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VALSPAR CORP  
Form 10-K/A  
July 26, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A  
Amendment No. 1  
To  
Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the fiscal year ended October 26, 2001                      Commission file number 1-3011  
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THE VALSPAR CORPORATION  
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(Exact name of registrant as specified in its charter)

Delaware  
-----

(State of incorporation)

36-2443580  
-----

(I.R.S. Employer  
Identification No.)

1101 Third Street South  
Minneapolis, Minnesota  
-----

(Address of principal executive offices)

55415  
-----

(Zip Code)

Registrant's telephone number, including area code

(612) 332-7371

Securities registered pursuant to Section 12(b) of  
the Act:

Title of Each Class  
-----

Name of Each Exchange  
on which Registered  
-----

Common Stock, \$.50 Par Value  
Common Stock Purchase Rights

New York Stock Exchange  
New York Stock Exchange

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes thereto are amended as of July 26, 2002, specifically Note 8. The amendment affects the pro forma net income and pro forma earnings per share for 2001 under SFAS 123.

The amendment does not affect the Company's historical results of operations, financial condition or cash flows for any period presented.

Other than this change to Note 8, there was no change to the consolidated financial statements, the notes to the consolidated financial statements, the report of the independent auditors or the report of management.

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CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, except per share amounts)

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ASSETS

Current Assets	Cash and cash equivalents	\$
	Accounts and notes receivable, less allowances for doubtful accounts (2001 - \$10,212; 2000 - \$4,925)	
	Inventories	
	Deferred income taxes	
	Prepaid expenses and other accounts	
	Total Current Assets	
Goodwill, net		
Other Assets, net		
Property, Plant and Equipment	Land	
	Buildings	
	Machinery and equipment	
	Less accumulated depreciation	
	Net Property, Plant and Equipment	
	Total Assets	\$

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	Notes payable to banks	\$
	Trade accounts payable	
	Income taxes	
	Accrued liabilities	
	Current Portion of Long-Term Debt	
	Total Current Liabilities	
Long-Term Debt		
Deferred Income Taxes		

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Deferred Liabilities

	-----	
	Total Liabilities	
	-----	
Stockholders' Equity	Common Stock (par value \$.50 per share; shares authorized 126,900,000; shares issued, including shares in treasury, 60,221,312 shares in 2001; 53,321,312 in 2000)	
	-----	
	Additional paid-in capital	
	-----	
	Retained earnings	
	-----	
	Other	
	-----	
	Less cost of Common Stock in treasury (2001 - 10,739,685 shares; 2000 - 10,840,142 shares)	
	-----	
	Total Stockholders' Equity	
	-----	
	Total Liabilities and Stockholders' Equity	\$
	-----	

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, except per share amounts)

FOR THE YEAR ENDED	OCTOBER 26, 2001	OCTOBER 27, 2000	OCTOBER 29, 1999
NET SALES	\$ 1,920,970	\$ 1,483,320	\$ 1,387,677
COST AND EXPENSES:			
Cost of sales	1,346,934	1,039,267	960,395
Research and development	58,105	46,353	44,091
Selling and administrative	303,796	224,290	222,275
Amortization Expense	29,283	10,675	7,559
Restructuring	21,930	(1,200)	8,346
INCOME FROM OPERATIONS	160,922	163,935	145,011
Other (Income)/Expense, net	(2,787)	200	(9,164)
Interest expense	72,559	21,989	19,089

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INCOME BEFORE INCOME TAXES	91,150	141,746	135,086
Income taxes	39,650	55,280	52,944
NET INCOME	\$ 51,500	\$ 86,466	\$ 82,142
Net Income Per Common Share - Basic	\$ 1.12	\$ 2.02	\$ 1.90
Net Income Per Common Share - Diluted	\$ 1.10	\$ 2.00	\$ 1.87

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS  
OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Thousands, except per share amounts)

	COMMON STOCK		ADDITIONAL	RETAINED
	SHARES	AMOUNT	PAID-IN CAPITAL	EARNINGS
BALANCE OCTOBER 30, 1998	53,321,312	\$ 26,660	\$ 24,880	\$ 367,04
Common stock options exercised for 50,007 shares	--	--	715	--
Purchase of 494,400 shares of common stock for treasury	--	--	--	--
Comprehensive Income:	--	--	--	--
Net income	--	--	--	82,14
Foreign currency translation, net of tax	--	--	--	--
Cash dividends on common stock - \$.46 per share	--	--	--	(19,78
Other	--	--	3,301	--
BALANCE OCTOBER 29, 1999	53,321,312	\$ 26,660	\$ 28,896	\$ 429,39
Common stock options exercised for 84,893 shares	--	--	1,101	--
Purchase of 661,000 shares of common stock for treasury	--	--	--	--
Comprehensive income:	--	--	--	--
Net income	--	--	--	86,46
Foreign currency translation, net of tax	--	--	--	--

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Cash dividends on common stock - \$.52 per share	--	--	--	(22,18)
Other	--	--	4,270	(2,81)
BALANCE OCTOBER 27, 2000	53,321,312	\$ 26,660	\$ 34,267	\$ 490,86
Common stock options exercised for 141,578 shares	--	--	918	--
Common stock issuance and sale of 6,900,000 shares, net	6,900,000	3,450	181,239	--
Comprehensive income:	--	--	--	--
Net income	--	--	--	51,50
Foreign currency translation, net of tax	--	--	--	--
Cash dividends on common stock - \$.54 per share	--	--	--	(24,85)
Other	--	--	332	5,30
BALANCE OCTOBER 26, 2001	60,221,312	\$ 30,110	\$ 216,756	\$ 522,80

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	FOR THE YEAR ENDED	OCTOBER 26 2001
OPERATING ACTIVITIES		
Net income		\$ 51,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Restructuring and non-recurring charge		39,300
Depreciation		43,767
Amortization		29,283
Deferred income taxes		15,055
Gain on sales or abandonment of property, plant and equipment		(3,512)
Gain on sales of investments		(736)

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	Changes in certain assets and liabilities, net of effects of acquired businesses:	
	Decrease (increase) in accounts and notes receivable	20,214
	Decrease (increase) in inventories and other assets	10,108
	Increase (decrease) in trade accounts payable and accrued liabilities	(26,989)
	Increase (decrease) in income taxes payable	8,293
	Increase (decrease) in other deferred liabilities	6,048
	Other	5,278
	Net Cash Provided by Operating Activities	197,609
INVESTING ACTIVITIES	Purchases of property, plant and equipment	(36,200)
	Acquired businesses, net of cash	(830,664)
	Divested businesses/assets	22,430
	Other investments/advances to joint ventures	--
	Net Cash Used in Investing Activities	(844,434)
FINANCING ACTIVITIES	Net proceeds from borrowings	484,053
	Proceeds from sales of treasury stock	2,143
	Proceeds from equity offering	184,689
	Purchase of shares of Common Stock for treasury	--
	Dividends paid	(24,856)
	Net Cash provided by/(used in) financing activities	646,029
	(Decrease)/Increase in cash and cash equivalents	(796)
	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,935
	CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 20,139

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE VALSPAR CORPORATION \* Years Ended October 2001, 2000 and 1999  
(Dollars in thousands except per share amounts)

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

**FISCAL YEAR:** The Company has a 4-4-5 accounting cycle with the fiscal year ending on the Friday on or immediately preceding October 31. All years presented include 52 weeks.

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of the parent company and its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. Investments in which the Company has a 20 to 50 percent interest and where the Company does not have management control are accounted for using the equity method.

**ESTIMATES:** The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

**REVENUE RECOGNITION:** Other than long-term warranty programs, revenue from sales is recognized upon product shipment and passage of title to the customer. Revenue from long-term warranty programs is recognized based on the ratio of costs incurred to estimated total costs at program completion, using historical claim data. Adjustments in estimated costs are reflected in earnings in the current period. Anticipated losses on programs in progress are charged to earnings when identified.

**CASH EQUIVALENTS:** The Company considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents.

**INVENTORIES:** Inventories are stated at the lower of cost or market. The Company's domestic inventories are recorded on the last-in, first-out (LIFO) method. The remaining inventories are recorded using the first-in, first-out (FIFO) method.

**PROPERTY, PLANT AND EQUIPMENT:** Property, plant and equipment are recorded at cost. Provision for depreciation of property is made by charges to operations at rates calculated to amortize the cost of the property over its useful life (twenty years for buildings; three to ten years for machinery and equipment) primarily using the straight-line method. Effective October 30, 1999, the Company adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use".

**INTANGIBLE AND LONG-LIVED ASSETS:** Intangible assets, including goodwill, are carried at cost and amortized using the straight-line method over their estimated period of benefit (6 to 40 years). The Company reviews its intangible and long-lived assets for impairment in accordance with Statement of Financial Accounting Standard No. 121 (SFAS 121). Under SFAS 121, impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

**STOCK OPTIONS:** As permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees" and its interpretations in accounting for its stock options and other stock-based employee compensation awards. Pro forma information regarding net income and earnings per share as calculated under the fair value provisions of SFAS 123 is disclosed in Note 8 to the financial statements.

**FOREIGN CURRENCY:** Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance

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sheet date. Results of operations are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities are recorded as a component of stockholders' equity. Gains and losses from foreign currency transactions are included in other (income)/expense, net.

NET INCOME PER SHARE: The following table reflects the components of common shares outstanding for each of the three years ended October 26, 2001 in accordance with Statement of Financial Accounting Standards No. 128 (SFAS 128):

	2001	2000	1999
Weighted average common shares outstanding-basic	46,062,459	42,706,168	43,298,367
Dilutive effect of stock options	595,296	489,599	537,212
Equivalent average common shares outstanding diluted	46,657,755	43,195,767	43,835,579

Under the provisions of SFAS 128, basic earnings per share are based on the weighted average number of common shares outstanding during each year. In computing diluted earnings per share, the number of common shares outstanding is increased by common stock options with

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exercise prices lower than the average market prices of common shares during each year and reduced by the number of shares assumed to have been purchased with proceeds from the exercised options.

FINANCIAL INSTRUMENTS: All financial instruments are held for purposes other than trading. The estimated fair values of the Company's financial instruments approximate their carrying amounts in the consolidated balance sheet at October 26, 2001.

COMPREHENSIVE INCOME: Comprehensive income consists of net income and foreign currency translation adjustment and is presented in the Consolidated Statements of Changes in Stockholders' Equity.

### NOTE 2 - ACQUISITIONS AND DIVESTITURES

Effective July 31, 2001, the Company acquired the Packaging Coatings business of Coates Brothers in Singapore, Malaysia, Indonesia and Thailand. Revenues for these businesses were \$7 million in 2000. This acquisition significantly strengthens the Company's presence in the Southeast Asia packaging coatings market. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The effect of this transaction on the Company's results of operations for 2001 was not material.

Effective December 20, 2000, the Company acquired all outstanding Class A and Class B stock of Lilly Industries, Inc. for \$31.75 per share in cash. Total consideration paid was approximately \$1,036 million, including the assumption of debt of approximately \$218 million. Lilly Industries was one of the five largest



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industrial coatings and specialty chemicals manufacturers in North America, with reported net sales of \$656.2 million for the year ended November 30, 1999, and \$669.7 for the year ended November 30, 2000. Lilly Industries formulates, manufactures and markets industrial coatings and specialty chemicals to original equipment manufacturers for products such as home and office furniture, cabinets, appliances, building products, transportation, and agricultural and construction equipment. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill, and prior to the adoption of Statement of Financial Accounting Standards No. 142, is being amortized over the estimated period of benefit.

The following unaudited pro forma combined summary statements of income information for the twelve month periods ended October 26, 2001 and October 27, 2000 were prepared in accordance with Accounting Principles Board Opinion No. 16 and assumes the acquisition had occurred at the beginning of the periods presented. The following pro forma data reflect adjustments for interest expense, amortization of goodwill and depreciation of fixed assets. The unaudited pro forma financial information is provided for informational purposes only and does not purport to be indicative of the future results of the Company.

### UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (Thousands of dollars, except per share data)

	YEAR ENDED OCTOBER 26, 2001	YEAR ENDED OCTOBER 27, 2000
Net sales	\$ 2,018,468	\$ 2,153,019
Net income	45,420	57,275
Net income per share-basic	.99	1.34
Net income per share-diluted	.97	1.33

During the first quarter of fiscal 2001, the Company completed the sale of its existing Mirror Coatings business as a condition of Federal Trade Commission approval for the Lilly Industries acquisition. This product line had revenues of approximately \$12 million for the year ended October 27, 2000. The effect of this divestiture on the Company's results of operations for 2001 was not material.

In November 2000, the Company acquired the 49% interest in The Valspar (Mexico) Corporation, S.A. de C.V. held by its joint venture partner. The Valspar (Mexico) Corporation has operations in Mexico City and Monterrey and produces Industrial and Packaging coatings. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The effect of this transaction on the Company's results of operations for 2001 was not material.

In December 1997, as a part of the Coates acquisition, the Company acquired a 49% interest in a joint venture with Coates for packaging coatings in South Africa. In February 1999, as a part of the Dexter acquisition, the Company acquired Dexter's majority position in a joint venture with Plascon (Pty) Limited, a South African company, for packaging coatings in South Africa. As of October 2000, the Company acquired Coates' 51% interest in the Valspar/Coates joint venture and reorganized the businesses of both South African joint ventures so that Valspar now has a majority position in a joint venture with Plascon for a combined packaging coatings business in South Africa. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The effect of this transaction on the Company's results

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of operations for 2000 was not material.

Effective September 30, 1999, the Company acquired the 50% interest in Farboil Company held by its joint venture partner. Farboil Company, located in Baltimore, Maryland, produces decorative powder coatings with annual revenues in 1999 of \$17 million. The transaction was accounted for as a purchase. Accordingly, the net assets and operating

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results have been included in the Company's financial statements from the date of acquisition.

Effective February 26, 1999, the Company acquired Dexter Corporation's worldwide packaging coatings business and its French industrial coatings subsidiary, Dexter SAS. Dexter is a worldwide supplier of beverage can, food can and specialty coatings to the packaging market. Dexter SAS supplies a variety of coatings to the European industrial market. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as good will and is being amortized over the estimated period of benefit.

Effective December 17, 1998, the Company acquired a majority interest in Dyflex B.V., a Netherlands based producer of specialty water-based polymers. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition.

Effective March 26 and April 20, 1999, the Company completed the sale of its Marine and Flexible Packaging Coatings product lines. These product lines had revenues of \$25 million and \$12 million, respectively, for the year ended October 1998.

### NOTE 3 - RESTRUCTURING

In September 2001, the Company's Board of Directors approved and the Company initiated actions to eliminate redundant facilities and functions resulting from the Lilly Industries acquisition in order to accelerate performance improvement. These actions resulted in the Company recording aggregate pre-tax charges of \$39,300. The charges include \$21,930 classified as restructuring and \$17,370 of inventory and other asset write-downs classified in cost of sales. Through October 26, 2001, the Company has paid or incurred \$21,678 of the \$39,300 charge. The Company anticipates that substantially all of the remaining restructuring costs will be paid by October 25, 2002.

	TOTAL CHARGE	INCURRED THROUGH OCTOBER 26, 2001	BALANCE OCTOBER 26, 2001
Severance costs	\$ 8,384	\$ 888	\$ 7,496
Exit and termination costs	2,049	115	1,934
Property, plant and equipment	11,497	7,733	3,764
Inventory and other assets	17,370	12,942	4,428
	\$39,300	\$21,678	\$17,622

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These plans contemplated a workforce reduction of worldwide headcount by 350 or five percent. As of October 26, 2001 the Company had communicated the benefits due to employees resulting from the workforce reduction. The net cash impact of the charges over the next two years will be negligible.

During 1999, the Company initiated actions to eliminate redundant facilities and functions resulting from the acquired Dexter packaging coatings operations, resulting in a pre-tax restructuring charge of \$8,346. During 2000, accruals in the amount of \$1,200 were reversed related to lower than estimated costs.

NOTE 4 - INVENTORIES

The major classes of inventories consist of the following:

	2001	2000
Manufactured products	\$114,967	\$108,225
Raw materials, supplies and work-in-process	70,598	46,662
	\$185,565	\$154,887

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate \$128,450 at October 26, 2001 and \$108,031 at October 27, 2000, approximately \$28,530 and \$27,335 lower, respectively, than such costs determined under the first-in, first-out (FIFO) method.

NOTE 5 - TRADE ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Trade accounts payable include \$24,459 and \$23,326 of issued checks which had not cleared the Company's bank accounts as of October 26, 2001 and October 27, 2000, respectively.

Accrued liabilities include the following:

	2001	2000
Employee compensation	\$ 58,860	\$ 43,879
Uninsured loss reserves	56,372	22,575
Customer volume rebates	34,006	25,541
Contribution to employees' retirement trusts	5,642	7,789
Restructuring	17,622	1,093
Deferred Revenue	17,619	--
Other	45,174	28,310
Total	\$235,295	\$129,187

The increase in accrued liabilities is due to the Lilly acquisition, restructuring, and deferred revenue.

NOTE 6 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

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Long-term debt consists of the following:

	2001	2000
Notes to banks (3.225% - 5.6233% at October 26, 2001)	\$ 890,597	\$ 283,741
Senior Notes (7.75% at October 26, 2001 payable in 2007)	100,000	
Industrial development bonds (2.2 - 7.6% at October 26, 2001, payable in 2015 and 2018)	14,955	15,204
Obligations under capital lease (7.5% at October 26, 2001, payable through 2004)	1,151	1,819
	\$ 1,006,703	\$ 300,764
Less current maturities	(486)	(464)
	\$ 1,006,217	\$ 300,300

The Company has \$1,150,000 of committed revolving multi-currency credit facilities with two syndicates of banks at optional interest rates of prime or IBOR-based rates. The 364-day facility in the amount of \$150,000 matures November 14, 2002 and the five-year facility in the amount of \$1,000,000 matures November 17, 2005. Included in the \$1 billion credit facility are notes to banks totaling \$890,597 at October 26, 2001 and \$283,741 at October 27, 2000. The maturities of the remaining long-term debt are as follows: 2002 - \$486; 2003 - \$519; 2004 - \$718; 2005-\$150; 2006-\$127 and \$114,106 thereafter. The revolving credit loan agreement contains covenants that require the Company to maintain certain financial ratios. The Company is in compliance with these covenants as of October 26, 2001.

Under other short-term bank lines of credit around the world, the Company may borrow up to \$118,673 on such terms as the Company and the banks may mutually agree. These arrangements are reviewed periodically for renewal and modification. Borrowings under these debt arrangements, including the revolver, had an average annual interest rate of 6.37% in 2001 and 6.06% in 2000.

The Company had unused lines of credit under short-term bank lines and the revolving credit facility of \$688,429 at October 26, 2001, which was reduced by \$350 million in November 2001.

Interest paid during 2001, 2000 and 1999 was \$67,660, \$22,369 and \$19,092, respectively.

NOTE 7 - INCOME TAXES

Significant components of the provision for income taxes are as follows:

YEAR ENDED	2001	2000	1999
Current			
Federal	\$ 14,558	\$ 32,312	\$ 49,820
State	(1,443)	3,412	5,943
Foreign	7,938	8,212	5,319
Total Current	21,053	43,936	61,082
Deferred			

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Federal	15,302	9,586	(4,717)
State	2,731	1,565	(860)
Foreign	564	193	(2,561)
-----			
Total Deferred	18,597	11,344	(8,138)
=====			
Total Income Taxes	\$ 39,650	\$ 55,280	\$ 52,944
=====			

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2001	2000	1999
-----			
Deferred tax assets:			
Product liability accruals	\$ 9,372	\$ 2,508	\$ 2,749
Insurance accruals	3,392	3,418	4,459
Deferred compensation	7,414	7,125	7,797
Workers' compensation accruals	2,141	2,538	2,177
Employee compensation accruals	2,693	1,931	2,943
Other	31,769	20,974	19,142
-----			
Total deferred tax assets	56,781	38,494	39,267
=====			
Deferred tax liabilities:			
Tax in excess of book depreciation	(33,510)	(24,445)	(15,336)
Other	(42,736)	(17,951)	(16,658)
-----			
Total deferred tax liabilities	(76,246)	(42,396)	(31,994)
-----			
Net deferred tax (liabilities)/assets	\$ (19,465)	\$ (3,902)	\$ 7,273
=====			

A reconciliation of income tax computed at the U.S. Federal statutory tax rate to the effective income tax rate is as follows:

	2001	2000	1999
-----			
Tax at U.S. statutory Rate	35.0%	35.0%	35.0%
Goodwill Amortization	5.5%	0.5%	0.4%
State income taxes, net of Federal benefit	0.8%	2.1%	2.4%
Non-U.S. Taxes	2.7%	0.7%	0.1%
Other	-0.5%	0.7%	1.3%
-----			
	43.5%	39.0%	39.2%
=====			

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No provision has been made for U.S. Federal Income taxes on certain undistributed earnings of foreign subsidiaries that the Company intends to permanently invest or that may be remitted substantially tax-free. The total of undistributed earnings that would be subject to federal income tax if remitted under existing law is approximately \$84,931 at October 26, 2001. Determination of the unrecognized deferred tax liability related to these earnings is not practicable because of the complexities with its hypothetical calculation. Upon distribution of these earnings, the Company will be subject to U.S. taxes and

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withholding taxes payable to various foreign governments. A credit for foreign taxes already paid would be available to reduce the U.S. tax liability.

Income taxes paid during 2001, 2000 and 1999 were \$21,292, \$51,669 and \$45,749, respectively.

### NOTE 8 - STOCK PLANS

Stock Options: Under the Company's Stock Option Plan, options for the purchase of up to 8,000,000 shares of common stock may be granted to officers, employees and non-employee directors. Options are issued at market value at the date of grant and are exercisable in full or in part over a prescribed period of time.

As permitted by SFAS 123, the Company has elected to continue following the guidance of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" for measurement and recognition of stock-based transactions with employees. Accordingly, no compensation expense has been recorded for options granted under the stock option plan as the exercise price equals or exceeds the market price of the underlying stock on the date of grant. Had compensation expense for the stock option plan been determined based on the fair value at the date of grant, consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reported as follows:

	2001	2000	1999
Pro forma net income	\$45,325	\$ 79,406	\$ 80,974
Pro forma earnings per share:			
Basic	.98	1.86	1.87
Diluted	.97	1.84	1.85

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2001	2000	1999
Expected dividend yield	1.5%	1.5%	1.5%
Expected stock price volatility	29.8%	27.9%	22.2%
Risk-free interest rate	4.2%	5.5%	6.2%
Expected life of options	6 years	6 years	6 years

The weighted average fair value for options granted during 2001, 2000 and 1999 is \$11.05, \$10.83, and \$8.71 per share, respectively. Stock option activity for the three years ended October 26, 2001 is summarized as follows:

	SHARES RESERVED	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
October 30, 1998 Balance	1,691,481	1,600,368	\$ 22.70
Shares reserved	2,250,000	--	--
Granted	(706,500)	706,500	\$ 35.02
Exercised	(50,007)		\$ 22.40
Canceled	28,466	(28,466)	\$ 32.24
October 29, 1999 Balance	3,263,447	2,228,395	\$ 26.49
Shares reserved	--	--	--

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Granted	(1,444,172)	1,444,172	\$	33.32
Exercised	--	(84,893)	\$	22.86
Canceled	68,192	(68,192)	\$	37.24
-----				
October 27, 2000 Balance	1,887,467	3,519,482	\$	29.47
Shares reserved	3,010,000	--		--
Granted	(2,428,825)	2,428,825	\$	32.16
Exercised	--	(130,364)	\$	20.94
Canceled	163,554	(163,554)	\$	35.92
-----				
October 26, 2001	2,632,196	5,654,389	\$	30.64
=====				

Options outstanding at October 26, 2001 had an average remaining contractual life of 7.86 years. Options exercisable of 2,395,331 at October 26, 2001, 1,911,232 at October 27, 2000, and 939,257 at October 29, 1999 had weighted average exercise prices of \$26.32, \$23.20, and \$19.61, respectively. The exercise price for options outstanding as of October 26, 2001 range from \$12.00 to \$40.31, with 1,372,214 shares outstanding in the \$12.00 - \$25.00 range and 4,282,175 shares outstanding in the \$25.00 - \$40.31 range.

EMPLOYEE STOCK OWNERSHIP PLANS: Under the Company's Employee Stock Ownership Plans, substantially all of the Company's domestic employees are eligible to participate and may contribute 1% to 9% of their compensation to the Plans. The Company contributes a minimum amount equal to one-half of the employee contributions up to 3% of employees' compensation, with the potential to match up to 6% based upon the financial performance of the Company. The Company's contributions were \$4,328, \$3,314 and \$5,307, for 2001, 2000 and 1999, respectively.

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KEY EMPLOYEE BONUS PLAN: In 1993, the Company established a Key Employee Bonus Plan for certain employees. Under the Plan, participants can elect to convert all or any portion of the cash bonus awarded under certain incentive bonus plans into a grant of restricted stock receivable three years from the date of grant.

NOTE 9 - LEASING ARRANGEMENTS

The Company has operating lease commitments outstanding at October 26, 2001, for plant and warehouse equipment, office and warehouse space, and automobiles. The leases have initial periods ranging from one to ten years, with minimum future rental payments as follows:

	MINIMUM LEASE PAYMENTS
2002	\$ 8,533
2003	6,595
2004	3,867
2005	1,045
2006	838
2007 and beyond	2,373
=====	
	\$23,251

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Rent expense for operating leases was \$12,408 in 2001, \$6,426 in 2000 and \$6,338 in 1999.

### NOTE 10 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors a Profit Sharing Plan for substantially all of its domestic employees. Under the Plan, the Company makes a contribution based on return on assets as defined in the Plan up to a maximum of 10% of the aggregate compensation of eligible participants. Contributions to the Profit Sharing Plan totaled \$9,264, \$10,657, and \$9,869, for 2001, 2000, and 1999, respectively.

The Company also sponsors a number of defined benefit pension plans for certain hourly and foreign employees. The benefits for these plans are generally based on stated amounts for each year of service. The Company funds the plans in amounts consistent with the limits of allowable tax deductions. The Company assumed the liabilities and assets under the Lilly pension plan for employees eligible as of the date of acquisition.

The cost of the pension benefits is as follows:

#### NET PERIODIC COST

	2001	2000	1999
Service cost	\$ 1,837	\$ 1,185	\$ 1,158
Interest cost	7,861	2,328	2,016
Expected return on plan assets	(12,774)	(3,818)	(3,059)
Amortization of transition asset obligation	(301)	(91)	(92)
Amortization of prior service cost	817	343	367
Recognized actuarial gain	(409)	(406)	(292)
Net-periodic benefit cost	(2,969)	(459)	98
Settlement gain	--	(787)	--
Net-periodic benefit cost after settlement	\$ (2,969)	\$ (1,246)	\$ 98

The plans' funded status is shown below, along with a description of how the status changed during the past two years. The benefit obligation is the projected benefit obligation--the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date.

#### CHANGE IN BENEFIT OBLIGATIONS

	2001	2000
Benefit obligation at beginning of year	\$ 37,582	\$ 35,628
Service cost	1,837	1,185
Interest cost	7,861	2,328
Plan participants' contributions	125	134
Amendments	1,316	148
Actuarial loss	20,889	2,278
Acquisitions	79,211	--
Benefits paid	(5,813)	(1,824)
Settlements	--	(2,295)
Benefit obligation at end of year	\$ 143,008	\$ 37,582

#### CHANGE IN PLAN ASSETS

	2001	2000



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Fair value of plan assets at beginning of year	\$ 51,806	\$ 47,460
Actual return on plan assets	(6,955)	6,759
Employer contributions	628	1,572
Plan participants' contributions	125	134
Benefit payments	(5,813)	(1,824)
Acquisitions	94,240	--
Settlements	--	(2,295)
=====		
Fair value of plan assets at end of year	\$ 134,031	\$ 51,806

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FUNDED STATUS

	2001	2000
-----		
Funded status at end of year	\$ (8,977)	\$ 14,224
Unrecognized transition asset	(1,098)	(871)
Unrecognized prior service cost	7,752	3,414
Unrecognized net loss/(gain)	24,534	(11,622)
=====		
Net amount recognized in statement of financial position	\$ 22,211	\$ 5,145

The actuarial assumptions were as follows:

	2001	2000
-----		
Discount rate	6.0%-7.0%	6.25%-7.25%
Expected return on plan assets	7.0%-9.0%	7.0%-9.0%
Average increase in compensation	2.75%-4.0%	3.75%-6.0%

In addition to the Company's defined benefit pension plans, the Company sponsors a health care plan that provides post-retirement medical benefits for some of its employees. The Company's policy is to fund these benefits as they are paid. The Company's accrued post-retirement benefit liability recognized in the Company's balance sheet was \$5,331 and \$1,607 at October 26, 2001 and October 27, 2000, respectively. Net periodic post-retirement expense was \$487, \$150 and \$95 in 2001, 2000 and 1999, respectively.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.0% and 7.5% at October 26, 2001 and October 27, 2000, respectively. The assumed health-care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 6.5% in 2001, then declining by .5% per year to an ultimate rate of 5.5%. A 1% change in the cost trend rate would not have a material effect on the accumulated post-retirement benefit obligation or net periodic post-retirement expense.

NOTE 11 - SEGMENT INFORMATION

Prior to the Lilly Industries acquisition, the Company had two reportable segments: coatings and coating intermediates. Following the acquisition, the Company included the former Lilly Industries operations in its coatings segment, and the coating intermediates segment no longer meets the quantitative criteria for separate reporting. The Company now refers to these products as Other.

The Company now operates its business in one reportable segment: Coatings. The

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Company manufactures and distributes a broad portfolio of coatings products. The Industrial product line includes decorative and protective coatings for wood, metal, plastic, and glass. The Architectural, Automotive, and Specialty (AAS) product line includes interior and exterior decorative paints, primers, varnishes and specialty decorative products, such as enamels, aerosols and faux finishes, as well as automotive refinish and high performance floor coatings. The Packaging product line includes coatings and inks for rigid packaging containers. The Other category includes specialty polymers and colorants, which are used internally and sold to other coatings manufacturers.

Net sales by product line are as follows:

	2001	2000	1999
-----			
Industrial	\$ 739,479	\$ 372,142	\$ 328,669
AAS	558,262	505,087	510,960
Packaging	494,146	508,536	452,846
Other	129,083	97,555	95,202
=====			
	\$1,920,970	\$1,483,320	\$1,387,677

Geographic net sales are based on the country from which the customer was billed for the products sold. The United States is the largest country for customer sales. No single country outside the United States represents more than 10% of consolidated net sales. Long-lived assets include property, plant and equipment and goodwill attributable to each country's operations. No single country outside the United States represents more than 10% of consolidated long-lived assets. Net sales and long-lived assets by geographic region are as follows:

	2001	2000	1999
-----			
Net sales-External			
United States	1,470,394	1,137,219	1,116,347
Outside United States	450,576	346,101	271,330
=====			
Total net sales-External	1,920,970	1,483,320	1,387,677

	2001	2000	1999
-----			
Long-lived assets:			
United States	1,245,059	343,813	339,760
Outside United States	222,748	163,682	191,041
=====			
Total long-lived assets	1,467,807	507,495	530,801

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### NOTE 12 - QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a tabulation of the unaudited quarterly results for the years ended October 26, 2001 and October 27, 2000:

	GROSS	NET	NET INCOME
	MARGIN	INCOME	PER SHARE-
NET SALES			DILUTED
-----			

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2001 Quarter Ended:				
January 26	\$ 336,980	\$ 93,335	\$ 4,458	\$ .10
April 27	513,745	162,099	19,036	.44
July 27	544,888	170,392	25,502	.51
October 26	525,357	148,210	2,504	.05
-----				
	\$1,920,970	\$ 574,036	\$ 51,500	\$ 1.10
=====				
2000 Quarter Ended:				
January 28	\$ 323,671	\$ 92,441	\$ 11,455	\$ .26
April 28	392,780	120,025	25,371	.59
July 28	385,070	117,292	25,466	.59
October 27	381,799	114,295	24,174	.56
-----				
	\$1,483,320	\$ 444,053	\$ 86,466	\$ 2.00
=====				

NOTE 13 - RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards no. 144 (SFAS 144), "Accounting for the Impairment and Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. The adoption of this standard is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations" and Statement of Financial Accounting Standards No. 142 (SFAS 142) "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangibles deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will early adopt these Statements effective October 27, 2001. Application of the non-amortization provisions of the Statement is expected to result in an annual increase of earnings of approximately \$.35 per share. The Company will perform the first of the required tests for impairment of goodwill and indefinite lived intangible assets as of the beginning of Fiscal 2002 and will complete the initial impairment test by the end of the second quarter of 2002.

Effective October 28, 2000, the Company adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." The Company has developed procedures and policies for the use of derivative instruments and hedging strategies. The adoption of this standard did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

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REPORT OF ERNST & YOUNG LLP,  
INDEPENDENT AUDITORS

BOARD OF DIRECTORS AND STOCKHOLDERS  
THE VALSPAR CORPORATION

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We have audited the accompanying consolidated balance sheets of The Valspar Corporation and subsidiaries as of October 26, 2001 and October 27, 2000 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended October 26, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Valspar Corporation and subsidiaries at October 26, 2001 and October 27, 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 26, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Minneapolis, Minnesota  
November 16, 2001

### REPORT OF MANAGEMENT

BOARD OF DIRECTORS AND STOCKHOLDERS  
THE VALSPAR CORPORATION

The management of The Valspar Corporation is responsible for the integrity and objectivity of the financial statements and related information presented in this report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles. Where necessary, they reflect estimates based on management's judgment.

Management relies upon established accounting procedures and related systems of internal control for meeting its responsibilities to maintain reliable financial records. These systems are designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded and executed in accordance with management's intentions. This system is supported by written policies and procedures, an effective internal audit function and qualified financial staff.

The Audit Committee of the Board of Directors, composed of outside directors, meets regularly with management, the Company's internal auditors and its independent auditors to discuss the adequacy and effectiveness of audit functions, control systems and the quality of financial accounting and reporting. The independent and internal auditors have access to the Audit Committee without management's presence.

/s/ Richard M. Rampala

Richard M. Rampala  
Chairman, President and Chief Executive Officer

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/s/ Paul C. Reyelts

Paul C. Reyelts  
Senior Vice President, Finance and Chief Financial Officer

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(c) The following exhibits are filed as part of this report.

Exhibit No.	Description
2(a)(6)	ACQUISITION AGREEMENT BETWEEN COATES BROTHERS PLC AND THE REGISTRANT MADE AND ENTERED INTO AS OF FEBRUARY 26, 1996, AS AMENDED BY AMENDMENT NO. 1 TO THE ACQUISITION AGREEMENT DATED MAY 2, 1996 (PURSUANT TO RULE 24b-2, CERTAIN INFORMATION HAS BEEN DELETED AND FILED SEPARATELY WITH THE COMMISSION)
2(b)(9)	DEXTER COATINGS BUSINESS PURCHASE AND SALE AGREEMENT BETWEEN DEXTER CORPORATION AND THE REGISTRANT MADE AND ENTERED INTO AS OF AUGUST 21, 1998, AS AMENDED BY THE FIRST AMENDMENT TO DEXTER COATINGS BUSINESS PURCHASE AND SALE AGREEMENT DATED FEBRUARY 26, 1999 (PURSUANT TO RULE 24b-2, CERTAIN INFORMATION HAS BEEN DELETED AND FILED SEPARATELY WITH THE COMMISSION)
2(c)(14)	AGREEMENT AND PLAN OF MERGER BETWEEN LILLY INDUSTRIES, INC., VAL ACQUISITION CORP. (A WHOLLY-OWNED SUBSIDIARY OF THE REGISTRANT) AND THE REGISTRANT MADE AND ENTERED INTO AS OF JUNE 23, 2000
3(a)(7)	CERTIFICATE OF INCORPORATION - as amended to and including June 30, 1970, with further amendments to Article Four dated February 29, 1984, February 25, 1986, February 26, 1992 and February 26, 1997 and to Article Eleven dated February 25, 1987
3(b)(7)	BY-LAWS - as amended to and including October 15, 1997
4(a)(11)	RIGHTS AGREEMENT DATED AS OF MAY 1, 2000, BETWEEN THE REGISTRANT AND CHASEMELLON SHAREHOLDER SERVICES, L.L.C., AS RIGHTS AGENT
10(a)(1)	THE VALSPAR CORPORATION SUPPLEMENTAL STOCK OWNERSHIP PLAN**

PART IV (CONTINUED)

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K  
(CONTINUED)

(c) Index of Exhibits (continued)

Exhibit

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No.	Description
10 (b) (1)	THE VALSPAR CORPORATION KEY EMPLOYEES' SUPPLEMENTARY RETIREMENT PLAN**
10 (c) (2)	THE VALSPAR CORPORATION SUPPLEMENTAL BONUS PLAN**
10 (d) *	THE VALSPAR CORPORATION 1991 STOCK OPTION PLAN - as amended to and including December 12, 2001**
10 (e) (3)	THE VALSPAR CORPORATION LEVERAGED EQUITY PURCHASE PLAN**
10 (f) (10)	THE VALSPAR CORPORATION KEY EMPLOYEE ANNUAL BONUS PLAN - as amended to and including October 20, 1999**
10 (g) *	THE VALSPAR CORPORATION STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS - as amended to and including December 11, 2001**
10 (h) (7)	THE VALSPAR CORPORATION ANNUAL BONUS PLAN - as amended August 19, 1997**
10 (i) (4)	THE VALSPAR CORPORATION INCENTIVE BONUS PLAN**
10 (j) (5)	CREDIT AGREEMENT DATED AS OF APRIL 20, 1995 AMONG THE REGISTRANT, CERTAIN BANKS, WACHOVIA BANK OF GEORGIA, N.A., AS AGENT, AND CHEMICAL BANK, AS CO-AGENT, AND RELATED SYNDICATED LOAN NOTE, MONEY MARKET LOAN NOTE AND SWING LOAN NOTE
10 (k) (8)	CREDIT AGREEMENT DATED AS OF MARCH 16, 1998 AMONG THE REGISTRANT AND WACHOVIA BANK, N.A.
10 (l) (12)	CHANGE OF CONTROL AGREEMENT BETWEEN THE REGISTRANT AND THE COMPANY'S NAMED EXECUTIVES

### PART IV (CONTINUED)

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K (CONTINUED)

##### (c) Index of Exhibits (continued)

Exhibit No.	Description
10 (m) (13)	180-DAY CREDIT AGREEMENT DATED AS OF AUGUST 25, 2000 AMONG THE REGISTRANT AND CERTAIN SUBSIDIARIES OF THE REGISTRANT AND WACHOVIA BANK, N.A., AS ADMINISTRATIVE AGENT
10 (n) (15)	364-DAY CREDIT AGREEMENT DATED AS OF NOVEMBER 17, 2000 AMONG THE REGISTRANT AND CERTAIN SUBSIDIARIES OF THE REGISTRANT AND THE CHASE MANHATTAN BANK, AS ADMINISTRATIVE AGENT
10 (o) (15)	FIVE-YEAR CREDIT AGREEMENT DATED AS OF NOVEMBER 17, 2000 AMONG THE REGISTRANT AND CERTAIN SUBSIDIARIES OF THE REGISTRANT AND THE CHASE MANHATTAN BANK, AS ADMINISTRATIVE AGENT
10 (p) (15)	CREDIT AGREEMENT DATED AS OF DECEMBER 19, 2000 AMONG THE

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REGISTRANT, CERTAIN BANKS AND WACHOVIA BANK, N.A., AS  
ADMINISTRATIVE AGENT

- 13\* 2001 Annual Report to Stockholders (only those portions expressly incorporated by reference herein shall be deemed filed with the Commission)
- 21\* Subsidiaries of the Registrant
- 23(a)\*\*\* Consent of Independent Auditors - Ernst & Young LLP

- 
- (1) As filed with Form 10-K for the period ended October 31, 1981.
- (2) As filed with Form 10-K for the period ended October 31, 1983.
- (3) As filed with Form 10-K for the period ended October 25, 1991; amendment filed with Form 10-K for the period ended October 31, 1997.
- (4) As filed with Form 10-K for the period ended October 30, 1992.

### PART IV (CONTINUED)

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K (CONTINUED)

(c) Index of Exhibits (continued)

Exhibit No.	Description
(5)	Incorporated by reference to Exhibit 10(a) to Form 10-Q for the quarter ended April 28, 1995.
(6)	Incorporated by reference to Exhibit 2.1 to Form 8-K filed on May 17, 1996 and with Form 8-K/A filed on July 16, 1996.
(7)	As filed with Form 10-K for the period ended October 31, 1997.
(8)	As filed with Form 10-K for the period ended October 30, 1998.
(9)	Incorporated by reference to Exhibit 2.1 to Form 8-K filed on March 15, 1999 and with Form 8-K/A filed on May 12, 1999.
(10)	As filed with Form 10-K for the period ended October 29, 1999.
(11)	Incorporated by reference to Exhibit 2.1 to Form 8-A filed on May 3, 2000.
(12)	Incorporated by reference to Exhibit 10(a) to Form 10-Q for the quarter ended April 28, 2000.
(13)	Incorporated by reference to Exhibit 10(a) to Form 10-Q for the quarter ended July 28, 2000.
(14)	Incorporated by reference to Exhibit 1 to Form 8-K filed on January 4, 2000.

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- (15) As filed with Form 10-K for the period ended October 27, 2000;  
amendment filed with this Form 10-K.
- \* As filed with original Form 10-K filed on January 24, 2002.  
\*\* Compensatory Plan or arrangement required to be filed pursuant  
to Item 14(c) of Form 10-K.  
\*\*\* As filed with this Form 10-K/A.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

THE VALSPAR CORPORATION

/s/ Paul C. Reyelts 7/26/02

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Paul C. Reyelts  
Senior Vice President - Finance and  
Chief Financial Officer