VALSPAR

2002

ANNUAL REPORT

A VALSPAR FINISH FOR EVERY PURPOSE

MISSION STATEMENT AND BELIEFS

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 job 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.

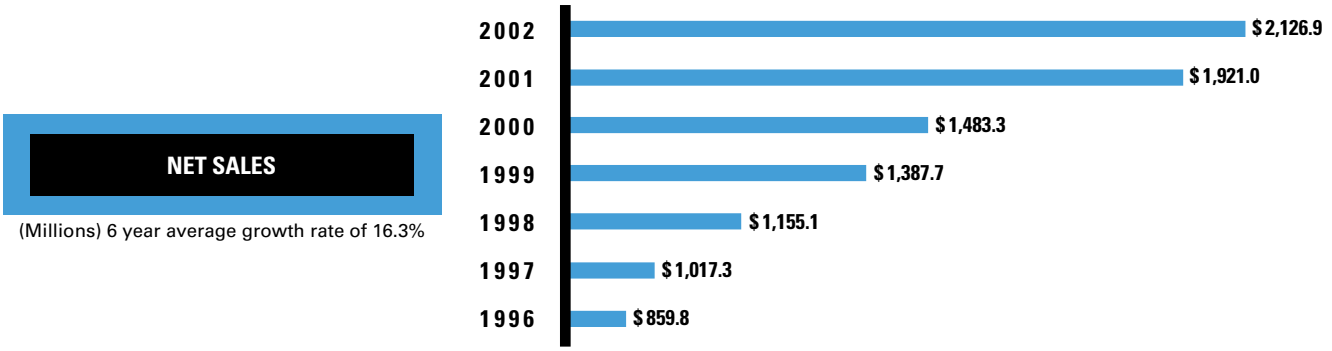
Consistency of Style
Valspar's culture should be evident throughout the company. All employees should be accountable for becoming more productive and contribute to the maintenance of a low cost environment.

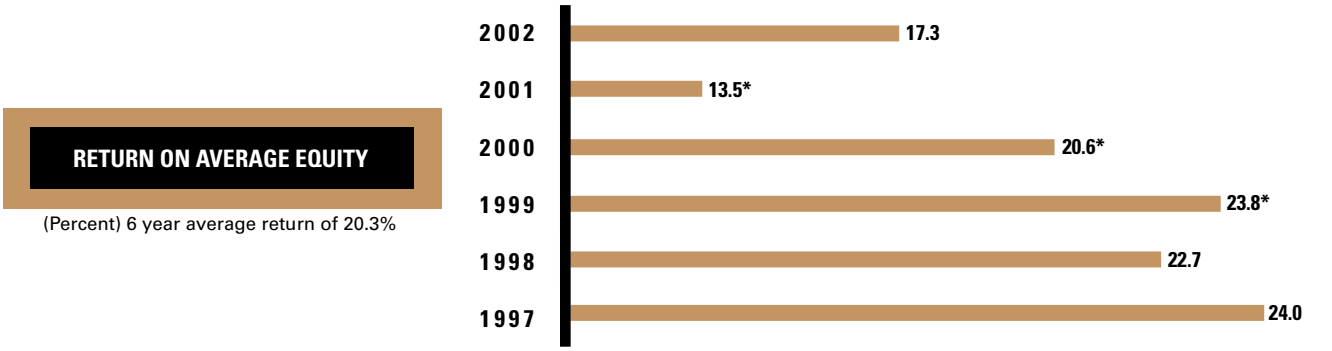
Ownership
Employees are encouraged to own Valspar stock and should act as owners.

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share amounts)

	2002	% Change from 2001	2001	% Change from 2000
Net Sales	$ 2,126,853	10.7%	$ 1,920,970	29.5%
Income before taxes	$ 198,548	117.8%	$ 91,150	-35.7%
Net Income	$ 120,121	133.2%	$ 51,500	-40.4%
Return on average shareholders' equity*	17.3%	–	13.5%*	–
Diluted earnings per share	$ 2.34	112.7%	$ 1.10	-45.0%
Diluted earnings per share adjusted*	$ 2.34	48.1%	$ 1.58*	-20.6%
Cash dividends per share	$ 0.56	3.7%	$ 0.54	3.8%
Total assets	$ 2,419,552	8.7%	$ 2,226,070	97.9%
Total debt	$ 926,398	-11.6%	$ 1,047,817	207.7%
Stockholders' equity	$ 737,253	12.6%	$ 654,565	49.6%
Stockholders' equity per share	$ 14.71	11.2%	$ 13.23	28.4%
Number of shares outstanding	50,104,013	1.3%	49,481,627	16.5%





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.

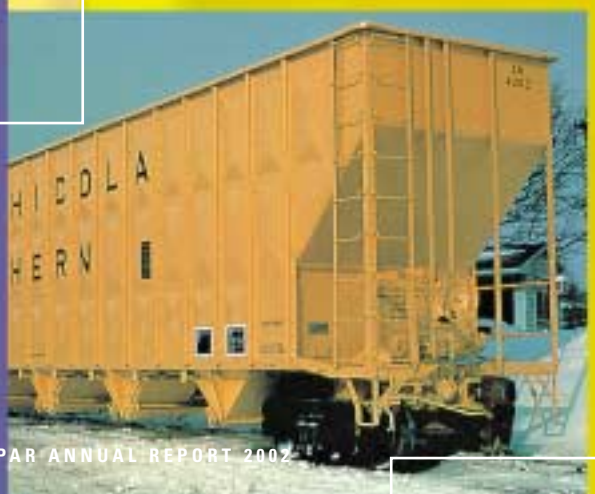
* Excluding impact of pre-tax restructuring and non-recurring charges of $8,346, ($1,200) and $39,300 in 1999, 2000 and 2001, respectively.

COIL AND EXTRUSION COATINGS

PACKAGING COATINGS AND INKS

EPS POLYMERS

WOOD COATINGS



BEVERAGE CAN END COATINGS

TO OUR SHAREHOLDERS

Fiscal 2002 was a good year for Valspar; despite a challenging business environment, we achieved record sales and earnings with solid growth in all of our product lines. Our architectural and packaging coatings product lines generated strong results throughout the year. Valspar's "American Tradition" architectural paint, sold exclusively at Lowe's, achieved national recognition for the second year in a row. Our non-U.S. packaging operations grew substantially with exceptional improvement over 2001. In industrial coatings, we have completed most of the restructuring activities associated with the Lilly Industries acquisition – eliminating redundancies, consolidating raw material purchases, closing twelve facilities and relocating production of more than 20 million gallons of coatings. The resulting cost savings (more than $90 million over the last two years) and other initiatives have contributed to improved margins and have positioned us for improved earnings momentum in industrial coatings as worldwide economies strengthen.

Sales outside the United States represented 25% of Valspar's total sales for 2002, and our international businesses showed remarkable resilience this year, with rapid growth in Asia in our wood and coil coatings product lines, and strong growth in Europe in packaging coatings. We continued to strengthen our overall global position by assuming 100% ownership of our former joint venture partnerships in Brazil and the Netherlands, by opening a new color studio for wood coatings in China, and by commissioning a distribution facility in Vietnam to support our fast growing furniture coatings business in southeast Asia.
In spite of a lackluster economy domestically, Valspar's sales for the year increased 10.7% to $2.1 billion, and net income rose 133.2%. Earnings per share increased 112.7%. These record results provided a return on average equity of 17.3% and operating cash flow of $215 million. We were able to reduce borrowings by $121.4 million, while spending $44.7 million on plant and equipment, $22.9 million for acquisitions, and $28.0 million on dividends.

Valspar's first public debt – well received by investors – was issued in April comprising $350 million of five-year notes with a 6% coupon. We now have strengthened and diversified our balance sheet debt and provided attractive fixed-rate financing for the next five years.

In recognition of our good results, the Board of Directors raised the annual dividend to 60 cents per share, effective with the quarterly dividend payable in January 2003. This represents the 25th consecutive year of dividend increases.

OPERATING RESULTS

Our operating performance was consistently solid throughout 2002. Results in the first half of the year were helped by falling raw material costs, as the soft U.S. economy and excess capacity took its toll on chemical manufacturers. By mid-year, however, raw material prices began to rise, but we were still able to maintain and enhance our margins, because we continuously look for ways to take costs out of every stage in the supply chain process. Our results also benefited from a number of initiatives to enhance core sales growth where, once again, each of our product lines grew two to three times faster than our underlying markets.

In industrial coatings, our full line of competitive technologies and the superior technical service our people provide to our industrial customers around the world continue to earn Valspar the reputation as a preferred supplier to a wide variety of manufacturers. Valspar's industrial coatings products include coatings for building products, appliances, furniture, agricultural and construction equipment, automotive parts and railcars, among others. While the industrial economy in the United States continues to sputter, limiting our near term growth prospects, our international businesses, especially in Asia, are expanding at a significant rate. The primary source of furniture sold in the U.S. is now China, where Valspar has state of the art facilities and an established infrastructure to support the rapid

growth of our wood coatings customers. With our new facility now operating in Shanghai, we also have the capabilities to dramatically improve our position in Northern China as well. With the majority of the Lilly integration activity complete, Valspar is poised for improved earnings momentum as the US economy recovers.

Packaging coatings continues to be one of our best performing businesses. With our world-class technologies and technical service, our global presence and the recession resistance of this business, Valspar's packaging coatings sales grew significantly faster than the market. By acquiring the remaining interest in our joint venture in Brazil, we now operate a large multi-purpose coatings production facility, which we can use to leverage growth in other coatings areas for the Latin American markets. We also acquired the packaging coatings businesses of Technical Coatings from Benjamin Moore with some attractive technologies and customer relationships.

Architectural, Automotive and Specialty products were our best performers in 2002. Strong internal growth in these products once again confirmed the counter-cyclicality of the Do-It-Yourself market. The superior qualities of our nationally recognized products, specifically our acrylic paint, and the efforts of our dedicated sales and customer service people, resulted in double-digit growth in sales and profits.

Sales of resins, composites and colorants increased modestly for the year, benefiting from our increasing focus on water-based technologies. This aspect of our business is also a critical component in supplying proprietary resins to Valspar and specialty resins and colorants to our industrial and architectural coatings customers.

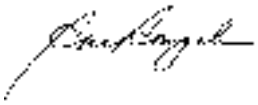
Safety remains a core value in the Valspar culture. Once again in 2002 we made considerable progress towards achieving a zero-accident environment throughout the world.

MANAGEMENT CHANGE

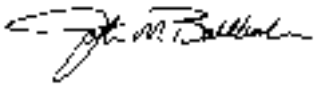
In January John Ballbach was named President and Chief Operating Officer of Valspar. John joined Valspar in 1990 and has distinguished himself in all his assignments, both domestically and abroad. Having held positions of increasing responsibility in sales and marketing, as well as European and domestic executive management, he is uniquely qualified to help shape our future growth plans.

OUTLOOK

Our mission, to be the best coatings company in the world, can only be achieved by providing superior products at the lowest applied cost, enhancing our leadership position in the global arena, and providing a safe, rewarding environment in which to work. We want to thank all the Valspar employees around the world for their committed, dedicated performance, which resulted in another record year in 2002. We are confident that as we all continue to focus on our core values, we will have another good year in 2003.



Richard M. Rompala
Chairman and Chief Executive Officer

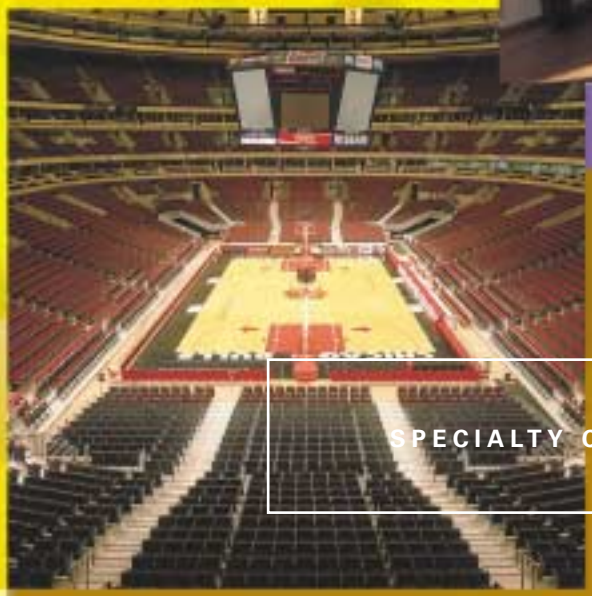


John M. Ballbach
President and Chief Operating Officer

MIRROR COATINGS

FAUX FINISHES

AEROSOL COATINGS



INDUSTRIAL COATINGS

SPECIALTY COATINGS

INTERIOR AND EXTERIOR PAINTS

ELEVEN-YEAR FINANCIAL SUMMARY

(Dollars in thousands, except per share amounts)

	Fiscal Years	2002	2001	2000
Operating Results	Net Sales	$ 2,126,853	$ 1,920,970	$ 1,483,320
	Cost and Expenses			
	Cost of Sales	1,430,184	1,346,934	1,039,267
	Operating Expense	447,064	391,184	281,318
	Restructuring Charge	-	21,930	(1,200)
	Income from Operations	249,605	160,922	163,935
	Other (Income) Expense - Net	2,346	(2,787)	200
	Interest Expense	48,711	72,559	21,989
	Income Before Income Taxes	198,548	91,150	141,746
	Net Income	120,121	51,500	86,466
	Net Income as a Percent of Sales	5.6%	2.7%	5.8%
	Return on Average Equity	17.3%	13.5%*	20.6%*
	Per Common Share:			
	Net Income - Basic	$ 2.41	$ 1.12	$ 2.02
	Net Income - Diluted	2.34	1.10	2.00
	Dividends Paid	0.56	0.54	0.52
	Stockholders' Equity	14.71	13.23	10.30
Financial Position	Total Assets	$ 2,419,552	$ 2,226,070	$ 1,125,030
	Working Capital at Year-End	197,893	216,589	199,576
	Property, Plant and Equipment, Net	402,475	411,179	298,747
	Long-Term Debt, Excluding Current Portion	885,819	1,005,731	300,300
	Stockholders' Equity	737,253	654,565	437,571
Other Statistics	Property, Plant and Equipment Expenditures	$ 44,698	$ 36,200	$ 32,425
	Depreciation and Amortization Expense	51,143	73,050	45,238
	Research and Development Expense	65,924	58,105	46,353
	Total Cash Dividends	$ 27,962	$ 24,856	$ 22,185
	Average Diluted Common Shares Outstanding (000's)	51,370	46,658	43,196
	Number of Stockholders	1,642	1,702	1,728
	Number of Employees at Year-End	7,058	6,750	4,685
	Market Price Range - Common Stock: High	$ 49.91	$ 37.80	$ 43.31
	Low	33.21	24.45	19.75

Reference is 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 2-for-1 stock splits effective in March 1992 and March 1997. The number of stockholders is based on recordholders at year-end.

* Excludes impact of restructuring and non-recurring charges in 1999, 2000 and 2001.

STOCK INFORMATION

Stock traded on the New York Stock Exchange

	For the Fiscal Year	2002	2001
Closing Market Price (high/low):	First Quarter	41.90-33.21	33.60-24.45
	Second Quarter	47.45-39.91	33.78-26.48
	Third Quarter	49.91-35.55	36.91-30.15
	Fourth Quarter	42.15-36.39	37.80-29.90

1999	1998	1997	1996	1995	1994	1993	1992
$ 1,387,677	$ 1,155,134	$ 1,017,271	$ 859,799	$ 790,175	$ 795,275	$ 700,897	$ 683,485
960,395	803,240	698,474	594,935	561,170	569,063	501,135	492,092
273,925	230,152	206,834	169,873	146,344	146,683	129,997	131,232
8,346	-	-	-	-	-	-	-
145,011	121,742	111,963	94,991	82,661	79,529	69,765	60,161
(9,164)	(7,753)	(2,508)	(1,081)	(763)	631	2,036	360
19,089	10,707	5,294	3,029	4,216	2,504	1,645	2,932
135,086	118,788	109,177	93,043	79,208	76,394	66,084	56,869
82,142	72,130	65,877	55,893	47,520	45,799	40,156	34,418
5.9%	6.2%	6.5%	6.5%	6.0%	5.8%	5.7%	5.0%
23.8%*	22.7%	24.0%	24.0%	24.4%	24.4%	21.8%	21.7%
$ 1.90	$ 1.66	$ 1.51	$ 1.28	$ 1.09	$ 1.04	$ 0.92	$ 0.79
1.87	1.63	1.49	1.26	1.08	1.04	0.91	0.79
0.46	0.42	0.36	0.33	0.30	0.26	0.22	0.18
9.16	7.84	6.76	5.78	4.83	3.99	4.51	3.92
$ 1,110,720	$ 801,680	$ 615,470	$ 486,440	$ 398,199	$ 367,608	$ 340,479	$ 321,618
140,216	158,085	97,427	96,130	90,995	87,887	85,741	57,500
312,133	233,482	185,748	153,819	130,404	107,956	103,916	101,005
298,874	164,768	35,844	31,948	21,658	35,343	7,890	10,684
393,756	340,188	295,065	253,703	212,115	176,712	198,826	169,377
$ 31,400	$ 42,833	$ 48,131	$ 25,376	$ 38,982	$ 31,817	$ 17,213	$ 19,581
39,800	30,742	25,771	22,262	20,318	19,134	20,648	19,793
44,091	39,555	39,099	32,616	27,746	27,430	24,955	24,802
$ 19,785	$ 18,575	$ 15,741	$ 14,575	$ 13,121	$ 11,252	$ 9,471	$ 7,843
43,836	44,320	44,233	44,403	44,183	44,326	44,062	43,946
1,818	1,815	1,830	1,783	1,864	1,902	1,866	1,863
4,482	3,833	3,205	2,855	2,542	2,585	2,577	2,482
$ 39.69	$ 42.13	$ 32.94	$ 25.50	$ 20.94	$ 22.88	$ 20.75	$ 18.19
28.00	25.75	24.00	19.13	15.25	16.38	15.19	11.28

DIVIDENDS

	For the Fiscal Year	2002	2001
Per Share Dividends:	First Quarter	$ 0.14	$ 0.135
	Second Quarter	0.14	0.135
	Third Quarter	0.14	0.135
	Fourth Quarter	0.14	0.135
		$ 0.56	$ 0.54

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

OVERVIEW

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

- 2002 - Effective March 2002, the Company purchased from its joint venture partner the remaining 20% interest in Dyflex B.V., a resin manufacturer in the Netherlands. 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. Effective November 30, 2001, the Company acquired the coil, spray-applied door, and rigid packaging coatings businesses of Technical Coatings Company, a subsidiary of Benjamin Moore & Co.
- 2001 - In December 2000, the Company acquired Lilly Industries, Inc., the Company's largest acquisition to date. Total consideration paid was approximately $1,036 million, including the assumption of debt of approximately $218 million. The Company completed the sale of its existing Mirror Coatings business as a condition of regulatory approval for the Lilly Industries acquisition. In July 2001, the Company acquired the Packaging Coatings business of Coates Brothers in Singapore, Malaysia, Indonesia and Thailand. 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.
- 2000 - In October 2000, 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.

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

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%, primarily driven by volume increases in the Architectural, Automotive, and Specialty (AAS) Coatings and Packaging Coatings product lines.

The gross profit margin increased to 32.8% in 2002 from 29.9% in 2001. Excluding the impact of $17,370,000 of inventory write-down charges related to the September 2001 restructuring plan, the 2001 gross profit margin was 30.8%. The higher margin in 2002 was attributable to lower raw material costs and continued benefits from manufacturing integration.

Operating expenses (research and development, selling and administrative, excluding $21,930,000 of restructuring in 2001) increased 14.3% to $447,064,000 (21.0% of net sales) in 2002 compared to $391,184,000 (20.4% of net sales) in 2001. Operating expenses as a percentage of net sales for 2002 increased 1.9 percentage points over 2001 after adjusting 2001 for the benefit of early adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which decreased 2001 operating expenses by $25,080,000. See Note 8 to the Consolidated Financial Statements for detail of Statement 142. This increase in operating expenses was 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.

Other (income)/expense increased 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 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 million five-year bonds at a 6% coupon rate. 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 142.

Net income for the full year was $120,121,000 or $2.34 per diluted share. On a comparable year over year basis (adjusted for adoption of Statement 142, excluding restructuring and higher shares outstanding due to the April 2001 equity offering), diluted earnings per share increased 25%.

OPERATIONS 2001 VS. 2000

Net sales increased 29.5% to $1,920,970,000 in 2001 from $1,483,320,000 in 2000. Excluding the impact of acquisitions and divestitures during the year, sales decreased approximately 1%, primarily driven by volume decreases in the Industrial Coatings product line offset by increased volume in the AAS product line.

The gross profit margin remained constant at 29.9% in 2001 and 2000. Included in cost of sales are charges of $17,370,000 incurred to account for the write-down of inventory resulting from new account capture and other assets related to the $39,300,000 in aggregate pre-tax charges from a restructuring plan announced in September 2001. Excluding the impact of the write-down, the gross profit margin increased to 30.8% in 2001 due to successful raw material price reductions with added Lilly volume.

Operating expenses (research and development, selling and administrative, excluding the impact of restructuring) increased 39.1% to $391,184,000 (20.4% of net sales) in 2001 compared to $281,318,000 (19.0% of net sales) in 2000. Excluding the impact of acquisitions and divestitures, operating expenses remained constant. As part of the restructuring plan in the fourth quarter of 2001, the Company recorded a $21,930,000 restructuring charge to eliminate redundant facilities and functions resulting from the Lilly acquisition in order to accelerate performance improvement. See Note 3 to the Consolidated Financial Statements for detail of the restructuring.

Other (income)/expense increased to ($2,787,000) in 2001 from $200,000 in 2000. The 2001 income was driven by the gains on the divestiture of the Company's Mirror Coatings business and sale of certain assets.

Interest expense increased to $72,559,000 in 2001 from $21,989,000 in 2000 due to higher debt levels resulting from the Lilly acquisition.

Net income for the full year was $51,500,000 or $1.10 per diluted share. Excluding the impact of restructuring and other non-recurring charges, net income for the full year was $73,704,000 or $1.58 per diluted share. A weak economy, rising raw material prices and significantly higher interest and amortization expense negatively impacted the Company's financial performance in 2001. However, demand in the AAS Coatings product line remained strong and Packaging Coatings sales were stable.

FINANCIAL CONDITION

Cash provided by operating activities was $215,242,000 in 2002 compared with $197,609,000 in 2001 and $93,338,000 in 2000. The cash provided by operating activities and current cash balances was used to fund $44,698,000 in capital expenditures, $27,962,000 in dividend payments, $22,870,000 in acquisition investments and $136,155,000 in reduction in debt. The reduction in debt was offset by $14,736,000 due to non-cash items.

Accounts receivable increased $19,941,000 due to increased sales primarily in the AAS product line. Inventories and other assets increased $21,658,000 due to the increase in sales volume, a higher level of merchandising aids to support continued growth in the AAS product line, and a higher level of prepaid underwriting expenses resulting from the issuance of senior notes in April 2002. Accounts payable and accrued liabilities increased $68,052,000, primarily due to additional variable incentive compensation accruals and timing of accounts payable and interest payments.

Capital expenditures for property, plant and equipment were $44,698,000 in 2002, compared with $36,200,000 in 2001 and $32,425,000 in 2000. The Company anticipates capital spending in fiscal 2003 to be approximately $50,000,000.

The ratio of total debt to capital decreased to 55.7% at the end of 2002 compared to 61.6% in 2001. Average debt outstanding during 2002 was $1,008,522,000 at a weighted average interest rate of 4.83% versus $1,118,086,000 at 6.49% last year, decreasing the current year's interest expense to $48,711,000 from $72,559,000 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 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 25, 2002 for the fiscal years ending in October:

(Dollars in thousands)	2003	2004	2005	2006	2007	2008 and Thereafter	Total
Notes to Banks	-	-	417,945	-	-	2,579	420,524
Senior Notes	-	-	-	-	350,000	100,000	450,000
Industrial Development Bonds	166	176	182	163	169	14,031	14,887
Capital Leases	382	398	-	-	-	176	956
Operating Leases	15,253	12,644	7,475	1,478	1,063	1,953	39,866
Total Contractual Cash Obligations	15,801	13,218	425,602	1,641	351,232	118,739	926,233

At October 25, 2002, the Company had unused lines of credit available from banks of $643,983,000.

Common stock dividends of $27,962,000 in 2002 represented a 12% increase over 2001. The annual dividend was increased to $0.56 per share from $0.54 per share in 2001 with the payment at 54% of the prior year earnings. Excluding the impact of restructuring, the payout was 38% of the prior year earnings, slightly above the Company's target payout rate of approximately 25%.

The Company has continuing authorization to purchase shares of its common stock for treasury at management's discretion for general corporate purposes. There were no purchases in 2002 or 2001. Purchases under this program were 661,000 shares in 2000.

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 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.

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 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 claim 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 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.

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 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 periodically reviews its long-lived assets and finite lived intangible assets for impairment 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 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.

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.

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 25, 2002, approximately 40% of the Company's total debt consisted of floating rate debt after taking into account interest rate swaps entered into during the second quarter of 2002. If interest rates were to increase 10% from the rates in effect on October 25, 2002, assuming no change in debt balances, the additional interest expense would be approximately $1.5 million higher on a pre-tax basis during 2003.

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 acquistions, 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 25, 2002	October 26, 2001
ASSETS			
Current Assets	Cash and cash equivalents	$ 22,715	$ 20,139
	Accounts and notes receivable, less allowances for doubtful accounts (2002 - $17,013; 2001 - $10,212)	368,134	341,383
	Inventories	200,645	185,565
	Deferred income taxes	30,498	40,547
	Prepaid expenses and other accounts	79,796	73,860
	Total Current Assets	701,788	661,494
Goodwill, net		938,759	1,056,628
Intangibles, net		293,208	30,212
Other Assets		68,333	66,557
Long-Term Deferred Income Tax		14,989	-
Property, Plant and Equipment	Land	33,690	35,905
	Buildings	209,113	144,158
	Machinery and equipment	409,361	520,935
		652,164	700,998
	Less accumulated depreciation	249,689	289,819
	Net Property, Plant and Equipment	402,475	411,179
	Total Assets	$ 2,419,552	$ 2,226,070
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities	Notes payable to banks	$ 40,031	$ 41,600
	Trade accounts payable	197,047	174,844
	Income taxes	20,998	23,328
	Accrued liabilities	245,271	204,647
	Current portion of long-term debt	548	486
	Total Current Liabilities	503,895	444,905
Long-Term Debt, net of Current Portion		885,819	1,005,731
Deferred Income Taxes		180,592	60,012
Deferred Liabilities		111,993	60,857
	Total Liabilities	1,682,299	1,571,505
Stockholders' Equity	Common Stock (par value $.50 per share; shares authorized 120,000,000; shares issued, including shares in treasury, 60,221,312)	30,110	30,110
	Additional paid-in capital	230,163	216,756
	Retained earnings	614,964	522,805
	Other	(29,919)	(1,551)
		845,318	768,120
	Less cost of common stock in treasury (2002 – 10,117,299 shares; 2001 – 10,739,685 shares)	108,065	113,555
	Total Stockholders' Equity	737,253	654,565
	Total Liabilities and Stockholders' Equity	$ 2,419,552	$2,226,070

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)

For the Year Ended	October 25, 2002	October 26, 2001	October 27, 2000
Net Sales	$ 2,126,853	$ 1,920,970	$ 1,483,320
Cost and Expenses:			
Cost of sales	1,430,184	1,346,934	1,039,267
Research and development	65,924	58,105	46,353
Selling and administrative	376,277	303,796	224,290
Amortization expense	4,863	29,283	10,675
Restructuring	-	21,930	(1,200)
Income from Operations	249,605	160,922	163,935
Other Expense/(Income), net	2,346	(2,787)	200
Interest expense	48,711	72,559	21,989
Income before Income Taxes	198,548	91,150	141,746
Income taxes	78,427	39,650	55,280
Net Income	$ 120,121	$ 51,500	$ 86,466
Net Income Per Common Share - Basic	$ 2.41	$ 1.12	$ 2.02
Net Income Per Common Share - Diluted	$ 2.34	$ 1.10	$ 2.00

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share amounts)

	Common Stock		Additional Paid-In	Retained		Treasury
	Shares	Amount	Capital	Earnings	Other	Stock
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)	-
Total comprehensive income	-	-	-	86,466	(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
Common stock options exercised of 141,578 shares	-	-	918	-	-	(1,225)
Common stock issuance and sale of 6,900,000 shares	6,900,000	3,450	181,239	-	-	-
Comprehensive income:						
Net income	-	-	-	51,500	-	-
Foreign currency translation	-	-	-	-	(1,245)	-
Total comprehensive income	-	-	-	51,500	(1,245)	-
Cash dividends on common stock - $.54 per share	-	-	-	(24,856)	-	-
Other	-	-	332	5,301	-	870
Balance October 26, 2001	60,221,312	$ 30,110	$ 216,756	$522,805	$ (1,551)	$113,555
Common stock options exercised for 414,015 shares	-	-	6,395	-	-	(4,398)
Restricted stock granted for 246,188 shares	-	-	7,227	-	-	(2,672)
Comprehensive income:						
Net income	-	-	-	120,121	-	-
Foreign currency translation	-	-	-	-	(7,045)	-
Minimum pension liability adjustment, net of tax of $13,790	-	-	-	-	(21,120)	-
Net unrealized loss on financial instruments, net of tax of $1,199	-	-	-	-	(1,837)	-
Total comprehensive income	-	-	-	120,121	(30,002)	-
Cash dividends on common stock - $.56 per share	-	-	-	(27,962)	-	-
Other	-	-	(215)	-	1,634	1,580
Balance October 25, 2002	60,221,312	$ 30,110	$ 230,163	$614,964	$ (29,919)	$108,065

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Year Ended	October 25, 2002	October 26, 2001	October 27, 2000
Operating Activities	Net income	$ 120,121	$ 51,500	$ 86,466
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Restructuring and non-recurring charge	-	39,300	(1,200)
	Depreciation	46,280	43,767	34,563
	Amortization	4,863	29,283	10,675
	Deferred income taxes	14,540	15,055	11,526
	Loss/(gain) on sales or abandonment of property, plant and equipment	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	(19,941)	20,214	(17,100)
	Decrease (increase) in inventories and other assets	(21,658)	10,108	(14,397)
	Increase (decrease) in trade accounts payable and accrued liabilities	68,052	(26,989)	(8,074)
	Increase (decrease) in income taxes payable	(2,489)	8,293	(10,952)
	Increase (decrease) in other deferred liabilities	(2,049)	6,048	(792)
	Other	6,095	5,278	2,623
	Net Cash Provided by Operating Activities	215,242	197,609	93,338
Investing Activities	Purchases of property, plant and equipment	(44,698)	(36,200)	(32,425)
	Acquired businesses, net of cash	(22,870)	(830,664)	(3,935)
	Divested businesses/assets	8,226	22,430	-
	Other investments/advances to joint ventures	-	-	(15,586)
	Net Cash Used in Investing Activities	(59,342)	(844,434)	(51,946)
Financing Activities	Net proceeds from (payments on) borrowings	(136,155)	484,053	(12,278)
	Proceeds from sales of treasury stock	10,793	2,143	1,941
	Proceeds from equity offering	-	184,689	-
	Purchase of shares of Common Stock for treasury	-	-	(21,124)
	Dividends paid	(27,962)	(24,856)	(22,185)
	Net Cash provided by/ (used in) financing activities	(153,324)	646,029	(53,646)
	(Decrease)/increase in cash and cash equivalents	2,576	(796)	(12,254)
Cash and Cash Equivalents at Beginning of Year		$ 20,139	20,935	33,189
Cash and Cash Equivalents at End of Year		$ 22,715	$ 20,139	$ 20,935

See Notes to Consolidated Financial Statements

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

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

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

Property, Plant and Equipment: Property, plant and equipment are recorded at cost. Provision for depreciation of property is made by charges to operations at rates calculated to amortize the cost of the property over its useful life (twenty years for buildings; three to ten years for machinery and equipment) primarily using the straight-line method.

Intangible and Long-Lived Assets: Intangible assets, including goodwill, are carried at cost. In June 2001, the Financial Accounting Standards Board issued 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 requires 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). The Company reviews all other long-lived assets for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." Under Statement 144, impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate 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, the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees" and its interpretations in accounting for its stock options and other stock-based employee compensation awards. Pro forma information regarding net income and earnings per share as calculated under the fair value provisions of Statement 123 is disclosed in Note 9 to the financial statements.

Foreign Currency: Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance 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 each of the three years ended October 25, 2002 in accordance with Statement of Financial Accounting Standards No. 128:

	2002	2001	2000
Weighted average common shares outstanding-basic	49,892,689	46,062,459	42,706,168
Dilutive effect of stock options	1,477,720	595,296	489,599
Equivalent average common shares outstanding-diluted	51,370,409	46,657,755	43,195,767

Under the provisions of Statement 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 53,687, 3,025,335 and 1,479,816 related to the Company's outstanding stock options and restricted stock grants were excluded from the computation of diluted earnings per share for 2002, 2001 and 2000, respectively, as inclusion of these shares would have been antidilutive.

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 25, 2002. See Note 7 to the Consolidated Financial Statements for additional information.

Comprehensive Income: Comprehensive income consists of net income, foreign currency translation adjustments, changes in the fair value of certain derivative financial instruments designated and qualifying as cash flow hedges, and minimum pension liability adjustments, and is presented in the Consolidated Statements of Changes in Stockholders' Equity.

Reclassification: Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation.

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 million 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 million 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 million, including the assumption of debt of approximately $218 million. Lilly Industries was one of the five largest industrial coatings and specialty chemicals manufacturers in North America, with reported net sales of $656.2 million for the year ended November 30, 1999, and $669.7 for the year ended November 30, 2000. Lilly Industries 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, and agricultural and construction equipment. The transaction was accounted for as a purchase. Accordingly, the net assets and operating results have been included in the Company's financial statements from the date of acquisition.

The following unaudited pro forma combined summary statement of income information for the year ended October 26, 2001 was prepared in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations" and assumes the acquisition had occurred at the beginning of the period presented. The following pro forma data reflect adjustments for interest expense and excludes amortization of goodwill in accordance with Statement 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 million 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.

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 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. Through October 25, 2002, the Company has paid or incurred substantially all of the $39,300 restructuring costs.

These plans contemplated a workforce reduction of worldwide headcount of 350 or five percent. As of October 25, 2002, substantially all of the 350 terminations have occurred and substantially all of the location closures/consolidations have occurred.

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

NOTE 4 • INVENTORIES

The major classes of inventories consist of the following:

	2002	2001
Manufactured products	$123,274	$114,967
Raw Materials, supplies and work-in-process	77,371	70,598
	$200,645	$185,565

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate $129,341 at October 25, 2002 and $128,450 at October 26, 2001, approximately $24,523 and $28,530 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 $41,082 and $24,459 of issued checks which had not cleared the Company's bank accounts as of October 25, 2002 and October 26, 2001, respectively.

Accrued liabilities include the following:

	2002	2001
Employee compensation	$ 73,038	$ 58,860
Uninsured loss reserves	43,941	43,343
Customer volume rebates	40,432	34,668
Contribution to employees' retirement trusts	16,299	10,271
Restructuring	1,599	17,622
Interest	14,170	4,942
Advertising and Promotions	8,449	8,318
Other	47,343	26,623
Total	$245,271	$204,647

NOTE 6 • LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2002	2001
Notes to banks (2.525%-5.9667% at October 25, 2002)	$420,524	$890,350
Senior Notes (7.75% at October 25, 2002 payable in December 2007)	100,000	100,000
Senior Notes (6.00% at October 25, 2002 payable in May 2007)	350,000	-
Industrial development bonds (1.95-7.60% at October 25, 2002, payable in 2015 and 2018)	14,887	14,824
Obligations under capital lease (0.00%-8.25% at October 25, 2002)	956	1,043
	$886,367	$1,006,217
Less current maturities	(548)	(486)
	$885,819	$1,005,731

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 billion credit facility are domestic notes to banks totaling $417,945 at October 25, 2002 and $887,750 at October 26, 2001. The maturities of the remaining long-term debt are as follows: 2003 - $548; 2004 - $574; 2005 - $182; 2006 - $163; 2007 - $350,169 and $116,786 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 25, 2002.

Under other short-term bank lines of credit around the world, the Company may borrow up to $104,538 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 3.41% in 2002 and 6.37% in 2001.

The Company had unused lines of credit under the short-term bank lines and revolving credit facility of $643,983 at October 25, 2002 and of $688,429 at October 26, 2001.

On April 30, 2002, the Company issued $350,000 of unsecured Senior Notes bearing interest at 6.00% and maturing in 2007. The Company is required to make semi-annual interest payments on the Senior Notes.

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 2002, 2001 and 2000 was $36,825, $67,660 and $22,369, respectively.

NOTE 7 • FINANCIAL INSTRUMENTS

The Company's involvement with derivative financial instruments is limited 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 on certain inter-company 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.

At October 25, 2002, the Company had interest rate swap contracts designated as fair value hedges to pay fixed rates of interest and receive variable rates of interest based on one-month and three-month LIBOR on $200,000 notional amount of indebtedness. The $200,000 notional amount of outstanding contracts will mature $100,000 during fiscal 2003 and $100,000 during fiscal 2004. At October 25, 2002, the Company had interest rate swap contracts designated as cash flow hedges to pay floating rates of interest based on three-month LIBOR on $100,000 notional amount of indebtedness. The $100,000 notional amount of outstanding contracts will mature during fiscal 2008. At October 26, 2001, the Company did not have interest rate swap contracts of any kind. As the critical terms of the interest rate swap and hedged debt match, there is an assumption of no ineffectiveness for these hedges.

NOTE 8 • GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Statement 141 requires that the purchase method of accounting be used for all business combinations after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives.

Effective October 27, 2001, the Company adopted Statement 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. In accordance with Statement 142, the Company completed the required impairment tests of goodwill and intangible assets with indefinite lives and determined the fair value to be in excess of the carrying value of these assets.

As required by Statement 142, the Company continues to amortize intangibles with finite lives. Included in intangible assets are patents, trademarks, tradenames, customer lists and technology.

A reconciliation of reported net income adjusted to reflect the adoption of Statement 142 is provided below:

	Year ended October 25, 2002	Year ended October 26, 2001
Reported net income	$120,121	$51,500
Add-back amortization of goodwill and intangible assets with indefinite useful lives, net of tax	-	18,819
Adjusted net income	$120,121	$70,319
Reported basic earnings per share	$2.41	$1.12
Add-back amortization of goodwill and intangible assets with indefinite useful lives	-	$0.40
Adjusted basic earnings per share	$2.41	$1.52
Reported diluted earnings per share	$2.34	$1.10
Add-back amortization of goodwill and intangible assets with indefinite useful lives	-	$0.40
Adjusted diluted earnings per share	$2.34	$1.50

The changes in the carrying amount of goodwill and intangible assets for the fiscal year ended October 25, 2002 are as follows:

Balance as of October 26, 2001	**$1,056,628**
Goodwill acquired during the period	1,307
Currency translation	386
Reclassification due to final purchase price allocation under Statement 141	(119,562)
Balance as of October 25, 2002	**$938,759**

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

As of October 25, 2002	Carrying Amount	Accumulated Amortization	Net
Trademarks	$ 55,591	$ (7,740)	$ 47,851
Customer Lists	135,891	(9,908)	125,983
Technology	114,459	(2,697)	111,762
Other	10,897	(3,285)	7,612
	$ 316,838	$(23,630)	$293,208
As of October 26, 2001			
Trademarks	$ 8,272	$ (7,397)	$ 875
Customer Lists	20,204	(5,253)	14,951
Technology	12,516	(4,058)	8,458
Other	7,987	(2,059)	5,928
	$ 48,979	$(18,767)	$ 30,212

Amortization lives for intangible assets range from 6 to 40 years.

Total amortization expense was $4,863 in 2002 and in 2001 was $29,283, of which $25,080 was goodwill amortization. Estimated amortization expense for each of the five succeeding fiscal years based on intangibles assets as of October 25, 2002 is expected to be approximately $4,900 annually.

NOTE 9 • STOCK PLANS

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

As permitted by Statement 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 Statement 123, the Company's net income and earnings per share would have been reported as follows:

	2002	2001	2000
Pro forma net income	$111,555	$45,325	$79,406
Pro forma earnings per share:			
Basic	$2.24	$0.98	$1.86
Diluted	2.17	0.97	1.84

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:

	2002	2001	2000
Expected dividend yield	1.5%	1.5%	1.5%
Expected stock price volatility	33.2%	29.8%	27.9%
Risk-free interest rate	2.9%	4.2%	5.5%
Expected life of options	6 years	6 years	6 years

The weighted average fair value for options granted during 2002, 2001 and 2000 is $10.67, $11.05, and $10.83 per share, respectively. Stock option activity for the three years ended October 25, 2002 is summarized as follows:

	Shares Reserved	Options Outstanding	Weighted Average Exercise Price
October 29, 1999 Balance	4,057,981	2,228,395	$26.49
Shares reserved	-	-	-
Granted	(1,543,690)	1,444,172	$33.32
Exercised	-	(84,893)	$22.86
Canceled	72,321	(68,192)	$37.24
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	2,107,215	6,192,953	32.63

Options outstanding at October 25, 2002 had an average remaining contractual life of 7.50 years. Options exercisable of 3,434,117 at October 25, 2002, 2,395,331 at October 26, 2001, and 1,911,232 at October 27, 2000 had weighted average exercise prices of $29.70, $26.32, and $23.20 respectively. The exercise price for options outstanding as of October 25, 2002 range from $14.81 to $44.76, with 2,183,308 shares outstanding in the $14.81 - $30.00 range and 4,009,645 shares outstanding in the $30.00 - $44.76 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 $7,348, $4,328, and $3,314, for 2002, 2001, and 2000, 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 10 • INCOME TAXES

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

Year Ended	2002	2001	2000
Current			
Federal	$39,296	$14,558	$32,312
State	2,709	(1,443)	3,412
Foreign	11,605	7,938	8,212
Total Current	$53,610	$21,053	$43,936
Deferred			
Federal	$20,450	$15,302	$ 9,586
State	4,820	2,731	1,565
Foreign	(453)	564	193
Total Deferred	24,817	18,597	11,344
Total Income Taxes	$78,427	$39,650	$55,280

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

	2002	2001	2000
Deferred tax assets:			
Product liability accruals	$ 4,209	$ 9,372	$ 2,508
Insurance accruals	3,457	3,392	3,418
Deferred compensation	10,193	12,526	10,566
Deferred Revenue	12,452	-	-
Workers' compensation accruals	2,309	2,141	2,538
Employee compensation accruals	4,873	2,693	1,931
Pension	15,195	(5,224)	(3,553)
Other	22,871	31,769	20,974
Total deferred tax assets	$75,559	$56,669	$38,382
Deferred tax liabilities:			
Tax in excess of book depreciation	(44,149)	(33,510)	(24,445)
Other	(166,515)	(42,624)	(17,839)
Total deferred tax liabilities	(210,664)	(76,134)	(42,284)
Net deferred tax liabilities	$(135,105)	$(19,465)	$(3,902)

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

	2002	2001	2000
Tax at U.S. statutory rate	35.0%	35.0%	35.0%
Goodwill amortization	-	5.5%	0.5%
State income taxes, net of Federal benefit	3.0%	0.8%	2.1%
Non-U.S. taxes	(0.6%)	2.7%	0.7%
Other	2.1%	(0.5%)	0.7%
	39.5%	43.5%	39.0%

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 $97,561 at October 25, 2002. 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 2002, 2001 and 2000 were $58,074, $21,292 and $51,669, respectively.

NOTE 11 • LEASING ARRANGEMENTS

The Company has operating lease commitments outstanding at October 25, 2002, 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
2003	$15,253
2004	12,644
2005	7,475
2006	1,478
2007	1,063
2008 and beyond	1,953
	$39,866

Rent expense for operating leases was $17,761 in 2002, $12,408 in 2001 and $6,426 in 2000.

NOTE 12 • 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 13 • PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors a Profit Sharing Plan for substantially all of its domestic employees. Under the Plan, the Company makes a contribution based on return on assets as defined in the Plan up to a maximum of 10% of the aggregate compensation of eligible participants. Contributions to the Profit Sharing Plan totaled $14,576, $9,264, and $10,657, for 2002, 2001, and 2000, 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 Company assumed the liabilities and assets under the Lilly pension plan for employees eligible as of the date of acquistion.

The cost of the pension benefits is as follows:

Net Periodic Cost	2002	2001	2000
Service cost	$1,869	$1,837	$1,185
Interest cost	9,266	7,861	2,328
Expected return on plan assets	(12,461)	(12,774)	(3,818)
Amortization of transition asset obligation	(322)	(301)	(91)
Amortization of prior service cost	918	817	343
Recognized actuarial gain	600	(409)	(406)
Net-periodic benefit cost	(130)	(2,969)	(459)
Settlement gain	-	-	(787)
Net-periodic benefit cost after settlement	$ (130)	$(2,969)	$(1,246)

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	2002	2001
Benefit obligation at beginning of year	$143,008	$ 37,582
Service cost	1,869	1,837
Interest cost	9,266	7,861
Plan participants' contributions	99	125
Amendments	312	1,316
Actuarial (gain) loss	126	20,889
Acquisitions	-	79,211
Benefits paid	(7,427)	(5,813)
Benefit obligation end of year	$147,253	$143,008

Change in Plan Assets	2002	2001
Fair value of plan assets at beginning of year	$134,031	$ 51,806
Actual return on plan assets	(14,294)	(6,955)
Employer contributions	501	628
Plan participants' contributions	99	125
Benefit payments	(7,427)	(5,813)
Acquisitions	-	94,240
Fair value of plan assets at end of year	$112,910	$134,031

Funded Status	2002	2001
Funded status at end of year	$(34,343)	$ (8,977)
Unrecognized transition asset	(779)	(1,098)
Unrecognized prior service cost	6,868	7,752
Unrecognized net (gain)/loss	50,670	24,534
Net amount recognized in statement of financial position	$ 22,416	$ 22,211

Amounts recognized in the consolidated balance sheets were as follows:

	2002	2001
Prepaid benefit cost	$22,416	$22,211
Additional minimum liability	(41,917)	-
Intangible asset	7,007	-
Accumulated other comprehensive loss	34,910	-
Net amount recognized in statement of financial position	$22,416	$22,211

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

	2002	2001
Projected benefit obligation	$147,253	-
Acumulated benefit obligation	129,616	-
Fair value of plan assets	112,910	-

The actuarial assumptions were as follows:

	2002	2001
Discount rate	5.75%-7.0%	6.0%-7.0%
Expected return on plan assets	7.0%-9.0%	7.0%-9.0%
Average increase in compensation	2.0%-2.5%	2.75%-4.0%

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 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 balance sheet was $5,935 and $5,331 at October 25, 2002 and October 26, 2001, respectively. Net periodic post-retirement expense was $1,216, $487, and $150 in 2002, 2001 and 2000, respectively.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.0% at October 25, 2002 and October 26, 2001. The assumed health-care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 6.0% in 2002, 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 14 • 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:

	2002	2001	2000
Industrial	$836,750	$734,302	$384,027
AAS	640,516	575,365	510,055
Packaging	511,585	482,238	483,548
Other	138,002	129,065	105,690
	$2,126,853	$1,920,970	$1,483,320

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:

	2002	2001	2000
Net sales-External:			
United States	$1,597,262	$1,470,394	$1,137,219
Outside United States	529,591	450,576	346,101
Total net sales-External	$2,126,853	$1,920,970	$1,483,320
	2002	**2001**	**2000**
Long-lived assets:			
United States	$1,399,451	$1,275,271	$343,813
Outside United States	234,991	222,748	163,682
Total long-lived assets	$1,634,442	$1,498,019	$507,495

NOTE 15 • QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results for the years ended October 25, 2002 and October 26, 2001:

	Net Sales	Gross Margin	Net Income	Net Income Per Share-Diluted
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
2001 Quarter Ended:				
January 26	$336,980	$93,335	$ 4,458	$ .10
April 27	513,745	162,099	19,036	.44
July 27	544,888	170,392	25,502	.51
October 26	525,357	148,210	2,504	.05
	$1,920,970	$574,036	$51,500	$1.10

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 25, 2002 and October 26, 2001 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 25, 2002. 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 25, 2002 and October 26, 2001 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 25, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 8 to the consolidated financial statements, effective October 27, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Ernst & Young LLP

Minneapolis, Minnesota
November 15, 2002

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 BOARD OF DIRECTORS

Front row: **Susan Boren, Richard Rompala, Lawrence Perlman, Jeffrey Curler**
Back row: **Richard White, Charles Gaillard, Gregory Palen, Edward Pollak, Michael Sullivan, Sr., Thomas McBurney, Mae Jemison**

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, The Jemison Group, Inc.
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., Consultant 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.
Chairman, International Dairy Queen, Inc.
Richard L. White, Ph.D.
Former Executive Vice President, Bayer Corporation

OFFICERS

Richard M. Rompala
Chairman and Chief Executive Officer
John M. Ballbach
President and Chief Operating 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
Alfred 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 26, 2003, 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

Information on Valspar and its businesses is available on the World Wide Web at: **www.valspar.com**