25 YEARS OF CONSECUTIVE INCREASING PROFITABILITY

1999

VALSPAR ANNUAL REPORT

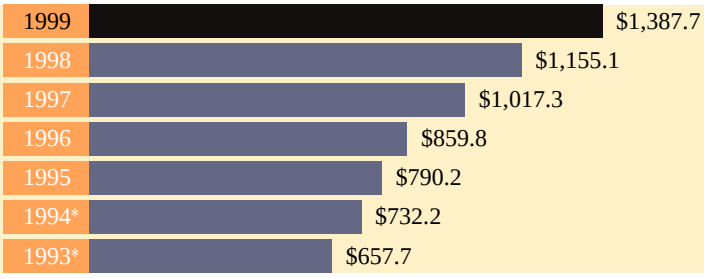
THE VALSPAR CORPORATION IS EXTREMELY PLEASED TO HAVE ACHIEVED OUR 25TH CONSECUTIVE YEAR OF INCREASED EARNINGS PER SHARE. THIS CONSISTENT FINANCIAL PERFORMANCE HAS ALLOWED US TO CONTINUE TO DEVELOP OUR PEOPLE, OUR STATE-OF-THE-ART PROCESSES AND OUR GLOBAL INFRASTRUCTURE, WHILE CONSTANTLY IMPROVING PRODUCT OFFERINGS TO MEET CHANGING CUSTOMER DESIRES. FIFTY PERCENT OF THE PRODUCTS OFFERED TODAY DID NOT EXIST FIVE YEARS AGO. CONTINUOUS INVESTMENTS IN TECHNOLOGY AND STRATEGIC ACQUISITIONS OF RELATED BUSINESSES SUPPORT VALSPAR'S COMMITMENT TO PROVIDING THE LOWEST APPLIED COST PRODUCTS TO ALL OF OUR CUSTOMERS ON A GLOBAL BASIS. THE EXPERIENCED AND SKILLFUL INTEGRATION OF ACQUIRED BUSINESSES, ALONG WITH THE BALANCED MIX OF COMPLEMENTARY PRODUCT LINES, HAVE CONTRIBUTED TO GROWTH IN SALES AND EARNINGS THROUGHOUT VARIOUS ECONOMIC CYCLES. THE VALSPAR CORPORATION'S MISSION IS TO BE THE RECOGNIZED LEADER IN THE COATINGS INDUSTRY (1) BY MEETING CUSTOMER REQUIREMENTS, CURRENT AND FUTURE; (2) BY BELIEVING IN OUR EMPLOYEES, AND EMPOWERING THEM TO MAXIMIZE PRODUCTIVITY; AND (3) BY CREATING EXCEPTIONAL VALUE TO OUR SHAREHOLDERS.

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share amounts)

	1999	% Change from 1998	1998	% Change from 1997
Net sales	$ 1,387,677	20.1%	$ 1,155,134	13.6%
Income before taxes	135,086	13.7%	118,788	8.8%
Net income	82,142	13.9%	72,130	9.5%
Return on shareholders' equity	22.4%		22.7%	
Diluted earnings per share	$ 1.87	14.7%	$ 1.63	9.4%
Cash dividends per share	0.46	9.5%	0.42	16.7%
Total assets	1,110,720	38.5%	801,680	30.3%
Total debt	352,773	86.5%	189,108	75.4%
Stockholders' equity	393,756	15.7%	340,188	15.3%
Stockholders' equity per share	9.16	16.8%	7.84	16.0%
Number of shares outstanding	42,983,313	-1.0%	43,418,485	-0.6%

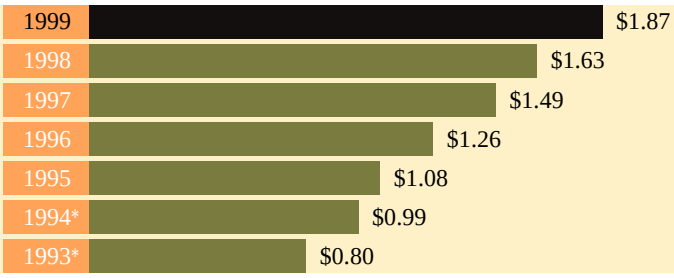
The above information and the following graphs have been adjusted to reflect the 2-for-1 stock split effective in March 1997. Historical data is provided in the Eleven-Year Financial Summary on pages 6 and 7.



NET SALES

(Millions)

6 year average growth rate of 13.3%



NET INCOME PER SHARE

(Dollars)

6 year average growth rate of 15.2%

RETURN ON AVERAGE EQUITY

(Percent)

6 year average return of 24.1%

* Pro forma information as though the McWhorter business spin-off occurred at the beginning of fiscal 1993

TO OUR SHAREHOLDERS

1999 marked an important milestone in Valspar's 193-year history with our 25th consecutive year of record earnings. This significant achievement attests to the constant efforts and dedication of all our employees to continuous improvement – meeting and exceeding customer expectations with products that offer the lowest applied cost on a global basis.

We are proud of this accomplishment and have built considerable momentum as we continue to develop into one of the leading coatings companies in the world.

Financial Results

In 1999, sales increased 20 percent to $1.4 billion and diluted earnings per share increased 15 percent to $1.87. Cash flow continued to be a focus for all our employees, resulting in net cash from operations of $127 million, an increase of 16 percent over last year. Additional borrowings of $162 million were used to finance acquisitions, capital expenditures of $31 million, dividends of $20 million and stock repurchases of $18 million. In an effort to maintain future financial flexibility, Valspar applied for and received strong investment grade debt ratings from Moody's Investor Services and Standard & Poor's and filed a shelf registration for up to $300 million of debt.

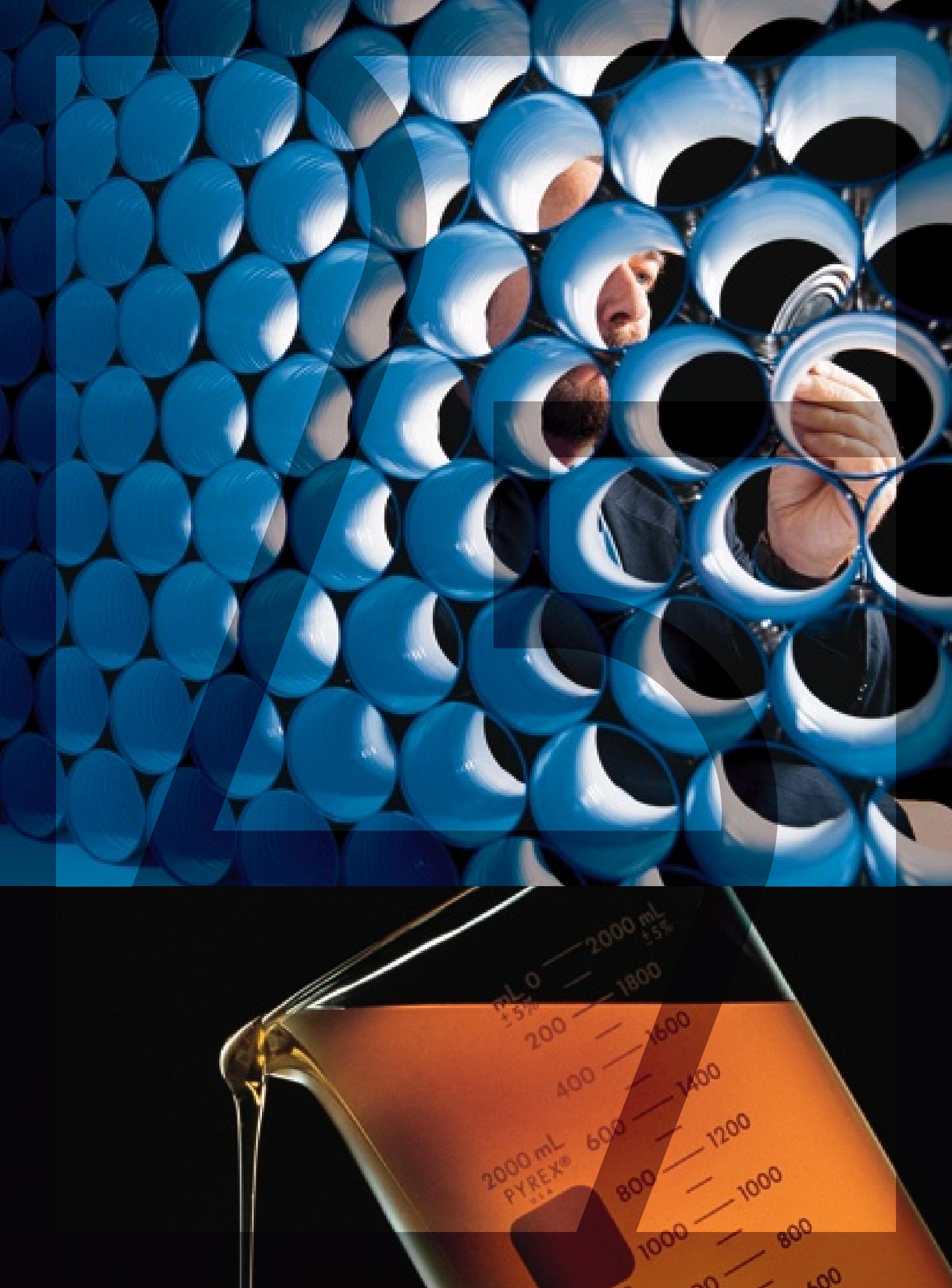
In recognition of these record results, the Board of Directors raised the quarterly dividend 13 percent to 13¢ per share, effective with the dividend payable in January 2000.

Operating Highlights

Valspar's Coatings segment had another excellent year. Sales growth with existing customers, and aggressive efforts with new customers, led to a 20 percent increase in sales with outstanding results in our Packaging and Industrial product lines. Sales of our Coatings Intermediates segment, comprised of our Resin and Colorant product lines, rose 15 percent, with much of this growth occurring outside North America. All of our product lines contributed improved performance in 1999.

Investments in technology have provided Valspar with significant competitive advantages. Fifty percent of the products offered today have been developed within the last five years, and about 10 percent of our people are involved in the technology effort. Many of our technologies are developed internally, while others are acquired as part of strategic acquisitions. This diversity of discovery is a key driver of our performance.

Our quality and cost initiatives were reenergized in 1999 with an emphasis on First Run Capability – a comprehensive program to reduce rework in all our business processes. Through cross-functional cooperation and improved communications, we achieved improvements in productivity and waste reductions totaling $10 million versus 1998. In addition, cumulative savings from our global supply chain initiatives – our MIDAS Program – exceeded $40 million since 1995.


2000 mL
PYREX®
2000 mL

Safety is a core value in Valspar, and 1999 marked the sixth consecutive year where fewer employees were hurt on the job. Our accident rate dropped 23 percent, and statistics show that Valspar has become a world leader in providing an accident-free work environment.

Acquisitions

Acquisitions have always been an important link in our growth chain. The rapid and successful "Valsparization" of new people, technologies, customers and manufacturing operations is a key strategic competency. In 1999 we acquired the packaging and industrial coatings businesses of Dexter Corporation, expanding our global footprint in many countries and solidifying our position as the world leader in packaging coatings. We acquired a majority ownership in Dyflex B.V., a Dutch resin manufacturer, to further support our customers in Europe. And we acquired the remaining interest in Farboil, a powder coatings operation in Maryland, to provide additional capacity and sales in one of the fastest growing areas of the coatings industry.

We manage our portfolio of businesses by continually reviewing all our product lines for their contributions to our long-term objectives. During 1999, we sold the Flexible Packaging Coatings product line as well as our Marine Coatings product line in order to focus on achieving and maintaining leadership positions in other, more strategic coatings markets. We announced the closure of two production facilities as part of our ongoing optimization of manufacturing.

Director Change

Angus Wurtele has led Valspar's expansion from a small, regional paint company into an international coatings enterprise. His leadership, vision and ability to acquire companies and talented employees has provided a formula for growth and profitability that will enable us to target and pursue the many opportunities we continue to see as we enter the new century. After 30 years as a director of the company, including 25 years as Chairman of the Board, Angus will be resigning from the Board in February, 2000. His clear values, leadership by example, and concern for shareholders, customers and employees, have served Valspar well throughout his tenure.
For his vision, his dedication to excellence, and his friendship, we wish to express our deep appreciation for his lasting legacy.

Outlook

We remain on-track to reach our goal of $2 billion in sales in 2001 and have also established a target of $3 billion in sales for 2004. We have reinforced our commitment to profitable growth with an ongoing objective of 15 percent growth in sales and earnings annually. High levels of employee ownership continue to align all our interests and increase shareholder value. At year-end, employees and retirees owned approximately 25 percent of the outstanding shares.

In 2000, we will face new challenges from increased competition and pressure from higher raw material costs. However, we are poised to respond quickly to changing market conditions and expect to achieve another year of profitable growth.

I want to thank all of our employees around the world for achieving our 25th consecutive year of record performance. We are confident that the quality and commitment of our employees, as well as the strength of our management team, will lead us successfully into the new century.

Richard M. Rompala
Chairman, President and Chief Executive Officer

ELEVEN-YEAR FINANCIAL SUMMARY

(Dollars in thousands, except per share amounts)

	Fiscal years	1999	1998	1997
Operating Results:	Net sales	$1,387,677	$1,155,134	$1,017,271
	Cost and expenses			
	Cost of sales	960,395	803,240	698,474
	Operating expense	273,925	230,152	206,834
	Restructuring charge	8,346	–	–
	Income from operations	145,011	121,742	111,963
	Other (income) expense - net	(9,164)	(7,753)	(2,508)
	Interest expense	19,089	10,707	5,294
	Income before income taxes	135,086	118,788	109,177
	Net income	$ 82,142	$ 72,130	$ 65,877
	Net income as a percent of sales	5.9%	6.2%	6.5%
	Return on average equity	22.4%	22.7%	24.0%
	Per common share:			
	Net income - basic	$ 1.90	$ 1.66	$ 1.51
	Net income - diluted	1.87	1.63	1.49
	Dividends paid	0.46	0.42	0.36
	Stockholders' equity	9.16	7.84	6.76
Financial Position:	Total assets	$1,110,720	$ 801,680	$ 615,470
	Working capital at year-end	140,216	158,085	97,427
	Property, plant and equipment, net	312,133	233,482	185,748
	Long-term debt, excluding current portion	298,874	164,768	35,844
	Stockholders' equity	393,756	340,188	295,065
Other Statistics:	Property, plant and equipment expenditures	$ 31,400	$ 42,833	$ 48,131
	Depreciation and amortization expense	39,800	30,742	25,771
	Research and development expense	44,091	39,555	39,099
	Total cash dividends	$ 19,785	$ 18,575	$ 15,741
	Average common shares outstanding - diluted (000's)	43,836	44,320	44,233
	Number of stockholders	1,818	1,815	1,830
	Number of employees at year-end	3,982	3,833	3,205
	Market price range - common stock: High	$ 39.69	$ 42.13	$ 32.94
	Low	28.00	25.75	24.00

STOCK INFORMATION

Stock traded on the New York Stock Exchange

For the fiscal year		1999	1998
Market Price / High-Low:	First quarter	$37.75-28.00	$32.50-29.00
	Second quarter	35.00-29.25	42.13-31.38
	Third quarter	39.69-33.75	42.00-38.56
	Fourth quarter	37.56-30.19	38.81-25.75

Reference is made to the Notes in 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.

1996	1995	1994	1993	1992	1991	1990	1989
$859,799	$790,175	$795,275	$700,897	$683,485	$632,562	$571,445	$526,892
594,935	561,170	569,063	501,135	492,092	458,953	410,094	385,459
169,873	146,344	146,683	129,997	131,232	120,643	109,206	98,725
–	–	–	–	–	–	–	–
94,991	82,661	79,529	69,765	60,161	52,966	52,145	42,708
(1,081)	(763)	631	2,036	360	1,504	3,337	(1,555)
3,029	4,216	2,504	1,645	2,932	5,686	4,704	5,838
93,043	79,208	76,394	66,084	56,869	45,776	44,104	38,425
$ 55,893	$ 47,520	$ 45,799	$ 40,156	$ 34,418	$ 27,676	$ 26,731	$ 23,234
6.5%	6.0%	5.8%	5.7%	5.0%	4.4%	4.7%	4.4%
24.0%	24.4%	24.4%	21.8%	21.7%	20.0%	22.1%	21.9%
$ 1.28	$ 1.09	$ 1.04	$ 0.92	$ 0.79	$ 0.64	$ 0.61	$ 0.52
1.26	1.08	1.04	0.91	0.79	0.64	0.61	0.52
0.33	0.30	0.26	0.22	0.18	0.15	0.13	0.11
5.78	4.83	3.99	4.51	3.92	3.40	2.96	2.56
$486,440	$398,199	$367,608	$340,479	$321,618	$319,367	$302,806	$261,103
96,130	90,995	87,887	85,741	57,500	58,066	56,199	63,519
153,819	130,404	107,956	103,916	101,005	98,818	106,621	82,687
31,948	21,658	35,343	7,890	10,684	30,697	49,456	40,201
253,703	212,115	176,712	198,826	169,377	147,896	128,707	112,698
$ 25,376	$ 38,982	$ 31,817	$ 17,213	$ 19,581	$ 8,843	$ 13,171	$ 8,701
22,262	20,318	19,134	20,648	19,793	18,896	15,119	13,975
32,616	27,746	27,430	24,955	24,802	23,226	20,350	18,037
$ 14,575	$ 13,121	$ 11,252	$ 9,471	$ 7,843	$ 6,519	$ 5,651	$ 4,899
44,403	44,183	44,326	44,062	43,946	43,724	43,708	44,660
1,783	1,864	1,902	1,866	1,863	1,857	1,863	1,864
2,855	2,542	2,585	2,577	2,482	2,530	2,502	2,593
$ 25.50	$ 20.94	$ 22.88	$ 20.75	$ 18.19	$ 11.72	$ 10.00	$ 7.97
19.13	15.25	16.38	15.19	11.28	7.63	7.35	5.66

DIVIDENDS

Stock traded on the New York Stock Exchange

For the fiscal year		1999	1998
Per Share Dividends:	First quarter	$ 0.115	$ 0.105
	Second quarter	0.115	0.105
	Third quarter	0.115	0.105
	Fourth quarter	0.115	0.105
		$ 0.46	$ 0.42

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:

- 1999 - The Company completed three acquisitions 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.
- 1997 - The Company completed nine acquisitions. Net consideration paid was $40.6 million and the exchange of the Company's maintenance business.

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 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 details 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 represents 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.

OPERATIONS 1998 VS. 1997

Net sales increased 13.6% to $1,155,134,000 in 1998 from $1,017,271,000 in 1997. 1997 was a 53-week fiscal year. Excluding the results of acquisitions, divestitures and the additional accounting week, net sales increased by approximately 9%. The increase was primarily driven by volume increases in both the Coatings and the Coating Intermediates segments. The AAS and Industrial product lines led the volume growth within the Coatings segment.

The gross profit margin decreased to 30.5% in 1998 from 31.3% in 1997. The decrease was primarily driven by pricing pressures in the industry, a shift in product mix to lower margin products within the Coatings segment, as well as increased raw material costs, particularly in certain key, high-volume materials.

Operating expenses (research and development, selling and administrative) increased 11.3% to $230,152,000 (19.9% of net sales) in 1998 compared with $206,834,000 (20.3% of net sales) in 1997. Excluding the results of acquisitions, divestitures and the additional accounting week, operating expenses increased approximately 7%. The increase in operating expenses was primarily attributable to additional advertising and promotional costs for large AAS customers, additional selling expenses in the Company's two operating segments and higher costs to support the upgrade of the Company's information systems.

The improvement in operating expenses as a percent of sales is due to the continued focus on expense control and the efforts of cross-functional cost reduction teams.

Other income, net of expense, increased to $7,753,000 in 1998 from $2,508,000 in 1997, as a result of the gain recognized on the divestiture of the Company's Functional Powder product line.

Interest expense increased to $10,707,000 in 1998 from $5,294,000 in 1997 reflecting an increase in debt levels during the year due to acquisitions during the period.

In 1998, net income increased 9.5% to $72,130,000, or $1.63 per diluted share. Income from operations increased 8.7% due to the sales growth and operating expense controls which were partially offset by the reduced gross margin during 1998. The gain on the divestiture offset the increased interest costs during the year.

FINANCIAL CONDITION

Cash provided by operating activities was $127,249,000 in 1999 compared with $109,439,000 in 1998 and $53,129,000 in 1997. The operating cash flow increase in 1999 was due to the higher earnings as well as improved management of working capital, primarily inventories. The cash provided by operating activities combined with $162,037,000 in proceeds from bank borrowings were used for $31,400,000 in capital expenditures, $202,979,000 in net cash payments for acquisitions less cash received from divestitures, $19,785,000 in dividend payments and $17,585,000 in payments for share repurchases. Cash balances increased by $14,990,000 in 1999.

Accounts receivable increased $9,513,000 due to increased sales. Inventories and other assets increased only $1,348,000 as a result of tighter inventory controls, primarily within the AAS product line of the Coatings segment. Accounts payable and accrued liabilities increased $12,687,000 primarily as a result of an increase in various expense accruals.

Capital expenditures for property, plant and equipment were $31,400,000 in 1999 compared with $42,833,000 in 1998 and $48,131,000 in 1997. The decrease in capital expenditures in 1999 was related to tight spending controls. 1998 spending included approximately $2,000,000 to refinance operating leases expiring during the year. The Company anticipates capital spending in fiscal 2000 to be somewhat higher than 1999 spending levels as the Company moves and upgrades equipment to support the plant and production restructuring actions resulting from the Dexter acquisition. In addition, the Company has a $3,800,000 commitment to acquire the building occupied by the Farboil business.

During 1999, the Company invested $240,657,000 to acquire Dexter Corporation's Packaging Coatings product line, its French Industrial Coatings subsidiary, a controlling interest in Dyflex B.V., and the 50% interest held by its joint venture partner in Farboil Company. The Company divested its Marine and Flexible Packaging Coatings product lines in 1999, generating $37,678,000 of cash proceeds. Cash payments for acquisitions and other investments were funded through the Company's operations and available credit facilities.

The Company increased its borrowings with banks by $162,037,000 during 1999. The ratio of total debt to capital increased to 47.3% at the end of 1999 compared to 35.7% in 1998. Average debt outstanding during 1999 was $346,142,000 at a weighted average interest rate of 5.53% versus $176,491,000 at 5.48% last year, increasing the current year's interest expense to $19,089,000 from $10,707,000 in the prior year.

At October 29, 1999, the Company had unused lines of credit available from banks of $300,218,000, which is expected to be adequate for current and projected financing needs.

Common stock dividends of $19,785,000 represented a 6.5% increase over 1998. The annual dividend was increased to $0.46 per share from $0.42 per share in 1998 with the payout at 27.4% 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 494,000, 452,000 and 471,000 shares in 1999, 1998 and 1997, 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.

YEAR 2000 READINESS DISCLOSURE

The Company has completed an enterprise-wide project to prepare its business for the change in date from the year 1999 to 2000; the "Year 2000" issue. The scope of this project addressed (i) identifying and taking appropriate corrective action to remedy the Company's information technology (IT) systems, (ii) an assessment and remediation, as necessary, of non-IT equipment and systems with embedded computer chips, (iii) working with the Company's significant business partners to assess their Year 2000 readiness impact to the Company, and (iv) business continuity plans should the Company encounter any Year 2000 issues.

A corporate-wide Year 2000 steering committee implemented a detailed project plan which included an inventory of the Company's systems and equipment that may be affected; provided a risk assessment; established detailed remediation plans; and provided for complete testing of each system subject to Year 2000 risk. The inventory, risk assessment and remediation actions have been completed for all of the affected systems. Contingency plans were developed for critical applications.

The Company worked with its significant business partners to minimize Year 2000 risks and protect the Company and its customers from potential service interruptions. The Company surveyed its key raw material and services suppliers to determine their Year 2000 readiness. The inability of external parties to complete their Year 2000 readiness in a timely fashion could materially affect the Company, including the risk of disruptions in raw materials supply or in communications or electrical service.

The Company expensed its Year 2000 readiness costs as incurred and estimates the total cost for Year 2000 readiness was $3,500,000, with one-half of the costs incurred in 1999.

MARKET RISK

The Company's foreign sales and results of operations are subject to the impact of foreign currency fluctuations. As most of the Company's foreign operations are in countries with fairly stable currencies, the effect of such fluctuations has not been significant. 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, particularly those pertaining to Year 2000 readiness. 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 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 in early 2000; 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; and other risks and uncertainties. The forgoing 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 29, 1999	October 30, 1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 33,189	$ 14,990
Accounts and notes receivable, less allowances for doubtful accounts (1999 - $4,801; 1998 - $1,464)	260,663	212,287
Inventories	162,654	142,811
Deferred income taxes	18,770	13,967
Prepaid expenses and other accounts	39,652	42,014
Total current assets	514,928	426,069
Property, Plant and Equipment:		
Land	19,429	15,203
Buildings	129,253	116,224
Machinery and equipment	391,026	293,500
	539,708	424,927
Less accumulated depreciation	227,575	191,445
Net property, plant and equipment	312,133	233,482
Goodwill, Net	218,668	92,872
Other Assets, Net	64,991	49,257
Total Assets	$1,110,720	$801,680
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	$ 53,593	$ 24,055
Trade accounts payable	154,312	138,182
Income taxes	21,862	6,913
Accrued liabilities	144,639	98,549
Current portion of long-term debt	306	285
Total current liabilities	374,712	267,984
Long-term Debt	298,874	164,768
Deferred Income Taxes	11,148	8,910
Deferred Liabilities	32,230	19,830
Total liabilities	716,964	461,492
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	28,896	24,880
Retained earnings	429,397	367,040
Accumulated other comprehensive income (loss)	1,997	(2,776)
	486,950	415,804
Less cost of common stock in treasury (1999 - 10,337,999 shares; 1998 - 9,902,827 shares)	93,194	75,616
Total stockholders' equity	393,756	340,188
Total Liabilities and Stockholders' Equity	$1,110,720	$801,680

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)

For the year ended	October 29, 1999	October 30, 1998	October 31, 1997
Net Sales	$1,387,677	$1,155,134	$1,017,271
Cost and Expenses:			
Cost of sales	960,395	803,240	698,474
Research and development	44,091	39,555	39,099
Selling and administrative	229,834	190,597	167,735
Restructuring charge	8,346	–	–
Income From Operations	145,011	121,742	111,963
Other income - net	9,164	7,753	2,508
Interest expense	19,089	10,707	5,294
Income Before Income Taxes	135,086	118,788	109,177
Income taxes	52,944	46,658	43,300
Net Income	$ 82,142	$ 72,130	$ 65,877
Net Income Per Common Share - Basic	$ 1.90	$ 1.66	$ 1.51
Net Income Per Common Share - Diluted	$ 1.87	$ 1.63	$ 1.49

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	Accumulated Other Comprehensive	Treasury
	Shares	Amount	Capital	Earnings	Income (Loss)	Stock
Balance October 25, 1996	26,660,656	$13,330	$13,957	$276,679	$(593)	$49,670
Common stock options exercised for 94,885 shares	–	–	663	–	–	(545)
Purchase of 470,698 shares of common stock for treasury						12,495
Stock split	26,660,656	13,330	–	(13,330)	–	–
Comprehensive income:						
Net income	–	–	–	65,877	–	–
Foreign currency translation	–	–	–	–	51	–
Cash dividends on common stock - $.36 per share	–	–	–	(15,741)	–	–
Other	–	–	3,138	–	(1,308)	(632)
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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

For the year ended	October 29, 1999	October 30, 1998	October 31, 1997
Operating Activities:			
Net income	$ 82,142	$ 72,130	$ 65,877
Adjustments to reconcile net income to net cash provided by operating activities:			
Restructuring charge	8,346	–	–
Depreciation and amortization	39,800	30,742	25,771
Deferred income taxes	(9,619)	1,587	1,669
Loss on sales or abandonment of property, plant and equipment	3,358	1,854	1,486
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	(9,513)	(7,164)	(23,953)
Inventories and other assets	(1,348)	(19,095)	(41,965)
Trade accounts payable and accrued liabilities	12,687	31,556	32,018
Income taxes payable	15,849	7,218	(6,341)
Other deferred liabilities	717	108	790
Other	(1,320)	(2,611)	(2,223)
Net Cash Provided by Operating Activities	127,249	109,439	53,129
Investing Activities:			
Purchases of property, plant and equipment	(31,400)	(42,833)	(48,131)
Acquired businesses, net of cash	(240,657)	(93,074)	(40,629)
Divested businesses/assets	37,678	9,206	
Other investments/advances to joint ventures	(459)	(11,320)	5,734
Net Cash Used in Investing Activities	(234,838)	(138,021)	(83,026)
Financing Activities:			
Net proceeds from borrowings	162,037	63,684	60,926
Proceeds from sales of treasury stock	1,121	1,095	1,208
Purchase of shares of Common Stock for treasury	(17,585)	(13,745)	(12,495)
Dividends paid	(19,785)	(18,575)	(15,741)
Net Cash Provided by Financing Activities	125,788	32,459	33,898
Increase in Cash and Cash Equivalents	18,199	3,877	4,001
Cash and Cash Equivalents at Beginning of Year	14,990	11,113	7,112
Cash and Cash Equivalents at End of Year	$ 33,189	$ 14,990	$ 11,113

See Notes to Consolidated Financial Statements

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. Fiscal year 1997 included 53 weeks. All other years presented include 52 weeks.

Principles of Consolidation: The consolidated financial statements include the accounts of the parent company and its subsidiaries. All 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.

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". The adoption of this SOP is not expected to materially impact the Company's financial condition or results of operations.

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" 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 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 29, 1999 in accordance with Statement of Financial Accounting Standards No. 128 (SFAS 128):

	1999	1998	1997
Weighted average common shares outstanding-basic	43,298,367	43,457,221	43,521,370
Effect of stock options	537,212	862,628	711,178
Equivalent common shares outstanding-diluted	43,835,579	44,319,849	44,232,548

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. All earnings per share amounts for all periods presented have been restated to conform to SFAS 128.

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 29, 1999.

Stock Split: The Company's Board of Directors declared a 2-for-1 stock split, effected in the form of a 100% stock dividend, for stockholders of record March 7, 1997. Information regarding shares outstanding, earnings per share, dividends per share and common stock options has been restated to give retroactive effect to the stock split.

Comprehensive Income: Effective October 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income." This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income and currency effects and is presented in the Consolidated Statements of Changes in Stockholders' Equity. The adoption of SFAS 130 has no impact on total equity.

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

NOTE 2: Acquisitions and Divestitures

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 product line and its French Industrial Coatings subsidiary, Dexter SAS. Dexter packaging coatings 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 for the twelve month periods ended October 29, 1999 and October 30, 1998 was prepared in accordance with Accounting Principles Board Opinion No. 16 and assumes the acquisition had occurred at the beginning of the periods presented. The following pro forma data reflect adjustments for interest expense, amortization of goodwill and depreciation of fixed assets. The unaudited pro forma financial information is provided for informational purposes only and does not purport to be indicative of the future results of the Company.

Unaudited Pro Forma Condensed Consolidated Statements of Income

(Thousands of dollars, except share data)	Year ended October 29, 1999	Year ended October 30, 1998
Net sales	$1,457,220	$1,367,407
Net income	81,361	68,922
Net income per share-basic	1.88	1.59
Net income per share-diluted	1.86	1.56

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 its Functional Powder product line. Net consideration paid for the acquisitions in 1998 was $83.9 million in cash.

In 1997 the Company completed nine acquisitions including the second phase of its acquisition of the Coates Coatings (Coates) operations of TOTAL S.A. The second phase included the packaging coatings and metal decorating inks operations in Hong Kong and China. Total consideration paid for the nine acquisitions in 1997 was $40.6 million in cash and the exchange of the Company's Maintenance product line.

The acquisitions in 1998 and 1997 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 or 1997 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.

In addition to the above acquisitions, in 1998 the Company made its initial 49% investment in a joint venture in South Africa, in connection with the third phase of its acquisition of Coates operations. This investment was accounted for using the equity method of accounting for investments and was not material to the results of operations in 1998.

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 29, 1999, costs totaling $2.9 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 29, 1999, costs totaling $3.4 million were charged against the liability for the closure of existing Valspar locations and workforce reductions.

These actions contemplate a workforce reduction of worldwide headcount of approximately 200. Cash requirements of this restructuring plan are estimated to be $13.7 million with $5.4 million spent in 1999 and the remainder to be expended in 2000.

NOTE 4: Inventories

The major classes of inventories consist of the following:

	1999	1998
Manufactured products	$ 47,069	$ 99,990
Raw materials, supplies and work-in-process	115,585	42,821
	$162,654	$142,811

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate $108,668 at October 29, 1999 and $109,916 at October 30, 1998, approximately $20,051 and $24,682 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 $19,819 and $12,231 of issued checks which had not cleared the Company's bank accounts as of October 29, 1999 and October 30, 1998, respectively.

Accrued liabilities include the following:

	1999	1998
Employee compensation	$ 50,685	$ 35,077
Uninsured loss reserves	20,615	19,639
Customer volume rebates	20,838	$ 11,152
Contribution to employees' retirement trusts	10,603	6,645
Restructuring	8,130	–
Other	33,768	26,036
Total	$144,639	$ 98,549

NOTE 6: Long-Term Debt and Credit Arrangements

Long-term debt consists of the following:

	1999	1998
Notes to banks (1.7%-5.9% at October 29, 1999)	$282,189	$149,769
Industrial development bonds (3.2-4.0% at October 29, 1999, payable in 2015 and 2018)	15,208	13,233
Obligations under capital lease (7.5% at October 29, 1999, payable through 2004)	1,783	2,051
	299,180	165,053
Less current maturities	(306)	(285)
	$298,874	$164,768

The notes to banks totaling $282,189 at October 29, 1999 and $149,769 at October 30, 1998 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: 2000 - $306; 2001 - $464; 2002 - $493; 2003 - $526, 2004-$561 and $14,641 thereafter.

The Company has $450,000 of committed revolving multi-currency credit facilities with a syndicate of banks at optional interest rates of prime or IBOR-based rates. This facility matures in 2000. The revolving credit loan agreement contains covenants which require the Company to maintain certain financial ratios. The Company is in compliance with these covenants as of October 29, 1999.

Under other short-term bank lines of credit around the world, the Company may borrow up to $186,000 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 5.19% in 1999 and 5.75% in 1998.

The Company had unused lines of credit under the short-term bank lines and revolving credit facility of $300,218 at October 29, 1999.

Interest paid during 1999, 1998 and 1997 was $19,092, $9,670 and $4,878 respectively.

NOTE 7: Income Taxes

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

Years ended	1999	1998	1997
Current:			
Federal	$49,820	$33,695	$34,636
State	5,943	6,285	5,703
Foreign	5,319	1,813	1,437
Total current	61,082	41,793	41,776
Deferred:			
Federal	(4,717)	3,562	1,542
State	(860)	434	497
Foreign	(2,561)	869	(515)
Total deferred	(8,138)	4,865	1,524
Total income taxes	$52,944	$46,658	$43,300

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

Years ended	1999	1998	1997
Deferred tax assets:			
Product liability accruals	$ 2,749	$ 2,023	$ 2,063
Insurance accruals	4,459	2,873	2,690
Deferred compensation	7,797	4,471	4,175
Workers' compensation accruals	2,177	3,013	2,606
Employee compensation accruals	2,943	3,014	2,970
Other	19,142	15,658	14,018
Total deferred tax assets	39,267	31,052	28,522
Deferred tax liabilities:			
Tax over book depreciation	(15,336)	(16,012)	(13,887)
Other	(16,658)	(9,982)	(6,476)
Total deferred tax liabilities	(31,994)	(25,994)	(20,363)
Net deferred tax assets	$ 7,273	$ 5,058	$ 8,159

The reconciliation of income tax computed at the US Federal statutory tax rates to income tax expense is as follows:

	1999	1998	1997
Tax at U.S. statutory rates	35.0%	35.0%	35.0%
State income taxes, net of Federal benefit	2.4%	3.5%	3.7%
Other	1.8%	0.8%	1.0%
	39.2%	39.3%	39.7%

Income taxes paid during 1999, 1998 and 1997 were $45,749, $33,571 and $46,094 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.

In 1997, the Company adopted Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation". 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 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:

	1999	1998	1997
Pro forma net income	$80,974	$71,424	$65,486
Pro forma earnings per share:			
Basic	1.87	1.64	1.50
Diluted	1.85	1.61	1.48

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:

	1999	1998	1997
Expected dividend yield	1.5%	1.5%	1.5%
Expected stock price volatility	22.2%	21.1%	21.2%
Risk-free interest rate	6.2%	4.2%	5.2%
Expected life of options	6 years	6 years	6 years

The weighted average fair value for options granted during 1999, 1998 and 1997 is $8.71, $7.79, and $7.63 per share, respectively.

Stock option activity for the three years ended October 29, 1999 is summarized as follows:

	Shares Reserved	Options Outstanding	Weighted Average Exercise Price
October 25, 1996			
Balance	410,204	1,138,276	$17.34
Reserve shares cancelled	(105,154)	–	–
Shares reserved	1,000,000	–	–
Granted	(249,600)	249,600	$28.32
Exercised	–	(94,885)	$12.73
Cancelled	11,280	(11,280)	$20.37
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	3,263,447	2,228,395	$26.49

Options outstanding at October 29, 1999 had an average remaining contractual life of 6.4 years. Options exercisable of 939,257 at October 29, 1999, 665,194 at October 30, 1998 and 465,000 at October 31, 1997 had weighted average exercise prices of $19.61, $17.99, and $16.83 respectively. The exercise prices for options outstanding as of October 29, 1999 range from $12.00 to $39.75.

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 7% 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 $5,545, $2,649, and $2,615, for 1999, 1998, and 1997, 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.

NOTE 9: Leasing Arrangements

The company has operating lease commitments outstanding at October 29,1999 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
2000	$ 5,600
2001	5,094
2002	2,954
2003	772
2004	482
2005 and beyond	1,997
	$16,899

Rent expense for operating leases was $6,338 in 1999, $4,445 in 1998 and $4,003 in 1997.

NOTE 10: Pensions and Other Postretirement Benefits

Effective October 29,1999, the Company adopted Statement of Financial Accounting Standards No. 132 (SFAS 132), "Employers Disclosures About Pensions and Other Postretirement Benefits." The provisions of SFAS 132 standardize the disclosure requirements for pensions and other postretirement benefits but do not change the measurement or accounting for these plans.

The Company sponsors a Profit Sharing Plan for substantially all of its domestic employees. Under the Plan, the Company makes a contribution based on return on assets as defined in the Plan up to a maximum of 10% of the aggregate compensation of eligible participants. Contributions to the Profit Sharing Plan totaled $9,869, $9,342, and $8,603, for 1999, 1998, and 1997, 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

	1999	1998	1997
Service cost	1,158	961	899
Interest cost	2,016	2,049	1,880
Expected return on plan assets	(3,059)	(2,849)	(2,432)
Amortization of transition asset obligation	(92)	(93)	(90)
Amortization of prior service cost	367	360	318
Recognized actuarial gain	(292)	(313)	(102)
Net-periodic benefit cost	98	115	473

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

	1999	1998
Benefit obligation at beginning of year	30,669	27,517
Service cost	1,149	1,211
Interest cost	2,005	2,240
Plan participants' contributions	111	92
Actuarial loss	1,582	952
Acquisitions	1,873	–
Benefits paid	(1,761)	(1,343)
Benefit obligation at end of year	35,628	30,669

Change in Plan Assets

	1999	1998
Fair value of plan assets at beginning of year	39,907	35,722
Actual return on plan assets	6,802	5,013
Employer contributions	438	425
Plan participants' contributions	111	90
Benefit payments	(1,761)	(1,343)
Acquisitions	1,963	0
Fair value of plan assets at end of year	47,460	39,907

Funded Status

	1999	1998
Funded status at end of year	11,832	9,238
Unrecognized transition asset	(923)	(1,010)
Unrecognized prior service cost	2,831	2,532
Unrecognized net gain	(11,429)	(8,066)
Net amount recognized in statement of financial position	2,311	2,694

The actuarial assumptions were as follows:

	1999	1998
Discount rate	6.25%-7.25%	6.25%-8.0%
Expected return on plan assets	7.5%-8.0%	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 postretirement medical benefits for some of its employees. The Company's policy is to fund these benefits as they are paid. The Company's accrued postretirement benefit liability recognized in the Company's balance sheet was $1,587 and $1,599 at October 29, 1999 and October 30, 1998, respectively. Net periodic postretirement expense was $95, $103, and $98 in 1999, 1998 and 1997, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 6.75% at October 29, 1999 and October 30, 1998, respectively. The assumed health-care cost trend rate used in measuring the accumulated postretirement benefit obligation was 7.5% in 1999, 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 postretirement benefit obligation or net periodic postretirement expense.

NOTE 11: Segment Information

Effective October 29, 1999, the Company adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 requires disclosure of operating segments using the management approach, or the measures used internally to evaluate operating results and to decide resource allocations. The adoption of this standard did not affect the Company's results of operations or financial position.

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:

	1999	1998	1997
Net sales:			
Coatings	$1,292,475	$1,074,416	$ 946,311
Coating Intermediates	145,725	126,843	113,102
	1,438,200	1,201,259	1,059,413
Intersegment sales	(50,523)	(46,125)	(42,142)
Total net sales - external	$1,387,677	$1,155,134	$1,017,271
EBIT:			
Coatings (1)	$ 162,770	$ 139,016	$ 124,929
Coating Intermediates	17,024	13,568	11,216
	179,794	152,584	136,145
Corporate (1)	(25,619)	(23,089)	(21,674)
Total EBIT	$ 154,175	$ 129,495	$ 114,471
Depreciation and amortization:			
Coatings	$ 30,981	$ 19,555	$ 18,024
Coating Intermediates	3,419	2,900	2,669
Corporate	5,400	8,287	5,078
Total depreciation and amortization	$ 39,800	$ 30,742	$ 25,771
Identifiable assets:			
Coatings	$ 926,655	$ 635,375	$ 464,791
Coating Intermediates	87,916	58,808	51,909
Corporate	96,149	107,497	98,770
Total assets	$1,110,720	$ 801,680	$ 615,470
Capital expenditures:			
Coatings	$ 19,727	$ 26,952	$ 39,108
Coating Intermediates	3,694	9,063	4,660
Corporate	7,979	6,818	4,363
Total capital expenditures	$ 31,400	$ 42,833	$ 48,131

(1) EBIT in 1999 includes a pre-tax restructuring charge of $6.8 million and $1.5 million in Coatings and Corporate, respectively.

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

	1999	1998	1997
Architectural, automotive and specialty	$ 510,960	$ 482,295	$ 419,145
Packaging	452,846	319,653	299,383
Industrial	328,669	272,468	227,783
	$1,292,475	$ 1,074,416	$ 946,311

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:

	1999	1998	1997
Net sales - external:			
United States	$ 1,116,347	$ 1,021,449	$ 923,492
Outside U.S.	271,330	133,685	93,779
Total net sales - external	$ 1,387,677	$ 1,155,134	$ 1,017,271

	1999	1998	1997
Long-lived assets:			
United States	$ 339,760	$ 264,478	$ 201,852
Outside U.S.	191,041	61,876	29,868
Total long-lived assets	$ 530,801	$ 326,354	$ 231,720

NOTE 12: Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results for the years ended October 29, 1999 and October 30, 1998:

	Net Sales	Gross Margin	Net Income	Net Income Per Share Diluted
1999 quarter ended:				
January 29	$ 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
1998 quarter ended:				
January 30	$ 225,359	$ 63,714	$8,895	$ 0.20
May 1	292,462	90,041	19,951	0.45
July 31	327,684	101,324	22,246	0.50
October 30	309,629	96,815	21,038	0.48
	$1,155,134	$351,894	$ 72,130	$ 1.63

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, which will be effective for the Company's fiscal year 2001, 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 Company is currently reviewing the standard and its effect on its financial statements.

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 29, 1999 and October 30, 1998 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 29, 1999. 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 generally accepted auditing standards. 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 29, 1999 and October 30, 1998 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 29, 1999, in conformity with generally accepted accounting principles.

Ernst & Young LLP
Minneapolis, Minnesota
November 18, 1999

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 BOARD OF DIRECTORS

(In order from top left to bottom right)
Richard M. Rompala, Michael P. Sullivan, Susan S. Boren, Charles W. Gaillard, C. Angus Wurtele, Gregory R. Palen, Jeffrey H. Curler, Lawrence Perlman, Thomas R. McBurney, Edward B. Pollak, Kendrick B. Melrose

CORPORATE DATA

Directors

Susan S. Boren
Director, Spencer Stuart
Jeffrey H. Curler
President and Chief Operating 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
Chairman, Ceridian Corporation
Edward B. Pollak
Vice President, CK Witco Corporation
Richard M. Rompala
Chairman, President and Chief Executive Officer, The Valspar Corporation
Michael P. Sullivan
President and Chief Executive Officer, International Dairy Queen, Inc.
C. Angus Wurtele
Retired Chairman, The Valspar Corporation

Officers

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Stephen M. Briggs
Senior Vice President – Architectural, Automotive and Specialty Coatings
Rolf Engh
Senior Vice President, General Counsel and Secretary
Steven L. Erdahl
Senior Vice President – Operations
William L. Mansfield
Senior Vice President – Packaging and Industrial Coatings
Paul C. Reyelts
Senior Vice President – Finance and Chief Financial Officer
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Group Vice President – Architectural
John M. Ballbach
Group Vice President – Packaging
Joel C. Hart
Group Vice President – Automotive and International
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Vice President – Technology
Gary E. Gardner
Vice President – Human Resources and Public Affairs
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Vice President – Engineered Polymer Solutions and Color Corporation of America
Kathleen P. Pepski
Vice President and Controller
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

ChaseMellon Shareholder Services, P.O. Box 590,
Ridgefield Park, NJ 07660, Phone: 800-205-8318,
Internet: www.chasemellon.com

Annual Meeting

Wednesday, February 23, 2000, 11:00 AM Corporate Research and Development Center, 312 11th Ave. South, Minneapolis, MN 55412

Corporate Reports, Earnings Announcements and News Releases

Form 10Ks and Annual Reports may be obtained by calling or writing to Corporate Secretary at Corporate Headquarters.
Internet: 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, ChaseMellon Shareholder Services.
Call 800-842-7629 for information.
Internet: www.chasemellon.com

The Valspar Corporation

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