VALSPAR CORP
Form 10-Q
September 07, 2016

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

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 29, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________________ to ____________________
Commission File Number 1-3011
THE VALSPAR CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 36-2443580 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ | Smaller reporting company ¨ |

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

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

THE VALSPAR CORPORATION

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for the Quarter Ended July 29, 2016

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

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

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

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

See Notes to Condensed Consolidated Financial Statements

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THE VALSPAR CORPORATION AND SUBSIDIARIES

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

| LIABILITIES AND STOCKHOLDERS' EQUITY | July 29, 2016 (Unaudited) | October 30, 2015 (Note) | July 31, 2015 (Unaudited) |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short-term debt | $242,208 | $334,022 | $474,169 |
| Current portion of long-term debt | 150,101 | 131 | 158,091 |
| Trade accounts payable | 563,078 | 553,737 | 554,493 |
| Income taxes payable | 19,485 | 36,010 | 43,530 |
| Other accrued liabilities | 421,717 | 442,839 | 390,590 |
| TOTAL CURRENT LIABILITIES | 1,396,589 | 1,366,739 | 1,620,873 |
| LONG-TERM DEBT, NET OF CURRENT PORTION | 1,557,001 | 1,706,933 | 1,706,950 |
| LONG-TERM DEFERRED INCOME TAXES | 242,977 | 240,919 | 226,798 |
| OTHER LONG-TERM LIABILITIES | 152,112 | 148,975 | 139,188 |
| TOTAL LIABILITIES | 3,348,679 | 3,463,566 | 3,693,809 |
| STOCKHOLDERS' EQUITY: | | | |
| Common stock (par value - $0.50; authorized - 250,000,000 shares; shares issued, including shares in treasury - 118,442,624) | 59,220 | 59,220 | 59,220 |
| Additional paid-in capital | 488,138 | 474,044 | 459,567 |
| Retained earnings | 2,380,754 | 2,209,628 | 2,131,106 |
| Accumulated other comprehensive income (loss) | (200,355) | (195,498) | (139,166) |
| Less cost of common stock in treasury (7/29/16 – 39,107,550 shares; 10/30/15 – 39,458,773 shares; 7/31/15 – 38,657,543 shares) | (1,686,355) | (1,692,385) | (1,626,518) |
| TOTAL STOCKHOLDERS' EQUITY | 1,041,402 | 855,009 | 884,209 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $4,390,081 | $4,318,575 | $4,578,018 |

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

See Notes to Condensed Consolidated Financial Statements

THE VALSPAR CORPORATION AND SUBSIDIARIES

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

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

See Notes to Condensed Consolidated Financial Statements

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THE VALSPAR CORPORATION AND SUBSIDIARIES

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

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

See Notes to Condensed Consolidated Financial Statements

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THE VALSPAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(DOLLARS IN THOUSANDS)

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

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

See Notes to Condensed Consolidated Financial Statements

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of The Valspar Corporation ("Valspar," "we," "us" or "our") have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended July 29, 2016 are not necessarily indicative of the results that may be expected for the year ending October 28, 2016.

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

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

Proposed Merger with The Sherwin-Williams Company

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

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

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

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

NOTE 2 – ACQUISITIONS AND DIVESTITURES

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

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

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

THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JULY 29, 2016
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our value proposition in automotive refinish and broadens distribution and range of high-performance products. The acquisition was recorded at fair value primarily in our Paints segment and an allocation of the purchase price has been completed. The assets, liabilities and operating results have been included in our financial statements from the date of acquisition.

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

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

NOTE 3 – INVENTORIES

Our major classes of inventories consist of the following:

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

Our international inventories are recorded using the first-in, first-out method. Domestic inventories, except for Quest, are recorded using the last-in, first-out (LIFO) method. An actual valuation of inventory under the LIFO method can be made only at the end of the year based on inventory levels and costs at that time. Interim LIFO calculations are based on management reviews of price changes, as well as estimates of expected year-end inventory levels and costs, and are subject to the final year-end LIFO inventory valuation.

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

NOTE 5 – GUARANTEES AND CONTRACTUAL OBLIGATIONS

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

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

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

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

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

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

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

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

NOTE 6 – FAIR VALUE MEASUREMENT

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

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

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

Recurring Fair Value Measurements

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

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

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

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

[1] Restricted cash represents cash that is restricted from withdrawal for contractual or legal reasons.

[2]Foreign currency contracts are included in prepaid expenses and other when in an asset position and other accrued liabilities when in a liability position. The fair market value was estimated using observable market data for similar

financial instruments.

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

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

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

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

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

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

Nonrecurring Fair Value Measurements

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

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NOTE 7 – DEBT

Debt consists of the following:

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

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

On July 27, 2015, we issued $350,000 of unsecured Senior Notes that mature on January 15, 2026 with a coupon rate of 3.95%. The net proceeds of the issuance were approximately $345,000. The public offering was made pursuant to a registration statement filed with the U.S. Securities and Exchange Commission (SEC). We used the net proceeds from this offering for the repayment of borrowings under the term loan credit facility that was entered into on May 29, 2015.

On May 29, 2015, we entered into a $350,000 term loan credit agreement with a syndicate of banks with a maturity date of November 29, 2016. This facility was used to provide funding for the acquisition of Quest. See Note 2 in the Condensed Consolidated Financial Statements for further information on the acquisition. This facility was repaid and terminated on July 29, 2015, primarily using the net proceeds from the unsecured Senior Notes issued in July 2015.

On January 21, 2015, we issued $250,000 of unsecured Senior Notes that mature on February 1, 2025 with a coupon rate of 3.30%, and $250,000 of unsecured Senior Notes that mature on February 1, 2045 with a coupon rate of 4.40%. The net proceeds of both issuances were approximately $492,000 in the aggregate. The public offering was made pursuant to a registration statement filed with the SEC. We used the net proceeds to repay short-term borrowings under our commercial paper program and credit facility in the first quarter of 2015.

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

We maintain an unsecured revolving credit facility with a syndicate of banks. On December 16, 2013, we entered into an amended and restated $750,000 credit facility with a syndicate of banks with a maturity date of December 14, 2018. Under certain circumstances, we have the option to increase this credit facility to $1,000,000.

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

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

## NOTE 8 – STOCK-BASED COMPENSATION

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

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

NOTE 9 – PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We sponsor a number of defined benefit pension plans for certain hourly and salaried employees. The benefits for most of these plans are generally based on stated amounts for each year of service.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Service cost | $683 | $764 | $2,046 | $2,782 |
| Interest cost | 3,288 | 3,491 | 9,878 | 10,570 |
| Expected return on plan assets | (4,839) | (4,891) | (14,551) | (14,729) |
| Amortization of prior service cost | 112 | 123 | 336 | 360 |
| Recognized actuarial loss | 1,640 | 1,642 | 4,920 | 4,958 |
| Net periodic benefit cost | 884 | 1,129 | 2,629 | 3,941 |
| Curtailment gain | — | — | — | (3,083) |
| Net total periodic benefit cost | $884 | $1,129 | $2,629 | $858 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Service cost | $72 | $ 51 | $215 | $ 153 |
| Interest cost | 90 | 92 | 269 | 276 |
| Amortization of prior service credit | (32) | (32) | (96) | (96) |
| Recognized actuarial loss | 96 | 108 | 289 | 324 |
| Net periodic benefit cost | $226 | $ 219 | $677 | $ 657 |

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NOTE 10 – INCOME TAXES

Our effective income tax rates for the three and nine months ended July 29, 2016 and July 31, 2015 are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Effective tax rate | 20.5% | 28.1 % | 23.3% | 29.1 % |

The lower effective tax rates for the three and nine months ended July 29, 2016 were primarily driven by recognition of U.S. foreign tax credits and research and development credits in fiscal year 2016.

At October 30, 2015, we had a $15,600 liability recorded for gross unrecognized tax benefits (excluding interest and penalties). Of this total, $13,668 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, 2015, we had accrued approximately $4,243 of interest and penalties relating to unrecognized tax benefits. There were no material adjustments to our recorded liability for unrecognized tax benefits or interest and penalties during the first, second or third quarters of fiscal years 2016 or 2015.

NOTE 11 – 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 29, 2016 and July 31, 2015:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Basic | | | | |
| Net income | $116,988 | $ 102,862 | $249,446 | $ 297,150 |
| Weighted-average common shares outstanding - basic | 79,124,763 | 80,020,089 | 78,947,072 | 80,857,078 |
| Net income per common share - basic | $1.48 | $ 1.29 | $3.16 | $ 3.68 |
| Diluted | | | | |
| Net income | $116,988 | $ 102,862 | $249,446 | $ 297,150 |
| Weighted-average common shares outstanding - basic | 79,124,763 | 80,020,089 | 78,947,072 | 80,857,078 |
| Diluted effect of stock options and unvested restricted stock | 2,060,932 | 1,979,612 | 1,957,833 | 2,053,918 |
| Weighted-average common shares outstanding - diluted | 81,185,695 | 81,999,701 | 80,904,905 | 82,910,996 |
| Net income per common share - diluted | $1.44 | $ 1.25 | $3.08 | $ 3.58 |

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. There were no potential common shares related to our outstanding stock options and unvested stock-settled restricted stock shares and units that were required to be excluded from the computation of diluted earnings per share for the three and nine months ended July 29, 2016. Potential common shares of 269,501 and 282,674 related to our outstanding stock options were excluded from the computation of diluted earnings per share for the three and nine months ended July 31, 2015, respectively, as inclusion of these shares would have been antidilutive.

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NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Accumulated other comprehensive income (loss), net of tax, consisted of the following for the three and nine months ended July 29, 2016 and July 31, 2015:

| Three Months Ended July 29, 2016 | Foreign Currency Translation[1] | Benefit Obligations[2] | Financial Instruments[3] | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| Balance, April 29, 2016 | $ (91,055) | $ (76,916) | $ (6,700) | $ (174,671) |
| Other comprehensive income (loss) before reclassifications | (27,192) | — | (492) | (27,684) |
| Amounts reclassified from accumulated other comprehensive income (loss) to earnings | — | 1,817 | 183 | 2,000 |
| Balance, July 29, 2016 | $ (118,247) | $ (75,099) | $ (7,009) | $ (200,355) |

| Three Months Ended July 31, 2015 | Foreign Currency Translation[1] | Benefit Obligations[2] | Financial Instruments[3] | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| Balance, May 1, 2015 | $ (59,622) | $ (76,232) | $ (7,337) | $ (143,191) |
| Other comprehensive income (loss) before reclassifications | 2,329 | — | 34 | 2,363 |
| Amounts reclassified from accumulated other comprehensive income (loss) to earnings | — | 1,827 | (165) | 1,662 |
| Balance, July 31, 2015 | $ (57,293) | $ (74,405) | $ (7,468) | $ (139,166) |

| Nine Months Ended July 29, 2016 | Foreign Currency Translation[1] | Benefit Obligations[2] | Financial Instruments[3] | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| Balance, October 30, 2015 | $ (107,489) | $ (80,541) | $ (7,468) | $ (195,498) |
| Other comprehensive income (loss) before reclassifications | (10,758) | — | (91) | (10,849) |
| Amounts reclassified from accumulated other comprehensive income (loss) to earnings | — | 5,442 | 550 | 5,992 |
| Balance, July 29, 2016 | $ (118,247) | $ (75,099) | $ (7,009) | $ (200,355) |

| Nine Months Ended July 31, 2015 | Foreign Currency Translation[1] | Benefit Obligations[2] | Financial Instruments[3] | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| Balance, October 31, 2014 | $ 70,820 | $ (82,402) | $ (8,088) | $ (19,670) |
| Other comprehensive income (loss) before reclassifications | (128,113) | — | 1,054 | (127,059) |
| Amounts reclassified from accumulated other comprehensive income (loss) to earnings | — | 7,997 | (434) | 7,563 |
| Balance, July 31, 2015 | $ (57,293) | $ (74,405) | $ (7,468) | $ (139,166) |

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

[2] Taxes on benefit obligations are recorded in the fourth quarter of each fiscal year.
[3] Amounts reclassified from accumulated other comprehensive income (loss) for financial instruments were net of tax expense of $115 and $345 for the three and nine months ended July 29, 2016, respectively, and $123 and $368 for the three and nine months ended July 31, 2015, respectively.

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Amounts related to financial instruments are reclassified from accumulated other comprehensive income (loss) to net income based on the nature of the instrument. Gains and losses on foreign currency contracts are reclassified to other expense (income) when the underlying hedged item is realized. Unamortized gains and losses on treasury lock contracts are reclassified ratably to interest expense over the term of the related debt.

Amounts related to pension and post-retirement medical adjustments are reclassified from accumulated other comprehensive income (loss) to pension cost, which is allocated to cost of sales and operating expenses based on salaries and wages, approximately as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Cost of sales | $716 | $719 | $2,146 | $3,085 |
| Research and development | 228 | 223 | 682 | 1,164 |
| Selling, general and administrative | 873 | 885 | 2,614 | 3,748 |
| Total before income taxes | $1,817 | $1,827 | $5,442 | $7,997 |

NOTE 13 – 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 product lines and packaging product line. 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 packaging containers, principally metal food containers and beverage cans. The products of this segment are sold throughout the world.

The Paints segment aggregates our consumer paint 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, Europe and North America. Automotive refinish products include refinish paints and aerosol spray paints sold through automotive refinish distributors, body shops and automotive supply distributors and retailers in many countries around the world.

Our remaining activities are included in Other and Administrative. 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. Also included within Other and Administrative are our corporate administrative expenses. The administrative expenses include expenses not directly allocated to any other reportable 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 segment data for the three and nine months ended July 29, 2016 and July 31, 2015 are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Net sales | | | | |
| Coatings | $631,034 | $640,225 | $1,762,033 | $1,858,103 |
| Paints | 445,421 | 443,844 | 1,143,578 | 1,209,346 |
| Other and Administrative | 116,693 | 125,986 | 323,243 | 337,356 |
| Less Inter-segment Sales | (51,206) | (60,929) | (144,359) | (161,721) |
| Total Net sales | $1,141,942 | $1,149,126 | $3,084,495 | $3,243,084 |
| | | | | |
| EBIT | | | | |
| Coatings | $126,333 | $117,311 | $335,252 | $360,942 |
| Paints | 58,933 | 45,897 | 105,494 | 117,797 |
| Other and Administrative | (15,028) | 2,450 | (47,241) | (545) |
| Total EBIT | 170,238 | 165,658 | 393,505 | 478,194 |
| Interest expense | 23,082 | 22,622 | 68,286 | 59,178 |
| Income before income taxes | $147,156 | $143,036 | $325,219 | $419,016 |

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

NOTE 14 – LEGAL MATTER

Litigation Related to the Merger

On May 24, 2016, a putative class action lawsuit challenging the Merger was filed that named Valspar and its board of directors as defendants. The complaint, captioned Mitsopoulos v. Valspar (Case No. 12373), was filed on May 24, 2016 in the Court of Chancery of the State of Delaware by a purported stockholder of Valspar. The lawsuit sought to enjoin the transaction and alleged, among other things, that the members of the Valspar board of directors breached their fiduciary duties by failing to disclose material information relating to the transaction, including with respect to the financial analyses of Valspar's financial advisors and financial projections prepared by Valspar management.

On June 16, 2016, Valspar filed a Current Report on Form 8-K disclosing certain additional information relating to the proposed Merger in response to allegations made in the above lawsuit. In filing the Form 8-K, Valspar denied the allegations of the lawsuit and the need for any supplemental disclosure, and stated it believed the definitive proxy statement filed in connection with the Merger disclosed all material information. However, Valspar disclosed the additional information solely for the purpose of avoiding the expense and burden of litigation. The plaintiff dismissed the lawsuit on June 22, 2016.

NOTE 15 – RESTRUCTURING

Restructuring charges in the nine months ended July 29, 2016 primarily relate to initiatives to improve our global cost structure by consolidating our manufacturing operations in the Paints segment and reducing non-manufacturing headcount in our Paints and Coatings segments. These initiatives included moving manufacturing of selected products in our Consumer Paints product

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line to a third party (continuation of initiative started in 2015), consolidating three sites in our Automotive product lines as a result of the Quest acquisition and reducing headcount in our Australia and EMEAI regions. These restructuring activities resulted in pre-tax charges of $5,245 and $16,012 in the three and nine months ended July 29, 2016, respectively. Included in restructuring charges for these periods are non-cash asset-related charges of $959 and $5,240, respectively. Asset-related charges include asset impairment charges as well as accelerated depreciation for assets with useful lives that have been shortened, accounted for in accordance with ASC 360.

Restructuring charges in fiscal year 2015 included the following: (i) actions to close a manufacturing facility and other facilities in the Coatings segment to rationalize operations in the Australia region, (ii) actions to streamline and consolidate administrative operations in the Europe region and (iii) initiatives in the Paints segment to improve our North American cost structure through staffing reductions and actions to rationalize our manufacturing operations by moving certain manufacturing to a third party. These restructuring activities resulted in pre-tax charges of $4,599 and $13,392 in the three and nine months ended July 31, 2015, respectively. Included in restructuring charges for these periods are non-cash asset-related charges of $8 and $1,407, respectively. Restructuring charges were $21,569 for the full fiscal year 2015, including non-cash asset-related charges of $2,842. Asset-related charges include asset impairment charges as well as accelerated depreciation for assets with useful lives that have been shortened, accounted for in accordance with ASC 360.

We currently expect additional expenses of approximately $6,000 in fiscal year 2016 and $3,000 in fiscal year 2017 for these restructuring plans, primarily related to lease exit and site clean-up costs, inventory write-offs and employment-related costs.

The following restructuring charges by segment were recorded in the 2016 and 2015 periods:

| Nine Months Ended July 29, 2016 | Liability Beginning Balance October 30, 2015 | Expense | Payments and Other Activity | Liability Ending Balance July 29, 2016 |
|---|---|---|---|---|
| Coatings | | | | |
| Severance and employee benefits | $ 6,679 | $ 766 | $ (4,874 ) | $ 2,571 |
| Asset-related charges | — | (60 ) | 60 | — |
| Exit costs (consulting/site clean-up) | — | 450 | (450 ) | — |
| Total Coatings | 6,679 | 1,156 | (5,264 ) | 2,571 |
| Paints | | | | |
| Severance and employee benefits | 6,004 | 5,909 | (6,274 ) | 5,639 |
| Asset-related charges | — | 5,300 | (5,300 ) | — |
| Exit costs (consulting/site clean-up) | 1,069 | 1,933 | (3,002 ) | — |
| Total Paints | 7,073 | 13,142 | (14,576 ) | 5,639 |
| Other and Administrative | | | | |
| Severance and employee benefits | 38 | 1,714 | (228 ) | 1,524 |
| Total Other and Administrative | 38 | 1,714 | (228 ) | 1,524 |
| Total | $ 13,790 | $ 16,012 | $ (20,068 ) | $ 9,734 |

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| Nine Months Ended July 31, 2015 | Liability Beginning Balance October 31, 2014 | Expense | Payments and Other Activity | Liability Ending Balance July 31, 2015 |
|---|---|---|---|---|
| Coatings | | | | |
| Severance and employee benefits | $ 8,711 | $7,355 | $(9,000) | $ 7,066 |
| Exit costs (consulting/site clean-up) | 4,437 | 154 | (4,591) | — |
| Total Coatings | 13,148 | 7,509 | (13,591) | 7,066 |
| Paints | | | | |
| Severance and employee benefits | 803 | 2,892 | (2,291) | 1,404 |
| Asset-related charges | — | 1,407 | (1,407) | — |
| Exit costs (consulting/site clean-up) | 1,901 | 1,593 | (2,419) | 1,075 |
| Total Paints | 2,704 | 5,892 | (6,117) | 2,479 |
| Other and Administrative | | | | |
| Severance and employee benefits | 152 | (9) | (94) | 49 |
| Total Other and Administrative | 152 | (9) | (94) | 49 |
| Total | $ 16,004 | $13,392 | $(19,802) | $ 9,594 |

The ending liability balance at July 29, 2016 and July 31, 2015 is included in other accrued liabilities and other long-term liabilities on our Condensed Consolidated Balance Sheets. The restructuring reserve balances presented are considered adequate to cover committed restructuring actions.

NOTE 16 – RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, which means the first quarter of our fiscal year 2019, with early adoption permitted. We are reviewing the revised guidance and assessing the potential impact on our consolidated financial statements.

In March 2016, the FASB issued an update to accounting standards regarding accounting for employee share-based payments. This update is intended to provide simplification of share-based payment transaction accounting, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as presentation in the statement of cash flows. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, which means the first quarter of our fiscal year 2018, with early adoption permitted. We are reviewing the revised guidance and assessing the impact on our condensed consolidated financial statements.

In February 2016, the FASB issued guidance on leases. The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under existing GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, which means the first quarter of our fiscal year 2020. We are reviewing the revised guidance and assessing the impact on our condensed consolidated financial statements.

In November 2015, the FASB issued guidance that simplifies the balance sheet classification of deferred taxes. The new guidance requires that deferred tax assets and deferred tax liabilities be presented as non-current in the condensed consolidated balance sheets. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, which means the first quarter of our fiscal year 2018, with early adoption permitted. Adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.

In September 2015, the FASB issued guidance that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under the previous standard, an acquirer in a business combination reported provisional amounts with respect to acquired assets and liabilities when their measurements are incomplete as of the end of the reporting period, and adjusted the provisional amounts (and the related impact on earnings) by restating prior period financial statements during the measurement period not exceeding one year from the date of acquisition. The new guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified, thus eliminating the requirement to restate prior period financial statements. The new standard requires disclosure of the nature and amount of measurement-period adjustments as well as information with respect to the portion of the adjustments recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustments to provisional amounts had been recognized as of the acquisition date. We adopted this guidance in the first quarter of our fiscal year 2016. Adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

In July 2015, the FASB issued guidance that simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, which means the first quarter of our fiscal year 2018. Adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.

In April 2015, the FASB issued guidance on the recognition of fees paid by a customer for cloud computing arrangements. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the software license consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, which means the first quarter of our fiscal year 2017. Adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.

In April 2015, the FASB issued guidance that changes the presentation of debt issuance costs in financial statements. Under the new guidance, debt issuance costs will be presented as a direct deduction from the carrying value of the related debt liability, consistent with debt discounts. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, which means the first quarter of our fiscal year 2017, and retrospective presentation is required. Adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued revised guidance on revenue recognition. The standard provides a single revenue recognition model which is intended to improve comparability over a range of industries, companies and geographical boundaries and to enhance disclosures. The guidance, following a one-year deferral issued by the FASB in August 2015, is effective for fiscal years and interim periods within those years beginning after December 15, 2017, which means the first quarter of our fiscal year 2019. Early adoption as of the original date of the new standard is permitted. Either full retrospective or modified retrospective adoption is permitted. We are currently reviewing the revised guidance and assessing the potential impact on our condensed consolidated financial statements.

We have determined that all other recently issued accounting standards will not have a material impact on our condensed consolidated financial statements or do not apply to our operations.

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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 the financial statements of The Valspar Corporation ("Valspar," "we," "us" or "our") 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 30, 2015, as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

OVERVIEW

Valspar is a global leader in the paints and coatings industry. We develop, manufacture and distribute a broad range of coatings, paints and related products and 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 13 in Notes to Condensed Consolidated Financial Statements for further information on our reportable segments.

We operate in over 25 countries, and approximately 44% of our total net sales in the first nine months of fiscal year 2016 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 translate 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 stockholders. We intend to accomplish this by:

- Focusing on Customer Success by delivering coatings products and solutions that add value for our customers;
- Building Strong Brands and Distribution Partners by investing in brands that are well recognized in the markets in which we operate and building differentiated distribution networks in key markets;
- Developing Differentiated Technologies by investing in technologies that enhance our competitive position and add value for our customers;
- Driving Industry-Leading Innovation by developing unique products and services that differentiate us in the marketplace with our customers; and
- Attracting and Developing the Best People by creating a world class team with deep expertise and stockholder value orientation.

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

- Adhering to our values, engaging in 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 solutions that enable our customers to meet their safety and environmental objectives; and

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- Demonstrating our corporate citizenship by supporting the communities in which we work and live through volunteer efforts and philanthropy.

Proposed Merger with The Sherwin-Williams Company

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

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

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

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

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

RESULTS OF OPERATIONS

Overview

Net sales declined 0.6% for the third quarter of 2016 compared to the same period in 2015, due to lower sales in our General Industrial product lines, the impact of foreign currency exchange and lower sales in our Consumer Paints product line. These declines were partially offset by higher sales in our Coil and Wood product lines and the acquisition of the performance coatings business of Quest Specialty Chemicals (Quest), which took place in the third quarter of 2015. Gross profit as a percent of net sales increased to 36.9% from 35.8% driven by productivity savings. Operating expenses as a percent of net sales increased to 22.0% from 21.4%. Net income as a percent of net sales increased to 10.2% from 9.0%.

Foreign currency translation had a $24,100 negative impact on our net sales during the quarter. The impact on earnings was partially mitigated by our management of operating activities at the local level, with underlying costs generally denominated in the same currency as sales. This foreign currency exchange impact reflects the strengthening of the U.S. dollar against many international currencies in the third quarter versus the prior year. If the exchange rates worsen, the translation impact on condensed consolidated net sales could be material in the balance of the year.

Restructuring

Restructuring charges in the nine months ended July 29, 2016 primarily relate to initiatives to improve our global cost structure by consolidating our manufacturing operations in the Paints segment and reducing non-manufacturing headcount in our Paints and Coatings segments. These initiatives included moving manufacturing of selected products in our Consumer Paints product line to a third party (continuation of an initiative started in 2015), consolidating three sites in our Automotive product line as a result of the Quest acquisition and reducing headcount in our Australia and EMEAI regions. These restructuring activities resulted in pre-tax charges of $5,245 or $0.04 per share after taxes and pre-tax charges of $16,012 or $0.13 per share after taxes in the three and nine months ended July 29, 2016, respectively, and we expect the total pre-tax cost related to 2016 activities to be approximately

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$22,000 to $25,000 or $0.21 to $0.24 per share after taxes. Included in restructuring charges for the three and nine months ended July 29, 2016 are non-cash asset-related charges of $959 and $5,240, respectively. Asset-related charges include asset impairment charges as well as accelerated depreciation for assets with useful lives that have been shortened, accounted for in accordance with ASC 360. We currently expect additional expenses of approximately $6,000 in fiscal year 2016 and $3,000 in fiscal year 2017 for these restructuring plans, primarily related to lease exit and site clean-up costs, inventory write-offs and employment-related costs. We currently estimate that upon their completion in fiscal year 2017, these actions will reduce annual costs by approximately $9,000, which is primarily due to lower employee-related costs and lower depreciation expense. We expect a portion of these savings, net of execution costs, will be achieved over the next year and the full annual benefit of these actions is expected in fiscal year 2018.

Restructuring charges in fiscal year 2015 included the following: (i) actions to close a manufacturing facility and other facilities in the Coatings segment to rationalize operations in the Australia region, (ii) actions to streamline and consolidate administrative operations in the Europe region and (iii) initiatives in the Paints segment to improve our North American cost structure through staffing reductions and actions to rationalize our manufacturing operations by moving certain manufacturing to a third party. These restructuring activities resulted in pre-tax charges of $4,599 or $0.04 per share after taxes and $13,392 or $0.11 per share after taxes in the three and nine months ended July 31, 2015, respectively. Included in restructuring charges for these periods are non-cash asset-related charges of $8 and $1,407, respectively. See Note 15 in Notes to Condensed Consolidated Financial Statements for further information on restructuring. See reconciliation in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for more information on the impact of restructuring charges.

Financial Results

The following tables present selected financial data for the three and nine months ended July 29, 2016 and July 31, 2015.

| Net Sales | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | % Change | July 29, 2016 | July 31, 2015 | % Change |
| Coatings | $631,034 | $640,225 | (1.4 )% | $1,762,033 | $1,858,103 | (5.2 )% |
| Paints | 445,421 | 443,844 | 0.4 % | 1,143,578 | 1,209,346 | (5.4 )% |
| Other and Administrative | 65,487 | 65,057 | 0.7 % | 178,884 | 175,635 | 1.8 % |
| Consolidated Net Sales | $1,141,942 | $1,149,126 | (0.6 )% | $3,084,495 | $3,243,084 | (4.9 )% |

- Consolidated Net Sales – Consolidated net sales for the third quarter of 2016 decreased 0.6% compared to the third quarter of 2015, including a negative impact of 2.1% from foreign currency exchange. Excluding foreign currency exchange, the increase was driven by higher sales in our Coil and Wood product lines and the acquisition of Quest in the third quarter of 2015, partially offset by lower sales in our global General Industrial product line and our Consumer Paints product line in North America. Year-to-date, consolidated net sales decreased 4.9%, including a negative impact of 3.5% from foreign currency exchange. Excluding foreign currency exchange, the decrease was driven by lower sales in our Consumer Paints product line, primarily in North America, and lower sales in our General Industrial product lines, partially offset by the acquisition of Quest and higher sales in our Coil product line.
- Coatings Segment Net Sales – Our Coatings segment net sales for the third quarter of 2016 decreased 1.4% compared to the third quarter of 2015, including a negative impact of 2.7% from foreign currency exchange. Excluding foreign currency exchange, the increase was driven by improved sales in our Coil and Wood product lines, partially offset by lower sales in our General Industrial product lines. Year-to-date, our Coatings segment net sales decreased 5.2%, including a negative impact of 4.3% from foreign currency exchange. Excluding foreign currency exchange, the decrease was driven by lower sales in our General Industrial product lines, partially offset by improved sales in our Coil product line.

Paints Segment Net Sales – Our Paints segment net sales for the third quarter of 2016 increased 0.4% compared to the third quarter of 2015, including a negative impact of 1.5% from foreign currency exchange. Excluding foreign currency exchange, the increase was driven by the acquisition of Quest, partially offset by lower sales in North America at Lowe's. Year-to-date, our Paints segment net sales decreased 5.4%, including a negative impact of 2.6% from foreign currency

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exchange. Excluding foreign currency exchange, the decrease was driven by an adjustment in our product line offering and lower sales in North America, primarily at Lowe's, and lower sales in China, partially offset by the acquisition of Quest.

Approximately $39,000 of the year-to-date decrease in sales was due to an adjustment in our product line offering at Lowe's.

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 2016 increased 0.7% compared to the third quarter of 2015, including a negative impact of 0.3% from foreign currency exchange. Year-to-date Other and Administrative net sales increased 1.8%, including a negative impact of 1.1% from foreign currency exchange.

Due to the seasonal nature of portions of our business, sales for the three and nine months ended July 29, 2016 are not necessarily indicative of sales for the subsequent quarter or for the full year.

| Gross Profit | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | July 29, 2016 | | July 31, 2015 | | July 29, 2016 | | July 31, 2015 | |
| Consolidated Gross Profit | $421,947 | | $411,283 | | $1,142,015 | | $1,137,778 | |
| As a percent of Net Sales | 36.9 | % | 35.8 | % | 37.0 | % | 35.1 | % |

Gross Profit – The gross profit rate for the third quarter of 2016 increased compared to the third quarter of 2015. The increase was driven by improved productivity. The gross profit rate for the year-to-date period of 2016 increased compared to the year-to-date period of 2015. The increase was driven by improved productivity and favorable price/cost comparison, partially offset by the impact of lower volume on manufacturing costs. Productivity includes procurement efficiencies, product reformulations and benefits from previously completed restructuring actions. Cost/price comparison reflects the impact of market changes in raw material costs, offset by changes in product pricing and promotions. Restructuring charges of $1,943 or 0.2% of net sales and $7,304 or 0.2% of net sales were included in the third quarter and year-to-date of 2016, respectively. Restructuring charges of $1,319 or 0.1% of net sales and $7,398 or 0.2% of net sales were included in the third quarter and year-to-date of 2015, respectively.

| Operating Expenses[1] | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | July 29, 2016 | | July 31, 2015 | | July 29, 2016 | | July 31, 2015 | |
| Consolidated Operating Expenses | $251,606 | | $245,555 | | $747,041 | | $706,786 | |
| As a percent of Net Sales | 22.0 | % | 21.4 | % | 24.2 | % | 21.8 | % |

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

Consolidated Operating Expenses (dollars) – Consolidated operating expenses for the third quarter of 2016 increased $6,051 or 2.5% compared to the third quarter of 2015, including a favorable impact of 1.7% from foreign currency exchange. Year-to-date consolidated operating expenses increased $40,255 or 5.7%, including a favorable impact of 3.4% from foreign currency exchange. Excluding foreign currency exchange, the increase in both periods was primarily due to higher employee-related costs, proposed merger-related charges and the addition of Quest, partially offset by lower marketing expenses. Charges related to the proposed Merger of $4,616 and $22,856 were included in the third quarter and year-to-date of 2016, respectively. There were no proposed merger-related charges in the prior year periods. Restructuring charges of $3,302 or 0.3% of net sales and $8,708 or 0.3% of net sales were included in the third quarter

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and year-to-date of 2016, respectively. Restructuring charges of $3,280 or 0.3% of net sales and $5,994 or 0.2% of net sales were included in the third quarter and year-to-date of 2015, respectively.

| EBIT[1] | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Coatings | $126,333 | $117,311 | $335,252 | $360,942 |
| As a percent of Net Sales | 20.0 % | 18.3 % | 19.0 % | 19.4 % |
| Paints | $58,933 | $45,897 | $105,494 | $117,797 |
| As a percent of Net Sales | 13.2 % | 10.3 % | 9.2 % | 9.7 % |
| Other and Administrative | $(15,028 ) | $2,450 | $(47,241 ) | $(545 ) |
| As a percent of Net Sales | (22.9 )% | 3.8 % | (26.4 )% | (0.3 )% |
| Consolidated EBIT | $170,238 | $165,658 | $393,505 | $478,194 |
| As a percent of Net Sales | 14.9 % | 14.4 % | 12.8 % | 14.7 % |

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

- Consolidated EBIT – EBIT for the third quarter of 2016 increased $4,580 or 2.8% from the prior year. The quarter included $4,616 in proposed merger-related expenses, recorded in Other and Administrative. Year-to-date EBIT decreased $84,689 or 17.7% from the prior year. Prior year first quarter EBIT included a pre-tax gain of $48,001 from the sale of certain assets of a non-strategic specialty product offering, recorded in the Coatings segment. Year-to-date EBIT includes $22,856 in proposed merger-related charges, recorded in Other and Administrative. Restructuring charges of $5,245 or 0.5% of net sales and $16,012 or 0.5% of net sales were included in the third quarter and year-to-date of 2016, respectively. Restructuring charges of $4,599 or 0.4% of net sales and $13,392 or 0.4% of net sales were included in the third quarter and year-to-date of 2015, respectively. Foreign currency exchange had a negative impact on consolidated EBIT of approximately $3,000 in the third quarter and $11,300 year-to-date.
- Coatings Segment EBIT – EBIT as a percent of net sales increased 1.7 percentage points for the third quarter compared to the prior year period. The increase was primarily due to improved productivity. Year-to-date EBIT as a percent of net sales decreased 0.4 percentage points compared to the prior year period. The decrease was primarily due to the gain on sale of certain assets in the prior period, offset by improved productivity and favorable cost/price comparison. Restructuring charges of $790 and $1,156 were included in the third quarter and year-to-date of 2016, respectively. Restructuring charges of $2,600 and $7,509 were included in the third quarter and year-to-date of 2015, respectively.
- Paints Segment EBIT – EBIT as a percent of net sales for the third quarter increased 2.9 percentage points compared to the prior year period. The increase was driven by improved productivity including benefits of our restructuring initiatives and lower marketing expenses, partially offset by impairment of a certain asset group in our Consumer Paints product line. Year-to-date EBIT as a percent of net sales decreased 0.5 percentage points compared to the prior year period. The decrease was driven by the effect of lower volumes in our Consumer Paints product line, partially offset by improved productivity including benefits of our restructuring initiatives and favorable cost/price comparison. Restructuring charges of $2,700 and $13,142 were included in the third quarter and year-to-date of 2016, respectively. Restructuring charges of $1,999 and $5,892 were included in the third quarter and year-to-date of 2015, respectively.
- Other and Administrative EBIT – Other and Administrative EBIT includes corporate expenses. EBIT as a percent of net sales for the third quarter was 26.7 percentage points unfavorable compared to the prior year period. Year-to-date EBIT as a percent of net sales was 26.1 percentage points unfavorable compared to the prior year period. The decline in both periods was primarily due to proposed merger-related costs, increased employee-related costs and other administrative expenses.

Due to the seasonal nature of portions of our business, EBIT for the three and nine months ended July 29, 2016 is not necessarily indicative of EBIT for the subsequent quarter or for the full year.

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| Interest Expense | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Consolidated Interest Expense | $23,082 | $22,622 | $68,286 | $59,178 |

- Interest Expense – Interest expense increased compared to the third quarter and year-to-date periods of 2015 primarily due to higher average debt levels, primarily from the Quest acquisition.

| Effective Tax Rate | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Effective Tax Rate | 20.5% | 28.1% | 23.3% | 29.1% |

- Effective Tax Rate – The lower third quarter and year-to-date 2016 effective tax rates were primarily driven by recognition of U.S. foreign tax credits and research and development credits in fiscal year 2016.

| Net Income | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | % Change | July 29, 2016 | July 31, 2015 | % Change |
| Consolidated Net Income | $116,988 | $102,862 | 13.7 % | $249,446 | $297,150 | (16.1)% |

FINANCIAL CONDITION

Cash Flow

Cash flow from operations improved by $137,807 in the nine months ended July 29, 2016 compared to the nine months ended July 31, 2015, to a cash source of $250,403 from a cash source of $112,596. This was primarily driven by an overall reduction in net working capital needs.

Cash flow from investing activities increased by $245,175 in the nine months ended July 29, 2016 compared to the nine months ended July 31, 2015, to a use of cash of $102,965 from a use of cash of $348,140. This was primarily driven by the acquisition of Quest during 2015, partially offset by proceeds received on divestiture of a non-strategic specialty product offering in our Coatings segment during 2015 and acquisitions in 2016 and increased property, plant and equipment expenditures.

During the nine months ended July 29, 2016, we used cash flow from operations, our borrowing capacity (see Debt and Capital Resources) and cash on hand to fund $18,134 in share repurchases and $89,159 in capital expenditures. We used cash on hand and proceeds from stock options exercised to fund $78,307 in dividend payments.

Debt and Capital Resources

Our debt classified as current was $392,309 at July 29, 2016 compared to $334,153 and $632,260 at October 30, 2015 and July 31, 2015, respectively. Total debt was $1,949,310 at July 29, 2016 compared to $2,041,086 and $2,339,210 at October 30, 2015 and July 31, 2015, respectively. The decrease in total debt from July 31, 2015 was primarily due to the retirement of $150,000 of Senior Notes in August 2015 and the reduction in commercial paper due to positive cash flow. The ratio of total debt to capital was 65.2% at July 29, 2016 compared to 70.5% at October 30, 2015 and 72.6% at July 31, 2015.

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

On July 27, 2015, we issued $350,000 of unsecured Senior Notes that mature on January 15, 2026 with a coupon rate of 3.95%. The net proceeds of the issuance were approximately $345,000. The public offering was made pursuant to a registration statement filed with the SEC. We used the net proceeds from this offering for the repayment of borrowings under the term loan credit facility that was entered into on May 29, 2015.

On May 29, 2015, we entered into a $350,000 term loan credit agreement with a syndicate of banks with a maturity date of November 29, 2016. This facility was used to provide funding for the acquisition of Quest. See Note 2 in the Condensed Consolidated Financial Statements for further information on the acquisition. This facility was repaid and terminated on July 29, 2015, primarily using the net proceeds from the unsecured Senior Notes issued in July 2015.

On January 21, 2015, we issued $250,000 of unsecured Senior Notes that mature on February 1, 2025 with a coupon rate of 3.30%, and $250,000 of unsecured Senior Notes that mature on February 1, 2045 with a coupon rate of 4.40%. The net proceeds of both issuances were approximately $492,000 in the aggregate. The public offering was made pursuant to a registration statement filed with the SEC. We used the net proceeds to repay short-term borrowings under our commercial paper program and credit facility in the first quarter of 2015.

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

We maintain an unsecured revolving credit facility with a syndicate of banks. On December 16, 2013, we entered into an amended and restated $750,000 credit facility with a syndicate of banks with a maturity date of December 14, 2018. Under certain circumstances, we have the option to increase this credit facility to $1,000,000.

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

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

As of July 29, 2016, we had $170,223 in cash and cash equivalents and $515,369 in unused committed bank credit facilities, providing total committed liquidity of $685,592 compared to $608,092 of committed liquidity as of October 30, 2015. Our cash and cash equivalent balances consist of high quality, short-term money market instruments and cash held by our international subsidiaries. Cash and cash equivalents held by our international subsidiaries are used to fund their day-to-day operating needs and have also been used to finance acquisitions outside the U.S. Our investment policy on excess cash is to preserve principal. As of July 29, 2016, $150,022 of our $170,223 of cash (on the Condensed Consolidated Balance Sheets) was held by our international subsidiaries. If these funds were repatriated to the U.S., we would be required to accrue and pay income taxes. No provision has been made for U.S. federal income taxes on certain undistributed earnings of foreign subsidiaries that we intend to permanently invest or that may be remitted substantially tax-free.

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 domestic and international liquidity needs. In the current market conditions, we have demonstrated continued access to capital markets. We have committed liquidity and cash reserves in excess of our anticipated funding requirements.

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 29, 2016.

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Share Repurchases
Weighted-average common shares outstanding – diluted for the third quarter of fiscal year 2016 were 81,185,695, down 814,006 from the same period in the prior year. On November 21, 2014, our Board of Directors approved a share repurchase program, with no expiration date, authorizing us to purchase up to $1,500,000 of outstanding shares of Common Stock. During the nine months ended July 29, 2016, we repurchased 221,060 shares for $18,134. During the third quarter we did not repurchase any shares. As of July 29, 2016, $1,175,630 remained available for purchases 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 expenses, adjusted 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.
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 charges, proposed merger-related charges, acquisition-related charges, impairment of certain long-lived assets and gain on sale of certain assets. We believe adjusted gross profit, adjusted operating expenses, 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 expenses and adjusted EBIT, we remove the impact of before-tax restructuring charges, proposed merger-related charges, acquisition-related charges, impairment of certain long-lived assets and gain on sale of certain assets. Adjusted net income and adjusted net income per common share – diluted are calculated by removing the after-tax impact of restructuring charges, proposed merger-related charges, acquisition-related charges, impairment of certain long-lived assets and gain on sale of certain assets 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 stockholders to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.
The following table reconciles gross profit, operating expenses, net income, (GAAP financial measures) and EBIT, to adjusted gross profit, adjusted operating expenses, adjusted net income and adjusted EBIT (non-GAAP financial measures) for the periods presented:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Coatings Segment | | | | |
| Earnings before interest and taxes (EBIT) | $126,333 | $117,311 | $335,252 | $360,942 |
| Restructuring charges – cost of sales | 22 | 825 | 94 | 3,776 |
| Restructuring charges – operating expense | 768 | 1,775 | 1,062 | 3,733 |
| Acquisition-related charges – operating expense | 16 | — | 926 | — |

| | | | | |
|---|---|---|---|---|
| Gain on sale of certain assets | — | — | — | (48,001 ) |
| Adjusted EBIT | $127,139 | $119,911 | $337,334 | $320,450 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 29, 2016 | July 31, 2015 | July 29, 2016 | July 31, 2015 |
| Paints Segment | | | | |
| EBIT | $58,933 | $45,897 | $105,494 | $117,797 |
| Restructuring charges – cost of sales | 1,921 | 494 | 7,210 | 3,622 |
| Acquisition-related charges – cost of sales | — | 2,952 | — | 2,952 |
| Impairment of certain long-lived assets – cost of sales | 5,867 | — | 5,867 | — |
| Restructuring charges – operating expense | 779 | 1,505 | 5,932 | 2,270 |
| Acquisition-related charges – operating expense | — | 892 | 215 | 892 |
| Adjusted EBIT | $67,500 | $51,740 | $124,718 | $127,533 |
| | | | | |
| Other and Administrative | | | | |
| EBIT | $(15,028) | $2,450 | $(47,241) | $(545) |
| Restructuring charges – operating expense | 1,755 | — | 1,714 | (9) |
| Proposed merger-related charges – operating expense | 4,616 | — | 22,856 | — |
| Adjusted EBIT | $(8,657) | $2,450 | $(22,671) | $(554) |
| | | | | |
| Total | | | | |
| Gross profit | $421,947 | $411,283 | $1,142,015 | $1,137,778 |
| Restructuring charges – cost of sales | 1,943 | 1,319 | 7,304 | 7,398 |
| Acquisition-related charges – cost of sales | — | 2,952 | — | 2,952 |
| Impairment of certain long-lived assets – cost of sales | 5,867 | — | 5,867 | — |
| Adjusted gross profit | $429,757 | $415,554 | $1,155,186 | $1,148,128 |
| | | | | |
| Operating expenses | $251,606 | $245,555 | $747,041 | $706,786 |
| Restructuring charges – operating expense | (3,302) | (3,280) | (8,708) | (5,994) |
| Proposed merger-related charges – operating expense | (4,616) | — | (22,856) | — |
| Acquisition-related charges – operating expense | (16) | (892) | (1,141) | (892) |
| Adjusted operating expenses | $243,672 | $241,383 | $714,336 | $699,900 |
| | | | | |
| EBIT | $170,238 | $165,658 | $393,505 | $478,194 |
| Restructuring charges – total | 5,245 | 4,599 | 16,012 | 13,392 |
| Proposed merger-related charges – total | 4,616 | — | 22,856 | — |
| Acquisition-related charges – total | 16 | 3,844 | 1,141 | 3,844 |
| Impairment of certain long-lived assets – total | 5,867 | — | 5,867 | — |
| Gain on sale of certain assets | — | — | — | (48,001) |
| Adjusted EBIT | $185,982 | $174,101 | $439,381 | $447,429 |
| | | | | |
| Net income | $116,988 | $102,862 | $249,446 | $297,150 |
| Restructuring charges – total[1] | 5,245 | 4,599 | 16,012 | 13,392 |
| Proposed merger-related charges – total[2] | 4,616 | — | 22,856 | — |
| Acquisition-related charges – total[3] | 16 | 3,844 | 1,141 | 3,844 |
| Impairment of certain long-lived assets – total[4] | 5,867 | — | 5,867 | — |
| Gain on sale of certain assets[5] | — | — | — | (48,001) |
| Total pre-tax adjustments | 15,744 | 8,443 | 45,876 | (30,765) |

| | | | | |
|---|---|---|---|---|
| Income taxes impact - total[6] | (5,414 ) | (2,529 ) | (16,500 ) | 5,430 |
| Adjusted net income | $127,318 | $108,776 | $278,822 | $271,815 |
| Average number of shares outstanding - diluted | 81,185,695 | 81,999,701 | 80,904,905 | 82,910,996 |
| Adjusted net income per common share – diluted | $1.57 | $1.33 | $3.45 | $3.28 |

[1] Represents severance and employee benefits, asset-related charges and exit costs related to restructuring activities.
[2] Represents costs incurred related to the pending merger with The Sherwin-Williams Company including employee-related expenses, professional services and regulatory fees.
[3] Represents professional fees and acquisition-related charges associated with other acquisition-related activity.
[4] Represents impairment of a certain asset group in our Consumer Paints product line.

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

[5] Represents gain on sale of a non-strategic specialty product offering in our Coatings segment.
[6] Represents the tax effect of restructuring charges, proposed merger-related charges, acquisition-related charges, impairment of certain long-lived assets and gain on sale of certain assets calculated using the effective tax rate of the jurisdiction in which the charges were incurred.

See Note 1 in Notes to Condensed Consolidated Financial Statements for further information on proposed merger-related charges and Note 15 for further information on restructuring.

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 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 30, 2015. There were no material changes to our critical accounting estimates in the third quarter of fiscal year 2016.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). The PSLRA 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 "expect," "project," "forecast," "outlook," "estimate," "anticipate," "believe," "could," "may," "will," "plan to," "intend," "should" and similar words or 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 internal 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; our access to capital is subject to global economic and capital market conditions; 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 operating in foreign markets, including achievement of profitable growth in developing markets; impact of fluctuations in foreign currency exchange rates on our financial results; loss of business with key customers; our ability to innovate in order to meet customers' product demands, which may change based on customers' preferences and competitive factors; 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; possible interruption, failure or compromise of the information

systems we use to operate our business; our reliance on the efforts of vendors, government agencies, utilities and other third parties to achieve adequate compliance and avoid disruption of our business; 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; unusual weather conditions adversely affecting sales; civil unrest and the outbreak of war and other significant national and international events; risks relating to our merger with Sherwin-Williams including, the possibility that the closing conditions to the contemplated transaction may not be satisfied or waived, including that a governmental entity may prohibit, delay or refuse to grant a necessary regulatory approval; delay in closing the transaction or the possibility of non-consummation of the transaction; the potential for regulatory authorities to require divestitures in connection with the proposed transaction and the possibility that Valspar stockholders consequently receive $105 per share instead of $113 per share; the occurrence of any event that could give rise to termination of the merger agreement; the risk that stockholder litigation in connection with the contemplated transaction may affect the timing or occurrence of the contemplated transaction or result in significant costs of defense, indemnification and liability; risks inherent in the achievement of cost synergies and the timing thereof; risks related to the disruption of the transaction to Valspar and its management; the effect of announcement of the transaction on Valspar’s ability to retain and hire key personnel and maintain relationships with customers, suppliers and other third parties; and other factors set forth in the risk factors section of our Annual Report on Form 10-K for the fiscal year ended October 30, 2015, as well as Valspar’s Quarterly Reports on Form 10-Q and other documents filed by Valspar with the Securities and Exchange Commission.
We caution investors not to place undue reliance on any such forward-looking statements, which speak only as of the date on which such statements were made. 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.

## 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 used derivative financial instruments to hedge our exposure to translation gains and losses. A 10% adverse change in foreign currency rates is not expected to have a material effect on our results of operations or financial position. A change of greater than 10% in the exchange rates for individual currencies in geographies where we have a significant presence could have a material impact on our net income or financial position. At July 29, 2016, the regions where we have the largest exposure to our net sales, net income and financial position were China (CNY), Europe (EUR), Mexico (MXN), Australia (AUD), the UK (GBP), Malaysia (MYR), and Brazil (BRL).

We are also subject to interest rate risk. At July 29, 2016, approximately 12.4% 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 SEC'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 29, 2016. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

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There were no changes in our internal control over financial reporting during the quarter ended July 29, 2016 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

On May 24, 2016, a putative class action lawsuit challenging the Merger was filed that named Valspar and its board of directors as defendants. The complaint, captioned Mitsopoulos v. Valspar (Case No. 12373), was filed on May 24, 2016 in the Court of Chancery of the State of Delaware by a purported stockholder of Valspar. The lawsuit sought to enjoin the transaction and alleged, among other things, that the members of the Valspar board of directors breached their fiduciary duties by failing to disclose material information relating to the transaction, including with respect to the financial analyses of Valspar's financial advisors and financial projections prepared by Valspar management. The parties believe the claims asserted in the lawsuit are without merit. At this time, Valspar is unable to reasonably estimate any potential material loss in the event of an unfavorable outcome in the lawsuit.

On June 16, 2016, Valspar filed a Current Report on Form 8-K disclosing certain additional information relating to the proposed Merger in response to allegations made in the above lawsuit. In filing the Form 8-K, Valspar denied the allegations of the lawsuit and the need for any supplemental disclosure, and stated it believed the definitive proxy statement filed in connection with the Merger disclosed all material information. However, Valspar disclosed the additional information solely for the purpose of avoiding the expense and burden of litigation. The plaintiff dismissed the lawsuit on June 22, 2016.

### ITEM 1A. RISK FACTORS

Other than as noted below, there were no material changes to the risk factors disclosed in "Part I, Item 1A. Risk Factors" of our Form 10-K for the year ended October 30, 2015.

The proposed Merger may not be completed on a timely basis, or at all, and the failure to complete or delays in completing the Merger could adversely affect our business, financial results and stock price.

We can provide no assurance that the Merger will be consummated or consummated in the timeframe or manner currently anticipated. The Merger is subject to a number of conditions including the receipt of regulatory approvals, which are not within our control. There can be no assurance as to when, or if, the conditions to closing of the Merger will be satisfied or waived or that other events will not intervene to delay or result in the termination of the Merger. Any delay in closing or a failure to close could have a negative impact on our business, financial results and stock price as well as our relationships with our customers, suppliers or employees, and a negative impact on our ability to pursue alternative strategic transactions and/or our ability to implement alternative business plans. If the Merger Agreement is terminated, we may be required to pay a termination fee of $300 million.

Our business and financial results could be adversely impacted during the pendency of the Merger.

The Merger may cause disruptions to our business or business relationships and create uncertainty surrounding our ongoing business operations, which could have an adverse impact on our financial condition, results of operations and cash flows, regardless of whether the Merger is completed, including as a result of the following (all of which could be exacerbated by a delay in completion of the Merger):

- the attention of our management may be directed to transaction-related considerations and may be diverted from the day-to-day operations of our business;
- our employees may experience uncertainty about their future roles with us, which might adversely affect our ability to hire, retain and motivate key personnel and other employees;
- customers, suppliers or other parties which we maintain business relationships may experience uncertainty prior to the closing of the Merger and seek alternative relationships with third parties or seek to terminate or re-negotiate their relationships with us; and
- the Merger Agreement restricts us from engaging in certain actions without the consent of Sherwin-Williams, which could prevent us from pursuing opportunities that may arise prior to the consummation of the Merger.

In addition, we have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with the Merger, and many of these fees and costs are payable by us regardless of whether or not the Merger is consummated.

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Regulatory authorities may require divestitures in connection with the proposed Merger, which could result in Valspar stockholders receiving $105 per share instead of $113 per share as consideration in connection with completion of the Merger.
Following completion of the Merger, Valspar stockholders will receive as merger consideration $113 per share in cash, except that the merger consideration will be $105 per share in cash if Sherwin-Williams is required, in order to obtain the necessary regulatory approvals, to commit to any divestiture, license, hold separate, sale or other disposition of or with respect to assets, businesses or product lines of Valspar, Sherwin-Williams or their subsidiaries representing, in the aggregate, in excess of $650 million of net sales (as defined in the Merger Agreement). There can be no assurance as to whether regulatory authorities will not require such divestitures and accordingly there can be no assurance that Valspar stockholders will receive $113 per share in cash instead of $105 per share in cash.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
(a) Not applicable
(b) Not applicable
(c) We did not make any repurchases of equity securities during the quarter ended July 29, 2016. On November 21, 2014, our Board of Directors approved a share repurchase program, with no expiration date, which authorized us to purchase up to $1.5 billion of outstanding shares of Common Stock. As of July 29, 2016, there were 3,920,105 shares purchased under this program.

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|---|---|
| 10.1 | Amendment to The Valspar Corporation 2015 Omnibus Equity Plan (incorporated by reference to Exhibit 10.1 of Valspar’s Form 8-K filed on June 10, 2016). |
| 10.2 | The Valspar Corporation Amended and Restated Key Employee Annual Bonus and Long-Term Incentive Plan dated June 8, 2016 (incorporated by reference to Exhibit 10.2 of Valspar’s Form 8-K filed on June 10, 2016). |
| 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 7, 2016 | By /s/ Rolf Engh<br>Rolf Engh<br>Executive Vice President, General Counsel and Secretary |
| Date: September 7, 2016 | By /s/ James L. Muehlbauer<br>James L. Muehlbauer<br>Executive Vice President, Chief Financial and Administrative Officer |