LEADERSHIP INTO THE NEW CENTURY

The Valspar Corporation
1101 Third Street South
Minneapolis, MN 55415
Web: www.valspar.com

ANNUAL REPORT

VALSPAR

The Valspar Corporation

THE VALSPAR CORPORATION IS EXTREMELY PLEASED TO HAVE ACHIEVED OUR 26TH CONSECUTIVE YEAR OF INCREASED EARNINGS PER SHARE. THIS CONSISTENT FINANCIAL PERFORMANCE HAS ALLOWED US TO CONTINUE TO DEVELOP OUR PEOPLE, OUR STATE-OF-THE-ART PROCESSES AND OUR GLOBAL INFRASTRUCTURE, WHILE CONSTANTLY IMPROVING PRODUCT OFFERINGS TO MEET CHANGING CUSTOMER DESIRES.

THE VALSPAR CORPORATION MISSION IS TO BE THE RECOGNIZED LEADER IN THE COATINGS INDUSTRY –

- BY MEETING CUSTOMER REQUIREMENTS, CURRENT AND FUTURE;
- BY BELIEVING IN OUR EMPLOYEES, AND EMPOWERING THEM TO MAXIMIZE PRODUCTIVITY; AND
- BY CREATING EXCEPTIONAL VALUE FOR OUR SHAREHOLDERS.

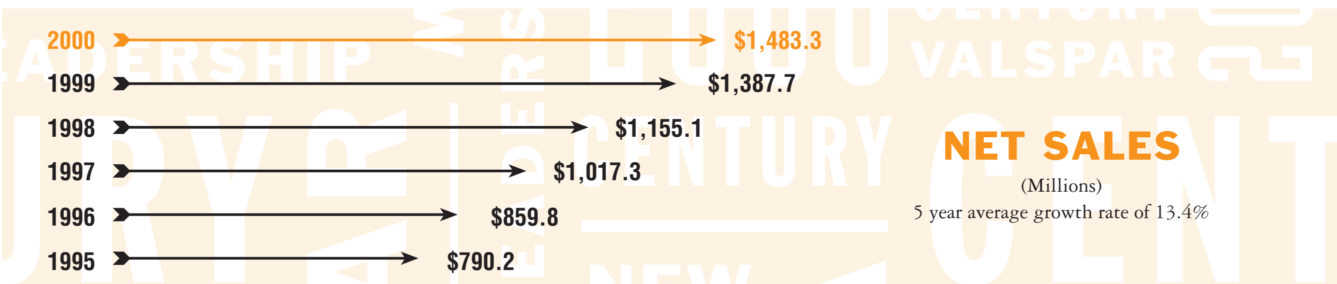
FINANCIAL HIGHLIGHTS

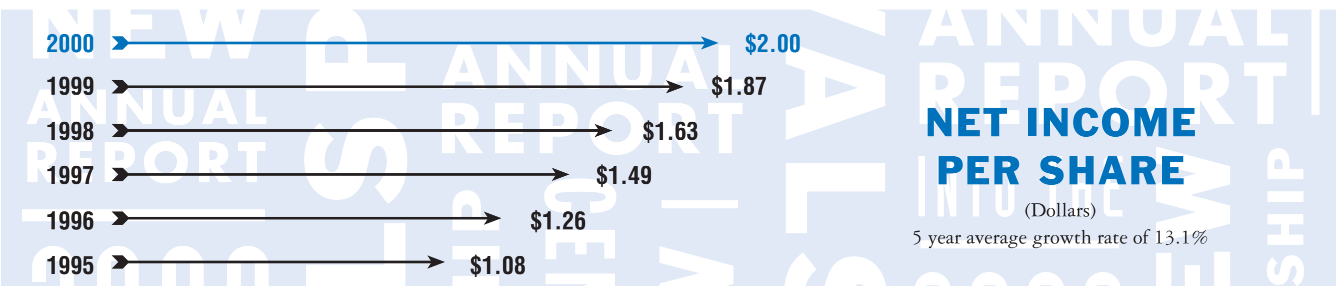
(Dollars in Thousands, except per share amounts)

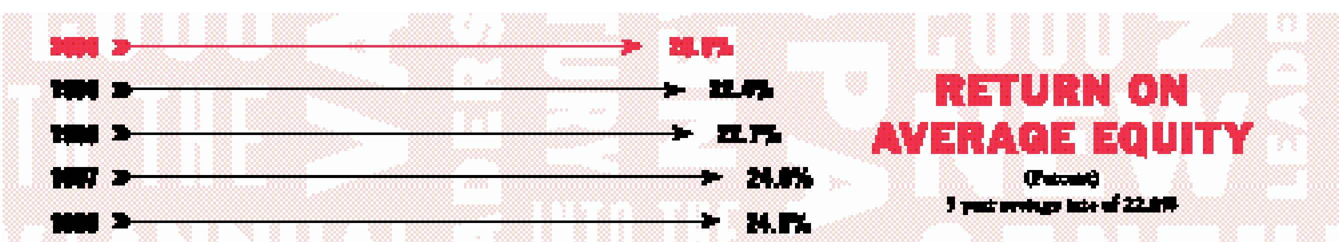
	2000	% Change from 1999	1999	% Change from 1998
Net sales	$ 1,483,320	6.9%	$ 1,387,677	20.1%
Income before taxes	141,746	4.9%	135,086	13.7%
Net income	86,466	5.3%	82,142	13.9%
Return on shareholders' equity	20.8%		22.4%	
Diluted earnings per share	$ 2.00	7.0%	$ 1.87	14.7%
Cash dividends per share	0.52	13.0%	0.46	9.5%
Total assets	1,125,030	1.3%	1,110,720	38.5%
Total debt	340,495	-3.5%	352,773	86.5%
Stockholders' equity	437,571	11.1%	393,756	15.7%
Stockholders' equity per share	10.30	12.4%	9.16	16.8%
Number of shares outstanding	42,481,170	-1.2%	42,983,313	-1.0%

The following 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.







TO OUR SHAREHOLDERS

Fiscal year 2000 represented one of the most difficult operating environments our company has ever faced. The combination of six interest rate increases, rising raw material prices due to higher oil and gas costs, a stronger dollar and a weakening economy, all contributed to pressure our sales and earnings growth. However, once again, Valspar people rose to the challenge so that we were able to achieve our 26th consecutive year of record sales and earnings.

In recognition of these results, the Board of Directors raised the annual dividend to 54 cents per share, effective with the quarterly dividend payable in January 2001.

Strategic Initiatives

In June, we signed an agreement to acquire all the outstanding stock and assume the debt of Lilly Industries, Inc., a leading industrial coatings company. Lilly is a

Sales reached $1.5 billion, an increase of 6.9 percent; net income rose 5.3 percent to $86.5 million, and earnings per share increased 7 percent to $2.00. These record results generated a return on average equity of 20.8 percent and operating cash flow of $93.3 million. We were able to reduce borrowings by $12 million after spending $32 million for capital and $4 million for purchase of the Farboil building, $21 million for stock repurchases, and $22 million on dividends.

solid company with an extensive global presence, strong technologies, and product lines that are complementary to Valspar's. These assets, along with excellent manufacturing facilities and talented people, make Lilly an exceptional strategic fit with Valspar. With Lilly, Valspar will become the sixth largest coatings company in the world and achieve our goal of reaching $2 billion in sales in 2001.

Industrial coatings represents a $12 – 15 billion marketplace worldwide. Growth parallels gross domestic product growth; still, over the past five years, Valspar's core growth rate in Industrial Coatings has exceeded 10 percent per year. With Lilly, we will arguably have the broadest industrial coatings product line and the leading market position in the world. This strength, along with our worldwide leadership in packaging coatings, positions us well to achieve our target of $3 billion in sales in 2004.

Our Architectural, Automotive and Specialty product lines had a more difficult year, due to slow exterior house paint sales and tighter inventory controls by our major architectural customers. We fully expect a rebound in business in 2001.

Sales of our Coating Intermediates segment grew 2.5 percent because of stiff competition in resins and weak demand from other coatings manufacturers.

Operating Highlights

Valspar's Coatings segment had another good year, with sales increasing more than 7 percent. Excluding the effects of foreign currency translation, coatings sales increased by 9 percent. Our Packaging and Industrial product lines led the way with double-digit growth in sales and earnings. In both of these areas, we continue to expand our customer base because of our state-of-the-art technologies and the outstanding value our products and people provide.

Toward the end of fiscal 2000, however, Coating Intermediates sales had returned to a normal growth pattern and we expect this momentum to continue into 2001.

We are committed to meeting our customers' global needs. In 2000, we acquired the remaining 49 percent of our joint venture with Coates in South Africa, and combined that with our South African joint venture with Plascon, resulting in our 80 percent ownership of the surviving entity. We re-aligned production in Europe to locations that allowed us to streamline manufacturing and better serve our customers. Additional productivity opportunities are being pursued in 2001. On November 30, we acquired the remaining interest of our joint venture partner in Mexico, and we are preparing to expand our operating presence in the Asia Pacific region.

Safety remains a core value in Valspar; in 2000, two-thirds of our manufacturing facilities achieved either zero injuries or at least a 20 percent reduction in injuries from 1999. In addition, our Pittsburgh, Pennsylvania packaging plant was awarded OSHA Star Status – one of only three facilities in the entire U.S. coatings industry to achieve such recognition. Star Status is the highest level of safety recognition in the United States, with less than 0.1 percent of all manufacturing facilities meeting the requirements for the award.

Management and Director Changes

To fully prepare ourselves for the challenges of becoming a much larger global coatings competitor, in 2000 we made a number of changes in our executive leadership team. Steve Erdahl has assumed responsibility for integrating Lilly into Valspar, and will lead activities for all the Industrial Coatings product lines. Bill Mansfield has taken on management responsibility for both Architectural and Packaging Coatings product lines.

John Ballbach became Senior Vice President of Operations, with responsibility for purchasing, corporate research and development, human resources, manufacturing, and information systems, as well as Coating Intermediates.

In December 2000, after 17 years of service, Ken Melrose retired as a director of the Company. We thank Ken for his thoughtful insights and contributions to improving Valspar's performance.




In April 2000, we welcomed Dick White to our Board. Dick has an extensive background in the coatings industry and will help shape our future growth plans.

Outlook

I want to thank all Valspar employees around the world for their dedication, commitment and consistent performance, which has allowed us to achieve this 26th consecutive year of record results.

In 2001, we will face continuing pressures from competition and higher raw material costs, as well as the challenges of the Lilly integration. To meet these challenges, we will sharpen our focus on our core values – safety, quality, profitable growth, and employee ownership. Commitment to these values aligns the interests of customers, shareholders and employees, while enabling Valspar to enhance our leadership position in the global coatings industry.

Richard M. Rompala
Chairman, President and Chief Executive Officer

ELEVEN-YEAR FINANCIAL SUMMARY

(Dollars in Thousands, except per share amounts)

	Fiscal years	2000	1999	1998
Operating Results:	Net sales	$ 1,483,320	$ 1,387,677	$ 1,155,134
	Cost and expenses			
	Cost of sales	1,039,267	960,395	803,240
	Operating expense	281,318	273,925	230,152
	Restructuring charge	(1,200)	8,346	–
	Income from operations	163,935	145,011	121,742
	Other (income) expense - net	200	(9,164)	(7,753)
	Interest expense	21,989	19,089	10,707
	Income before income taxes	141,746	135,086	118,788
	Net income	$ 86,466	$ 82,142	$ 72,130
	Net income as a percent of sales	5.8%	5.9%	6.2%
	Return on average equity	20.8%	22.4%	22.7%
	Per common share:			
	Net income - basic	$ 2.02	$ 1.90	$ 1.66
	Net income - diluted	2.00	1.87	1.63
	Dividends paid	0.52	0.46	0.42
	Stockholders' equity	10.30	9.16	7.84
Financial Position:	Total assets	$ 1,125,030	$ 1,110,720	$ 801,680
	Working capital at year-end	199,576	140,216	158,085
	Property, plant and equipment, net	298,747	312,133	233,482
	Long-term debt, excluding current portion	300,300	298,874	164,768
	Stockholders' equity	437,571	393,756	340,188
Other Statistics:	Property, plant and equipment expenditures	$ 32,425	$ 31,400	$ 42,833
	Depreciation and amortization expense	45,238	39,800	30,742
	Research and development expense	46,353	44,091	39,555
	Total cash dividends	$ 22,185	$ 19,785	$ 18,575
	Average common shares outstanding (000's)	43,196	43,836	44,320
	Number of stockholders	1,728	1,818	1,815
	Number of employees at year-end	4,685	4,482	3,833
	Market price range - common stock: High	$ 43.31	$ 39.69	$ 42.13
	Low	19.75	28.00	25.75

STOCK INFORMATION

Stock traded on the New York Stock Exchange

For the fiscal year		2000	1999
Market Price / High-Low:	First quarter	$ 43.31-29.88	$ 37.75-28.00
	Second quarter	38.75-31.63	35.00-29.25
	Third quarter	40.25-30.19	39.69-33.75
	Fourth quarter	31.38-19.75	37.56-30.19

1997	1996	1995	1994	1993	1992	1991	1990
$ 1,017,271	$ 859,799	$ 790,175	$ 795,275	$ 700,897	$ 638,485	$ 632,562	$ 571,445
698,474	594,935	561,170	569,063	501,135	492,092	458,953	410,094
206,834	169,873	146,344	146,683	129,997	131,232	120,643	109,206
–	–	–	–	–	–	–	–
111,963	94,991	82,661	79,529	69,765	60,161	52,966	52,145
(2,508)	(1,081)	(763)	631	2,036	360	1,504	3,337
5,294	3,029	4,216	2,504	1,645	2,932	5,686	4,704
109,177	93,043	79,208	76,394	66,084	56,869	45,776	44,104
$ 65,877	$ 55,893	$ 47,520	$ 45,799	$ 40,156	$ 34,418	$ 27,676	$ 26,731
6.5%	6.5%	6.0%	5.8%	5.7%	5.0%	4.4%	4.7%
24.0%	24.0%	24.4%	24.4%	21.8%	21.7%	20.0%	22.1%
$ 1.51	$ 1.28	$ 1.09	$ 1.04	$ 0.92	$ 0.79	$ 0.64	$ 0.61
1.49	1.26	1.08	1.04	0.91	0.79	0.64	0.61
0.36	0.33	0.30	0.26	0.22	0.18	0.15	0.13
6.76	5.78	4.83	3.99	4.51	3.92	3.40	2.96
$ 615,470	$ 486,440	$ 398,199	$ 367,608	$ 340,479	$ 321,618	$ 319,367	$ 302,806
97,427	96,130	90,995	87,887	85,741	57,500	58,066	56,199
185,748	153,819	130,404	107,956	103,916	101,005	98,818	106,621
35,844	31,948	21,658	35,343	7,890	10,684	30,697	49,456
295,065	253,703	212,115	176,712	198,826	169,377	147,896	128,707
$ 48,131	$ 25,376	$ 38,982	$ 31,817	$ 17,213	$ 19,581	$ 8,843	$ 13,171
25,771	22,262	20,318	19,134	20,648	19,793	18,896	15,119
39,099	32,616	27,746	27,430	24,955	24,802	23,226	20,350
$ 15,741	$ 14,575	$ 13,121	$ 11,252	$ 9,471	$ 7,843	$ 6,519	$ 5,651
44,233	44,403	44,183	44,326	44,062	43,946	43,724	43,708
1,830	1,783	1,864	1,902	1,866	1,863	1,857	1,863
3,205	2,855	2,542	2,585	2,577	2,482	2,530	2,502
$ 32.94	$ 25.50	$ 20.94	$ 22.88	$ 20.75	$ 18.19	$ 11.72	$ 10.00
24.00	19.13	15.25	16.38	15.19	11.28	7.63	7.35

DIVIDENDS

Stock traded on the New York Stock Exchange

For the fiscal year		2000	1999
Per Share Dividends:	First quarter	$ 0.13	$ 0.115
	Second quarter	0.13	0.115
	Third quarter	0.13	0.115
	Fourth quarter	0.13	0.115
		$ 0.52	$ .460

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

Overview

The following discussion of financial condition and operations is affected by the acquisition and divestiture activity during the reporting period:

- 2000 - On December 20, 2000, the Company completed its acquisition of Lilly Industries, Inc., the Company's largest acquisition to date. See Note 14 to the consolidated Financial Statements for detail of the acquisition. The Company combined its two joint ventures in South Africa so that the Company now has a majority position in a joint venture with Plascon (Pty) Limited for a combined packaging coatings business in South Africa.
- 1999 - The Company completed three acquisitions, including the Dexter acquisition, and two divestitures. Net consideration paid was $203.0 million.
- 1998 - The Company completed three acquisitions and one divestiture. Net consideration paid was $83.9 million.

The acquisitions were accounted for as purchases and are discussed in detail in Note 2 to the Consolidated Financial Statements.

In addition, the Company is a multinational manufacturer with two reportable segments under Statement of Financial Accounting Standards No. 131 (SFAS 131): Coatings and Coating Intermediates. SFAS 131 information is discussed and disclosed in detail in Note 11 to the Consolidated Financial Statements.

Operations 2000 vs. 1999

Net sales increased 6.9% to $1,483,320,000 in 2000 from $1,387,677,000 in 1999. Excluding the impact of acquisitions and divestitures during the year, sales increased approximately 3%, primarily driven by volume increases in the Industrial Coatings product line.

The gross profit margin decreased to 29.9% in 2000 from 30.8% in 1999. The lower margin was attributable to higher raw material costs and a difference in product mix within the Architectural Coatings product line.

Operating expenses (research and development, selling and administrative, but excluding the impact of restructuring) increased 2.7% to $281,318,000 (19.0% of net sales) in 2000 compared to $273,925,000 (19.7% of net sales) in 1999. Excluding the impact of acquisitions and divestitures, operating expenses increased approximately 3%. This increase was primarily attributable to higher expenditures to support the Architectural, Automotive and Specialty (AAS) product line of the Coatings segment. The Company recorded a non-recurring restructuring charge of $8,346,000 in 1999 related to the closure of existing Valspar facilities and workforce reductions following the Dexter acquisition. During the second quarter of 2000, restructuring accruals in the amount of $1,200,000 were reversed. These reversals were primarily related to lower than estimated employee termination benefits and fewer program cancellation costs than originally estimated. See Note 3 to the Consolidated Financial Statements for detail of the restructuring.

Other income/(expense) decreased to $(200,000) in 2000 from $9,164,000 in 1999. The 1999 income was driven by the gains on the divestitures of the Company's Marine and Flexible Packaging Coatings product lines, which were partially offset by losses on the disposal of certain assets.

Interest expense increased to $21,989,000 in 2000 from $19,089,000 in 1999 due to higher average interest rates and higher average debt due to the full year effect of the Dexter acquisition.

2000 net income of $86,466,000 or $2.00 per diluted share represents the 26th consecutive year of increased earnings for the Company. Net income increased 5.3% from 1999 primarily due to sales growth and expense controls. Income from operations increased by 13.1% and was partially offset by higher interest expense.

Operations 1999 vs. 1998

Net sales increased 20.1% to $1,387,677,000 in 1999 from $1,155,134,000 in 1998. Excluding the impact of acquisitions and divestitures during the year, sales increased approximately 5%, primarily driven by volume increases in the Industrial Coatings product line and Coating Intermediates.

The gross profit margin increased to 30.8% in 1999 from 30.5% in 1998. The higher margin was attributable to cost and waste reductions in the Company's manufacturing facilities, as well as improved efficiency from production rationalization at the international locations following the Dexter acquisition.

Operating expenses (research and development, selling and administrative, but excluding the restructuring charge) increased 19.0% to $273,925,000 (19.7% of net sales) in 1999 compared to $230,152,000 (19.9% of net sales) in 1998. Excluding the impact of acquisitions and divestitures, operating expenses increased approximately 7%. This increase was primarily attributable to higher expenditures to support the Architectural, Automotive and Specialty (AAS) product line of the Coatings segment as well as a reduction in royalties from licensees of the Company's technology. The Company recorded a non-recurring restructuring charge of $8,346,000 in 1999 related to the closure of existing Valspar facilities and workforce reductions following the Dexter acquisition. See Note 3 to the Consolidated Financial Statements for detail of the restructuring.

Other income, net of expense, increased to $9,164,000 in 1999 from $7,753,000 in 1998. The 1999 income was driven by the gains on the divestitures of the Company's Marine and Flexible Packaging Coatings product lines, which were partially offset by losses on the disposal and abandonment of certain assets.

Interest expense increased to $19,089,000 in 1999 from $10,707,000 in 1998 due to higher debt levels resulting primarily from the Dexter acquisition.

1999 net income of $82,142,000 or $1.87 per diluted share represented the 25th consecutive year of increased earnings for the Company. Net income increased 13.9% from 1998 primarily due to sales growth, improved gross margin and expense controls. Income from operations increased by 19.1% and was partially offset by higher interest expense related to the Dexter acquisition.

Financial Condition

Cash provided by operating activities was $93,338,000 in 2000 compared with $127,249,000 in 1999 and $109,439,000 in 1998. The operating cash flow decrease in 2000 was due to merchandising aids, advance rebates to customers, and acquisition of the majority interest in joint ventures. The cash provided by operating activities and current cash balances was used largely to fund $12,278,000 in repayment of bank borrowings, $32,425,000 in capital expenditures, $3,935,000 in Farboil acquisition related building commitments, $15,586,000 net joint venture and other investments, $22,185,000 in dividend payments, and $21,124,000 in payments for share repurchases.

Accounts receivable increased $17,100,000 due to increased sales. Inventories and other assets increased $14,397,000 as a result of increased merchandising aids and advance rebates to customers and acquisition of the majority interest in joint ventures within the Coatings segment. Accounts payable and accrued liabilities decreased $8,074,000 primarily as a result of utilization of prior year restructuring accruals.

Capital expenditures for property, plant and equipment were $36,360,000 (which includes $3,935,000 for the Farboil building) in 2000 compared with $31,400,000 in 1999 and $42,833,000 in 1998. The Company anticipates capital spending in fiscal 2001 to be somewhat lower than 2000, excluding potential spending due to the Lilly acquisition.

The Company decreased its borrowings with banks by $12,278,000 during 2000. The ratio of total debt to capital decreased to 43.8% at the end of 2000 compared to 47.3% in 1999. Average debt outstanding during 2000 was $362,855,000 at a weighted average interest rate of 6.06% versus $346,142,000 at 5.53% last year, increasing the current year's interest expense to $21,989,000 from $19,089,000 in the prior year.

At October 27, 2000, the Company had unused lines of credit available from banks of $142,148,000.

In June 2000, the Company along with Lilly Industries, Inc., announced that their respective boards of directors approved a definitive merger agreement under which the Company will acquire all outstanding shares of Lilly Industries common stock for $31.75 per share in cash. The merger was completed on December 20, 2000. On November 17, 2000, a syndicate of banks entered into an agreement with the Company to provide two committed credit facilities totaling $1.5 billion, with $500 million of 364 day availability and $1 billion available for five years. These lines are expected to be adequate to cover current financing needs.

Common stock dividends of $22,185,000 represented a 12% increase over 1998. The annual dividend was increased to $0.52 per share from $0.46 per share in 1999 with the payout at 25% of the prior year earnings, which is consistent with the Company's target payout rate of 25% to 35%.

The Company has continuing authorization to purchase shares of its Common Stock for treasury at management's discretion for general corporate purposes. Purchases under this program were 661,000, 494,000 and 452,000 shares in 2000, 1999 and 1998, respectively.

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 restoration 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 continuously 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 that such liabilities, individually and in the aggregate, will not have a material adverse effect on the Company's financial condition or results of operations.

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. The Company has not hedged its exposure to interest rate fluctuations; however, a 10% increase or decrease in interest rates would not have a material effect on the Company's results of operations, fair values or cash flows.

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 risks related to the Company's recent acquisition of Lilly Industries, Inc., which is the Company's largest acquisition to date, including risks of adverse changes in the results of Lilly's operations due to economic conditions or unforeseen factors; risks of higher than anticipated costs of integration of Lilly's employees or systems; risks of disruptions in business resulting from the integration process; and significantly higher levels of debt for the Company resulting in higher interest costs. Outside of the Lilly acquisition, general risks and uncertainties facing the Company also include such things as: the Company's reliance on the efforts of vendors, government agencies, utilities and other third parties to achieve adequate compliance and avoid disruption of its business; dependence of internal earnings growth on economic conditions and growth in the domestic and international coatings industry; changes in the Company's relationships with customers and suppliers; unusual weather conditions that might adversely affect Coatings' and Coating Intermediates' sales (which may have a greater relative impact on Lilly's sales); 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 27, 2000	October 29, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 20,935	$ 33,189
Accounts and notes receivable, less allowances for doubtful accounts (2000 - $4,925; 1999 - $4,801)	277,763	260,663
Inventories	154,887	162,654
Deferred income taxes	18,464	18,770
Prepaid expenses and other accounts	61,815	39,652
Total current assets	533,864	514,928
Goodwill, Net	208,748	218,668
Other Assets, Net	83,671	64,991
Property, Plant and Equipment:		
Land	21,093	20,800
Buildings	135,205	131,815
Machinery and equipment	389,177	387,093
	545,475	539,708
Less accumulated depreciation	246,728	227,575
Net property, plant and equipment	298,747	312,133
Total Assets	$ 1,125,030	$ 1,110,720
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	$ 39,731	$ 53,593
Trade accounts payable	153,996	154,312
Income taxes	10,910	21,862
Accrued liabilities	129,187	144,639
Current portion of long-term debt	464	306
Total current liabilities	334,288	374,712
Long-term Debt	300,300	298,874
Deferred Income Taxes	22,366	11,148
Deferred Liabilities	30,505	32,230
Total liabilities	687,459	716,964
Stockholders' Equity:		
Common stock (par value $.50 per share; shares authorized 120,000,000; shares issued, including shares in treasury, 53,321,312 shares)	26,660	26,660
Additional paid-in capital	34,267	28,896
Retained earnings	490,860	429,397
Other	(306)	1,997
	551,481	486,950
Less cost of common stock in treasury (2000 - 10,840,142 shares; 1999 - 10,337,999 shares)	113,910	93,194
Total stockholders' equity	437,571	393,756
Total Liabilities and Stockholders' Equity	$ 1,125,030	$ 1,110,720

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, except per share amounts)

For the year ended	October 27, 2000	October 29, 1999	October 30, 1998
Net Sales	$ 1,483,320	$ 1,387,677	$ 1,155,134
Cost and Expenses:			
Cost of sales	1,039,267	960,395	803,240
Research and development	46,353	44,091	39,555
Selling and administrative	224,290	222,275	186,161
Amortization expense	10,675	7,559	4,436
Restructuring	(1,200)	8,346	–
Income From Operations	163,935	145,011	121,742
Other expense/(income), net	200	(9,164)	(7,753)
Interest expense	21,989	19,089	10,707
Income Before Income Taxes	141,746	135,086	118,788
Income taxes	55,280	52,944	46,658
Net Income	$ 86,466	$ 82,142	$ 72,130
Net Income Per Common Share - Basic	$ 2.02	$ 1.90	$ 1.66
Net Income Per Common Share - Diluted	$ 2.00	$ 1.87	$ 1.63

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Thousands, except per share amounts)

	Common Stock		Additional			
	Shares	Amount	Paid-In Capital	Retained Earnings	Other	Treasury Stock
Balance October 31, 1997	53,321,312	$ 26,660	$17,758	$ 313,485	$ (1,850)	$ 60,988
Common stock options exercised for 59,202 shares	–	–	596	–	–	(372)
Purchase of 452,100 shares of common stock for treasury	–	–	–	–	–	13,745
Comprehensive Income						
Net income	–	–	–	72,130	–	–
Foreign currency translation	–	–	–	–	677	–
Cash dividends on common stock - $.42 per share	–	–	–	(18,575)	–	–
Other	–	–	6,526	–	(1,603)	1,255
Balance October 30, 1998	53,321,312	$ 26,660	$ 24,880	$ 367,040	$ (2,776)	$ 75,616
Common stock options exercised for 50,007 shares	–	–	715	–	–	(406)
Purchase of 494,400 shares of common stock for treasury	–	–	–	–	–	17,585
Comprehensive income:						
Net income	–	–	–	82,142	–	–
Foreign currency translation	–	–	–	–	4,679	–
Cash dividends on common stock - $.46 per share	–	–	–	(19,785)	–	–
Other	–	–	3,301	–	94	399
Balance October 29, 1999	53,321,312	$ 26,660	$ 28,896	$ 429,397	$ 1,997	$ 93,194
Common stock options exercised for 84,893 shares	–	–	1,101	–	–	(840)
Purchase of 661,000 shares of common stock for treasury	–	–	–	–	–	21,124
Comprehensive income:						
Net income	–	–	–	86,466	–	–
Foreign currency translation	–	–	–	–	(1,306)	–
Cash dividends on common stock - $.52 per share	–	–	–	(22,185)	–	–
Other	–	–	4,270	(2,818)	(997)	432
Balance October 27, 2000	53,321,312	$ 26,660	$ 34,267	$ 490,860	$ (306)	$113,910

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in Thousands)

For the year ended	October 27, 2000	October 29, 1999	October 30, 1998
Operating Activities:			
Net income	$ 86,466	$ 82,142	$ 72,130
Adjustments to reconcile net income to net cash provided by operating activities:			
Restructuring	(1,200)	8,346	–
Depreciation	34,563	32,241	26,306
Amortization	10,675	7,559	4,436
Deferred income taxes	11,526	(9,619)	1,587
Loss on sales or abandonment of property, plant and equipment	–	3,358	1,854
Gain on asset divestiture	–	(13,850)	(6,886)
(Decrease) increase in cash due to changes in net operating assets, net of effects of acquired businesses:			
Accounts and notes receivable	(17,100)	(9,513)	(7,164)
Inventories and other assets	(14,397)	(1,348)	(19,095)
Trade accounts payable and accrued liabilities	(8,074)	12,687	31,556
Income taxes payable	(10,952)	15,849	7,218
Other deferred liabilities	(792)	717	108
Other	2,623	(1,320)	(2,611)
Net Cash Provided by Operating Activities	93,338	127,249	109,439
Investing Activities:			
Purchases of property, plant and equipment	(32,425)	(31,400)	(42,833)
Acquired businesses, net of cash	(3,935)	(240,657)	(93,074)
Divested businesses/assets	–	37,678	9,206
Other investments/advances to joint ventures	(15,586)	(459)	(11,320)
Net Cash Used in Investing Activities	(51,946)	(234,838)	(138,021)
Financing Activities:			
Net proceeds from borrowings	(12,278)	162,037	63,684
Proceeds from sales of treasury stock	1,941	1,121	1,095
Purchase of shares of Common Stock for treasury	(21,124)	(17,585)	(13,745)
Dividends paid	(22,185)	(19,785)	(18,575)
Net Cash (used in)/provided by financing activities	(53,646)	125,788	32,459
(Decrease)/increase in cash and cash equivalents	(12,254)	18,199	3,877
Cash and Cash Equivalents at Beginning of Year	33,189	14,990	11,113
Cash and Cash Equivalents at End of Year	$ 20,935	$ 33,189	$ 14,990

See Notes to Consolidated Financial Statements

Years Ended October 2000, 1999 and 1998 (Dollars in thousands except per share amounts)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the parent company and its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. Investments in which the Company has a 20 to 50 percent interest and where the Company does not have management control are accounted for using the equity method.

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

Revenue Recognition: Revenue from sales is recognized when title to inventory passes to the customer.

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

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

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

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

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

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

Net Income Per Share: The following table reflects the components of common shares outstanding for the three years ended October 27, 2000 in accordance with Statement of Financial Accounting Standards No. 128 (SFAS 128):

	2000	1999	1998
Weighted average common shares outstanding-basic	42,706,168	43,298,367	43,457,221
Dilutive effect of stock options	489,599	537,212	862,628
Equivalent common shares outstanding-diluted	43,195,767	43,835,579	44,319,849

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.

Financial Instruments: All financial instruments are held for purposes other than trading. The estimated fair values of the Company's financial instruments approximate their carrying amounts in the consolidated balance sheet at October 27, 2000.

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

Basis of Presentation: Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 ACQUISITIONS & DIVESTITURES

In December 1997, as a part of the Coates acquisition, the Company acquired a 49% interest in a joint venture with Coates for packaging coatings in South Africa. In February 1999, as a part of the Dexter acquisition, the Company acquired Dexter's majority position in a joint venture with Plascon (Pty) Limited, a South African company, for packaging coatings in South Africa. As of October 2000, the Company acquired Coates' 51% interest in the Valspar/Coates joint venture and reorganized the businesses of both South African joint ventures so that Valspar now has a majority position in a joint venture with Plascon for a combined packaging coatings business in South Africa. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The effect of this transaction on the Company's results of operations for 2000 was not material.

Effective September 30,1999, the Company acquired the 50% interest in Farboil Company held by its joint venture partner. Farboil Company, located in Baltimore, Maryland, produces decorative powder coatings with annual revenues of $17 million. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The effect of this transaction on the Company's results of operations for 1999 was not material.

Effective February 26, 1999, the Company acquired Dexter Corporation's worldwide packaging coatings business and its French industrial coatings subsidiary, Dexter SAS. Dexter is a worldwide supplier of beverage can, food can and specialty coatings to the packaging market. Dexter SAS supplies a variety of coatings to the European industrial market. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill and is being amortized over the estimated period of benefit. The following unaudited pro forma combined summary statement of income information for the twelve month period ended October 29, 1999 was prepared in accordance with Accounting Principles Board Opinion No. 16 and assumes the acquisition had occurred at the beginning of the period presented. The following pro forma data reflect adjustments for interest expense, amortization of goodwill and depreciation of fixed assets. The unaudited pro forma financial information is provided for informational purposes only and does not purport to be indicative of the future results of the Company.

Unaudited Pro Forma Condensed Consolidated Statements of Income

(Thousands of dollars, except share data)	Year ended October 29, 1999
Net sales	**$ 1,457,220**
Net income	**81,361**
Net income per share-basic	**1.88**
Net income per share-diluted	**1.86**

Effective December 17, 1998, the Company acquired a majority interest in Dyflex B.V., a Netherlands based producer of specialty water-based polymers. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition. The effect of this transaction on the Company's results of operations for 1999 was not material.

Effective April 30,1999, the Company completed the sale of its Marine and Flexible Packaging Coatings product lines. These product lines had revenues of $25 million and $12 million, respectively, for the year ended October 1998. The effect of these divestitures on the Company's results of operations for 1999 was not material.

Net consideration paid for the acquisitions and divestitures in 1999 was $203.0 million in cash.

In 1998 the Company completed three acquisitions including the purchase of Plasti-Kote Co., Inc., a manufacturer of architectural and automotive aerosol and specialty paint products; the purchase of Anzol Pty. Ltd., an Australian-based manufacturer of packaging and industrial coatings; and the purchase of Hilemn Laboratories, a mirror coatings supplier. In addition, the Company divested of its Functional Powder product line. Net consideration paid for the acquisitions in 1998 was $83.9 million in cash.

The acquisitions in 1998 have been accounted for as purchases. Accordingly, the results of operations of the acquired businesses have been included in the Company's consolidated results of operations from the dates of acquisition. The impact of these transactions on the results of operations for 1998 was not material. The excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill and is being amortized over the estimated period of benefit.

NOTE 3 RESTRUCTURING

During 1999, the Company's Board of Directors approved and the Company initiated actions to eliminate redundant facilities and functions resulting from the acquired Dexter packaging coatings operations. Costs associated with the planned closure of former Dexter locations and workforce reductions totaling $6.4 million were recorded as liabilities in the purchase price allocation. Of the $6.4 million total, $5.3 million related to employee termination benefits and $0.6 million related to contract cancellation costs. As of October 27, 2000, costs totaling $ 5.7 million were charged against the liability for the closure of former Dexter locations and workforce reductions.

Additionally, costs associated with workforce reductions and the planned closure of existing Valspar locations were reflected as a pre-tax restructuring charge totaling $8.3 million. Of the $8.3 million total, $3.5 million related to employee termination benefits, $3.1 million related to contract and other program cancellation costs, and $1.0 million relates to recording assets to be disposed of at fair value. As of October 27, 2000, costs totaling $ 6.7 million were charged against the liability for the closure of existing Valspar locations and workforce reductions. During the second quarter of 2000, accruals in the amount of $1.2 million were reversed. These reversals were primarily related to lower than estimated employee termination benefits and fewer program cancellation costs than originally estimated.

These plans contemplated a workforce reduction of worldwide headcount by 200. Cash requirements of this restructuring plan were approximately $12.5 million which was spent by the end of fiscal year 2000.

NOTE 4 INVENTORIES

The major classes of inventories consist of the following:

	2000	1999
Manufactured products	$ 108,225	$ 115,585
Raw materials, supplies and work-in-process	46,662	47,069
	$ 154,887	$ 162,654

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate $108,031 at October 27, 2000 and $115,338 at October 29, 1999, approximately $27,335 and $23,107 lower, respectively, than such costs determined under the first-in, first-out (FIFO) method.

NOTE 5 TRADE ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Trade accounts payable include $23,326 and $19,819 of issued checks which had not cleared the Company's bank accounts as of October 27, 2000 and October 29, 1999, respectively.

Accrued liabilities include the following

	2000	1999
Employee compensation	$ 43,879	$ 50,685
Uninsured loss reserves	22,575	20,615
Customer volume rebates	25,541	20,838
Contribution to employees' retirement trusts	7,789	9,531
Restructuring	1,093	8,130
Other	28,310	34,840
Total	$ 129,187	$ 144,639

NOTE 6 LONG-TERM DEBT & CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2000	1999
Notes to banks (1.7%-5.9% at October 27, 2000)	$ 283,741	$ 282,189
Industrial development bonds (3.2-4.0% at October 27, 2000, payable in 2015 and 2018)	15,204	15,208
Obligations under capital lease (7.5% at October 27, 2000, payable through 2004)	1,819	1,783
	300,764	299,180
Less current maturities	(464)	(306)
	$ 300,300	$ 298,874

The notes to banks totaling $283,741 at October 27, 2000 and $282,189 at October 29, 1999 have been classified as long-term reflecting the Company's ability to refinance these amounts on a long-term basis. The maturities of the remaining long-term debt are as follows: 2001 - $464; 2002 - $493; 2003 - $526; 2004 - $561; 2005 - $153 and $14,826 thereafter.

The Company has $150,000 of committed revolving multi-currency credit facilities with a bank at optional interest rates of prime or IBOR-based rates. This facility matures at the close of the Company's planned merger with Lilly Industries. The revolving credit loan agreement contains covenants that require the Company to maintain certain financial ratios. The Company is in compliance with these covenants as of October 27, 2000. On November 17, 2000, a syndicate of banks entered into an agreement with the Company to provide two committed credit facilities totaling $1.5 billion, $500 million of 364-day availability and $1 billion available for five years. There will be similar financial covenants in these facilities.

Under other short-term bank lines of credit around the world, the Company may borrow up to $318,564 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 5.87% in 2000 and 5.19% in 1999. Approximately $205 million of these short-term bank lines will also expire upon completion of the Lilly merger and will be replaced with the syndicated committed credit facilities.

The Company had unused lines of credit under the short-term bank lines and revolving credit facility of $142,148 at October 27, 2000.

Interest paid during 2000, 1999 and 1998 was $22,369 $19,092 and $9,670 respectively.

NOTE 7 INCOME TAXES

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

Years ended	2000	1999	1998
Current:			
Federal	$ 32,312	$ 49,820	$ 33,695
State	3,412	5,943	6,285
Foreign	8,212	5,319	1,813
Total current	43,936	61,082	41,793
Deferred:			
Federal	9,586	(4,717)	3,562
State	1,565	(860)	434
Foreign	193	(2,561)	869
Total deferred	11,344	(8,138)	4,865
Total income taxes	$ 55,280	$ 52,944	$ 46,658

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

Years ended	2000	1999	1998
Deferred tax assets:			
Product liability accruals	$ 2,508	$ 2,749	$ 2,023
Insurance accruals	3,418	4,459	2,873
Deferred compensation	7,125	7,797	4,471
Workers' compensation accruals	2,538	2,177	3,013
Employee compensation accruals	1,931	2,943	3,014
Other	20,974	19,142	15,658
Total deferred tax assets	38,494	39,267	31,052
Deferred tax liabilities:			
Tax in excess of book depreciation	(24,445)	(15,336)	(16,012)
Other	(17,951)	(16,658)	(9,982)
Total deferred tax liabilities	(42,396)	(31,994)	(25,994)
Net deferred tax assets	$ (3,902)	$ 7,273	$ 5,058

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

	2000	1999	1998
Tax at U.S. statutory rates	35.0%	35.0%	35.0%
State income taxes, net of Federal benefit	2.1%	2.4%	3.5%
Other	1.9%	1.8%	0.8%
	39.0%	39.2%	39.3%

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 $27,100 at October 27, 2000. 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 2000, 1999 and 1998 were $51,669, $45,749 and $33,571 respectively.

NOTE 8 STOCK PLANS

Stock Options: Under the Company's Stock Option Plan, options for the purchase of up to 6,000,000 shares of common stock may be granted to officers and key employees. Options are issued at market value at the date of grant and are exercisable in full or in part over a prescribed period of time.

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

	2000	1999	1998
Pro forma net income	$ 79,406	$ 80,974	$ 71,424
Pro forma earnings per share:			
Basic	1.86	1.87	1.64
Diluted	1.84	1.85	1.61

The pro forma effect on net income and earnings per share is not representative of the pro forma net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

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:

	2000	1999	1998
Expected dividend yield	1.5%	1.5%	1.5%
Expected stock price volatility	27.9%	22.2%	21.1%
Risk-free interest rate	5.5%	6.2%	4.2%
Expected life of options	6 years	6 years	6 years

The weighted average fair value for options granted during 2000, 1999, and 1998 is $10.83, $8.71, and $7.79 per share, respectively.

Stock option activity for the three years ended October 27, 2000 is summarized as follows:

	Shares Reserved	Options Outstanding	Weighted Average Exercise Price
October 31, 1997			
Balance	1,066,730	1,281,711	$ 19.79
Shares reserved	1,000,000	–	–
Granted	(398,150)	398,150	31.34
Exercised	–	(56,592)	17.10
Cancelled	22,901	(22,901)	23.72
October 30, 1998			
Balance	1,691,481	1,600,368	$ 22.70
Shares reserved	2,250,000	–	–
Granted	(706,500)	706,500	35.02
Exercised	–	(50,007)	22.40
Cancelled	28,466	(28,466)	32.24
October 29, 1999			
Balance	3,263,447	2,228,395	$ 26.49
Shares reserved	–	–	–
Granted	(1,444,172)	1,444,172	33.32
Exercised	–	(84,893)	22.86
Cancelled	68,192	(68,192)	37.24
October 27, 2000	1,887,467	3,519,482	$ 29.47

Options outstanding at October 27, 2000 had an average remaining contractual life of 7.48 years. Options exercisable of 1,911,232 at October 27, 2000, 939,257 at October 29, 1999, and 665,194 at October 30, 1998 had weighted average exercise prices of $23.20, $19.61, and $17.99 respectively. The exercise price for options outstanding as of October 27, 2000 range from $12.00 to $40.31, with 1,683,422 shares outstanding in the $12.00 - $25.00 range and 1,836,060 shares outstanding in the $25.00 - $40.31 range.

Employee Stock Ownership Plans: Under the Company's Employee Stock Ownership Plans, substantially all of the Company's domestic employees are eligible to participate and may contribute 1% to 9% of their compensation to the Plans. The Company contributes a minimum amount equal to one-half of the employee contributions up to 3% of employees' compensation, with the potential to match up to 6% based upon the financial performance of the Company. The Company's contributions were $3,314, $5,307, and $2,649, for 2000, 1999, and 1998, 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. For fiscal year 2000, participants under the Key Employee Bonus Plan elected to receive a stock option grant in lieu of restricted stock.

NOTE 9 LEASING ARRANGEMENTS

The Company has operating lease commitments outstanding at October 27, 2000, 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
2001	$ 6,187
2002	5,495
2003	2,980
2004	1,071
2005	654
2006 and beyond	3,927
	$ 20,314

Rent expense for operating leases was $6,426 in 2000, $6,338 in 1999 and $4,445 in 1998.

NOTE 10 PENSIONS & OTHER RETIREMENT BENEFITS

The Company sponsors a Profit Sharing Plan for substantially all of its domestic employees. Under the Plan, the Company makes a contribution based on return on assets as defined in the Plan up to a maximum of 10% of the aggregate compensation of eligible participants. Contributions to the Profit Sharing Plan totaled $10,657, $9,869, and $9,342 for 2000, 1999, and 1998 respectively.

The Company also sponsors a number of defined benefit pension plans for certain hourly and foreign employees. The benefits for these plans are generally based on stated amounts for each year of service. The Company funds the plans in amounts consistent with the limits of allowable tax deductions.

The cost of the pension benefits is as follows:

Net Periodic Cost

	2000	1999	1998
Service cost	$ 1,184	$ 1,158	$ 961
Interest cost	2,328	2,016	2,049
Expected return on plan assets	(3,818)	(3,059)	(2,849)
Amortization of transition asset	(91)	(92)	(93)
Amortization of prior service cost	343	367	360
Recognized actuarial gain	(405)	(292)	(313)
Net-periodic benefit cost	(459)	98	115
Settlement gain	(787)	–	–
Net-periodic benefit cost after settlement	$(1,246)	$ 98	$ 115

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

	2000	1999
Benefit obligation at beginning of year	$ 35,628	$ 30,669
Service cost	1,185	1,149
Interest cost	2,328	2,005
Plan participants' contributions	134	111
Amendments	148	–
Actuarial (gain)/loss	2,278	1,582
Acquisitions	–	1,873
Benefits paid	(1,824)	(1,761)
Settlements	(2,295)	–
Benefit obligation at end of year	$ 37,582	$ 35,628

Change in Plan Assets

	2000	1999
Fair value of plan assets at beginning of year	$ 47,460	$ 39,907
Actual return on plan assets	6,759	6,802
Employer contributions	1,572	438
Plan participants' contributions	134	111
Benefit payments	(1,824)	(1,761)
Acquisitions	–	1,963
Settlements	(2,295)	–
Fair value of plan assets at end of year	$ 51,806	$ 47,460

Funded Status

	2000	1999
Funded status at end of year	$ 14,224	$ 11,832
Unrecognized transition asset	(871)	(923)
Unrecognized prior service cost	3,414	2,831
Unrecognized net gain	(11,622)	(11,429)
Net amount recognized in statement of financial position	$ 5,145	$ 2,311

The actuarial assumptions were as follows:

	2000	1999
Discount rate	6.25%-7.5%	6.25%-7.25%
Expected return on plan assets	7.0%-9.0%	7.5%-8.0%
Average increase in compensation	3.75%-6.0%	3.75%-6.0%

In addition to the Company's defined benefit pension plans, the Company sponsors a health care plan that provides post-retirement medical benefits for some of its employees. The Company's policy is to fund these benefits as they are paid. The Company's accrued post-retirement benefit liability recognized in the Company's balance sheet was $1,607 and $1,587 at October 27, 2000 and October 29, 1999, respectively. Net periodic post-retirement expense was $150, $95, and $103 in 2000, 1999 and 1998, respectively.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5% and 7.25% at October 27, 2000 and October 29, 1999, respectively. The assumed health-care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.0% in 2000, then declining by 0.5% per year to an ultimate rate of 5.5%. A 1% change in the cost trend rate would not have a material effect on the accumulated post-retirement benefit obligation or net periodic post-retirement expense.

NOTE 11 SEGMENT INFORMATION

Based on the nature of the Company's products, technology, manufacturing processes, customers, regulatory environment, and internal management structure, and considering the aggregation criteria of SFAS 131, the Company operates its business in two reportable segments: Coatings and Coating Intermediates. The Company manufactures and distributes a broad portfolio of coatings products. The Architectural, Automotive and Specialty product line includes interior and exterior decorative paints and aerosols, automotive finish, automotive aftermarket, and high performance floor coatings. The Packaging product line includes coatings and inks for rigid packaging containers. The Industrial products are decorative and protective coatings for metal, wood, and plastic substrates. Coating Intermediates, primarily resins and colorants, are sold to the Company and to other coatings manufacturers.

There are certain business activities, referred to as Corporate in the following table, that do not constitute an operating segment. Included in Corporate are administrative expenses of the headquarters site, gains or losses on the sale of certain assets, and other income or expenses not directly related to an operating segment. The Company evaluates the performance of operating segments and allocates resources based on profit or loss from operations before interest expense and income taxes (EBIT). Intersegment sales are recorded at selling prices which are below market prices. Segment EBIT includes realized profit on intersegment sales. Identifiable assets are those directly identified with each segment's operations. Corporate assets consist primarily of cash and cash equivalents, income tax assets, prepaid expenses, and headquarter's property, plant and equipment. The accounting polices of the reportable segments are the same as those described in Note 1 – Significant Accounting Policies. Net sales, EBIT, depreciation and amortization, identifiable assets, and capital expenditures by operating segment are as follows:

	2000	1999	1998
Net sales:			
Coatings	$1,385,765	$1,292,475	$1,074,416
Coating Intermediates	150,139	145,725	126,843
	1,535,904	1,438,200	1,201,259
Intersegment sales	(52,584)	(50,523)	(46,125)
Total net sales - external	$1,483,320	$1,387,677	$1,155,134
EBIT:			
Coatings	$ 172,578	$ 162,770	$ 139,016
Coating Intermediates	16,083	17,024	13,568
	188,661	179,794	152,584
Corporate	(24,926)	(25,619)	(23,089)
Total EBIT	$ 163,735	$ 154,175	$ 129,495
Depreciation and amortization:			
Coatings	$ 35,780	$ 30,981	$ 19,555
Coating Intermediates	3,892	3,419	2,900
Corporate	5,566	5,400	8,287
Total depreciation and amortization	$ 45,238	$ 39,800	$ 30,742
Identifiable assets:			
Coatings	$ 931,808	$ 935,941	$ 645,631
Coating Intermediates	84,334	87,916	58,808
Corporate	108,888	86,863	97,241
Total assets	$1,125,030	$1,110,720	$ 801,680
Capital expenditures:			
Coatings	$ 20,050	$ 19,727	$ 26,952
Coating Intermediates	5,539	3,694	9,063
Corporate	6,836	7,979	6,818
Total capital expenditures	$ 32,425	$ 31,400	$ 42,833

Net sales by product line within the Coatings Segment are as follows:

	2000	1999	1998
Architectural, Automotive and Specialty	$ 505,087	$ 510,960	$ 482,295
Packaging	508,536	452,846	319,653
Industrial	372,142	328,669	272,468
	$1,385,765	$1,292,475	$1,074,416

Geographic net sales are based on the country from which the customer was billed for the products sold. The United States is the largest country for customer sales. No single country outside the United States represents more than 10% of consolidated net sales. Long-lived assets include property, plant and equipment and intangibles 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:

	2000	1999	1998
Net sales - external:			
United States	$1,137,219	$1,116,347	$1,021,449
Outside U.S.	346,101	271,330	133,685
Total net sales - external	$1,483,320	$1,387,677	$1,155,134

	2000	1999	1998
Long-lived assets:			
United States	$343,813	$339,760	$264,478
Outside U.S.	163,682	191,041	61,876
Total long-lived assets	$507,495	$530,801	$326,354

NOTE 12 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results for the years ended October 27, 2000 and October 29, 1999:

	Net Sales	Gross Margin	Net Income	Net Income Per Share Diluted
2000 quarter ended:				
January 28	$ 323,671	$ 92,441	$ 11,455	$ 0.26
April 28	392,780	120,025	25,371	0.59
July 28	385,070	117,292	25,466	0.59
October 27	381,799	114,295	24,174	0.56
	$ 1,483,320	$ 444,053	$ 86,466	$ 2.00
1999 quarter ended:				
January 30	$ 265,810	$ 75,339	$ 9,716	$ 0.22
April 30	356,702	111,968	22,444	0.51
July 30	398,076	120,621	25,834	0.59
October 29	367,089	119,354	24,148	0.55
	$ 1,387,677	$ 427,282	$ 82,142	$ 1.87

NOTE 13 RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133, will be effective for the Company's fiscal year 2001, which requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The standard will not have a material effect on its financial statements.

NOTE 14 SUBSEQUENT EVENTS

In June, 2000, the Company along with Lilly Industries, Inc. announced that their respective boards of directors had approved a definitive merger agreement under which the Company agreed to acquire all outstanding shares of Lilly Industries common stock for $31.75 per share in cash. Lilly Industries shareholders approved the merger on September 27, 2000. The U.S. Federal Trade Commission (FTC) approved the proposed merger in December, 2000 and the merger was completed on December 20, 2000. As a condition to receiving FTC approval, the Company agreed to divest of its existing mirror coatings business, a non-strategic product line with sales of approximately $12 million.

Lilly Industries is one of the five largest industrial coatings and specialty chemicals manufacturers in North America with reported sales of $656.2 million for the year ended November, 1999, and $508.6 million for the first nine months of fiscal year 2000. Lilly Industries formulates, manufactures and markets industrial coatings and specialty chemicals to original equipment manufacturers for products such as home and office furniture, cabinets, appliances, building products, transportation, agricultural, and construction equipment.

Lilly Industries employs approximately 2,400 people with plants and sales offices in the United States, Australia, Canada, China, Germany, Ireland, Malaysia, Mexico, Singapore, Taiwan, and the United Kingdom.

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 27, 2000 and October 29, 1999 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 27, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Valspar Corporation and subsidiaries at October 27, 2000 and October 29, 1999 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 27, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Minneapolis, Minnesota
November 17, 2000

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, President and Chief Executive Officer

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

VALSPAR'S EXECUTIVE COMMITTEE

(In order from left to right)
William L. Mansfield, Richard M. Rompala, Stephen M. Briggs, John M. Ballbach, Steven L. Erdahl, Paul C. Reyelts, Rolf Engh

Corporate Data

Directors

Susan S. Boren
Principal, Spencer Stuart

Jeffrey H. Curler
President and Chief Executive Officer, Bemis Company, Inc.

Charles W. Gaillard
Retired President, General Mills, Inc.

Thomas R. McBurney
President, McBurney Management Advisors

Kendrick B. Melrose
Chairman and Chief Executive Officer, The Toro Company

Gregory R. Palen
Chairman and Chief Executive Officer, Spectro Alloys Corporation

Lawrence Perlman
Private Investor

Edward B. Pollak
Chief Executive Officer, Yellow Cab Management, Inc.

Richard M. Rompala
Chairman, President and Chief Executive Officer, The Valspar Corporation

Michael P. Sullivan
Chairman, International Dairy Queen, Inc.

Richard L. White, Ph.D.
Former Executive Vice President, Bayer Corporation

Officers

Richard M. Rompala
Chairman, President and Chief Executive Officer

John M. Ballbach
Senior Vice President - Operations, EPS and Color Corporation of America

Stephen M. Briggs
Senior Vice President - E-Commerce

Rolf Engh
Senior Vice President, General Counsel and Secretary

Steven L. Erdahl
Senior Vice President - Packaging and Industrial Coatings

William L. Mansfield
Senior Vice President - Architectural, Automotive and Specialty Coatings

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

Kenneth H. Arthur
Group Vice President - Architectural

Joel C. Hart
Group Vice President - Automotive and International

Robert T. Smith
Group Vice President - Industrial

Larry B. Brandenburger
Vice President - Technology

Gary E. Gardner
Vice President - Human Resources and Public Affairs

Steven C. Lindberg
Vice President - Engineered Polymer Solutions and Color Corporation of America

Deborah D. Weiss
Vice President and Treasurer

Thomas A. White
Vice President - Manufacturing

Thomas L. Wood
Vice President - Purchasing and Logistics

Corporate Headquarters

1101 Third Street South
Minneapolis, MN 55415
Phone: 612-332-7371
Fax: 612-375-7723
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.mellon-investor.com

Annual Meeting

Wednesday, February 28, 2001, 11:00 AM CST, Corporate Research and Development Center, 312 South 11th Avenue South, Minneapolis, MN 55415

Corporate Reports, Earnings Announcements and News Releases

Form 10-K's and Annual Reports may be obtained by calling or writing to Corporate Secretary at Corporate Headquarters or through 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
Phone: 800-842-7629
Internet: www.mellon-investor.com

LEADERSHIP INTO THE NEW CENTURY

2000

ANNUAL REPORT

VALSPAR