VALSPAR CORP
Form 424B2
April 26, 2002

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File No. 333-56658

Prospectus Supplement

(To Prospectus dated March 21, 2001)

The Valspar Corporation

$350,000,000

6% Notes due 2007

Interest payable May 1 and November 1

Issue price: 99.506%

The Notes will mature on May 1, 2007. Interest will accrue from April 30, 2002. Valspar may redeem the Notes in whole or in part at any time at the redemption price described on page S-26.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts	Proceeds to Valspar
Per Note	99.506%	.600%	98.906%
Total	$348,271,000	$2,100,000	$346,171,000

The Notes will not be listed on any securities exchange. Currently, there is no public market for the Notes.

It is expected that delivery of the Notes will be made to investors through the book-entry system of The Depository Trust Company on or about April 30, 2002.

JPMorgan

Banc One Capital Markets, Inc.

Credit Suisse First Boston **Lehman Brothers**

Merrill Lynch & Co. **Wachovia Securities**

April 25, 2002

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You should rely on the information contained in this prospectus supplement and the accompanying prospectus to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying prospectus may only be used where it is legal to sell the Notes. The information in this prospectus supplement and the accompanying prospectus may only be accurate on the date of this prospectus supplement.

As used in this prospectus supplement, the terms Valspar, we, our and us may, depending upon the context, refer to The Valspar Corporation, to one or more of its consolidated subsidiaries or to all of them taken as a whole.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read this entire prospectus supplement and the accompanying prospectus carefully, including the documents incorporated by reference into the accompanying prospectus.

Valspar

General

The Valspar Corporation is a global leader in the paint and coatings industry, manufacturing and selling a broad range of coatings products. In the fiscal year ended October 26, 2001, we had net sales of $1.92 billion and income from operations of $160.9 million. Our products include industrial coatings (representing 38 percent of fiscal 2001 net sales), architectural, automotive and specialty coatings (representing 29 percent of fiscal 2001 net sales), packaging coatings (representing 26 percent of fiscal 2001 net sales) and other coatings products (representing 7 percent of fiscal 2001 net sales).

We produce a broad range of industrial coatings, including decorative and protective coatings for metal, wood, plastic and glass, primarily for sale to original equipment manufacturers (OEMs) in North America and Australia and selected countries in Europe and Asia. We refer to these products as our Industrial coatings product line, which includes fillers, primers, stains and topcoats used by customers in a wide range of manufacturing industries, including building products, railcar, appliance, automotive parts, furniture, agricultural equipment, construction equipment and metal fabrication. We are also a leading U.S. supplier of coating systems that are used to coat coils of metal prior to fabrication into pre-engineered products such as doors, building system components, lighting fixtures and appliances. Within our Industrial coatings product line, we use a variety of coatings technologies to meet customer requirements, including electro-deposition, powder, high solids, water-borne and UV light-cured coatings.

We offer a broad line of architectural coatings, including interior and exterior paints, stains, primers and varnishes. We also manufacture specialty decorative products such as enamels, aerosols and faux finishes, primarily for the do-it-yourself market. Our architectural customers include home centers, mass merchants, hardware wholesalers and independent dealers. We also manufacture and sell automotive and fleet refinish coatings, aerosol spray paints for automobiles, and specialty products such as high performance floor coatings for industrial and commercial use. All of these architectural, automotive refinish and specialty products are part of what we call our Architectural, Automotive & Specialty coatings product line, referred to as our AAS coatings products line.

We also make a variety of coatings used in the packaging industry, which we refer to as our Packaging coatings product line. Our Packaging coatings product line includes coatings and inks for rigid packaging containers, principally food containers and beverage cans. We believe we are the largest global coatings supplier to the rigid packaging industry. Packaging coatings for application to the interiors and exteriors of food containers and beverage cans comprise the largest portion of our sales of these products. We also produce coatings for aerosol and paint cans, bottle crowns for glass and plastic packaging and glass bottle closures. These coatings are required to meet the regulations of the U.S. Food and Drug Administration and the U.S. Department of Agriculture, as well as the laws and regulations of the other countries in which we sell our Packaging coatings products.

We also make specialty polymers and colorants for our own use and for sale to other paint and coatings manufacturers. We refer to these products as our Other products.

Our principal executive offices are located at 1101 South Third Street, Minneapolis, Minnesota 55415. Our telephone number is (612) 332-7371. Our Internet address is *www.valspar.com.* The information contained on our website is not part of this prospectus supplement and is not incorporated in this prospectus supplement by reference.

Business Strategy

Our objective is to build shareholder value by maintaining rapid sales and earnings growth and by being an industry leader in each of our chosen market segments. Specifically, we employ the following strategies to accomplish our objective:

Focus our business on high growth product and geographic markets by aligning ourselves with leading customers, expanding our technology base through research and development and targeted acquisitions, and expanding our business geographically as our customers expand globally;

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Target acquisition candidates that have business operations closely aligned with ours, allowing us to expand the breadth of our product lines, technology or geographic scope;

Maintain a broad and balanced mix of products and markets, allowing us to achieve consistent sales and earnings growth by reducing our reliance on a particular product or segment;

Foster a low cost culture throughout our company, which has historically allowed us to sustain earnings growth in strong economies and optimize our financial performance in weak economies; and

Encourage our employees to own shares of our common stock, thereby aligning their interests with the interests of our shareholders and customers.

Recent Developments

On April 18, 2002, we announced that we expect to report earnings per share for the second quarter ending April 26, 2002 at or slightly above $0.65 per share. In February 2002, we estimated that results for the second quarter of 2002 would be in the range of $0.60 to $0.65 per share. Last year s comparable second quarter earnings would have been $0.50 per share, after adjusting as if we had adopted SFAS 142 (elimination of goodwill amortization) for that quarter as we did for the 2002 period, and for the increased number of shares outstanding in the current fiscal quarter. We expect to report actual second quarter results on or about May 13, 2002.

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The Offering

Securities Offered	$350 million initial principal amount of 6% Notes due 2007.
Maturity Date	May 1, 2007.
Interest Payment Dates	May 1 and November 1 of each year, commencing November 1, 2002.
Redemption	At our option, we may redeem any or all of the Notes, in whole or in part, at any time, as described on page S-26 under the heading Description of Notes Optional Redemption in this prospectus supplement.
Ranking	The Notes: are unsecured; rank equally with all of our existing and future unsecured and unsubordinated debt; are senior to any future subordinated debt; and are effectively junior to any secured debt.
Covenants	We will issue the Notes under an indenture containing covenants for your benefit. These covenants will restrict our ability, with certain exceptions, to: incur debt secured by liens; or engage in sale/leaseback transactions. We will also be subject to a covenant concerning consolidations, mergers and transfers of substantially all of our property and assets.
Use of Proceeds	We estimate that we will receive net proceeds from this offering of approximately $346 million, which we intend to use to repay a portion of the outstanding debt under our credit facilities and other bank lines and for other general corporate purposes.
Further Issues	We may create and issue further notes ranking equally and ratably with the Notes in all respects, so that such further notes shall be consolidated and form a single series with the Notes and shall have the same terms as to status, redemption or otherwise as the Notes.

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Summary Selected Consolidated Financial Data

The summary selected consolidated financial data shown below are as of and for the years ended October 29, 1999, October 27, 2000 and October 26, 2001, and for the quarters ended January 26, 2001 and January 25, 2002. The information for the three years ended October 29, 1999, October 27, 2000 and October 26, 2001 is derived from our consolidated financial statements for such years, which have been audited by Ernst & Young LLP, our independent auditors. The summary financial data for the quarters ended January 26, 2001 and January 25, 2002 is derived from our unaudited condensed consolidated financial statements for the respective periods. In the opinion of our management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations and financial position of our company as of the date of and for the periods presented.

	Fiscal Year Ended			Quarter Ended	
	October 29, 1999	October 27, 2000	October 26, 2001(1)	January 26, 2001(2)	January 25, 2002
				(unaudited)	
			(dollars in thousands)		
Statement of Operations Data:					
Net sales	$1,387,677	$1,483,320	$1,920,970	$ 336,980	$ 431,040
Cost of sales	960,395	1,039,267	1,346,934(3)	243,645	299,340
Selling and administrative	222,275	224,290	303,796	56,107	81,774
Research and development	44,091	46,353	58,105	11,824	15,204
Amortization expense	7,559	10,675	29,283	4,051	1,182(4)
Restructuring	8,346	(1,200)	21,930	0	0
Interest expense	19,089	21,989	72,559	14,214	12,224
Other (income)/expense, net	(9,164)	200	(2,787)	(1,193)	476
Income before income taxes	135,086	141,746	91,150	8,332	20,840
Provision for income taxes	52,944	55,280	39,650	3,874	8,232
Net income	$ 82,142	$ 86,466	$ 51,500	$ 4,458	$ 12,608
Cash Flow Data:					
Net cash provided (used) by operating activities	$ 127,249	$ 93,338	$ 197,609	$ (6,179)	$ 7,241
Net cash used by investing activities	(234,838)	(51,946)	(844,434)	(803,461)	(18,468)
Net cash provided (used) by financing activities	125,788	(53,646)	646,029	816,466	14,431
Financial Position Data:					
Cash and cash equivalents	$ 33,189	$ 20,935	$ 20,139	$ 27,761	$ 23,343
Total current assets	514,928	533,864	661,494	665,976	662,354
Property, plant and equipment, net	312,133	298,747	411,179	435,215	387,829
Total assets	1,110,720	1,125,030	2,226,070	2,240,320	2,353,605
Current portion of long-term debt	53,899	40,195	41,600	44,400	61,900
Total current liabilities	374,712	334,288	475,067	404,768	451,795
Long-term debt, less current portion	298,874	300,300	1,006,217	1,340,291	1,003,248
Total liabilities	716,964	687,459	1,571,505	1,800,203	1,688,119
Total stockholders equity	393,756	437,571	654,565	440,117	665,486
Other Data:					
EBIDTA(5)	$ 202,321	$ 207,773	$ 276,059	$ 36,329	$ 45,105
EBIDTA margin	14.58%	14.01%	14.37%	10.78%	10.46%
Total dividends paid	19,785	22,185	24,856	5,735	6,943
Capital expenditures	31,400	32,425	36,200	3,687	6,468
Depreciation and amortization expense	39,800	45,238	73,050	13,783	12,041

(1) Includes approximately ten months of Lilly Industries financial results following the completion of the acquisition on December 20, 2000.

(2) Includes approximately five weeks of Lilly Industries financial results following the completion of the acquisition.

(3) Includes a non-recurring charge of $17,370 in 2001.

(4) Includes impact of adoption of SFAS 142 in 2002, under which goodwill and intangibles deemed to have indefinite lives are no longer amortized.

(5) Excludes impact of restructuring and other non-recurring charges in 1999, 2000 and 2001. Management uses earnings before interest, income taxes, depreciation and amortization (EBIDTA), among other standards, to measure operating performance. It supplements but is not intended to represent a measure of performance in accordance with disclosures required by United States generally accepted accounting principles. Our definition of EBIDTA may differ from the definition used by other companies.

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Ratio of Earnings to Fixed Charges

The following table sets forth the ratio of earnings to fixed charges for the periods indicated:

	Fiscal Year Ended					Quarter Ended	
	October 31, 1997	**October 30, 1998**	**October 29, 1999**	**October 27, 2000**	**October 26, 2001**	**January 26, 2001**	**January 25, 2002**
Ratio of Earnings to Fixed Charges	18.3x	11.1x	7.4x	6.9x	2.8x	1.6x	2.7x

For purposes of calculating the ratios, fixed charges consist of interest expense, amortized expenses related to debt and estimated interest portion of operating leases. The ratio of earnings to fixed charges is calculated as follows:

$$\frac{\text{(income before income taxes) + (fixed charges) + (restructuring and other non-recurring charges)}}{\text{(fixed charges)}}$$

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference contain certain forward-looking statements. These forward-looking statements are based on management s expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside our control, that could cause actual results to differ materially from such statements. These uncertainties and other factors include risks related to our acquisitions, including:

- risks of adverse changes in the results of acquired businesses;
- risks of disruptions in business resulting from the integration process; and
- significantly higher levels of debt for our company resulting in higher interest costs.

We also face general risks and uncertainties such as:

- our reliance on the efforts of vendors, government agencies, utilities, and other third parties to achieve adequate compliance and avoid disruption of our business;
- dependence of internal earnings growth on economic conditions and growth in the domestic and international coatings industry;
- changes in our relationships with customers and suppliers;
- unusual weather conditions that might adversely affect sales;
- changes in raw materials availability and pricing;
- changes in governmental regulation, including more stringent environmental, health and safety regulations;
- the nature, cost and outcome of pending and future litigation and other legal proceedings;
- the outbreak of war and other significant national and international events; and
- other risks and uncertainties.

The foregoing list is not exhaustive, and we disclaim any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements.

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ABOUT OUR COMPANY

Founded in 1806, we have grown into one of the world s leading paint and coatings manufacturers. Much of our growth has occurred during the last decade and, more recently, we have expanded our business into international markets. Our business growth has been accomplished through acquisitions, as summarized below, and through internal growth.

Date of Acquisition	Acquired Company(1)	Business
March 1995	Sunbelt Coatings, Inc.	Automotive refinish coatings
May 1996	Coates Coatings (Europe and USA)	Packaging coatings
November 1996	Gordon Bartels Company	Packaging coatings
November 1996	House of Kolor, Inc.	High-end automotive refinish
January 1997	Coates Coatings (Hong Kong and China)	Packaging coatings
January 1997	Sureguard, Incorporated	Industrial coatings
March 1997	Ameron International Corporation	Industrial coatings
April 1997	Master Builders, Inc.	Industrial floor coatings
July 1997	International Zinc, Coatings & Chemical Corporation	Marine coatings (subsequently sold)
September 1997	Forton B.V. (Netherlands)	Resins
December 1997	Hilemn Laboratories, Inc.	Industrial mirror coatings (subsequently sold)
April 1998	Plasti-Kote Co., Inc.	Aerosol coatings, primarily architectural
April 1998	Anzol Pty Ltd. (Australia)	Packaging and Industrial coatings
December 1998	Dyflex B.V.	Resins
September 1999	Farboil Company	Industrial powder coatings (purchase of joint venture partner s interest)
February 1999	Dexter Corporation (USA, Europe and worldwide)	Packaging and Industrial coatings
October 2000	ValsparCoates (South Africa) and Dexter South Africa	Packaging coatings (combined 2 joint ventures in South Africa)
November 2000	Valspar Marlux (Mexico)	Packaging and Industrial coatings (purchase of joint venture partner s interest)
December 2000	Lilly Industries, Inc.	Industrial coatings
July 2001	Coates Coatings (Singapore, Indonesia, Malaysia and Thailand)	Packaging coatings
November 2001	Technical Coatings (a subsidiary of Benjamin Moore & Co.)	Packaging and Industrial coatings
January 2002	Valspar Renner Revestimentos para Embalagens Limitada (Brazil)	Packaging coatings (purchase of joint venture partner s interest)

(1) Businesses of the acquired companies were based primarily in the U.S., unless otherwise indicated.

The most important acquisitions among those described above include our acquisitions of Coates Coatings, Dexter Packaging and Lilly Industries. Our purchase of Coates and its line of packaging coatings products was structured as a series of acquisitions. In the first Coates acquisition, completed in May 1996, we acquired packaging coatings businesses in Europe, Australia and the United States, marking a significant step in the globalization of our Packaging coatings product line. This business had approximately $70 million in sales in its last full fiscal year prior to our acquisition. We completed the second Coates acquisition in January 1997, which included packaging coatings businesses in Hong Kong and China, which in the aggregate had approximately $10 million in sales in 1996. We commenced the third Coates acquisition in December 1997 by entering into a joint venture for a packaging coatings business in South Africa. In October 2000, we acquired a majority interest in this business, called ValsparCoates. ValsparCoates had approximately $9 million in net sales in 1999, the last full fiscal year prior to the time we completed this part of the Coates acquisition. In July 2001, we completed the fourth phase of the acquisition by acquiring Coates businesses in Singapore, Indonesia, Malaysia and Thailand. Sales of these businesses were approximately $7 million in 2000, the last full fiscal year prior to completion of this phase of the acquisition.

In February 1999, we acquired the worldwide packaging and French industrial coatings business of Dexter Corporation. The Dexter acquisition provided us with additional packaging coatings facilities and businesses in Europe, the United States and Asia. Dexter S.A., Dexter s industrial coatings subsidiary in France, expanded our international presence in industrial coatings products. The Dexter businesses that we acquired generated $212 million in sales in 1998, the last full fiscal year prior to the acquisition.

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In December 2000, we completed the acquisition of Lilly Industries, our largest acquisition to date. We acquired all outstanding Lilly Industries shares for $31.75 per share in cash, in a transaction valued at $1.036 billion, including the assumption of approximately $218 million of debt. The transaction was accounted for under the purchase method of accounting. At the time of the acquisition, we believed Lilly Industries to be one of the five largest industrial coatings and specialty chemical manufacturers in North America, with reported net sales of $670 million for its fiscal year ended November 30, 2000. Lilly Industries formulates, manufactures and markets industrial coatings and specialty chemicals to original equipment manufacturers for products such as furniture, appliances, building products and transportation, agricultural and construction equipment. Lilly Industries has manufacturing facilities and sales offices in the United States, Canada, Mexico, the United Kingdom, Ireland, Germany, China, Malaysia, Taiwan, Singapore and Australia. In connection with the acquisition, the U.S. Federal Trade Commission required us to dispose of our former mirror coatings business, which has been replaced with Lilly Industries mirror coatings business. The Lilly Industries acquisition was significant not only due to its size but because, through the acquisition, we believe we have become the world s largest supplier of wood, coil and mirror coatings and the leading North American supplier of non-automotive industrial coatings. Lilly Industries also provides us with complementary product lines and new technology, expanding the breadth and depth of our Industrial coatings product line.

As with past acquisitions, we took aggressive steps to integrate the Lilly Industries business into our company in order to take advantage of cost savings synergies between the two businesses. Following the acquisition, we eliminated duplicative selling, general and administrative services and personnel and closed redundant production facilities. We took action to achieve approximately $70 million of annualized cost savings within ten months after acquiring Lilly Industries. We have also identified and implemented actions that are expected to result in an additional $20 million to $30 million of cost savings on an annualized basis. We have closed or are currently in the process of closing 14 excess or redundant locations resulting from the integration.

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $346 million, after deducting estimated underwriters discounts and commissions and other expenses payable by us. All of the net proceeds that we receive in this offering will be used to reduce a portion of the outstanding bank debt under our credit facilities and other bank lines and for other general corporate purposes. As of January 25, 2002, we had total borrowings of approximately $878 million outstanding under credit agreements with our bank group. As of January 25, 2002, the weighted average interest rate for these borrowings was 3.62 percent per annum and the weighted maturity was 124 days. Certain of the underwriters or their affiliates participating in this offering are lenders under our existing credit agreements and will receive their proportionate share of the proceeds from this offering. See Underwriting in this prospectus supplement.

CAPITALIZATION

The following table sets forth our capitalization as of January 25, 2002 (i) on a historical basis, and (ii) as adjusted to reflect this offering and the application of the net proceeds from this offering as described above under Use of Proceeds. This information should be read in conjunction with our consolidated financial statements and the related notes that are incorporated by reference into the accompanying prospectus.

	January 25, 2002	
	Actual	**As Adjusted**
	(dollars in thousands) (unaudited)	
Cash and cash equivalents	$ 23,343	$ 23,343
Notes payable to banks(1)	$ 61,900	$
Long-term debt:		
Notes offered hereby		350,000
Other long-term debt(1)	1,003,248	718,977
Total long-term debt	1,003,248	1,068,977
Stockholders equity:		
Common stock (par value $.50 per share; Authorized 120,000,000 shares; Shares issued, including shares in treasury, 60,221,312)	30,110	30,110
Additional paid-in capital	226,662	226,662
Retained earnings	528,463	528,463
Other	(10,189)	(10,189)
	775,046	775,046
Less cost of common stock in treasury (10,809,339 shares)	109,560	109,560
Total stockholders equity	$ 665,486	$ 665,486
Total capitalization	$ 1,730,634	$ 1,734,463

(1) After giving effect to the repayment of approximately $346 million of our bank debt, as of April 25, 2002, we would have had approximately $719 million in outstanding bank debt and approximately $550 million in available capacity under our credit facilities and other bank lines.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following selected historical consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto, which are incorporated by reference into the accompanying prospectus, and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus supplement. The consolidated statements of operations data for each of the years in the five-year period ended October 26, 2001, and the consolidated balance sheet data as of the end of each fiscal year during such period are derived from our audited consolidated financial statements. The selected financial data for the quarters ended January 26, 2001 and January 25, 2002 are derived from our unaudited consolidated financial statements for the respective periods. In the opinion of our management, the unaudited financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations and financial position of our company as of the date of and for the periods presented. Historical results are not necessarily indicative of the results to be expected in the future.

	Fiscal Year Ended					Quarter Ended	
	October 31, 1997	**October 30, 1998**	**October 29, 1999**	**October 27, 2000(1)**	**October 26, 2001**	**January 26, 2001(2)**	**January 25, 2002**
						(unaudited)	
			(dollars in thousands)				
Statement of Operations Data:							
Net sales	$1,017,271	$1,155,134	$1,387,677	$1,483,320	$1,920,970	$336,980	$