	1,012,578	1,056,955
Total Debt	$1,428,605	$1,151,109	$1,172,948

The increase in short-term debt from October 26, 2012 was primarily due to commercial paper borrowings for share repurchases and the purchase of Ace Hardware Corporation's paint manufacturing business, and funding for the Inver Group acquisition, partially offset by improved operating cash flow.

In the first quarter of 2012, we issued $400,000 of unsecured Senior Notes that mature on January 15, 2022 with a coupon rate of 4.20%. The proceeds, net of issuance costs, were $396,816. The public offering was made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission. We used the net proceeds for general corporate purposes, including paying down our commercial paper borrowings and retiring our $200,000 of 5.625% Senior Notes that matured on May 1, 2012.

Our credit facilities have covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of July 26, 2013. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

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 10 – STOCK-BASED COMPENSATION

Compensation expense associated with our stock-based compensation plans was $3,610 ($2,361 after tax) and $12,783 ($8,245 after tax) for the three and nine months ended July 26, 2013, respectively, compared to $2,025 ($1,345 after tax) and $7,735 ($5,117 after tax) for the three and nine months ended July 27, 2012, respectively.

NOTE 11 – 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. We fund the plans in amounts consistent with the limits of allowable tax deductions.

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

	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Service cost	$1,147	$1,043	$3,709	$3,146
Interest cost	3,281	3,514	9,926	10,565
Expected return on plan assets	(4,915)	(4,842)	(14,791)	(14,534)
Amortization of prior service cost	112	108	336	326
Recognized actuarial (gain)/loss	2,372	1,717	7,204	5,149
Net Periodic Benefit Cost	$1,997	$1,540	$6,384	$4,652

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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

	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Service cost	$60	$31	$180	$93
Interest cost	90	112	270	336
Amortization of prior service cost	(32)	(32)	(96)	(96)
Recognized actuarial (gain)/loss	117	118	351	354
Net Periodic Benefit Cost	$235	$229	$705	$687

NOTE 12 – INCOME TAXES

At October 26, 2012, we had a $9,965 liability recorded for gross unrecognized tax benefits (excluding interest and penalties). Of this total, $8,718 represents the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. There were no material adjustments to our recorded liability for unrecognized tax benefits during the first, second or third quarters of fiscal year 2013 or 2012.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. As of October 26, 2012, we had accrued approximately $2,582 of interest and penalties relating to unrecognized tax benefits.

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 2007. The Internal Revenue Service (IRS) concluded its examination of our U.S. federal tax returns for the fiscal years ended 2009 and 2010 in October 2012. 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 next 12 months. While we do not expect any material adjustments in the next twelve months due to the pending audit activity or expiring statutes, we are unable to estimate a range of outcomes at this time.

NOTE 13 – NET INCOME (LOSS) PER COMMON SHARE

The following table presents the net income (loss) per common share calculations for the three and nine months ended July 26, 2013 and July 27, 2012:

	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Basic				
Net income (loss)	$93,808	$86,406	$225,745	$218,728
Weighted-average common shares outstanding – basic	87,227,248	90,601,291	88,373,620	91,843,596
Net Income (Loss) per Common Share – Basic	$1.08	$0.95	$2.55	$2.38
Diluted				
Net income (loss)	$93,808	$86,406	$225,745	$218,728
Weighted-average common shares outstanding – basic	87,227,248	90,601,291	88,373,620	91,843,596
Diluted effect of stock options and unvested restricted stock	2,683,433	2,971,914	2,789,817	2,931,840
Equivalent average common shares outstanding – diluted	89,910,681	93,573,205	91,163,437	94,775,436
Net Income (Loss) per Common Share – Diluted	$1.04	$0.92	$2.48	$2.31

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Basic earnings per share are based on the weighted-average number of common shares outstanding during each period. In computing diluted earnings per share, the number of common shares outstanding is increased by common stock options with exercise prices lower than the average market prices of common shares during each period and reduced by the number of shares assumed to have been purchased with proceeds from the exercised options. If we are in a net loss position, these shares are excluded as they are antidilutive. Potential common shares of 118,383 and 256,716 related to our outstanding stock options were excluded from the computation of diluted earnings per share for the three and nine months ended July 26, 2013, respectively, as inclusion of these shares would have been antidilutive. Potential common shares of 59,430 and 29,450 related to our outstanding stock options were excluded from the computation of diluted earnings per share for the three and nine months ended July 27, 2012, respectively, as inclusion of these shares would have been antidilutive.

NOTE 14 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss), net of tax, consists of the following for the three and nine months ended July 26, 2013 and July 27, 2012:

Three Months Ended July 26, 2013	Foreign Currency Translation[1]	Change in Benefit Obligations	Unrealized Gain (Loss) on Financial Instruments	Accumulated Other Comprehensive Income (Loss)
Balance, April 26, 2013	$ 156,124	$ (99,407)	$ (9,498)	$ 47,219
Other comprehensive income (loss), net of tax	(33,144)	—	235	(32,909)
Balance, July 26, 2013	$ 122,980	$ (99,407)	$ (9,263)	$ 14,310

Three Months Ended July 27, 2012	Foreign Currency Translation[1]	Change in Benefit Obligations	Unrealized Gain (Loss) on Financial Instruments	Accumulated Other Comprehensive Income (Loss)
Balance, April 27, 2012	$ 179,890	$ (84,432)	$ (10,517)	$ 84,941

Other comprehensive income (loss), net of tax	(36,694)	—	420	(36,274)
Balance, July 27, 2012	$ 143,196	$ (84,432)	$ (10,097)	$ 48,667

Nine Months Ended July 26, 2013	Foreign Currency Translation[1]	Change in Benefit Obligations	Unrealized Gain (Loss) on Financial Instruments	Accumulated Other Comprehensive Income (Loss)
Balance, October 26, 2012	$ 159,610	$ (99,407)	$ (9,931)	$ 50,272
Other comprehensive income (loss), net of tax	(36,630)	—	668	(35,962)
Balance, July 26, 2013	$ 122,980	$ (99,407)	$ (9,263)	$ 14,310

Nine Months Ended July 27, 2012	Foreign Currency Translation[1]	Change in Benefit Obligations	Unrealized Gain (Loss) on Financial Instruments	Accumulated Other Comprehensive Income (Loss)
Balance, October 28, 2011	$ 152,791	$ (84,432)	$ (5,580)	$ 62,779
Other comprehensive income (loss), net of tax	(9,595)	—	(4,517)	(14,112)
Balance, July 27, 2012	$ 143,196	$ (84,432)	$ (10,097)	$ 48,667

[1] We deem our foreign investments to be permanent in nature and therefore do not provide for taxes on foreign currency translation adjustments.

Table of Contents

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 15 – 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 consumer paints and automotive refinish product lines. Consumer paint products include interior and exterior decorative paints, stains, primers, varnishes, high performance floor paints and specialty decorative products, such as enamels, aerosols and faux finishes primarily distributed for the do-it-yourself and professional markets in Australia, China and North America. Automotive paint products include refinish paints and aerosol spray paints sold through automotive refinish distributors, body shops and automotive supply distributors and retailers.

Our remaining activities are included in Other and Administrative (formerly All Other). These activities include specialty polymers and colorants that are used internally and sold to other coatings manufacturers, as well as related products and furniture protection plans. In the fourth quarter of fiscal year 2012, we exited the gelcoat products market. Also included within Other and Administrative are our corporate administrative expenses. The administrative expenses include expenses not directly allocated to any other reportable segment.

It is not practicable to obtain the information needed to disclose revenues attributable to each of our identified product lines within our reportable segments.

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 segment data for the three and nine months ended July 26, 2013 and July 27, 2012 are as follows:

	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Net Sales				
Coatings	$572,837	$569,446	$1,607,152	$1,604,307
Paints	454,969	442,576	1,222,002	1,208,444
Other and Administrative	99,761	105,839	279,537	290,388
Less Intersegment Sales	(38,554)	(39,513)	(113,217)	(106,572)
Total Net Sales	$1,089,013	$1,078,348	$2,995,474	$2,996,567
EBIT				
Coatings	$99,026	$98,238	$253,602	$261,290
Paints	50,761	48,819	126,206	121,506
Other and Administrative	4,722	(3,631)	(2,225)	(17,831)
Total EBIT	154,509	143,426	377,583	364,965
Interest Expense	16,000	16,482	47,861	51,559
Income Before Income Taxes	$138,509	$126,944	$329,722	$313,406

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 16 – RESTRUCTURING

In fiscal year 2013, we initiated several restructuring actions which are expected to be completed in fiscal years 2013 and 2014. In the Paints segment, the initiatives primarily include consolidations of manufacturing and distribution operations following the acquisition of Ace Hardware Corporation’s paint manufacturing business and in Australia as part of our ongoing profit improvement plans. These initiatives also include actions to lower operating expenses in Asia. In our Coatings segment, we undertook several actions to rationalize manufacturing operations and lower operating expenses. These restructuring activities resulted in after-tax charges of $1,853 or $0.02 per share and $8,268 or $0.09 per share for the three and nine months ended July 26, 2013, respectively.

In fiscal year 2012, we exited the gelcoat products market and consolidated a manufacturing facility in our Paints segment. Our gelcoat product line was categorized in Other and Administrative. During fiscal year 2012, we also completed restructuring initiatives announced in 2011, including certain actions in our Coatings and Paints segments. In our Coatings segment, we rationalized our manufacturing capacity and reduced our overall global headcount, primarily in our wood product line. In our Paints segment, we completed the first phase of actions to improve the profitability of Australia operations, which included facility consolidations in manufacturing and distribution, store rationalization and the reduction of other related costs. Total restructuring activities for the three and nine months ended July 27, 2012 resulted in after-tax charges of $4,442 or $0.05 per share and $11,259 or $0.12 per share, respectively.

The expenses comprising the above restructuring initiatives included severance and employee benefits, asset impairments, professional services and site clean-up.

The following restructuring charges by segment were recorded in the 2013 and 2012 periods:

Nine Months Ended July 26, 2013	Expense

	Liability Beginning Balance 10/26/2012		Payments and Other Activity	Liability Ending Balance 7/26/2013
Coatings				
Severance and employee benefits	$ 2,234	$3,919	$ (1,000)	$ 5,153
Asset impairments	—	48	(48)	—
Exit costs (consulting/site clean-up)	390	—	(230)	160
Total Coatings	2,624	3,967	(1,278)	5,313
Paints				
Severance and employee benefits	2,104	6,849	(3,961)	4,992
Asset impairments	—	828	(828)	—
Exit costs (consulting/site clean-up)	3,984	—	(1,769)	2,215
Total Paints	6,088	7,677	(6,558)	7,207
Other and Administrative				
Severance and employee benefits	297	58	(94)	261
Asset impairments	—	61	(61)	—
Exit costs (consulting/site clean-up)	—	47	(47)	—
Total Other and Administrative	297	166	(202)	261
Total	$ 9,009	$11,810	$ (8,038)	$ 12,781

THE VALSPAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JULY 26, 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Nine Months Ended July 27, 2012	Liability Beginning Balance 10/28/2011	Expense	Payments and Other Activity	Liability Ending Balance 7/27/2012
Coatings				
Severance and employee benefits	$ 3,884	$ 535	$ (2,169)	$ 2,250
Asset Impairments	—	167	(167)	—
Exit costs (consulting/site clean-up)	2,802	194	(2,296)	700
Total Coatings	6,686	896	(4,632)	2,950
Paints				
Severance and employee benefits	2,915	3,617	(6,087)	445
Asset impairments	—	5,101	(5,101)	—
Exit costs (consulting/site clean-up)	408	2,793	(1,164)	2,037
Total Paints	3,323	11,511	(12,352)	2,482
Other and Administrative				
Severance and employee benefits	437	1,068	(184)	1,321
Asset impairments	—	2,171	(2,171)	—
Exit costs (consulting/site clean-up)	—	733	(733)	—
Total Other and Administrative	437	3,972	(3,088)	1,321
Total	$ 10,446	$ 16,379	$ (20,072)	$ 6,753

The ending liability balances at July 26, 2013 and July 27, 2012 are included in other accrued liabilities on our Condensed Consolidated Balance Sheets. The restructuring reserve balances presented are considered adequate to cover committed restructuring actions. The restructuring expenses recorded are included in the Condensed Consolidated Statements of Operations.

NOTE 17 – RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2013, the Financial Accounting Standards Board (“FASB”) issued guidance on classification of an unrecognized tax benefit. An unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss carry-forward or other tax credit carry-forward when settlement in this manner is available under the tax law. The change is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which means the first quarter of our fiscal year 2015, and is to be applied prospectively. We do not expect the adoption of this accounting guidance to have an effect on our consolidated financial statements.

In March 2013, the FASB issued guidance on a parent's accounting for the cumulative translation adjustment (CTA) under certain circumstances. The new guidance requires a transfer from CTA into net income when a parent either sells a part or all of its investment in a foreign entity, or no longer holds a controlling financial interest in a subsidiary or group of assets that is or a business. This update aims to resolve diversity in practice in accounting for the CTA transfer into net income. The change is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013, which means the first quarter of our fiscal year 2015, and is to be applied prospectively. We do not expect the adoption of these updated disclosure requirements to affect our consolidated results of operations, financial condition or liquidity.

In February 2013, the FASB further amended the disclosure requirements for comprehensive income. The update requires companies to disclose items reclassified out of accumulated other comprehensive income (AOCI) and into net income in a single location either in the notes to the consolidated financial statements or parenthetically on the face of the Statements of Operations. The change is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, which means the first quarter of our fiscal year 2014, and is to be applied prospectively. We do not expect the adoption of these updated disclosure requirements to affect our consolidated results of operations, financial condition or liquidity.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Unless otherwise noted, transactions, trends and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. In addition, unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior year. Our MD&A is presented in seven sections:

- Overview
- Results of Operations
- Financial Condition
- Non-GAAP Financial Measures
- Critical Accounting Estimates
- Off-Balance Sheet Arrangements
- Forward Looking Statements

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended October 26, 2012, as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

OVERVIEW

The Valspar Corporation is a global leader in the paint and coatings industry. Our strong consumer brands and leading technologies, together with our technical expertise and customer service, differentiate us from our competition and allow us to grow and create value with customers in a wide variety of geographic and end-use markets. We operate our business in two reportable segments: Coatings and Paints. Our Coatings segment aggregates our industrial and packaging product lines. Our Paints segment aggregates our consumer paints and automotive refinish product lines. See Note 15 in Notes to Condensed Consolidated Financial Statements for further information on our reportable segments.

We operate in over 25 countries, and approximately 43% of our total net sales for the first nine months of 2013 were generated outside of the U.S. In the discussions of our operating results, we sometimes refer to the impact of changes in foreign currency exchange rates or the impact of foreign currency exchange rate fluctuations, which are references to the differences between the foreign currency exchange rates we use to convert international operating results from local currencies into U.S. dollars for reporting purposes. The impact of foreign currency exchange rate fluctuations is calculated as the difference between current period activity translated using the current period's currency exchange rates and the comparable prior-year period's currency exchange rates. We use this method to calculate the impact of changes in foreign currency exchange rates for all countries where the functional currency is not the U.S. dollar.

Our fundamental business objective is to create long-term value for our shareholders. We intend to accomplish this by:

- focusing on our customers and delivering coatings products and solutions based on a deep understanding of their needs;
- investing in our brands and developing innovative, proprietary technologies;
- expanding our global presence;
- enhancing the productivity of our business by maximizing efficiencies in procurement, manufacturing and process adherence;
- maintaining operational discipline and prudent cost control;
- generating strong cash flow; and
- allocating our capital to maintain and grow the business, fund internal growth initiatives and strategic acquisitions and increase shareholder value.

In addition to creating value for our shareholders, we are committed to:

- adhering to our values, ethical business conduct and doing business with integrity;
- improving the safety and reducing the environmental footprint of our business and the products we manufacture while also delivering coatings solutions that enable our customers to meet their environmental and safety objectives; and
- demonstrating our corporate citizenship by supporting the communities in which we work and live through volunteer efforts and philanthropy.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

The following discussion of financial condition and results of operations should be read in the context of the overview.

RESULTS OF OPERATIONS

Overview

Net sales grew 1.0% for the third quarter of 2013, primarily due to new business across all product lines and regions and our Ace acquisition, partially offset by volume declines in our general industrial product line and continued weakness in our Australia paints business. Our gross profit rate of 33.9% increased from 33.8% in the prior year. Net income as a percent of sales improved to 8.6% from 8.0% in the prior year primarily due to lower operating expense, which offset a higher effective income tax rate.

Restructuring

In fiscal year 2013, we initiated several restructuring actions which are expected to be completed in fiscal years 2013 and 2014. We expect the total after-tax cost of all restructuring activities to be approximately $30,000 to $35,000 or $0.34 to $0.39 per share in 2013 and 2014. In the Paints segment, the initiatives primarily include consolidations of manufacturing and distribution operations following the acquisition of Ace Hardware Corporation's paint manufacturing business and in Australia as part of our ongoing profit improvement plans. These initiatives also include actions to lower operating expenses in Asia. In our Coatings segment, we undertook several actions to rationalize manufacturing operations and lower operating expenses. These restructuring activities resulted in after-tax charges of $1,853 or $0.02 per share and $8,268 or $0.09 per share for the three and nine months ended July 26, 2013, respectively. In the fourth quarter of 2013, these initiatives will also include restructuring actions related to our Inver Group acquisition, including consolidating manufacturing and distribution operations and lowering operating expenses. See Note 2 in Notes to Condensed Consolidated Financial Statements for further information on our Inver Group acquisition. See Note 16 in Notes to Condensed Consolidated Financial Statements for further information on restructuring.

Vendor Support Program Change

We provide our customers a number of cooperative marketing and trade promotional programs (vendor support programs). Our consumer directed and specifically identifiable cooperative marketing programs and activities are recorded in operating expense, and our trade promotional funding is recorded as a reduction to net sales. In 2013, the agreement with respect to cooperative advertising programs with a large customer in our Paints segment was changed.

These programs are now included as reduction in price. Previously, these programs were specifically identifiable and included in operating expense. As a result, compared to last year, our net sales, gross margins and operating expenses are lower. There was no impact on net income for the change in our vendor support programs.

Financial Results

The following tables present selected financial data for the three and nine months ended July 26, 2013 and July 27, 2012.

Net Sales	Three Months Ended			Nine Months Ended		
	July 26, 2013	July 27, 2012	% Change	July 26, 2013	July 27, 2012	% Change
Coatings	$572,837	$569,446	0.6 %	$1,607,152	$1,604,307	0.2 %
Paints	454,969	442,576	2.8 %	1,222,002	1,208,444	1.1 %
Other and Administrative	61,207	66,326	(7.7)%	166,320	183,816	(9.5)%
Consolidated Net Sales	$1,089,013	$1,078,348	1.0 %	$2,995,474	$2,996,567	0.0 %

- **Consolidated Net Sales –** Consolidated net sales for the third quarter of 2013 increased 1.0%, including a positive impact of 1.7% from our Ace acquisition. Year-to-date consolidated net sales were flat, including a positive impact of 1.6% from our Ace acquisition and a negative impact of 0.3% from foreign currency.
- **Coatings Segment Net Sales –** Our Coatings segment net sales for the third quarter of 2013 increased 0.6%, including a negative impact of 0.1% from foreign currency. Year-to-date, our Coatings segment net sales increased 0.2%, including a negative impact of 0.6% from foreign currency. Net of foreign currency, the slight increase in sales in both periods was primarily due to volume growth driven by new business in all product lines, which was partially offset by continued weakness in our global general industrial product line, particularly in the off-road equipment and shipping container markets.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

- **Paints Segment Net Sales –** Our Paints segment net sales for the third quarter of 2013 increased 2.8%, including a positive impact of 4.0% from our Ace acquisition and 0.1% from foreign currency. Net of acquisitions and foreign currency, the decrease in third quarter sales reflects store rationalization and a weak residential housing market in Australia and a change in some of our vendor support programs, partially offset by increased sales in our North America and China consumer paints. Year-to-date, our Paints segment net sales increased 1.1%, including a positive impact of 3.9% from our Ace acquisition and 0.1% from foreign currency. Net of acquisitions and foreign currency, the decrease in year-to-date sales reflects store rationalization and a weak residential housing market in Australia, a change in some of our vendor support programs and lower sales in our China consumer paints product line, partially offset by increased sales in our North America consumer paints.
- **Other and Administrative Net Sales –** The Other and Administrative category includes net sales for the following product lines: resins, furniture protection plans and colorants. Other and Administrative net sales for the third quarter of 2013 decreased 7.7%, including the negative impact of 0.1% from foreign currency. Year-to-date Other and Administrative net sales decreased 9.5%, including the negative impact of 0.1% from foreign currency. Net of foreign currency, the lower sales in both periods were due to our exit from the gelcoat products market in the fourth quarter of 2012.

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

Gross Profit	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Consolidated Gross Profit	$369,361	$363,950	$1,002,265	$1,012,706
As a percent of Net Sales	33.9 %	33.8 %	33.5 %	33.8 %

- **Gross Profit –** The gross profit rate increased slightly in the third quarter of 2013 due to slightly decreased raw material costs and lower restructuring charges, partially offset by changes in sales mix and certain vendor support programs. Year-to-date, the gross profit rate decreased due to changes in sales mix and certain vendor support programs, partially offset by slightly lower raw material costs.

Operating Expenses [1]	Three Months Ended		Nine Months Ended	

	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Consolidated Operating Expenses	$213,787	$221,580	$622,640	$648,953
As a percent of Net Sales	19.6 %	20.5 %	20.8 %	21.7 %

[1] Includes research and development, selling, general and administrative, restructuring charges and acquisition-related charges. For breakout, see Condensed Consolidated Statements of Operations.

Consolidated Operating Expenses – Consolidated operating expenses decreased $7,793 or 3.5% compared to the third quarter of 2013 primarily due to a change in our vendor support programs in our Paints segment, continued productivity improvements, lower bad debt expense, reduced restructuring charges and lower incentive compensation, partially offset by investments to support growth initiatives in both our Paints and Coatings segments.

- Consolidated operating expense decreased $26,313 or 4.1% compared to the year-to-date period last year primarily due to a change in our vendor support programs in our Paints segment, lower incentive compensation accruals, continued productivity improvements, lower bad debt expense and reduced restructuring charges, partially offset by investments to support growth initiatives in both our Paints and Coatings segments.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

EBIT [1]	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Coatings	$99,026	$98,238	$253,602	$261,290
As a percent of Net Sales	17.3 %	17.3 %	15.8 %	16.3 %
Paints	$50,761	$48,819	$126,206	$121,506
As a percent of Net Sales	11.2 %	11.0 %	10.3 %	10.1 %
Other and Administrative	$4,722	$(3,631)	$(2,225)	$(17,831)
As a percent of Net Sales	7.7 %	(5.5)%	(1.3)%	(9.7)%
Consolidated EBIT	$154,509	$143,426	$377,583	$364,965
As a percent of Net Sales	14.2 %	13.3 %	12.6 %	12.2 %

[1] We evaluate the performance of operating segments and allocate resources based on earnings (operating income) before interest expense and taxes (EBIT).

- **Consolidated EBIT –** EBIT for the third quarter of 2013 increased $11,083 or 7.7% from the prior year. Year-to-date EBIT increased $12,618 or 3.5% from the prior year. Foreign currency exchange fluctuation had an immaterial effect on Consolidated EBIT, as well as EBIT of the segments discussed below.
- **Coatings Segment EBIT –** EBIT as a percent of net sales for the third quarter was flat. Slightly lower raw material costs were mostly offset by changes in sales mix and restructuring charges. Year-to-date EBIT as a percent of net sales was down 50 basis points due to changes in sales mix and restructuring charges, partially offset by slightly lower raw material costs.
- **Paints Segment EBIT –** EBIT as a percent of net sales for the third quarter and year-to-date periods increased 20 basis points primarily due to slightly lower raw material costs and restructuring charges, partially offset by changes in sales mix.
- **Other and Administrative EBIT –** Other and Administrative EBIT includes corporate expenses. EBIT as a percent of net sales for the third quarter and year-to-date periods increased 1320 basis points and 840 basis points, respectively, primarily due to lower incentive compensation accruals and reduced restructuring charges.

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

Interest Expense	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Consolidated Interest Expense	$16,000	$16,482	$47,861	$51,559

- **Interest Expense –** Interest expense was down compared to the third quarter and year-to-date periods of 2012 due to lower average interest rates. In 2013, although our average debt levels have increased, a greater percentage of our debt was commercial paper, which carries a lower interest rate.

Effective Tax Rate	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Effective Tax Rate	32.3%	31.9%	31.5%	30.2%

- **Effective Tax Rate –** The higher third quarter and year-to-date 2013 effective tax rates were due to changes in geographical mix of earnings.

Net Income	Three Months Ended			Nine Months Ended		
	July 26, 2013	July 27, 2012	% Change	July 26, 2013	July 27, 2012	% Change
Consolidated Net Income	$93,808	$86,406	8.6 %	$225,745	$218,728	K.2 %

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

FINANCIAL CONDITION

Our financial condition and liquidity remained strong in the third quarter of 2013. We had $349,142 in cash and cash equivalents, including funds borrowed in anticipation of our acquisition of Inver Group, and $249,969 in unused committed bank credit facilities providing total committed liquidity of $599,111 at the end of our 2013 third quarter, compared to $760,655 at the end of fiscal year 2012. Our cash and cash equivalent balances consist of cash held primarily by our international subsidiaries that is used to fund those subsidiaries' operating needs and high quality, short-term money market instruments. Our investment policy on excess cash is to maintain principal.

Cash Flow – Cash provided by operations was $209,603 for the nine months ended July 26, 2013, compared to cash provided by operations of $166,165 for the same period last year. In the first quarter of 2012, there was a cash outflow of $27,875 for the settlement of outstanding derivative contracts related to our bond issuance. See Note 8 in Notes to the Condensed Consolidated Financial Statements for further information on derivative financial instruments.

In the nine months ended July 26, 2013, we have used net operating cash flow and our borrowing capacity to invest $67,311 in capital additions and improvements, $34,811 in the acquisition of Ace Hardware Corporation's paint manufacturing business, $276,003 to fund share repurchases and $61,306 to return cash to our shareholders through dividends.

Debt and Capital Resources – Our debt classified as current was $416,055 at July 26, 2013 compared to $138,531 and $115,993 at October 26, 2012 and July 27, 2012, respectively. The ratio of total debt to capital was 56.4% at July 26, 2013, compared to 48.5% at October 26, 2012 and 49.5% at July 27, 2012. The increase in short-term debt from October 26, 2012 was primarily due to commercial paper borrowings for share repurchases and the purchase of Ace Hardware Corporation's paint manufacturing business and funding for the Inver Group acquisition, partially offset by improved operating cash flows.

To further 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. Our credit facilities have covenants that require us to maintain certain financial ratios. We were in compliance with these covenants as of July 26, 2013. Our debt covenants do not limit, nor are they reasonably likely to limit, our ability to obtain additional debt or equity financing.

We believe future 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 liquidity needs. In the current market conditions, we have demonstrated continued access to capital markets.

We use derivative instruments with a number of counterparties principally to manage 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. We do not have any credit-risk related contingent features in our derivative contracts as of July 26, 2013.

Share Repurchases – Weighted average common shares outstanding – diluted for the third quarter of 2013 were 89,910,681, down 3,662,524 from the same period in the prior year. During the quarter, we repurchased 1,260,200 shares for $85,788. Year-to-date we have repurchased 4,315,800 shares for $276,003. On December 5, 2012, the board approved a new share repurchase authorization of 15,000,000 shares, with no predetermined end date, which replaced a prior authorization. As of July 26, 2013, 11,298,700 shares remained available for purchase under the new authorization.

NON-GAAP FINANCIAL MEASURES

This section includes financial information prepared in accordance with accounting principles generally accepted in the United States (GAAP), as well as certain non-GAAP financial measures such as adjusted gross profit, adjusted operating expense, adjusted earnings before interest and taxes (EBIT), adjusted net income and adjusted net income per common share – diluted. Generally, a non-GAAP financial measure is a numerical measure of financial performance that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures should be viewed as a supplement to, and not a substitute for, financial measures presented in accordance with GAAP. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

We believe that the non-GAAP financial measures provide meaningful information to assist investors in understanding our financial results and assessing prospects for future performance without regard to restructuring and acquisition-related charges. We believe adjusted gross profit, adjusted operating expense, adjusted EBIT, adjusted net income and adjusted net income per common share – diluted are important indicators of our operations because they exclude items that may not be indicative of or are unrelated to our core operating results and provide a baseline for analyzing trends in our underlying business. To measure adjusted gross profit, adjusted operating expense and adjusted EBIT, we remove the impact of before-tax restructuring and acquisition-related charges. Adjusted net income and adjusted net income per common share – diluted are calculated by removing the after-tax impact of restructuring and acquisition-related charges from our calculated net income and net income per common share – diluted. Since non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures. These non-GAAP financial measures are an additional way to view aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures below, provide a more complete understanding of our business. We strongly encourage investors and shareholders to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

The following table reconciles gross profit, operating expense, EBIT, net income and net income per common share – diluted (GAAP financial measures) to adjusted gross profit, adjusted operating expense, adjusted EBIT, adjusted net income and adjusted net income per common share – diluted (non-GAAP financial measures) for the periods presented:

	Three Months Ended		Nine Months Ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Coatings Segment				
Earnings before interest and taxes (EBIT)	$99,026	$98,238	$253,602	$261,290
Restructuring charges – cost of sales	163	(74)	2,577	546
Restructuring charges – operating expense	1,079	(65)	1,390	350
Acquisition-related charges – operating expense	758	—	758	—
Adjusted EBIT	$101,026	$98,099	$258,327	$262,186
Paints Segment				
EBIT	$50,761	$48,819	$126,206	$121,506
Restructuring charges – cost of sales	1,489	1,823	5,744	5,863
Restructuring charges – operating expense	1	1,890	1,933	5,648
Adjusted EBIT	$52,251	$52,532	$133,883	$133,017
Other and Administrative				
EBIT	$4,722	$(3,631)	$(2,225)	$(17,831)
Restructuring charges – cost of sales	—	2,563	—	2,563
Restructuring charges – operating expense	(242)	727	166	1,409
Adjusted EBIT	$4,480	$(341)	$(2,059)	$(13,859)
Consolidated				
Gross profit	$369,361	$363,950	$1,002,265	$1,012,706
Restructuring charges – cost of sales	1,652	4,312	8,321	8,972
Adjusted gross profit	$371,013	$368,262	$1,010,586	$1,021,678
Operating expense	$213,787	$221,580	$622,640	$648,953
Restructuring charges – operating expense	(838)	(2,552)	(3,489)	(7,407)
Acquisition-related charges – operating expense	(758)	—	(758)	—
Adjusted operating expense	$212,191	$219,028	$618,393	$641,546
EBIT	$154,509	$143,426	$377,583	$364,965
Restructuring charges – total	2,490	6,864	11,810	16,379

Acquisition-related charges – total	758	—	758	—
Adjusted EBIT	$157,757	$150,290	$390,151	$381,344
Net income	$93,808	$86,406	$225,745	$218,728
After tax restructuring charges – total	1,853	4,442	8,268	11,259
After tax acquisition-related charges – total	758	—	758	—
Adjusted net income	$96,419	$90,848	$234,771	$229,987
Net income per common share – diluted	$1.04	$0.92	$2.48	$2.31
Restructuring charges – total	0.02	0.05	0.09	0.12
Acquisition-related charges – total	0.01	—	0.01	—
Adjusted net income per common share – diluted	$1.07	$0.97	$2.58	$2.43

See Note 16 in Notes to Condensed Consolidated Financial Statements for further information on restructuring.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities at the date of the financial statements. We regularly review our estimates and assumptions, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A comprehensive discussion of our critical accounting estimates is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended October 26, 2012. There were no material changes to our critical accounting estimates in the third quarter of fiscal year 2013.

OFF-BALANCE SHEET ARRANGEMENTS

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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements.

Forward-looking statements are based on management's current expectations, estimates, assumptions and beliefs about future events, conditions and financial performance. Forward-looking statements are 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. We may identify forward-looking statements with words and phrases such as “expects,” “projects,” “estimates,” “anticipates,” “believes,” “coul “may,” “will,” “plans to,” “intend,” “should” and similar expressions.

These risks, uncertainties and other factors include, but are not limited to, deterioration in general economic conditions, both domestic and international, that may adversely affect our business; fluctuations in availability and prices of raw materials, including raw material shortages and other supply chain disruptions, and the inability to pass along or delays in passing along raw material cost increases to our customers; dependence of sales and earnings growth on business cycles affecting our customers and growth in the domestic and international coatings industry; market share loss to, and pricing or margin pressure from, larger competitors with greater financial resources; significant indebtedness that restricts the use of cash flow from operations for acquisitions and other investments; dependence on acquisitions for growth, and risks related to future acquisitions, including adverse changes in the results of acquired businesses, the assumption of unforeseen liabilities and disruptions resulting from the integration of acquisitions; risks and uncertainties associated with operations and achievement of profitable growth in developing markets, including Asia and Central and South America; loss of business with key customers; damage to our reputation and business resulting from product claims or recalls, litigation, customer perception and other matters; our ability to respond to technology changes and to protect our technology; changes in governmental regulation, including more stringent environmental, health and safety regulations; our reliance on the efforts of vendors, government agencies, utilities and other third parties to achieve adequate compliance and avoid disruption of our business; unusual weather conditions adversely affecting sales; 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; and civil unrest and the outbreak of war and other significant national and international events.

We undertake no obligation to subsequently revise any forward-looking statement to reflect new information, events or circumstances after the date of such statement, except as required by law.

Table of Contents

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. As most of our underlying costs are denominated in the same currency as our sales, the effect has not been material. 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 is not expected to have a material effect on our results of operations or financial position.

We are also subject to interest rate risk. At July 26, 2013, approximately 30% of our total debt consisted of floating rate debt. From time to time, we may enter into interest rate derivatives 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 third 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 July 26, 2013. 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 July 26, 2013 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 26, 2012.

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors disclosed in our Form 10-K for the year ended October 26, 2012.

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 July 26, 2013:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs[1]
4/27/13 – 5/24/13				
Repurchase program	365,000	$ 67.93	365,000	12,193,900
5/25/13 – 6/21/13				
Repurchase program	385,000	70.95	385,000	11,808,900
6/22/13 – 7/26/13				
Repurchase program	510,200	65.93	510,200	11,298,700

1 On October 13, 2010, we received board authorization to repurchase 15,000,000 shares, with no predetermined end date. As of December 5, 2012, we had repurchased 13,072,800 shares (614,500 shares were repurchased in the first quarter of 2013). On December 5, 2012, the board approved a new share repurchase authorization of 15,000,000 shares, with no predetermined end date, which replaced the October 13, 2010 authorization. As of July 26, 2013, we had repurchased 3,701,300 shares under the new authorization. A total of 1,260,200 and 4,315,800 shares were repurchased in the third quarter and year-to-date periods of 2013, respectively, under the old and new authorizations.

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number		Description
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
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Schema Document
101.CAL	*	XBRL Calculation Linkbase Document
101.DEF	*	XBRL Definition Linkbase Document
101.LAB	*	XBRL Label Linkbase Document
101.PRE	*	XBRL Presentation Linkbase Document

* Filed electronically herewith

SIGNATURES

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.

	THE VALSPAR CORPORATION
Date: September 4, 2013	By /s/ Rolf Engh Rolf Engh Secretary
Date: September 4, 2013	By /s/ James L. Muehlbauer James L. Muehlbauer Executive Vice President, Chief Financial and Administrative Officer