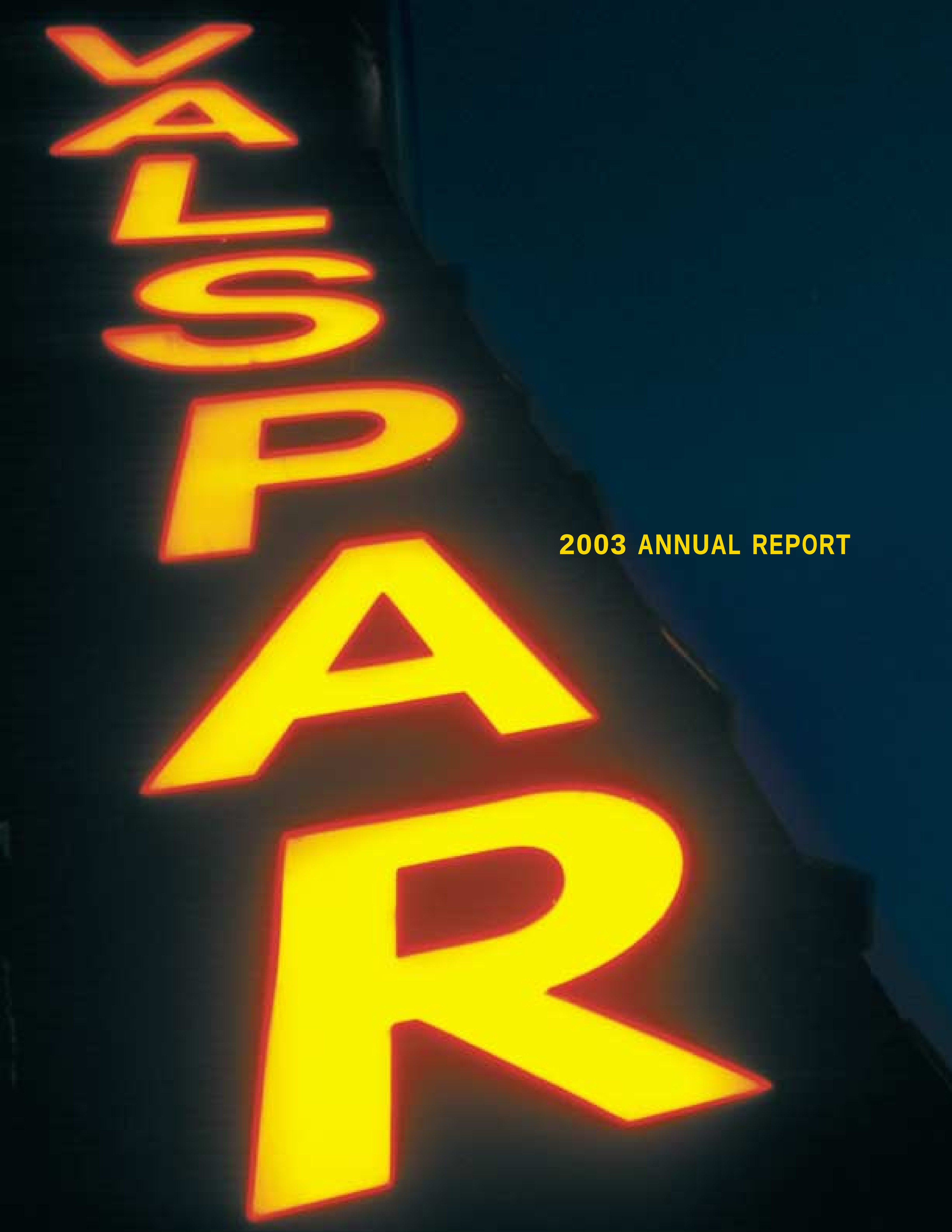


2003 ANNUAL REPORT

Commitment. Investment. Leadership.

Valspar's mission is to be the best coatings company in the world as judged by our customers, shareholders, employees, suppliers and the communities in which we operate. To become the best, we must:

- Be in the top five in global sales
- Be #1 or #2 and a technology leader in each of our target markets
- Be the leader in sales growth, earnings growth and return on investment
- Be the lowest cost supplier through integrating technology and productivity improvements
- Be environmentally responsible
- Establish an accident-free work environment and, above all else
- Always act with integrity and comply with ethical codes of business conduct

VALSPAR'S BELIEFS

- **Integrity**

Our business actions and decisions will always reflect the highest standards of integrity and ethical conduct.

- **Safety and Environmental Stewardship**

Our products will be safe, reliable and environmentally responsible. We will create and maintain an accident-free work environment and will comply with laws and regulations.

- **Long-term Relationships**

We will create long-term relationships with customers, employees, suppliers and the communities in which we live and work. These relationships will be based on openness, integrity and trust.

- **Profitability**

Profitability and profitable growth are critically important to allow us to remain independent and attractive to stockholders.

- **Belief in Employees**

Employees are Valspar's greatest asset. By encouraging individual achievement, teamwork and diversity we are committed to high performance at all levels.

- **Leadership Example**

Managers must lead by example and foster cross-functional teamwork to earn the respect of customers, employees and peers. Managers must demonstrate their ability to achieve goals and develop leaders throughout our company.

- **Objectives, Planning and Review**

All employees should know exactly what is expected of them and how this expectation aligns with the group and corporate objectives. We believe in semi-annual planning and review sessions for all employees.

- **Self-Development and Training**

Personal development is a shared responsibility between employees and management. Employees should receive sufficient training to do their jobs and have opportunities to improve their skills and advance.

- **Recognition and Reward**

Employees should be recognized for their contributions to our performance through formal and informal reward programs that reflect individual and team performance. All employees should have an incentive compensation opportunity.

- **Consistency of Style**

Valspar's culture should be evident throughout the company. All employees should be accountable for becoming more productive and contribute to the maintenance of a low cost environment.

- **Ownership**

Employees are encouraged to own Valspar stock and should act as owners.

WE ARE
IN THE
COLOR
BUSINESS

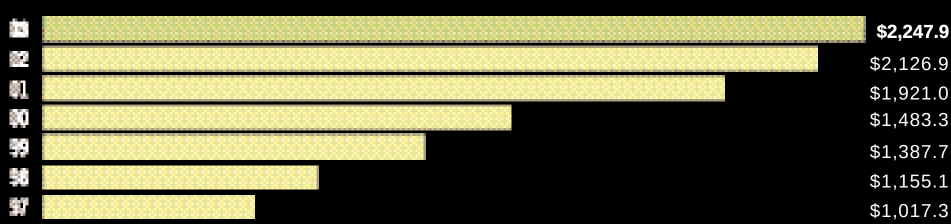
Financial Highlights

(Dollars in thousands, except per share amounts)

	2003	% Change from 2002	2002	% Change from 2001
Net Sales	$ 2,247,926	5.7%	$ 2,126,853	10.7%
Income before taxes	$ 181,474	-8.6%	$ 198,548	117.8%
Net Income	$ 112,514	-6.3%	$ 120,121	133.2%
Return on average shareholders' equity	14.0%†	-	17.3%	-
Diluted earnings per share	$ 2.17†	-7.3%	$ 2.34	112.7%
Cash dividends per share	$ 0.60	7.1%	$ 0.56	3.7%
Total assets	$ 2,496,524	3.2%	$ 2,419,552	8.7%
Total debt	$ 775,926	-16.2%	$ 926,398	-11.6%
Stockholders' equity	$ 869,317	17.9%	$ 737,253	12.6%
Stockholders' equity per share	$ 17.14	16.5%	$ 14.71	11.2%
Number of shares outstanding	50,730,850	1.3%	50,104,013	1.3%

NET SALES

(Millions) 6 year average growth rate of 14.1%

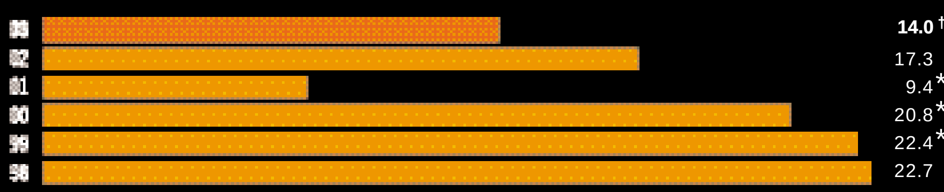


NET INCOME PER SHARE

(Dollars) 6 year average growth rate of 6.5%

RETURN ON AVERAGE EQUITY

(Percent) 6 year average return of 17.8%



The above information and graphs have been adjusted to reflect the 2-for-1 stock split effective in March 1997. Historical data are provided in the Eleven-Year Financial Summary on pages 6 and 7.

† Includes effect of $15,200 after-tax charge for future claims expense for furniture protection programs.
* Includes impact of pre-tax restructuring and non-recurring charges of $8,346, ($1,200) and $39,300 in 1999, 2000 and 2001, respectively.

TO OUR SHAREHOLDERS

Fiscal 2003 was an up-and-down year for Valspar. In the first and fourth quarters, when business conditions were normal, we recorded solid sales and operating earnings growth. However, in the second and third quarters, sales and earnings were soft due to the war in Iraq, the SARS epidemic, high raw material costs, and the accompanying slowdown in the manufacturing sector.

Nonetheless, we had many noteworthy successes in 2003. Our architectural and packaging coatings product lines provided strong, stable results throughout the year. In March, a new architectural product line, Signature Colors® brand of paint, with six designer palettes, was introduced exclusively at Lowe's, and market acceptance has exceeded expectations. In addition, for the third year in a row, Valspar's American Tradition® brand of paint achieved national recognition. We opened a new state-of-the-art architectural coatings plant in Sacramento, California to support our continued sales growth in the western U.S., and our new wood coatings manufacturing plant in Dongguan, China was operational as of the end of the year.

Valspar's sales for the year increased 5.7% to $2.2 billion, and net income fell 6.3% after recognizing a $15.2 million after-tax charge in the fourth quarter for estimated future claims expense associated with furniture protection plans. Full year earnings per share, excluding the charge, increased 5.1%. These solid operating results in the face of difficult economic conditions provided cash flow from operations of $250.1 million. We were able to reduce borrowings by $150.5 million while spending $51.0 million on capital projects and $30.2 million on dividends. With our much stronger balance sheet and improving business conditions, we are once again well positioned to participate in industry consolidation opportunities as they develop.

Reflecting our confidence in the future, the Board of Directors raised the annual dividend 20%, to 72 cents per share, effective with the quarterly dividend payable in January 2004. This represents the 26th consecutive year of dividend increases.

OPERATING RESULTS

Because of the challenging operating environment and the absence of meaningful acquisition opportunities in fiscal 2003, we focused our efforts internally on improving business processes to improve cash flow and pay down debt. We made progress in several key strategic areas, including business process simplification, manufacturing cost and productivity improvements, formulation optimization and reducing our overall cost of quality.

A real bright spot was the continuing growth and profitability of our international operations. Starting with a small, marginally profitable acquisition in Europe in 1996, we now have over $600 million in sales outside the United States, with acceptable and ever-improving profitability. We are particularly excited about China and the entire Asia-Pacific region, where we have

WE ARE IN THE COLOR BUSINESS

Our activity in diverse product lines of the coatings markets provides the balance, and our customer focus provides the consistency to increase shareholder value.

an excellent infrastructure for our packaging and industrial coatings product lines and outstanding growth prospects in the future. The coatings industry is becoming increasingly global in scope, and we are well-positioned to supply our global customers with the service, quality, technology and lowest applied cost that have been the hallmarks of Valspar's culture for many years.

Sales of all our product lines increased in 2003, led by our architectural products, where we continue to strengthen our position as a leading supplier in the Do-It-Yourself market. Packaging coatings had another excellent year, particularly outside the United States, and we introduced several new can coating technologies to differentiate our leadership position even further.

Our industrial product line faced the biggest challenges as our traditional United States customers relocate to lower cost manufacturing regions around the world. This "off-shoring" demands that we quicken the pace of our industrial globalization efforts to maintain and enhance our leadership in wood coatings, coil coatings and other industrial products.

Sales of resins and colorants increased slightly, reflecting modest overall market demand for coatings. We are on-track for a mid-2004 start-up of a new water-based resin facility to serve the northeastern United States.

Safety remains our number one priority in Valspar, and I am very pleased to report that our accident rates for 2003 improved more than 20%. This performance puts Valspar in the elite class of safest manufacturers in the United States. We continue to reinforce our safety awareness programs in all our locations with the objective of providing an accident-free environment for all our employees.

We are also proud to have partnered with Habitat for Humanity to establish a nation-wide distribution network to support Habitat affiliates. Our products and applications expertise make a positive contribution to restoration projects, and Habitat's selection of Valspar as a national supplier of paint to all affiliates is a reflection of our commitment to the community.

Management Change

In December 2003, John Ballbach, President and Chief Operating Officer, announced his decision to leave the company for personal reasons. He will work on special projects through March 2004. John has contributed to Valspar's success during his thirteen year career through his dedication, vision and leadership. We wish John continued success in his future endeavors.

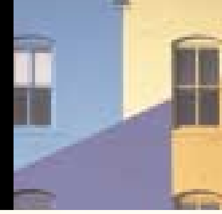
Outlook

The superior qualities of our globally recognized products, the committed performance of all the Valspar employees, world-wide, and our dedicated efforts to provide the highest quality at the lowest applied cost have positioned Valspar to become the best coatings company in the world. Our activity in diverse product lines of the coatings markets provides the balance, and our customer focus provides the consistency to increase shareholder value. As we begin fiscal year 2004, we are well positioned for both internal and external growth, and as the global economies continue to improve, I am confident that Valspar will achieve another year of record financial results.

I want to thank all Valspar employees around the world for their dedicated efforts and commitment to our core values of safety, quality, environmental stewardship and profitable growth.

Richard M. Rompala

Chairman and Chief Executive Officer



ELEVEN YEAR FINANCIAL SUMMARY

(Dollars in thousands, except per share amounts)

	Fiscal Years	**2003**	**2002**	**2001**
Operating Results	Net Sales	$ 2,247,926	$ 2,126,853	$ 1,920,970
	Cost and Expenses			
	Cost of Sales	1,542,144	1,430,184	1,346,934
	Operating Expense	478,279	447,064	391,184
	Restructuring Charge	-	-	21,930
	Income from Operations	227,503	249,605	160,922
	Other (Income) Expense - Net	186	2,346	(2,787)
	Interest Expense	45,843	48,711	72,559
	Income Before Income Taxes	181,474	198,548	91,150
	Net Income	112,514[†]	120,121	51,500*
	Net Income as a Percent of Sales	5.0%	5.6%	2.7%
	Return on Average Equity	14.0%[†]	17.3%	9.4%*
	Per Common Share:			
	Net Income - Basic	$ 2.23[†]	$ 2.41	$ 1.12*
	Net Income - Diluted	2.17[†]	2.34	1.10*
	Dividends Paid	.60	.56	.54
	Stockholders' Equity	17.14	14.71	13.23
Financial Position	Total Assets	$ 2,496,524	$ 2,419,552	$ 2,226,070
	Working Capital at Year-End	207,768	203,057	216,589
	Property, Plant and Equipment, Net	414,219	402,475	411,179
	Long-Term Debt, Excluding Current Portion	749,199	885,819	1,005,731
	Stockholders' Equity	869,317	737,253	654,565
Other Statistics	Property, Plant and Equipment Expenditures	$ 51,042	$ 44,698	$ 36,200
	Depreciation and Amortization Expense	55,622	51,143	73,050
	Research and Development Expense	69,667	65,924	58,105
	Total Cash Dividends	$ 30,247	$ 27,962	$ 24,856
	Average Diluted Common Shares Outstanding (000's)	51,924	51,370	46,658
	Number of Stockholders	1,614	1,642	1,702
	Number of Employees at Year-End	7,013	7,058	6,750
	Market Price Range - Common Stock: High	$ 47.95	$ 49.91	$ 37.80
	Low	37.69	33.21	24.45

Reference made to the Notes to Consolidated Financial Statements for a summary of accounting policies and additional information. Per share data has been adjusted to reflect a 2 for 1 stock split effective in March 1997. The number of stockholders is based on recordholders at year end.

[†] Includes effect of $15,200 after-tax charge for future claims expense for furniture protection programs.

* Includes impact of pre-tax restructuring and non-recurring charges of $8,346, $(1,200) and $39,300 in 1999, 2000 and 2001, respectively.

STOCK INFORMATION AND DIVIDENDS

Stock traded on the New York Stock Exchange

	For the Fiscal Year	**2003**	**2002**
Market Price (high/low):	First Quarter	47.75 - 40.76	41.90 - 33.21
	Second Quarter	43.21 - 37.69	47.45 - 39.91
	Third Quarter	45.10 - 41.28	49.91 - 35.55
	Fourth Quarter	47.95 - 43.24	42.15 - 36.39

2000	1999	1998	1997	1996	1995	1994	1993
$1,483,320	$1,387,677	$1,155,134	$1,017,271	$ 859,799	$ 790,175	$ 795,275	$ 700,897
1,039,267	960,395	803,240	698,474	594,935	561,170	569,063	501,135
281,318	273,925	230,152	206,834	169,873	146,344	146,683	129,997
(1,200)	8,346	-	-	-	-	-	-
163,935	145,011	121,742	111,963	94,991	82,661	79,529	69,765
200	(9,164)	(7,753)	(2,508)	(1,081)	(763)	631	2,036
21,989	19,089	10,707	5,294	3,029	4,216	2,504	1,645
141,746	135,086	118,788	109,177	93,043	79,208	76,394	66,084
86,466*	82,142*	72,130	65,877	55,893	47,520	45,799	40,156
5.8%	5.9%	6.2%	6.5%	6.5%	6.0%	5.8%	5.7%
20.8%*	22.4%*	22.7%	24.0%	24.0%	24.4%	24.4%	21.8%
$ 2.02*	$ 1.90*	$ 1.66	$ 1.51	$ 1.28	$ 1.09	$ 1.04	$ 0.92
2.00*	1.87*	1.63	1.49	1.26	1.08	1.04	0.91
.52	.46	.42	.36	.33	.30	.26	.22
10.30	9.16	7.84	6.76	5.78	4.83	3.99	4.51
$1,125,030	$1,110,720	$ 801,680	$ 615,470	$ 486,440	$ 398,199	$ 367,608	$ 340,479
199,576	140,216	158,085	97,427	96,130	90,995	87,887	85,741
298,747	312,133	233,482	185,748	153,819	130,404	107,956	103,916
300,300	298,874	164,768	35,844	31,948	21,658	35,343	7,890
437,571	393,756	340,188	295,065	253,703	212,115	176,712	198,826
$ 32,425	$ 31,400	$ 42,833	$ 48,131	$ 25,376	$ 38,982	$ 31,817	$ 17,213
45,238	39,800	30,742	25,771	22,262	20,318	19,134	20,648
46,353	44,091	39,555	39,099	32,616	27,746	27,430	24,955
$ 22,185	$ 19,785	$ 18,575	$ 15,741	$ 14,575	$ 13,121	$ 11,252	$ 9,471
43,196	43,836	44,320	44,233	44,403	44,183	44,326	44,062
1,728	1,818	1,815	1,830	1,783	1,864	1,902	1,866
4,685	4,482	3,833	3,205	2,855	2,542	2,585	2,577
$ 43.31	$ 39.69	$ 42.13	$ 32.94	$ 25.50	$ 20.94	$ 22.88	$ 20.75
19.75	28.00	25.75	24.00	19.13	15.25	16.38	15.19

DIVIDENDS

	For the Fiscal Year	2003	2002
Per Share Dividends:	First Quarter	$0.15	$0.14
	Second Quarter	0.15	0.14
	Third Quarter	0.15	0.14
	Fourth Quarter	0.15	0.14
		$0.60	$0.56

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

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

General Economic and Industry-Wide Factors

The economic recession and weak industrial economy, along with the SARS epidemic and the war in Iraq, affected most businesses in 2003, including the Company. These factors, along with rising raw materials costs during fiscal 2003, contributed to slower sales and earnings growth, particularly in the second and third quarters. Raw material costs comprise a significant portion of our cost of goods sold.

Internal Business Performance

Given the challenges posed by general economic and industry-wide factors and the absence of meaningful acquisition opportunities, the Company focused its efforts on internal business performance in fiscal 2003 and 2002 to improve cash flow and pay down debt. The Company strengthened its balance sheet through repayment of approximately $151 million in debt in 2003, and $121 million in 2002, reducing the ratio of total debt to capital to 47.2% at the end of 2003, compared to 55.7% in 2002 and 61.6% in 2001. The Company's debt levels increased significantly in early fiscal 2001 in connection with the acquisition of Lilly Industries in December 2000, the Company's last major acquisition. The Company continued its efforts in fiscal 2003 with respect to manufacturing cost and productivity improvements, as well as business process simplification, formula optimization and reducing the cost of quality. The Company's stronger balance sheet will allow it to participate in acquisition opportunities as they develop in 2004 and subsequent periods.

OPERATIONS 2003 VS. 2002

Net sales increased 5.7% to $2,247,926,000 in 2003 from $2,126,853,000 in 2002. Favorable foreign exchange contributed 2.2 percentage points to the sales growth. Strong sales in the Architectural, Automotive and Specialty (AAS) product line, partially driven by the introduction of a new product at Lowe's, Signature Colors® brand of paint, plus the benefit of a 53rd week in fiscal 2003, contributed to the increase in sales.

The gross profit margin decreased to 31.4% in 2003 from 32.8% in 2002. Included in the 2003 results is a charge for estimated future claims expense associated with furniture protection plans. The effect of the charge on gross profit margins was $8,952,000, 0.4% of net sales. The charge related to higher than expected claims experienced by our furniture protection plans sold through U.S. furniture retailers. We responded with operational changes to address this issue, including discontinuing sales of a comprehensive furniture protection plan that came with the Lilly Industries acquisition. The earnings charge relates to future claims expense due primarily to this discontinued program. Additionally, rising raw material costs and manufacturing inefficiencies driven by producing an increasing number of small batches accounted for the remaining decline in gross margin.

Operating expenses (research and development, selling, administrative and amortization) increased 7.0% to $478,279,000 (21.3% of net sales) in 2003 compared to $447,064,000 (21.0% of net sales) in 2002. Included in the 2003 results is the charge for estimated future claims expense associated with furniture protection plans. This charge had an impact of $15,548,000 on 2003 operating expenses, accounting for 3.5% of the 7.0% expense increase from 2002. The remaining increase in operating expenses was primarily driven by the weakened US dollar and continued investment in the Far East infrastructure.

Other expense decreased to $186,000 in 2003 from $2,346,000 in 2002. The 2003 reduction in expense was due to a reduction in foreign exchange losses from 2002.

Interest expense decreased to $45,843,000 in 2003 from $48,711,000 in 2002 due to lower debt levels, offset by an increase in interest rates and one additional week as compared to the previous year.

The effective tax rate decreased from 39.5% to 38.0% as a result of increased income in lower taxed jurisdictions.

Net income for the full year was $112,514,000 or $2.17 per diluted share. On a year-over-year basis, diluted earnings per share decreased 7.3%. The charge for estimated future claims expense associated with furniture protection plans had an after-tax impact of $15,200,000, or $0.29 per share, on 2003 earnings.

OPERATIONS 2002 VS. 2001

Net sales increased 10.7% to $2,126,853,000 in 2002 from $1,920,970,000 in 2001. Excluding the impact of acquisitions and divestitures during the year, net sales increased approximately 5.0%, primarily driven by volume increases in the Architectural, Automotive, and Specialty (AAS) and Packaging product lines.

The gross profit margin increased to 32.8% in 2002 from 29.9% in 2001. Included in the 2001 results was a $17,370,000 inventory write-down charge related to the September 2001 restructuring plan that reduced the gross margin by .9%. This charge had no impact on future earnings. The higher margin in 2002 was attributable to lower raw material costs and continued benefits from manufacturing integration.

Operating expenses (research and development, selling, administrative and amortization) increased 8.2% to $447,064,000 (21.0% of net sales) in 2002 compared to $413,114,000 (21.5% of net sales) in 2001. Included in the 2001 results was a $21,930,000 charge for the September 2001 restructuring plan and goodwill amortization of $25,080,000. Goodwill amortization was eliminated in 2002 after early adoption of Statement of Financial Accounting Standards number 142, "Goodwill and Other Intangible Assets." During 2003, the Company paid all remaining amounts related to the September 2001 restructuring plan. See Note 9 to the Consolidated Financial statements for detail of the adoption impact of Statement 142 on earnings per share. The resulting increase in operating expenses was 1.9%, primarily attributable to variable incentive compensation, increased bad debt accruals and the investment in Far East infrastructure for growth in the Industrial Coatings product line. The bad debt accrual increase was related to customers who were facing or had filed for bankruptcy as a result of the softening economic conditions.

Other expense/(income) changed to $2,346,000 in 2002 from ($2,787,000) in 2001. The 2002 expense was primarily driven by foreign exchange losses. The 2001 income was driven by the gains on the divestiture of the Company's Mirror Coatings business and the sale of certain assets.

Interest expense decreased to $48,711,000 in 2002 from $72,559,000 in 2001 due to lower debt levels and reduced interest rates as compared to the previous year. In April 2002, the Company completed the issuance of $350,000,000 five-year bonds with a 6% coupon. Net proceeds were used to reduce floating rate bank borrowings.

The effective tax rate decreased from 43.5% to 39.5% resulting from the reduction of non-deductible goodwill amortization following the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Net income for the full year was $120,121,000 or $2.34 per diluted share, an increase of 112.7% from 2001 net income of $51,500,000, or $1.10 per share. Included in the 2001 net income was an after-tax charge of $22,204,000 related to the 2001 restructuring plan and inventory write-down charge and $18,819,000 related to the after-tax effect of goodwill amortization.

FINANCIAL CONDITION

Cash provided by operating activities was $250,062,000 in 2003 compared with $215,242,000 in 2002 and $197,609,000 in 2001. The cash provided by operating activities and current cash balances was used to fund $51,042,000 in capital expenditures, $30,247,000 in dividend payments and $168,072,000 in debt reduction. The debt reduction was offset by $17,600,000 due to foreign exchange translation.

Inventories and other assets decreased $16,095,000 primarily as a result of improved inventory turnover. Accounts payable, income taxes payable and accrued liabilities increased $39,134,000, largely due to timing of payments. Deferred income taxes and deferred liabilities increased $19,110,000 due to an increase in liabilities for future claims expense associated with furniture protection plans.

Capital expenditures for property, plant and equipment were $51,042,000 in 2003, compared with $44,698,000 in 2002 and $36,200,000 in 2001. The Company anticipates capital spending in fiscal 2004 to be approximately $56,000,000.

The ratio of total debt to capital decreased to 47.2% at the end of 2003 compared to 55.7% in 2002. Average debt outstanding during 2003 was $900,524,000 at a weighted average interest rate of 5.09% versus $1,008,522,000 at 4.83% last year, decreasing the current year's interest expense to $45,843,000 from $48,711,000 in the prior year.

Under various agreements, the Company is obligated to make future cash payments in fixed amounts. These include payments under the multi-currency credit facilities, senior notes, industrial development bonds, capital lease obligations and rent payments under non-cancelable operating leases with initial or remaining terms in excess of one year.

The following table summarizes the Company's fixed cash obligations as of October 31, 2003 for the fiscal years ending in October:

(Dollars in thousands)	2004	2005	2006	2007	2008	2009 and Thereafter	Total
Notes to Banks	26,200	-	284,074	-	-	2,598	312,872
Senior Notes	-	-	-	350,000	100,000	-	450,000
Industrial Development Bonds	28	27	-	-	-	12,500	12,555
Capital Leases	499	-	-	-	-	-	499
Operating Leases	15,458	12,425	7,683	1,286	509	2,281	39,642
Total Contractual Cash Obligations	42,185	12,452	291,757	351,286	100,509	17,379	815,568

At October 31, 2003, the Company had unused lines of credit available from banks of $866,496,000.

Common stock dividends of $30,247,000 in 2003 represented an 8.2% increase over 2002. The annual dividend in 2003 was increased to $0.60 per share from $0.56 per share in 2002.

The Company has continuing authorization to purchase shares of its common stock at management's discretion for general corporate purposes. There were no purchases in 2003, 2002 or 2001.

The Company is involved in various claims relating to environmental and waste disposal matters at a number of current and former plant sites. The Company engages or participates in remedial and other environmental compliance activities at certain of these sites. At other sites, the Company has been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous waste. The Company's management reviews each individual site, considering the number of parties involved, the level of potential liability or contribution of the Company relative to the other parties, the nature and magnitude of the wastes involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site, and the time period over which any costs would likely be incurred. Based on the above analysis, management estimates the remediation or other clean-up costs and related claims for each site. The estimates are based in part on discussions with other PRPs, governmental agencies and engineering firms.

The Company accrues appropriate reserves for potential environmental liabilities, which are continually reviewed and adjusted as additional information becomes available. While uncertainties exist with respect to the amounts and timing of the Company's ultimate environmental liabilities, management believes there is not a reasonable possibility that such liabilities, individually and in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.
The Company, along with other companies, is a defendant in several legal proceedings and claims brought against companies who are alleged to have manufactured and sold paint containing lead pigment. The Company believes that the litigation is without merit and is vigorously defending these matters. It is possible that additional lawsuits or claims could be brought against the Company. At this time, management cannot estimate the scope or amount of potential costs or liabilities relating to these matters. However, based on the outcome of such matters to date, and other factors, management does not believe there is a reasonable possibility that the costs and liabilities of such matters will have a material adverse effect on the Company's financial condition or results of operations.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The preparation of these financial statements requires the Company 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. The Company regularly reviews its 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, estimates or conditions.

The Company believes the following critical accounting policies are affected by significant judgments and estimates used in the preparation of its consolidated financial statements:

Revenue Recognition

Other than long-term warranty programs, revenue from sales is recognized upon product shipment and passage of title to the customer. Discounts provided to customers at the point of sale are recognized as a reduction in sales as the products are sold. For long-term warranty programs, revenue is recognized in accordance with GAAP under the deferral method. Under this method, revenue is recognized based on the ratio of costs incurred, which includes direct program costs and claims expense, to estimated total costs at program completion. This method is based on historical claims data determined on an actuarial basis. Adjustments in estimated costs are reflected in earnings in the current period. Anticipated losses on programs in progress are charged to earnings when identified.

Allowance for Doubtful Accounts

The Company estimates the allowance for doubtful accounts by analyzing accounts receivable by age and applying the historical write-off rates over the past five year period. Accounts are written off sooner in the event of bankruptcy or other circumstances that make further collection unlikely. When it is deemed probable that a customer account is uncollectible, that balance is written off against the existing allowance.

Supplier and Customer Rebates

The Company records supplier and customer rebates as a component of cost of goods sold or a reduction to revenue, respectively, as they are earned, in accordance with the underlying agreement. The customer rebate estimate is developed based on historical experience plus current activity for the customer's purchases. Customer rebates that increase based on different levels of sales volume are recognized immediately when the current activity plus expected volume triggers a higher earned rebate. The supplier rebate estimate is developed based on historical experience plus current activity for the company's purchases. Supplier rebates that increase based on different levels of purchases are recognized when there is certainty that the current level of purchases will trigger a higher rebate earned.

Valuation of Long-Lived, Intangible Assets and Goodwill

The Company records the excess of purchase price over the fair value of net tangible assets of acquired companies as goodwill or other intangible assets. Effective October 27, 2001, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets." Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 also requires that companies test goodwill and intangible assets with indefinite lives for impairment annually, and an impairment charge is recognized only when the calculated fair value of a reporting unit is less than its carrying amount.

The Company annually reviews its long-lived assets and finite-lived intangible assets for impairment, and more frequently if impairment indicators occur, and assesses whether significant events, changes in business circumstances or economic trends indicate that the carrying value of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the anticipated present value of future cash flows expected to result from use of the asset and its eventual disposal.

Contingent Liabilities

The Company is subject to environmental remediation, pending litigation and asserted claims with respect to matters arising in the ordinary course of business. Liabilities and costs associated with these matters require estimates of future costs and judgments based on the professional knowledge and experience of management and its legal counsel. When estimates of the Company's exposure can be reasonably estimated and are probable in outcome, amounts are recorded as charges to earnings. The ultimate resolution of any such exposure to the Company may differ due to subsequent developments.

Pension Obligations

The Company sponsors several defined benefit plans for certain hourly, salaried and foreign employees. The Company accounts for its defined benefit pension plans in accordance with GAAP, which requires the amount recognized in financial statements be determined on an actuarial basis. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover and discount rates. A change in these assumptions could cause actual results to differ from those reported. A reduction of 50 basis points in the long-term rate of return and a reduction of 50 basis points in the discount rate would have increased the Company's pension expense $1,400,00 in 2003.

Workers' Compensation and General Product Liability

The Company is insured for workers' compensation, general liability, property, and automotive liability losses subject to per occurrence deductibles and aggregate annual liability limitations. The Company is self-insured for health care claims for eligible participating employees. The liability for claims incurred but not reported is determined on an actuarial basis. Estimates are used in determining the potential liability associated with reported claims and for losses that have occurred, but have not been reported. Management estimates consider historical claims experience, escalating medical cost trends and expected timing of claim payments.

Accounting for Income Taxes

The Company uses judgment in determining the provision for income taxes and deferred tax assets and liabilities. This process involves estimating actual current tax exposure in each of the Company's legal entities along with assessing temporary differences resulting from differing treatment of items for tax and book accounting purposes. The Company considers the likelihood that the deferred tax assets would not be recoverable from future taxable income and would record a valuation allowance in any period in which such a determination is made.

MARKET RISK

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

The Company is also subject to interest rate risk. At October 31, 2003, approximately 42% of the Company's total debt consisted of floating rate debt after taking into account interest rate swaps entered into during 2002. If interest rates were to increase 10% from the rates in effect on October 31, 2003, assuming no change in debt balances, the additional interest expense would not have a material effect on the Company's results of operations or financial position.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

FORWARD-LOOKING STATEMENTS

This discussion contains 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 the control of the Company that could cause actual results to differ materially from such statements. These uncertainties and other factors include dependence of internal earnings growth on economic conditions and growth in the domestic and international coatings industry; risks related to any future significant acquisitions, including risks of adverse changes in the results of acquired businesses, risks of disruptions in business resulting from the integration process and higher interest costs resulting from further borrowing for any such acquisitions; our reliance on the efforts of vendors, government agencies, utilities, and other third parties to achieve adequate compliance and avoid disruption of our business; changes in the Company's relationships with customers and suppliers; unusual weather conditions that might adversely affect sales; changes in raw materials pricing and availability; 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 the Company disclaims any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements.

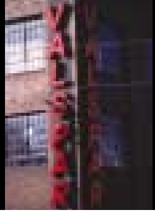
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

		October 31, 2003	October 25, 2002
ASSETS			
Current Assets	Cash and cash equivalents	$ 41,589	$ 22,715
	Accounts and notes receivable, less allowances for doubtful accounts (2003 - $16,140; 2002 - $17,013)	385,178	368,134
	Inventories	192,251	200,645
	Deferred income taxes	38,396	30,498
	Prepaid expenses and other accounts	81,417	79,796
	Total Current Assets	738,831	701,788
Goodwill		961,915	938,759
Intangibles, net		287,133	291,596
Other Assets		73,843	69,945
Long-Term Deferred Income Taxes		20,583	14,989
Property, Plant and Equipment	Land	34,350	33,690
	Buildings	213,377	209,113
	Machinery and equipment	478,197	409,361
		725,924	652,164
	Less accumulated depreciation	311,705	249,689
	Net Property, Plant and Equipment	414,219	402,475
	Total Assets	$ 2,496,524	$ 2,419,552

		October 31, 2003	October 25, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities	Notes payable to banks	$ 26,200	$ 40,031
	Trade accounts payable	202,713	197,047
	Income taxes	48,458	20,998
	Accrued liabilities	253,165	240,107
	Current portion of long-term debt	527	548
	Total Current Liabilities	531,063	498,731
Long-Term Debt, net of current portion		749,199	885,819
Deferred Income Taxes		187,280	180,592
Deferred Liabilities		159,665	117,157
	Total Liabilities	1,627,207	1,682,299
Stockholders' Equity	Common stock (par value $.50 per share; shares authorized 250,000,000; shares issued, including shares in treasury, 60,221,312)	30,110	30,110
	Additional paid-in capital	250,400	230,163
	Retained earnings	697,231	614,964
	Other	(5,735)	(29,919)
		972,006	845,318
	Less cost of common stock in treasury (2003 – 9,490,462 shares; 2002 – 10,117,299 shares)	102,689	108,065
	Total Stockholders' Equity	869,317	737,253
	Total Liabilities and Stockholders' Equity	$ 2,496,524	$ 2,419,552

See Notes to Consolidated Financial Statements.



CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)

For the Year Ended	October 31, 2003	October 25, 2002	October 26, 2001
Net Sales	$ 2,247,926	$ 2,126,853	$ 1,920,970
Cost and Expenses			
Cost of sales	1,542,144	1,430,184	1,346,934
Research and development	69,667	65,924	58,105
Selling and administrative	404,149	376,277	303,796
Amortization expense	4,463	4,863	29,283
Restructuring	-	-	21,930
Income from Operations	227,503	249,605	160,922
Other expense/(income), net	186	2,346	(2,787)
Interest expense	45,843	48,711	72,559
Income before Income Taxes	181,474	198,548	91,150
Income taxes	68,960	78,427	39,650
Net Income	$ 112,514	$ 120,121	$ 51,500
Net Income Per Common Share - Basic	$ 2.23	$ 2.41	$ 1.12
Net Income Per Common Share - Diluted	$ 2.17	$ 2.34	$ 1.10

See Notes to Consolidated Financial Statements

STATEMENT OF CHANGES IN EQUITY

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance October 27, 2000	**$26,660**	**$34,267**	**$490,860**	**$(113,910)**	**$(306)**	**$437,571**
Net income	-	-	51,500	-	-	51,500
Foreign currency translation	-	-	-	-	(1,245)	(1,245)
Comprehensive income						$50,255
Common stock issuance and sale of 6,900,000 shares	3,450	181,239	-	-	-	184,689
Common stock options exercised of 130,364 shares	-	918	-	1,225	-	2,143
Cash dividends on common stock-$.54 per share	-	-	(24,856)	-	-	(24,856)
Other	-	332	5,301	(870)	-	4,763
Balance October 26, 2001	**$30,110**	**$216,756**	**$522,805**	**$(113,555)**	**$(1,551)**	**$654,565**
Net income	-	-	120,121	-	-	120,121
Foreign currency translation	-	-	-	-	(7,045)	(7,045)
Minimum pension liability adjustment, net of tax of $13,790	-	-	-	-	(21,120)	(21,120)
Net unrealized loss on financial instruments, net of tax of $1,199	-	-	-	-	(1,837)	(1,837)
Comprehensive income						$90,119
Restricted stock granted for 246,188 shares	-	7,227	-	2,672	-	9,899
Common stock options exercised of 414,015 shares	-	6,395	-	4,398	-	10,793
Cash dividends on common stock - $0.56 per share	-	-	(27,962)	-	-	(27,962)
Other	-	(215)	-	(1,580)	1,634	(161)
Balance October 25, 2002	**$30,110**	**$230,163**	**$614,964**	**$(108,065)**	**$(29,919)**	**$737,253**
Net income	-	-	112,514	-	-	112,514
Foreign currency translation	-	-	-	-	33,116	33,116
Minimum pension liability adjustment, net of tax of $7,525	-	-	-	-	(12,278)	(12,278)
Net unrealized gain on financial instruments, net of tax of $1,629	-	-	-	-	2,658	2,658
Comprehensive income					-	$136,010
Restricted stock granted of 102,641 shares	-	3,491	-	1,098		4,589
Common stock options exercised of 578,195 shares	-	16,746	-	4,278	-	21,024
Cash dividends on common stock-$.60 per share	-	-	(30,247)	-	-	(30,247)
Other	-	-	-	-	688	688
Balance October 31, 2003	**$30,110**	**$250,400**	**$697,231**	**$(102,689)**	**$(5,735)**	**$869,317**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Year Ended	October 31, 2003	October 25, 2002	October 26, 2001
Operating Activities	Net income	$ 112,514	$ 120,121	$ 51,500
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Restructuring charge	-	-	39,300
	Depreciation	51,159	46,280	43,767
	Amortization	4,463	4,863	29,283
	Deferred income taxes	(6,804)	9,600	15,055
	Loss/(gain) on sales or abandonment of property, plant and equipment	1,803	1,428	(3,512)
	Gain on sales of investments	-	-	(736)
	Changes in certain assets and liabilities, net of effects of acquired businesses:			
	Decrease (increase) in accounts and notes receivable	(437)	(19,941)	20,214
	Decrease (increase) in inventories and other assets	16,095	(21,658)	10,108
	Increase (decrease) in trade accounts payable and accrued liabilities	9,339	68,052	(26,989)
	Increase (decrease) in income taxes payable	29,795	(2,489)	8,293
	Increase (decrease) in other deferred liabilities	25,914	2,891	6,048
	Other	6,221	6,095	5,278
	Net Cash Provided by Operating Activities	250,062	215,242	197,609
Investing Activities	Purchases of property, plant and equipment	(51,042)	(44,698)	(36,200)
	Acquired businesses, net of cash	-	(22,870)	(830,664)
	Divested businesses/assets	1,370	8,226	22,430
	Net Cash Used in Investing Activities	(49,672)	(59,342)	(844,434)
Financing Activities	Net proceeds from (payments on) borrowings	(168,072)	(136,155)	484,053
	Proceeds from sales of treasury stock	16,803	10,793	2,143
	Proceeds from equity offering	-	-	184,689
	Dividends paid	(30,247)	(27,962)	(24,856)
	Net Cash provided by/(used in) financing activities	(181,516)	(153,324)	646,029
	(Decrease)/increase in cash and cash equivalents	18,874	2,576	(796)
Cash and Cash Equivalents at Beginning of Year		22,715	20,139	20,935
Cash and Cash Equivalents at End of Year		$ 41,589	$ 22,715	$ 20,139

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Valspar Corporation • Years Ended October 2003, 2002 and 2001
(Dollars in thousands except per share amounts)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: The Valspar Corporation has a 4-4-5 week accounting cycle with the fiscal year ending on the Friday on or immediately preceding October 31. Fiscal year 2003 includes 53 weeks. All other years presented include 52 weeks.

Principles of Consolidation: The consolidated financial statements include the accounts of the parent company and its subsidiaries. All 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 in the United States, 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. Discounts provided to customers at the point of sale are recognized as a reduction in sales as the products are sold. For long-term warranty programs, revenue is recognized in accordance with GAAP under the deferral method. Under this method revenue is recognized based on the ratio of costs incurred, which includes direct program costs and claims expense, to estimated total costs at program completion. This method is based on historical claims data determined on an actuarial basis. Adjustments in estimated costs are reflected in earnings in the current period. Anticipated losses on programs in progress are charged to earnings when identified.

Allowance for Doubtful Accounts: The Company estimates the allowance for doubtful accounts by analyzing accounts receivable by age and applying the historical write-off rates over the past five year period. Accounts are written off sooner in the event of bankruptcy or other circumstances that make further collection unlikely. When it is deemed probable that a customer account is uncollectible, that balance is written off against the existing allowance.

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. Expenditures that improve or extend the life of the respective assets are capitalized, while maintenance and repairs are expensed as incurred. 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.

Impairment of Long-Lived Assets: The Company evaluates long-lived assets, including intangible assets with finite lives, in compliance with Statement of Financial Accounting Standards 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets". An impairment loss is recognized whenever events or changes in circumstances indicate the carrying amount of an asset is not recoverable. In applying SFAS 144, assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of impairment. If the carrying amount of the asset exceeds expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value, generally measured by discounting expected future cash flows at the rate the Company utilizes to evaluate potential investments.

Goodwill and Indefinite-Lived Intangible Assets: Indefinite-lived intangible assets, including goodwill, are carried at cost. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards 142 (SFAS 142) "Goodwill and Other Intangible Assets." SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives using the straight-line method (6 to 40 years). Management reviews goodwill and indefinite-lived intangible assets for impairment annually on the first day of the fourth quarter, or more frequently if a change in circumstances or occurrence of events suggests the remaining value may not be recoverable. The test for impairment of goodwill and indefinite-lived intangible assets requires management to make estimates about fair value, most of which are based on projected future cash flows. If the carrying amount of the asset exceeds expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value, generally measured by discounting expected future cash flows at the rate the Company utilizes to evaluate potential investments. Management completed its annual impairment tests in the fourth quarter of fiscal 2003 and determined that goodwill and intangible assets with indefinite useful lives were not impaired.

Stock-Based Compensation: In December 2002, FASB issued SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternate methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires expanded and more prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results.

The Company has stock-based employee compensation plans comprised primarily of fixed stock options. The Company has not adopted the fair value method under SFAS 123 to expense stock options, but continues to apply Accounting Principles Board Opinion 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 plans 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 plans 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:

	2003	2002	2001
Net earnings, as reported	$112,514	$120,121	$ 51,500
Add: Stock-based employee Compensation expense included in reported net Income, net of related tax effects	-	3,750	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	7,478	12,316	6,175
Pro forma net income	105,036	111,555	45,325
Earnings per share:			
Basic – as reported	2.23	2.41	1.12
Basic – pro forma	2.08	2.24	0.98
Diluted – as reported	2.17	2.34	1.10
Diluted – pro forma	2.02	2.17	0.97

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:

	2003	2002	2001
Expected dividend yield	1.5%	1.5%	1.5%
Expected stock price volatility	25.2%	33.2%	29.8%
Risk-free interest rate	3.6%	2.9%	4.2%
Expected life of options	6 years	6 years	6 years

The weighted average fair value for options granted during 2003, 2002 and 2001 is $10.83, $10.67, and $11.05 per share, respectively.

Contingent Liabilities: The Company is involved in various claims relating to environmental and waste disposal matters at a number of current and former plant sites. The Company engages or participates in remedial and other environmental compliance activities at certain of these sites. At other sites, the Company has been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous waste. The Company's management reviews each individual site, considering the number of parties involved, the level of potential liability or contribution of the Company relative to the other parties, the nature and magnitude of the wastes involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site, and the time period over which any costs would likely be incurred. Based on the above analysis, management estimates the remediation or other clean-up costs and related claims for each site. The estimates are based in part on discussions with other PRPs, governmental agencies and engineering firms.

The Company accrues appropriate reserves for potential environmental liabilities, which are continually reviewed and adjusted as additional information becomes available. While uncertainties exist with respect to the amounts and timing of the Company's ultimate environmental liabilities, management believes there is not a reasonable possibility that such liabilities, individually and in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

The Company, along with other companies, is a defendant in several legal proceedings and claims brought against companies who are alleged to have manufactured and sold paint containing lead pigment. The Company believes that the litigation is without merit and is vigorously defending these matters. It is possible that additional lawsuits or claims could be brought against the Company. At this time, management cannot estimate the scope or amount of potential costs or liabilities relating to these matters. However, based on the outcome of such matters to date, and other factors, management does not believe there is a reasonable possibility that the costs and liabilities of such matters will have a material adverse effect on the Company's financial condition or results of operations.

Foreign Currency: Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance 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 is recorded as a component of stockholders' equity. Gains and losses from foreign currency transactions are included in other expense/(income), net.

Net Income Per Share: The following table reflects the components of common shares outstanding for the three most recent fiscal years in accordance with SFAS 128:

	2003	2002	2001
Weighted-average common shares outstanding-basic	50,435,929	49,892,689	46,062,459
Dilutive effect of stock options	1,488,351	1,477,720	595,296
Equivalent average common shares outstanding-diluted	51,924,280	51,370,409	46,657,755

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 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. Potential common shares of 37,850, 53,687 and 3,025,335 related to the Company's outstanding stock options and restricted stock grants were excluded from the computation of diluted earnings per share for 2003, 2002 and 2001, respectively, as inclusion of these shares would have been antidilutive.

Financial Instruments: All financial instruments are held for purposes other than trading. See Note 7 to the Consolidated Financial Statements for additional information.

Comprehensive Income:

	Year ended October 31, 2003	Year ended October 25, 2002	Year ended October 26, 2001
Foreign currency translation	$27,549	$(5,567)	$(1,551)
Minimum pension liability	(33,398)	(21,120)	-
Net unrealized gain (loss) on financial instruments	821	(1,837)	-
Other	(707)	(1,395)	-
Accumulated other comprehensive income (loss)	(5,735)	(29,919)	(1,551)

Research and Development: Research and development is expensed as incurred.

Reclassification: Certain amounts in the prior years' financial statements have been reclassified to conform to the 2003 presentation. Such reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE 2 – ACQUISITIONS AND DIVESTITURES

In March 2002, the Company purchased from its joint venture partner the remaining 20% interest in Dyflex B.V., a resin manufacturer in the Netherlands. 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 pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

In December 2001, the Valspar Renner joint venture acquired a plant from Renner Herrmann S.A. (a Brazilian company), and in January 2002, the Company acquired the remaining 50% interest in the Valspar Renner joint venture. Valspar Renner supplies packaging coatings and metal decorating inks to the South American 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 pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

Effective November 30, 2001, the Company acquired the coil, spray-applied door, and rigid packaging coatings businesses of Technical Coatings Co., a subsidiary of Benjamin Moore and Co. Revenues for these businesses were $25,000 in 2001. 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 pro forma results of operations for this acquisition have not been presented, as the impact on reported results is not material.

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 $7,000 in 2000. This acquisition significantly strengthens the Company's presence in the Southeast Asian 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 pro forma results of operations for this acquisition have not been presented, as the impact on reported results is 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 $1,036,000, including the assumption of debt of approximately $218,000. Lilly Industries was one of the five largest industrial coatings and specialty chemicals manufacturers in North America, with reported net sales of $656,200 for the year ended November 30, 1999, and $669,700 for the year ended November 30, 2000. Lilly Industries formulated, manufactured and marketed industrial coatings and specialty chemicals to original equipment manufacturers for products such as home and office furniture, cabinets, appliances, building products, transportation, 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 following unaudited pro forma combined summary statement of income information for the year ended October 26, 2001 was prepared in accordance with SFAS 141 "Business Combinations" and assumes the acquisition had occurred at the beginning of the period in which the acquisition was consummated. The following pro forma data reflect adjustments for interest expense and excludes amortization of goodwill in accordance with SFAS 142. 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 Statement of Income

	Year ended October 26, 2001
Net sales	$2,018,468
Net income	68,292
Net income per share-basic	1.48
Net income per share-diluted	1.46

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 $12,000 for the year ended October 27, 2000. The pro forma results of operations for this divestiture have not been presented, as the impact on reported results is 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 pro forma results of operations for this acquisition have not been presented as the impact on reported results is not material.

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. Of the $39,300 total, $8,384 related to employee termination benefits, $2,049 related to exit and termination costs, $11,497 related to recording assets to be disposed of at fair value, and $17,370 related to inventory and other asset write-downs. As of October 31, 2003, the Company had paid or incurred all of the $39,300 restructuring costs.

These plans contemplated a workforce reduction of worldwide headcount of 350 or five percent. As of October 31, 2003, all of the 350 terminations had occurred and all of the location closures/consolidations had occurred.

NOTE 4 – INVENTORIES

The major classes of inventories consist of the following:

	2003	**2002**
Manufactured products	$115,091	$123,274
Raw Materials, supplies and work-in-process	77,160	77,371
	$192,251	$200,645

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate $119,269 at October 31, 2003 and $129,341 at October 25, 2002, approximately $30,295 and $24,523 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 $18,929 and $41,082 of issued checks which had not cleared the Company's bank accounts as of October 31, 2003 and October 25, 2002, respectively.

Accrued liabilities include the following:

	2003	2002
Employee compensation	$82,599	$81,344
Uninsured loss reserves	46,250	43,941
Customer volume rebates and incentives	54,707	48,748
Contribution to employees' retirement trusts	8,921	11,135
Restructuring	-	1,599
Interest	13,865	14,170
Taxes, insurance, professional fees and services	12,247	14,820
Advertising and promotions	13,579	8,449
Other	20,997	15,901
Total	$253,165	$240,107

NOTE 6 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2003	2002
Notes to banks (1.86% - 5.65% at October 31, 2003)	$286,672	$420,524
Senior notes (6.00% - 7.75% at October 26, 2001 payable in 2007 and 2008)	450,000	450,000
Industrial development bonds (1.02 - 1.12% at October 31, 2003 primarily payable in 2014 and 2015)	12,555	14,887
Obligations under capital lease (7.5% at October 31, 2003 payable through 2004)	499	956
	$749,726	$886,367
Less current maturities	(527)	(548)
	$749,199	$885,819

The Company has a five-year $1,000,000 unsecured committed revolving multi-currency credit facility with a syndicate of banks maturing on November 17, 2005. Under this facility, the Company can borrow at optional interest rates of prime or IBOR-based rates. Included in the $1,000,000 credit facility are notes to banks totaling $284,074 at October 31, 2003 and $417,945 at October 25, 2002. The maturities of the remaining long-term debt are as follows: 2004 - $527; 2005 - $27; 2006 - $0; 2007 - $350,000; 2008 - $100,000 and $15,098 thereafter. The revolving credit loan facility contains covenants that require the Company to maintain certain financial ratios. The Company is in compliance with these covenants as of October 31, 2003. The fair market value of the senior notes as of October 31, 2003 is approximately $490,000.

Under other short-term bank lines of credit around the world, the Company may borrow up to $176,770 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 had an average annual rate of 3.57% in 2003 and 3.50% in 2002.

The Company had unused lines of credit under the short-term bank lines and revolving credit facility of $866,496 at October 31, 2003 and $646,562 at October 25, 2002.

As discussed in Note 7, the Company also entered into various interest-rate swap agreements to modify the interest characteristics of the revolving multi-currency credit facility and the Senior Notes so that the interest associated with these debt instruments effectively becomes fixed or variable, respectively.

Interest paid during 2003, 2002 and 2001 was $45,592, $36,825 and $67,660, respectively.

NOTE 7 – FINANCIAL INSTRUMENTS

The Company's involvement with derivative financial instruments is limited principally to managing well-defined interest rate and foreign currency exchange risks. Forward foreign currency exchange contracts are used to hedge the impact of currency fluctuations primarily on intercompany transactions.

The Company also holds interest rate swaps used to manage the interest rate risk associated with its borrowings and to manage the Company's mix of fixed and variable rate debt. The interest rate swap contracts are reflected at fair value in the consolidated balance sheets. Amounts to be paid or received under the contracts are accrued as interest rates change and are recognized over the life of the contracts as an adjustment to interest expense. Credit risk is only applicable to gains on derivatives.

At October 31, 2003, the Company had $100,000 notional amount interest rate swap contracts designated as cash flow hedges to pay fixed rates of interest and receive variable rates of interest based on LIBOR; these contracts will mature during fiscal 2004. The Company also had a $100,000 notional amount forward starting interest rate swap, which will begin during fiscal 2004 and mature during fiscal 2008 to pay fixed rates of interest and receive variable rates of interest based on LIBOR. At October 31, 2003, the Company also had a $100,000 notional amount interest rate swap contract designated as a fair value hedge to pay floating rates of interest based on LIBOR, maturing during fiscal 2008. As the critical terms of the interest rate swaps and hedged debt match, there is an assumption of no ineffectiveness for these hedges.

NOTE 8 – GUARANTEES AND CONTRACTUAL OBLIGATIONS

In November 2002, the FASB issued Interpretation 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The interpretation requires disclosure in periodic financial statements of certain guarantee arrangements. The interpretation also clarifies situations where a guarantor is required to recognize the fair value of certain guarantees in the financial statements. The Company does not have any guarantees that require recognition at fair value under the interpretation.

The Company sells extended furniture protection plans and offers warranties for certain of its products. These items are required to be disclosed in periodic financial statements under the interpretation. For the furniture protection plans, revenue is deferred over the contract period, generally five years, and is recognized based on the ratio of costs incurred to estimated total costs at program completion. For product warranties, the Company estimates the costs that may be incurred under these warranties based on historical claim data and records a liability in the amount of such costs at the time revenue is recognized. The Company periodically assesses the adequacy of these recorded amounts and adjusts as necessary. Anticipated losses on programs in progress are charged to earnings when identified.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are estimatable. Extended warranty contracts entered into by the Company have fixed prices established and, to the extent the actual costs to complete contracts are higher than the amounts estimated as of the date of the financial statements, the resulting gross margin would be negatively affected in future quarters when the Company revises its estimates. The Company's practice is to revise estimates as soon as such changes in estimates become known.

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

Balance, October 25, 2002	**$53,026**
Additional accrual made during the period	63,521
Payments made during the period	(34,419)
Balance, October 31, 2003	**$82,128**

NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS

Effective October 27, 2001, the Company adopted SFAS 142, which requires goodwill and intangible assets with indefinite lives be tested for impairment at the reporting unit level at adoption and at least annually thereafter. An impairment charge is recognized only when the calculated fair value of a reporting unit, including goodwill, is less than its carrying amount.

As required by SFAS 142, the Company continues to amortize intangibles with finite lives. Included in intangible assets are patents, trademarks, trade names, customer lists and technology. A reconciliation of reported net income adjusted to reflect the adoption of SFAS 142 is provided below:

	Year ended October 31, 2003	Year ended October 25, 2002	Year ended October 26, 2001
Reported net income	$112,514	$120,121	$51,500
Add-back goodwill and indefinite lived intangible asset amortization, net of tax	-	-	$18,819
Adjusted net income	$112,514	$120,121	$70,319
Reported basic earnings per share	$2.23	$2.41	$1.12
Add-back goodwill and indefinite lived intangible asset amortization	-	-	$0.40
Adjusted basic earnings per share	$2.23	$2.41	$1.52
Reported diluted earnings per share	$2.17	$2.34	$1.10
Add-back goodwill and indefinite lived intangible asset amortization	-	-	$0.40
Adjusted diluted earnings per share	$2.17	$2.34	$1.50

The changes in the carrying amount of goodwill and intangible assets for the fiscal year ended October 31, 2003 are as follows:

Balance as of October 25, 2002	**$938,759**
Goodwill acquired during the period	-
Currency translation	23,156
Balance as of October 31, 2003	**$961,915**

Information regarding the Company's other intangible assets is as follows:

As of October 31, 2003	**Estimated Useful Life**	**Carrying Amount**	**Accumulated Amortization**	**Net**
Customer Lists	40 years	$134,279	$(13,228)	$121,051
Technology	Indefinite	111,762	-	111,762
Trademarks	Indefinite	47,851	-	47,851
Other	10 years	10,897	(4,428)	6,469
		$304,789	$(17,656)	$287,133
As of October 25, 2002				
Customer Lists	40 years	$134,279	$(9,908)	$124,371
Technology	Indefinite	111,762	-	111,762
Trademarks	Indefinite	47,851	-	47,851
Other	10 years	10,897	(3,285)	7,612
		$304,789	$(13,193)	$291,596

Amortization lives are based on managements estimates, using independent appraisals, for a majority of the other intangible assets. Amortization lives for intangible assets range from 10 to 40 years. The remaining life averages for assets included in the Customer List and Other categories are 39 years and 6 years, respectively.

Total amortization expense was $4,463 and $4,863 in 2003 and 2002, respectively. Estimated amortization expense for each of the five succeeding fiscal years based on intangibles assets as of October 31, 2003 is expected to be approximately $4,500 annually.

NOTE 10 – STOCK PLANS

Stock Options: Under the Company's Stock Option Plan, options for the purchase of up to 10,000,000 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.

Stock option activity for the three years ended October 31, 2003 is summarized as follows:

	Shares Reserved	**Options Outstanding**	**Weighted Average Exercise Price**
October 27, 2000 Balance	2,586,612	3,519,482	$29.47
Shares reserved	3,010,000	-	-
Granted	(2,460,665)	2,428,825	32.16
Exercised	-	(130,364)	20.94
Canceled	170,035	(163,554)	35.92
October 26, 2001 Balance	3,305,982	5,654,389	$30.64
Shares reserved	-	-	-
Granted	(1,262,272)	1,009,099	41.23
Exercised	-	(414,015)	26.18
Canceled	63,505	(56,520)	33.97
October 25, 2002 Balance	2,107,215	6,192,953	$32.63
Shares reserved	2,000,000	-	-
Granted	(926,659)	812,508	47.79
Exercised	-	(578,195)	28.60
Canceled	93,040	(93,040)	35.02
October 31, 2003 Balance	3,273,596	6,334,226	34.91

Options outstanding at October 31, 2003 had an average remaining contractual life of 7.23 years. Options exercisable of 4,244,247 at October 31, 2003, 3,434,117 at October 25, 2002, and 2,395,331 at October 26, 2001 had weighted average exercise prices of $31.76, $29.70, and $26.32 respectively. The exercise price for options outstanding as of October 31, 2003 range from $14.81 to $47.88, with 413,273 shares outstanding in the $14.81 - $22.00 range, 1,764,294 shares outstanding in the $22.01 - $33.00 range and 4,156,659 shares outstanding in the $33.01 - $47.88 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 up to 20% of their eligible compensation (up to 8% for Highly Compensated Employees) subject to Section 401 and 415 limits. The Company matches one-half of employee contributions, up to 3% of employees' compensation. Based on the financial performance of the Company, there may be an additional 50% match, up to 3%. The Company's contributions were $4,745, $7,348, and $4,328, for 2003, 2002, and 2001, respectively.

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.

Executive Retirement Plans: The Company has several qualified Supplemental Executive Retirement Plans (SERPs) to provide designated executives with retirement, death and disability benefits. Annual benefits under the SERPs are based on years of service and individual compensation near retirement.

Note 11 – INCOME TAXES

Income (loss) before income taxes consisted of the following:

Year Ended	2003	2002	2001
Domestic	$144,851	$167,455	$76,925
Foreign	36,623	31,093	14,225
	$181,474	$198,548	$91,150

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

Year Ended	2003	2002	2001
Current			
Federal	$52,736	$39,296	$14,558
State	5,529	2,709	(1,443)
Foreign	14,106	11,605	7,938
Total Current	72,371	53,610	21,053
Deferred			
Federal	(5,907)	20,450	15,302
State	2,854	4,820	2,731
Foreign	(358)	(453)	564
Total Deferred	(3,411)	24,817	18,597
Total Income Taxes	$68,960	$78,427	$39,650

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

	2003	2002	2001
Deferred tax assets:			
Product liability accruals	$8,269	$4,209	$9,372
Insurance accruals	2,975	3,457	3,392
Deferred compensation	10,605	10,193	12,526
Deferred revenue	20,376	12,452	-
Workers' compensation accruals	2,555	2,309	2,141
Employee compensation accruals	5,298	4,873	2,693
Pension	6,099	4,365	(11,843)
Other	19,581	22,643	29,779
Total deferred tax assets	$75,758	$64,501	$48,060
Deferred tax liabilities:			
Tax in excess of book depreciation	(41,189)	(44,149)	(33,510)
Amortization	(145,556)	(142,569)	(19,363)
Other	(17,314)	(12,888)	(14,652)
Total deferred tax liabilities	(204,059)	(199,606)	(67,525)
Net deferred tax liabilities	$(128,301)	$(135,105)	$(19,465)

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

	2003	2002	2001
Tax at U.S. statutory rate	35.0%	35.0%	35.0%
Goodwill amortization	-	-	5.5%
State income taxes, net of federal benefit	3.1%	3.0%	0.8%
Non-U.S. taxes	(0.7%)	(0.6%)	2.7%
Other	0.6%	2.1%	(0.5%)
	38.0%	39.5%	43.5%

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 $121,023 at October 31, 2003. 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 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 2003, 2002 and 2001 were $42,026, $58,074 and $21,292, respectively.

NOTE 12 – LEASING ARRANGEMENTS

The Company has operating lease commitments outstanding at October 31, 2003, 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
2004	$15,458
2005	12,425
2006	7,683
2007	1,286
2008	509
2009 and beyond	2,281
	$39,642

Rent expense for operating leases was $18,956 in 2003, $17,761 in 2002 and $12,408 in 2001.

NOTE 13 – LITIGATION

The Company is involved in a variety of legal actions relating to personal injury, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. While the Company is unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on the Company's consolidated financial statements taken as a whole.

NOTE 14 – 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 earnings growth 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 $12,767, $14,576, and $9,264, for 2003, 2002, and 2001 respectively.

The Company also sponsors a number of defined benefit pension plans for certain hourly, salaried 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 cost of the pension benefits is as follows:

Net Periodic Cost	2003	2002	2001
Service cost	$1,945	$1,869	$1,837
Interest cost	9,877	9,266	7,861
Expected return on plan assets	(12,170)	(12,461)	(12,774)
Amortization of transition asset obligation	(263)	(322)	(301)
Amortization of prior service cost	906	918	817
Recognized actuarial gain	1,423	600	(409)
Net-periodic benefit cost	1,718	(130)	(2,969)

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 Obligation	2003	2002
Benefit obligation at beginning of year	$147,147	$143,008
Service cost	1,945	1,869
Interest cost	9,877	9,266
Plan participants' contributions	215	99
Amendments	270	312
Actuarial loss	12,220	126
Benefits paid	(7,899)	(7,533)
Benefit obligation end of year	$163,775	$147,147
Change in Plan Assets:	**2003**	**2002**
Fair value of plan assets at beginning of year	$112,804	$134,031
Actual return on plan assets	5,620	(14,294)
Employer contributions	10,256	501
Plan participants' contributions	215	99
Benefit payments	(7,899)	(7,533)
Fair value of plan assets at end of year	$120,996	$112,804
Funded Status	**2003**	**2002**
Funded status at end of year	$(42,779)	$(34,343)
Unrecognized transition asset	(357)	(779)
Unrecognized prior service cost	6,539	6,868
Unrecognized net loss	68,861	50,670
Net amount recognized in consolidated balance sheet	$32,264	$22,416

Amounts recognized in the consolidated balance sheets were as follows:

	2003	2002
Prepaid benefit cost	$36,787	$22,416
Additional minimum liability	(65,775)	(41,917)
Intangible asset	6,539	7,007
Accumulated other comprehensive loss	54,713	34,910
Net Amount recognized in statement of financial position	$32,264	$22,416

The Company's pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	2003	2002
Projected benefit obligation	$163,775	$147,147
Accumulated benefit obligation	152,018	129,616
Fair value of plan assets	120,996	112,804

The actuarial assumptions were as follows:

	2003	2002
Discount rate	5.5%-6.5%	5.75%-7.0%
Expected return on plan assets	7.0%-9.0%	7.0%-9.0%
Average increase in compensation	2.0%-4.0%	2.0%-2.5%

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 executive 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 consolidated balance sheet was $6,403 and $5,935 at October 31, 2003 and October 25, 2002, respectively. Net periodic post-retirement expense was $1,533, $1,216, and $487 in 2003, 2002 and 2001, respectively.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 6.5% at October 31, 2003 and 7.0% at October 25, 2002. The assumed health-care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 10% in 2003. 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 15 – SEGMENT INFORMATION

The Company operates its business in one reportable segment: Coatings. The Company manufactures and distributes a broad portfolio of coatings products, principally in three product lines. The Industrial product line includes decorative and protective coatings for wood, metal and plastic substrates. The Architectural, Automotive and Specialty (AAS) product line includes interior and exterior decorative paints and aerosols, automotive and fleet refinish and high performance floor coatings. The Packaging product line includes coatings and inks for rigid packaging containers. The Other category primarily includes resins, colorants, and composites. The resins and colorants are used internally and sold to other coatings manufacturers.

Net sales by product line are as follows:

	2003	2002	2001
Industrial	$879,520	$858,993	$752,770
AAS	690,506	640,516	575,365
Packaging	526,209	489,342	463,770
Other	151,691	138,002	129,065
	$2,247,926	$2,126,853	$1,920,970

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, intangibles 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:

	2003	2002	2001
Net sales-External			
United States	1,644,371	1,597,262	1,470,394
Outside United States	603,555	529,591	450,576
Total net sales-External	2,247,926	2,126,853	1,920,970
	2003	2002	2001
Long-lived assets:			
United States	1,394,516	1,399,451	1,275,271
Outside United States	268,751	233,379	222,748
Total long-lived assets	1,663,267	1,632,830	1,498,019

The Company has one significant customer whose net sales ranged from 13% to 16.5% of total sales over the last three years.

NOTE 16 – QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results for the years ended October 31, 2003 and October 25, 2002:

	Net Sales	Gross Margin	Net Income	Net Income Per Share Diluted
2003 Quarter Ended:				
January 24	$468,971	$143,648	$15,618	$.30
April 25	561,770	177,916	32,157	.62
July 25	598,179	194,271	40,114	.77
October 31	619,006	189,947	24,625	.47
	$2,247,926	$705,782	$112,514	$2.17
2002 Quarter Ended:				
January 25	$431,040	$131,700	$12,608	$.25
April 26	554,002	185,197	34,534	.67
July 26	575,043	189,887	38,054	.74
October 25	566,768	189,885	34,925	.68
	$2,126,853	$696,669	$120,121	$2.34

In the fourth quarter of fiscal 2003, the Company recorded an after-tax earnings charge of $15,200 or $0.29 per share for estimated future claims expense associated with its furniture protection plans.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Stockholders

The Valspar Corporation

We have audited the accompanying consolidated balance sheets of The Valspar Corporation and subsidiaries as of October 31, 2003 and October 25, 2002 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 31, 2003. These financial statements are the responsibility of the Company'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 31, 2003 and October 25, 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 9 to the consolidated financial statements, effective October 27, 2001, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets."

Ernst & Young LLP

Minneapolis, Minnesota

November 21, 2003

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.

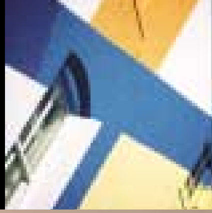
The Audit Committee of the Board of Directors, composed of outside directors, meets regularly with management, the Company's internal auditors and its independent auditors to discuss the adequacy and effectiveness of audit functions, control systems and the quality of financial accounting and reporting.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

Richard M. Rompala

Chairman and Chief Executive Officer

Paul C. Reyelts

Senior Vice President-Finance and Chief Financial Officer



VALSPAR'S CHAIRMAN'S COUNCIL

1 - Rich Rompala, **2** - Steve Erdahl, **3** - Paul Reyelts, **4** - Brian Falline, **5** - Steve Lindberg, **6** - Tom Wood, **7** - Al Dunlop, **8** - Larry Brandenburger, **9** - Bill Mansfield, **10** - Deborah Weiss, **11** - Hugh Cates, **12** - Gary Hendrickson, **13** - John Ballbach, **14** - Joel Hart, **15** - Tom White, **16** - Lori Walker, **17** - Rolf Engh, **18** - Gary Gardner, **19** - Ken Arthur, **20** - Don Nolan

CORPORATE DATA

DIRECTORS

Susan S. Boren
Partner, SpencerStuart
Jeffrey H. Curler
President and Chief Executive Officer, Bemis Company, Inc.
Charles W. Gaillard
Retired President, General Mills, Inc.
Mae C. Jemison, M.D.
President, BioSentient Corporation
Thomas R. McBurney
President, McBurney Management Advisors
Gregory R. Palen
Chairman and Chief Executive Officer, Spectro Alloys Corporation
Chief Executive Officer, Palen/Kimball Company
Lawrence Perlman
Retired Chairman and Chief Executive Officer, Ceridian Corporation
Chairman, Arbitron, Inc., and Private Investor
Edward B. Pollak
Retired Senior Vice President, Olin Corporation
Richard M. Rompala
Chairman and Chief Executive Officer, The Valspar Corporation
Michael P. Sullivan, Sr.
Of Counsel, Gray, Plant, Mooty, Mooty & Bennett, P.A.
Richard L. White, Ph.D.
Former Executive Vice President, Bayer Corporation

OFFICERS

Richard M. Rompala
Chairman and Chief Executive Officer
Steven L. Erdahl
Executive Vice President
William L. Mansfield
Executive Vice President
Rolf Engh
Senior Vice President, General Counsel and Secretary
Paul C. Reyelts
Senior Vice President, Finance and Chief Financial Officer
Kenneth H. Arthur
Group Vice President, Architectural
Larry B. Brandenburger
Vice President, Research and Development
Hugh M. Cates
Vice President – Wood Group
Al N. Dunlop
Vice President – Coil and Extrusion Group
Brian J. Falline
Vice President – General Industrial Group
Gary E. Gardner
Vice President, Human Resources and Public Affairs
Joel C. Hart
Group Vice President, Automotive, International and Glass
Gary E. Hendrickson
Vice President and President – Asia-Pacific
Steven C. Lindberg
Vice President and President – EPS
Donald A. Nolan
Vice President – Packaging Americas
Lori A. Walker
Vice President and Controller
Deborah D. Weiss
Vice President and Treasurer
Thomas A. White
Vice President, Manufacturing
Thomas L. Wood
Vice President and President – Valspar Sourcing

VALSPAR CORPORATE HEADQUARTERS

1101 Third Street South, Minneapolis, MN 55415
Phone: 612-332-7371; Fax: 612-375-7723
Mailing Address: PO Box 1461, Minneapolis, MN 55440
Internet: www.valspar.com

REGISTRAR AND TRANSFER AGENT

Mellon Investor Services LLC, 85 Challenger Road,
Overpeck Centre, Ridgefield Park, NJ 07660
Phone: 800-205-8318
Internet: www.melloninvestor.com

ANNUAL MEETING

Wednesday, February 25, 2004, 11:00 AM CST,
Valspar Corporate Research and Development Center,
312 South 11th Avenue, Minneapolis, MN 55415

CORPORATE REPORTS, EARNINGS ANNOUNCEMENTS AND NEWS RELEASES

Shareholders seeking information about Valspar are invited to call or write to Corporate Secretary at Corporate Headquarters. Quarterly earnings releases, stock split history and other company announcements are published on Valspar's corporate website at www.valspar.com.

STOCK TRADING

Valspar's common stock is traded on the New York Stock Exchange under the symbol VAL.

INVESTOR SERVICES PROGRAM/ DIVIDEND REINVESTMENT PLAN

Investor Services Program, Mellon Investor Services LLC
Call 800-842-7629 for information.
Internet: www.melloninvestor.com

The Valspar Corporation
1101 Third Street South
Minneapolis, Minnesota 55415

www.valspar.com