Consistent Growth

through Innovation

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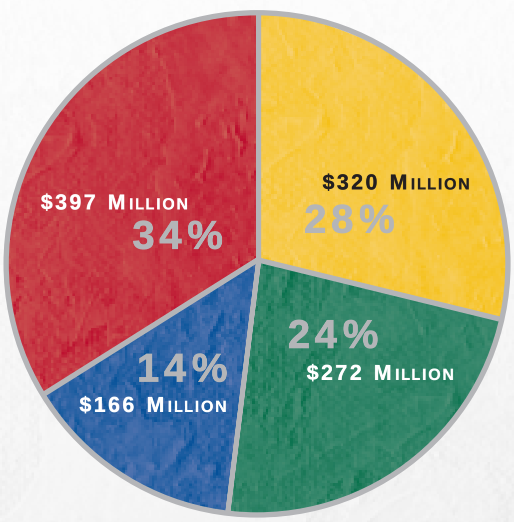
The Valspar Corporation Annual Report

	Consumer Group	Packaging Group	Industrial Group	Special Products
Products	Decorative paint, varnish and stains	Coatings and metal decorating inks	Coatings	Paint, coatings, resins and colorants
Principal Markets	• Home centers • Mass merchants • Hardware wholesalers • Independent dealers	• Rigid packaging (food and beverage cans) • Flexible packaging (paper, film and foil)	• Building products • Agricultural and construction equipment • Appliances • Wood finishes • Fabricated metal • Automotive parts	• Automotive refinish • Coatings manufacturers • Marine and floor coatings
Competitive Strengths	Broad line of brands and control labels, customized programs, low-cost production and distribution	Broad portfolio of cost-effective, environmentally compliant technologies	Broad technology portfolio and customization capability	Ability to customize products, low-cost manufacturing



Our Accomplishments

Valspar celebrated many accomplishments in 1998. Most notably: Our 24th year of consecutive earnings growth • Earnings per share of $1.63, an increase of 9.4% over 1997 • Our fifth consecutive year of improved safety performance • Sales of $1.2 billion, a 13.6% improvement over 1997 • The finalization of several acquisitions: Anzol, Plasti-Kote, Hilemn Laboratories and Phase I of Coates South Africa, which will add in excess of $100 million of sales on a full-year basis • The announcement of the acquisition of Dexter's Packaging and European Industrial businesses • Continued progress in our MIDAS Program and Waste Minimization efforts, which returned $0.43 per share to earnings.

It should be acknowledged that it is through the energy, optimism, focus and tireless dedication of our employees that Valspar continues to enjoy success. This annual report is dedicated to everyone in the Valspar family – giving their best today, striving for a better tomorrow.

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VALSPAR'S OFFICER GROUP

STARTING FROM BOTTOM OF STAIRS, MOVING UP:

ROW ONE: Kathleen Pepski, Thomas White, Thomas Wood, Gary Gardner, Richard Rompala, John Ballbach, Joel Hart

ROW TWO: Deborah Weiss, Robert Smith, Steven Erdahl, Stephen Briggs, William Mansfield, Steven Lindberg

ROW THREE: Paul Reyelts, Rolf Engh, Kenneth Arthur, Larry Brandenburger

Financial Highlights

(Dollars in thousands, except per share amounts)

		1998	% Change from 1997	1997	% Change from 1996
Operations:	Net sales	$1,155,134	13.6	$1,017,271	18.3
	Operating income	121,742	8.7	111,963	17.9
	Depreciation and amortization	30,742	19.3	25,771	15.8
	Operating cash flow	152,484	10.7	137,734	17.5
	Operating income as a % of sales	10.5%		11.0%	
	Net income	$ 72,130	9.5	$ 65,877	17.9
	Percent of sales	6.2%		6.5%	
	Return on average equity	22.7%		24.0%	
	Per share	$ 1.63	9.4	$ 1.49	18.3
	Dividends paid per share	.42	16.7	.36	9.1
Year End Data:	Cash and equivalents	$ 14,990	34.9	$ 11,113	56.3
	Working capital[1]	216,916	5.0	206,570	31.7
	Total assets	801,680	30.3	615,470	26.5
	Total debt	189,108	75.4	107,845	130.1
	Stockholders' equity	340,188	15.3	295,065	16.3
	Stockholders' equity per share	$ 7.84	16.0	$ 6.76	17.2
	Number of shares outstanding	43,418,485	-0.6	43,678,971	-0.6

[1] Accounts receivable and inventory less trade accounts payable.

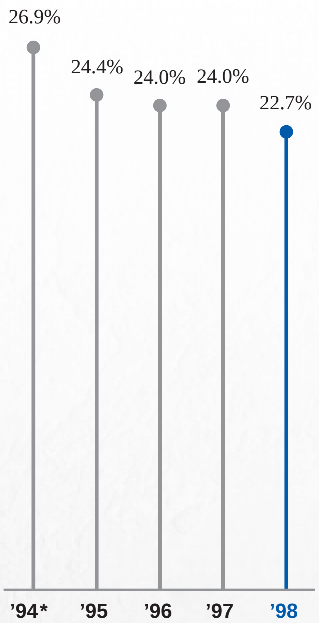
The above information and the following graphs have been adjusted to reflect the 2-for-1 stock split effective in March 1997. Historical data is provided in the Eleven-Year Financial Summary on pages 6 and 7.

Net Sales
(Millions)

5 year growth rate of 11.9%

Net Income per Share
(Dollars)

5 year growth rate of 15.3%



Return on Average Equity
(Percent)

5 year average return of 24.4%

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

To Our Shareholders

Revenues Rise 14 Percent, On Track with Goal

In 1998, Valspar achieved another year of record financial results, our 24th consecutive year of earnings growth. Sales reached $1.2 billion, an increase of 13.6 percent over 1997; net income increased 9.5 percent to $72.1 million and earnings per share rose 9.4 percent to $1.63. Return on average equity was 22.7 percent, and total return to investors over the last five years was 21.7 percent.

Our record results continue to be driven by the hallmarks of Valspar's operating style – commitment to customer satisfaction, lowest cost and quick response to changing market conditions. Our dedication to continuous improvement will lead us to achieving our goal of $2 billion in sales in 2001.

Cash Flow Doubles from 1997

Cash flow from operations continued to be very strong, more than doubling last year's levels. Net cash from operations of nearly $114 million and additional borrowings of $64 million were used to fund acquisitions and joint ventures of $99 million, capital expenditures of $43 million, dividends of $19 million and stock repurchases of $14 million.

Recognizing our strong performance, the Board of Directors raised the quarterly dividend 9.5 percent to $0.115 per share, effective with the dividend payable January 15, 1999.

Growth Through Innovation

Our industry continues to consolidate at an unprecedented pace, and we have developed innovative strategies to meet our objectives for profitable growth.

Our emphasis on internal growth, growth through acquisitions, globalization and adding new coatings businesses have all contributed to Valspar's consistent financial performance, as well as enhanced shareholder value. Our activity in diverse segments of the coatings markets provided balance and our customer focus provided consistency, as various business lines faced challenging conditions at different times throughout the year.

The Consumer Group had another strong year, with sales increasing 15 percent as we continue to improve our position with large home centers and mass merchandisers. In addition, sales of our Laura Ashley® designer paint and McCloskey Special Effects™ coatings have exceeded expectations.

The Packaging Group, with nearly 30 percent of its sales outside North America, grew by 7 percent despite difficult market conditions. In 1998, we strengthened our position as the world's premier supplier of can coatings.

Sales for the Industrial Group increased 19 percent, with about 16 percent of the sales increase coming from internal growth. This growth continues to be led by our Coil and Architectural Spray Coatings businesses, although all of our product segments contributed significant growth.

Special Products Group sales were also strong, up 16 percent over 1997. Valspar Automotive Refinish again led this group with 29 percent growth. EPS resin, Marine and Federal Flooring sales also each rose about 20 percent. Color Corporation sales were about equal to last year.

Growth Through Acquisitions

Our globalization efforts continued during 1998. In April, we acquired the packaging coatings and industrial businesses of Anzol in Australia to further strengthen our presence in that region of the world. That same month, we acquired Plasti-Kote, an aerosol spray and specialty coatings manufacturer, which increased our product portfolio for our Consumer and Automotive Refinish customers, and expanded our presence in Europe.

In addition in 1998, we acquired Hilemn Laboratories, a mirror coatings supplier, completed Phase I of acquiring Coates South Africa, and attained majority ownership of Valspar Marlux, a packaging and industrial coatings supplier in Mexico.

A Focus On Cost

To successfully achieve our growth and profitability goals, all our activities continue to be focused on satisfying our customers at the lowest total applied cost. In 1998, our total cost of quality improved by 9 percent. MIDAS, our employee-led effort to optimize our global supply chain practices, continues to stimulate cost-reduction opportunities to support and improve future earnings. In 1998, our cumulative MIDAS savings exceeded $30 million, and we are on target to meet our objective of achieving $0.50 per share savings in 1999. Our waste minimization efforts showed progress throughout the year, and we will have an increasing focus on this area in fiscal 1999 to achieve additional cost savings through manufacturing and logistics efficiencies at all of our facilities.

Safety, Environmental and Community Commitment

Safety and environmental stewardship are core values of Valspar. In 1998, we developed new safety awareness programs as well as updated our operating and laboratory processes as part of our continuing effort to create a zero-accident environment for our employees. As a result, our overall injury rate declined 8 percent, the fifth consecutive year of improvement.

We continue to focus research and development activities on more cost-efficient and environmentally friendly coatings solutions. Additionally, through the Valspar Foundation, more than 50,000 gallons of paint were donated in 1998 to various community projects and organizations such as Habitat for Humanity and community painting programs.

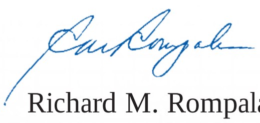
Creating Value Now And For The Future

We maintain our commitment to meeting the global needs of our customers. As evidence, in August we announced our intention to acquire the worldwide packaging coatings businesses of Dexter Corporation, as well as its industrial coatings business in France. The due diligence for that acquisition continues, and the closing is expected to occur in 1999. With the Dexter acquisition, we will enhance our position as #1 in rigid packaging coatings in the world.

In October, we realigned our management structure to better capture marketing and cost synergies across our company. Bill Mansfield will lead Packaging and Industrial Coatings, while Steve Briggs will direct the Architectural, Automotive and Specialty Coatings Groups. Steve Erdahl will have responsibility for manufacturing, purchasing, corporate research and development and human resources. In addition, Ken Arthur, John Ballbach, Joel Hart, Steve Lindberg and Bob Smith all assumed broader responsibilities.

Employee ownership remains a strength of Valspar, and employees and retirees owned more than 25 percent of the shares at year-end. This aligns employee interests and those of our shareholders, broadening our opportunities for profitable growth.

Everyone at Valspar plays an important role. From our sales, technical support and order fulfillment teams servicing our customers, to our development, manufacturing, distribution and administrative teams who support them, we all strive for the same results: satisfied customers, enthusiastic employees and increased shareholder value. I want to thank all of our employees around the world for their constant efforts and dedication to achieving record earnings over the past 24 years.



Richard M. Rompala
Chairman, President and Chief Executive Officer

Eleven-Year Financial Summary

(Dollars in thousands, except per share amounts)

	Fiscal Years	1998	1997	1996
Operating Results	Net Sales	$1,155,134	$1,017,271	$859,799
	Cost and Expenses			
	Cost of Sales	803,240	698,474	594,935
	Operating Expense	230,152	206,834	169,873
	Income from Operations	121,742	111,963	94,991
	Other (Income) Expense – Net	(7,753)	(2,508)	(1,081)
	Interest Expense	10,707	5,294	3,029
	Income Before Income Taxes	118,788	109,177	93,043
	Net Income	72,130	65,877	55,893
	Net Income as a Percent of Sales	6.2%	6.5%	6.5%
	Return on Average Equity	22.7%	24.0%	24.0%
	Per Common Share:			
	Net Income – Basic	$ 1.66	$ 1.51	$ 1.28
	Net Income – Diluted	$ 1.63	$ 1.49	$ 1.26
	Dividends Paid	.42	.36	.33
	Stockholders' Equity	7.84	6.76	5.78
Financial Position	Total Assets	$ 801,680	$ 615,470	$480,440
	Current Assets Less Current Liabilities	158,085	97,427	96,130
	Property, Plant and Equipment – Net	233,482	185,748	153,819
	Long-Term Debt, Excluding Current Portion	164,768	35,844	31,948
	Stockholders' Equity	340,188	295,065	253,703
Other Statistics	Property, Plant and Equipment Expenditures	$ 43,268	$ 48,131	$ 25,376
	Depreciation and Amortization Expense	30,742	25,771	22,262
	Research and Development Expense	39,555	39,099	32,616
	Total Cash Dividends	$ 18,575	$ 15,741	$ 14,575
	Average Common Shares Outstanding – Diluted (000s)	44,320	44,233	44,403
	Number of Stockholders	1,815	1,830	1,783
	Number of Employees at Year-End	3,833	3,205	2,855
	Market Price Range –			
	Common Stock: High	$ 42.13	$ 32.94	$ 25.50
	Low	25.75	24.00	19.13

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 1987, March 1992 and March 1997. The number of stockholders is based on recordholders at year-end. Results for 1994 include six months of operations for McWhorter Technologies, Inc. prior to the spin-off to shareholders.

Group Sales

The operating divisions of the Company are organized to reflect classes of similar products. The table below shows the percentage of net sales for these groups for the past five years.

(Percent of Net Sales)

Fiscal Years	1998	1997	1996	1995	1994
Consumer Coatings	34	34	34	34	31
Packaging Coatings	28	29	27	27	25
Industrial Coatings	24	23	24	25	23
Special Products	14	14	15	14	21

1995	1994	1993	1992	1991	1990	1989	1988
$790,175	$795,275	$700,897	$683,485	$632,562	$571,445	$526,892	$479,617
561,170	569,063	501,135	492,092	458,953	410,094	385,459	356,690
146,344	146,683	129,997	131,232	120,643	109,206	98,725	89,906
82,661	79,529	69,765	60,161	52,966	52,145	42,708	33,021
(763)	631	2,036	360	1,504	3,337	(1,555)	(2,733)
4,216	2,504	1,645	2,932	5,686	4,704	5,838	6,370
79,208	76,394	66,084	56,869	45,776	44,104	38,425	29,384
47,520	45,799	40,156	34,418	27,676	26,731	23,234	18,295
6.0%	5.8%	5.7%	5.0%	4.4%	4.7%	4.4%	3.8%
24.4%	24.4%	21.8%	21.7%	20.0%	22.1%	21.9%	19.7%
$ 1.09	$ 1.04	$ 0.92	$ 0.79	$ 0.64	$ 0.61	$ 0.52	$ 0.41
$ 1.08	$ 1.04	$ 0.91	$ 0.79	$ 0.64	$ 0.61	$ 0.52	$ 0.41
.30	.26	.22	.18	.15	.13	.11	.10
4.83	3.99	4.51	3.92	3.40	2.96	2.56	2.23
$398,199	$367,608	$340,479	$321,618	$319,367	$302,806	$261,103	$232,974
90,995	87,887	85,741	57,500	58,066	56,199	63,519	60,694
130,404	107,956	103,916	101,005	98,818	106,621	82,687	73,652
21,658	35,343	7,890	10,684	30,697	49,456	40,201	42,412
212,115	176,712	198,826	169,377	147,896	128,707	112,698	99,895
$ 38,982	$ 31,817	$ 17,213	$ 19,581	$ 8,843	$ 13,171	$ 8,701	$ 9,390
20,318	19,134	20,648	19,793	18,896	15,119	13,975	12,759
27,746	27,430	24,955	24,802	23,226	20,350	18,037	17,190
$ 13,121	$ 11,252	$ 9,471	$ 7,843	$ 6,519	$ 5,651	$ 4,899	$ 4,472
44,183	44,326	44,062	43,946	43,724	43,708	44,660	44,976
1,864	1,902	1,866	1,863	1,857	1,863	1,864	1,922
2,542	2,585	2,577	2,482	2,530	2,502	2,593	2,505
$ 20.94	$ 22.88	$ 20.75	$ 18.19	$ 11.72	$ 10.00	$ 7.97	$ 7.75
15.25	16.38	15.19	11.28	7.63	7.35	5.66	5.29

Stock Information and Dividends

Stock traded on the New York Stock Exchange

For the Fiscal Year		1998	1997
Market price / high–low:	First quarter	$32.50–$29.00	$29.13–$24.00
	Second quarter	$42.13–$31.38	$29.88–$27.00
	Third quarter	$42.00–$38.56	$32.94–$27.88
	Fourth quarter	$38.81–$25.75	$32.13–$29.50
Per share dividends:	First quarter	$ .105	$ .09
	Second quarter	.105	.09
	Third quarter	.105	.09
	Fourth quarter	.105	.09
		$ .42	$ .36

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

- 1998 – The Company completed three acquisitions and one divestiture. Net consideration was $84.6 million.
- 1997 – The Company completed nine acquisitions. Net consideration was $40.6 million and the exchange of the Company's maintenance business.
- 1996 – The Company completed Phase I of the Coates acquisition for $47.3 million.

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

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 8.7%. This increase was primarily driven by volume increases in the Consumer Group, Industrial Group and in certain business lines within the Special Products Group.

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 Consumer and Industrial Groups, as well as higher raw material costs for most of 1998, particularly in certain key, high-volume materials. The Company expects raw material costs to remain stable over the first several months of fiscal 1999.

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 7.4%. The increase in operating expenses was primarily the result of additional advertising and promotional costs for large Consumer Group customers, additional selling expenses in all business groups, higher costs to support the upgrade of the Company's information systems and "Year 2000" readiness expenditures. 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. The increase was primarily the result of the gain recognized on the divestiture of the Company's functional powder business.

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

In 1998, net income increased 9.5% to $72,130,000, or $1.63 per share, representing the 24th consecutive year of increased earnings. 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.

Operations 1997 vs. 1996

Net sales increased 18.3% to $1,017,271,000 in 1997 from $859,799,000 in 1996. 1997 was a 53-week fiscal year. Excluding the results of acquisitions, divestitures and the additional accounting week, net sales increased 10.0%. This increase was primarily driven by volume growth in all business groups.

The gross profit margin increased to 31.3% in 1997 from 30.8% in 1996. The increase was driven by improved efficiencies within our plants, savings generated by the efforts of cross-functional cost reduction teams and lower raw material costs in the first half of the year.

Operating expenses (research and development, selling and administrative) increased 21.8% to $206,834,000 (20.3% of net sales) in 1997 compared with $169,873,000 (19.8% of net sales) in 1996. Excluding the results of acquisitions, divestitures and the additional accounting week, operating expenses increased 14.6%. The increase was primarily attributable to a higher level of promotional and advertising programs in the Consumer Group, sales and marketing cost increases in all businesses, and higher costs to support the upgrade of the Company's information systems.

Other income, net of expense, increased to $2,508,000 in 1997 from $1,081,000 in 1996. The increase was the result of improved financial performance by the Company's joint ventures in 1997 and realized gains on marketable securities, partially offset by the writedown of certain assets no longer in use in 1997.

Interest expense increased to $5,294,000 in 1997 from $3,029,000 in 1996 reflecting an increase in debt levels during the year.

In 1997, net income increased 17.9% to $65,877,000, or $1.49 per share. The growth in sales and improved gross margin offset the impact of increased operating expenses during 1997.

Financial Condition

Cash provided by operating activities was $113,880,000 in 1998 compared with $53,129,000 in 1997 and $86,642,000 in 1996. The increase in 1998 was due to decreased working capital requirements as the Company continued to focus on improving its working capital position. The cash provided by operating activities combined with $63,684,000 in proceeds from bank borrowings were used to support $43,268,000 in capital expenditures, $84,622,000 in cash payments for acquisitions, $18,575,000 in dividend payments and $13,745,000 in payments for share repurchases. Cash balances increased $3,877,000 in 1998.

Accounts receivable increased $7,164,000 primarily due to increased sales volume; days' sales outstanding improved in 1998 compared to 1997. Inventories and other assets increased $17,537,000 due to the increase in sales volume and a higher level of merchandising aids to support new product growth in the Consumer Group. Accounts payable and accrued liabilities increased $31,556,000 as a result of the increase in inventories and an increase in various expense accruals.

Capital expenditures for property, plant and equipment were $43,268,000 in 1998 compared with $48,131,000 in 1997 and $25,376,000 in 1996. The decrease in capital expenditures in 1998 was related to higher 1997 spending levels due to the construction of a new research and development laboratory for the Packaging Group and production facilities in China and Singapore. 1998 spending includes approximately $2 million to refinance operating leases expiring during the year. The Company anticipates capital spending in fiscal 1999 to be lower than 1998 spending levels.

During 1998, the Company invested $84,622,000 in acquisitions, primarily the acquisitions of Plasti-Kote Co., Inc., and Anzol Pty. Ltd. A net amount of $14,572,000 was invested by the Company in joint ventures and other investments, driven by the South Africa Coates packaging coatings joint venture investment. 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 $63,684,000 during 1998. The ratio of total debt to capital increased to 35.7% at the end of 1998 compared to 26.8% in 1997. Average debt outstanding during 1998 was $176,491,000 at a weighted average interest rate of 5.48% versus $89,997,000 at 5.42% last year, increasing the current year's interest expense to $10,707,000 from $5,294,000 in the prior year. At October 30, 1998, the Company had unused lines of credit available from banks of $261,633,000.

In August, 1998, the Company agreed to purchase from Dexter Corporation its worldwide Packaging Coatings business, which supplies beverage can coatings, food can and specialty coatings to the packaging market. Completion of the transaction is expected in early 1999 and is subject to customary closing conditions. The Company has arranged an amended and restated eighteen month $450,000,000 multi-currency credit facility with a syndicate of banks to support this transaction and to replace its existing revolving lines of credit. The Company expects this to be adequate to cover current and projected financing needs.

Fiscal 1998 Common Stock dividends of $18,575,000 represent an 18.0% increase over 1997. The annual dividend was increased to $0.42 per share from $0.36 per share in 1997 with the payout at 28.2% 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 452,100, 448,000 and 335,000 shares in 1998, 1997 and 1996, respectively.

The Company is involved in 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 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 site, considering the number of parties involved, the level of potential liability or contribution of the Company relative to 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. If possible, 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 is engaged in a company-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 addresses (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 and (iii) working with the Company's significant business partners to assess their Year 2000 readiness impact on the Company.

The Company continues to evaluate and respond to the potential impact of the Year 2000 issue on its IT and other operating systems. A corporate-wide Year 2000 steering committee continues to implement a detailed project plan which includes an inventory of the Company's systems and equipment that may be affected; provides a risk assessment; establishes detailed remediation plans; and provides for testing of each system subject to Year 2000 risk. Contingency plans are being developed for critical applications. The inventory, risk assessment and remediation plans have been completed for all of the affected systems. Remediation and testing is complete for the core operating systems in use for a majority of the Company's domestic business. The remainder of the domestic systems are scheduled to be completed early in 1999. For the Company's foreign operations, the stage of Year 2000 remediation and testing varies; however, the Company expects to complete the final remediation and testing phases by June 30, 1999.

The Company is also communicating and working with its significant business partners to minimize Year 2000 risks and protect the Company and its customers from potential service interruptions. The Company has surveyed its key raw material and services suppliers to determine their Year 2000 readiness. The Company is currently in the process of identifying potential critical Year 2000 issues involving key third parties and either resolving those issues or developing contingency plans to the extent practicable. The inability of external parties to complete their Year 2000 readiness in a timely fashion could materially impact the Company, including the risk of disruptions in raw materials supply or in communications or electrical service.

The Company has expensed its Year 2000 readiness costs as incurred and estimates the total cost for Year 2000 readiness will be approximately $4 to $5 million, with roughly one half of the costs incurred in 1998.

New Accounting Standards

Recently issued accounting standards are discussed in detail in Note 12 to the Consolidated Financial Statements. These standards set new disclosure requirements and will not impact the Company's financial condition or results of operations.

Market Risk

The Company's foreign sales and results of operations are subject to foreign currency fluctuations. As most of the Company's foreign operations are in countries with fairly stable currencies, the effect has not been significant. The Company hedges its exposure to translation gains and losses by borrowing funds in local currencies when possible, substantially reducing such exposure.

The Company is also subject to interest rate risk. A 10% increase or reduction in interest rates would not have a material effect on future earnings, 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 systems 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 paint and coatings sales; exposure to foreign currency fluctuations; 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 30, 1998	October 31, 1997
ASSETS		
Current Assets		
Cash and cash equivalents	$ 14,990	$ 11,113
Accounts and notes receivable, less allowances for doubtful accounts (1998 – $1,464, 1997 – $1,364)	212,287	183,593
Inventories	142,811	119,653
Prepaid expenses and other accounts	55,981	42,488
Total current assets	426,069	356,847
Property, Plant and Equipment		
Land	15,203	10,516
Buildings	116,224	102,448
Machinery and equipment	293,500	238,883
	424,927	351,847
Less accumulated depreciation	191,445	166,099
Net property, plant and equipment	233,482	185,748
Intangible Assets	104,778	46,772
Other Assets	37,351	26,103
Total Assets	$801,680	$615,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 24,055	$ 71,720
Trade accounts payable	138,182	96,676
Income taxes	6,913	1,083
Accrued liabilities	98,549	89,660
Current portion of long-term debt	285	281
Total current liabilities	267,984	259,420
Long-Term Debt	164,768	35,844
Deferred Income Taxes	8,910	6,769
Other Liabilities	19,830	18,372
Total Liabilities	461,492	320,405
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	24,880	17,758
Retained earnings	367,040	313,485
Other	(2,776)	(1,850)
	415,804	356,053
Less cost of Common Stock in treasury (1998 – 9,902,827 shares; 1997 – 9,642,341 shares)	75,616	60,988
Total Stockholders' Equity	340,188	295,065
Total Liabilities and Stockholders' Equity	$801,680	$615,470

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

(Dollars in thousands, except per share amounts)

For the Year Ended	October 30, 1998	October 31, 1997	October 25, 1996
Net Sales	$1,155,134	$1,017,271	$859,799
Cost and Expenses			
Cost of sales	803,240	698,474	594,935
Research and development	39,555	39,099	32,616
Selling and administrative	190,597	167,735	137,257
Income from Operations	121,742	111,963	94,991
Other income, net	7,753	2,508	1,081
Interest expense	10,707	5,294	3,029
Income before Income Taxes	118,788	109,177	93,043
Income taxes	46,658	43,300	37,150
Net Income	$ 72,130	$ 65,877	$ 55,893
Net Income Per Common Share – Basic	$ 1.66	$ 1.51	$ 1.28
Net Income Per Common Share – Diluted	$ 1.63	$ 1.49	$ 1.26

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Other	Treasury Stock
Balance October 27, 1995	26,660,656	$13,330	$10,348	$235,361	$(3,436)	$43,488
Common Stock options exercised for 202,148 shares	–	–	856	–	–	(954)
Purchase of 335,088 shares of Common Stock for treasury	–	–	–	–	–	7,582
Net income	–	–	–	55,893	–	–
Cash dividends on Common Stock – $.33 per share	–	–	–	(14,575)	–	–
Other	–	–	2,753	–	2,843	(446)
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)	–	–
Net income	–	–	–	65,877	–	–
Cash dividends on Common Stock – $.36 per share	–	–	–	(15,741)	–	–
Other	–	–	3,138	–	(1,257)	(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	–	–	762	–	–	(333)
Purchase of 452,100 shares of Common Stock for treasury	–	–	–	–	–	13,745
Net income	–	–	–	72,130	–	–
Cash dividends on Common Stock – $.42 per share	–	–	–	(18,575)	–	–
Other	–	–	6,360	–	(926)	1,216
Balance October 30, 1998	53,321,312	$26,660	$24,880	$367,040	$(2,776)	$75,616

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(Dollars in thousands)

For the Year Ended	October 30, 1998	October 31, 1997	October 25, 1996
Operating Activities			
Net income	$72,130	$65,877	$55,893
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	30,742	25,771	22,262
Deferred income taxes	2,279	1,669	(3,352)
Loss on disposals of property, plant and equipment	1,854	1,486	1,587
Gain on asset divestiture	(4,695)	–	–
(Decrease) increase in cash due to changes in net operating assets, net of effects of acquired businesses:			
Accounts and notes receivable	(7,164)	(23,953)	(3,257)
Inventories and other assets	(17,537)	(41,965)	(1,698)
Trade accounts payable and accrued liabilities	31,556	32,018	14,039
Income taxes payable	7,218	(6,341)	21
Other deferred liabilities	108	790	1,464
Other	(2,611)	(2,223)	(317)
Net Cash Provided by Operating Activities	113,880	53,129	86,642
Investing Activities			
Purchases of property, plant and equipment	(43,268)	(48,131)	(25,376)
Acquired businesses/assets, net of cash	(84,622)	(40,629)	(51,698)
Other investments/advances to joint ventures	(14,572)	5,734	(5,178)
Net Cash Used in Investing Activities	(142,462)	(83,026)	(82,252)
Financing Activities			
Net proceeds from borrowings	63,684	60,926	18,194
Proceeds from sale of treasury stock	1,095	1,208	1,810
Purchase of shares of Common Stock for treasury	(13,745)	(12,495)	(7,582)
Dividends paid	(18,575)	(15,741)	(14,575)
Net Cash Provided by (Used in) Financing Activities	32,459	33,898	(2,153)
Increase in Cash and Cash Equivalents	3,877	4,001	2,237
Cash and Cash Equivalents at Beginning of Year	11,113	7,112	4,875
Cash and Cash Equivalents at End of Year	$14,990	$11,113	$ 7,112

See Notes to Consolidated Financial Statements

Notes To Consolidated Financial Statements

Years ended October 1998, 1997 and 1996 (Dollars in thousands except per share amounts)

Note 1 Summary of Significant Accounting Policies

Description of Business: The Company operates in one business segment, the manufacture and distribution of paint and coatings through its Consumer Coatings, Packaging Coatings, Industrial Coatings and Special Products Groups. The Company's products are sold in North America, South America, Western Europe, Southeast Asia and Australia.

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. Entities 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 those 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 coatings 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 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 SFAS No. 121.

Stock Options: In 1997, the Company adopted Statement of Financial Accounting Standard No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." As permitted under this standard, 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 awards. Pro forma information regarding net income and earnings per share as calculated under the provisions of SFAS 123 are disclosed in Note 7.

Foreign Currency: Foreign currency 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.

Net Income Per Share: In 1998, the Company adopted Statement of Financial Accounting Standard No. 128, "Earnings per Share." The following table reflects the components of common shares outstanding for the three years ended October 30, 1998.

	1998	1997	1996
Weighted average common shares outstanding	43,457,221	43,521,370	43,782,962
Effect of stock options	862,628	711,178	619,662
Adjusted common shares outstanding	44,319,849	44,232,548	44,402,624

Under the provisions of the Statement, 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 was 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 No. 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 30, 1998.

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.

Note 2 Acquisitions

In 1998 the Company completed three acquisitions, including the purchase of Plasti-Kote Co., Inc., a manufacturer of consumer aerosol and specialty paint products; the purchase of Anzol Pty. Ltd., an Australian-based manufacturer of packaging and industrial coatings and resins; and the purchase of Hilemn Laboratories, a mirror coatings supplier. In addition, the Company divested of its functional powder business. Net consideration paid for the acquisitions in 1998 was $84.6 million in cash.

In 1997 the Company completed nine acquisitions, including the second phase of its acquisition of TOTAL S.A. Coates Coatings (Coates) operations. The second phase included the packaging coatings and metal decorating inks businesses 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 coatings business.

In 1996 the Company completed the first phase of its acquisition of the Coates operations for $47.3 million in cash. The first phase included the Coates European businesses, which consist of packaging coatings and metal decorating inks businesses in the United Kingdom, France, Norway, Germany and Spain. Also included were the Coates Australian and United States operations, which were combined with the Company's existing businesses in these countries.

The acquisitions 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 date of acquisition. The effect of these transactions on the results of operations for 1998, 1997 or 1996 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, continuing the third phase of its acquisition of Coates operations. This investment is accounted for using the equity method of accounting for investments and was not material to the results of operations for 1998.

Note 3 Inventories

The major classes of inventories consist of the following:

	1998	1997
Manufactured products	$ 99,990	$ 81,720
Raw materials, supplies and work-in-process	42,821	37,933
	$142,811	$119,653

Inventories stated at cost determined by the last-in, first-out (LIFO) method aggregate $109,916 at October 30, 1998, and $102,185 at October 31, 1997, approximately $24,682 and $28,677 lower, respectively, than such costs determined under the first-in, first-out (FIFO) method.

Note 4 Trade Accounts Payable And Accrued Liabilities

Trade accounts payable include $12,231 and $19,120 of issued checks which had not cleared the Company's bank accounts as of October 30, 1998, and October 31, 1997, respectively.

Accrued liabilities include the following:

	1998	1997
Employee compensation	$35,077	$35,661
Uninsured loss reserves	19,639	18,471
Customer volume rebates	11,152	8,914
Contribution to employees' retirement trusts	6,645	6,029
Other	26,036	20,585
	$98,549	$89,660

Note 5 Long-Term Debt And Credit Arrangements

Long-term debt consists of the following:

	1998	1997
Notes to banks (3.8%–9.8% at October 30, 1998)	$149,769	$21,293
Industrial development bonds (3.2%–4.0% at October 30, 1998, payable in 2015 and 2018)	13,233	12,500
Obligations under capital lease (7.5% at October 30, 1998, payable through 2004)	2,051	2,332
	165,053	36,125
Less current maturities	(285)	(281)
	$164,768	$35,844

The Company has $200,000 of committed revolving credit facilities with a syndicate of banks at optional interest rates of prime, LIBOR-based or CD-based rates. These facilities mature as follows: $50,000 in 1999 and $150,000 in 2000. The revolving credit loan agreements contain covenants which require the Company to maintain certain financial ratios. The Company is in compliance with these covenants as of October 30, 1998.

The notes to banks totaling $149,769 at October 30, 1998, and $21,293 at October 31, 1997, 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: 1999 – $285; 2000 – $306; 2001 – $330; 2002 – $355; 2003 – $381; and $13,627 thereafter.

Under other short-term bank lines of credit, the Company may borrow up to $224,032 on such terms as the Company and the banks may mutually agree. These arrangements are reviewed periodically for renewal and modification. Borrowings under these short term notes had an average annual rate of 5.75% in fiscal 1998 and 5.76% in fiscal 1997.

The Company had unused lines of credit under the short-term bank lines and revolving credit facility of $261,633 at October 30, 1998.

Interest paid during 1998, 1997 and 1996 was $9,670, $4,878 and $2,608, respectively.

Note 6 Income Taxes

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

Year Ended	1998	1997	1996
Current			
Federal	$33,695	$34,636	$32,368
State	6,285	5,703	6,798
Foreign	1,813	1,437	1,336
Total Current	41,793	41,776	40,502
Deferred			
Federal	3,562	1,542	(2,279)
State	434	497	(435)
Foreign	869	(515)	(638)
Total Deferred	4,865	1,524	(3,352)
Total Income Taxes	$46,658	$43,300	$37,150

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

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

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

	1998	1997	1996
Tax at U.S. statutory rates	35.0%	35.0%	35.0%
State income taxes, net of Federal benefit	3.5%	3.7%	4.5%
Other	0.8%	1.0%	0.4%
	39.3%	39.7%	39.9%

Income taxes paid during 1998, 1997 and 1996 were $33,571, $46,094 and $39,748, respectively.

Note 7 Stock Plans

Stock Options: Under the 1991 Stock Option Plan, options for the purchase of up to 4,000,000 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 Standard 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. 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:

	1998	1997	1996
Pro Forma Net Income	71,424	65,486	55,710
Pro Forma Earnings Per Share:			
Basic	$1.64	$1.50	$1.27
Diluted	1.61	1.48	1.25

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:

	1998	1997	1996
Expected dividend yield	1.5%	1.5%	1.5%
Expected stock price volatility	21.1%	21.2%	21.2%
Risk-free interest rate	4.2%	5.15%	5.9%
Expected life of options	6 years	6 years	6 years

The weighted average fair value for options granted during 1998, 1997 and 1996 is $7.79, $7.63 and $6.06 per share, respectively.

Stock option activity for the three years ended October 30, 1998, is summarized as follows:

	Shares Reserved	Options Outstanding	Weighted Average Exercise Price
October 27, 1995			
Balance	756,590	994,038	$14.41
Granted	(358,650)	358,650	$20.72
Exercised	–	(202,148)	$ 8.96
Canceled	12,264	(12,264)	$16.76
October 25, 1996			
Balance	410,204	1,138,276	$17.34
Reserve shares canceled	(105,154)	–	–
Shares reserved	1,000,000	–	–
Granted	(249,600)	249,600	$28.32
Exercised	–	(94,885)	$12.73
Canceled	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	–	(56,952)	$17.10
Canceled	22,901	(22,901)	$23.72
October 30, 1998			
Balance	1,691,481	1,600,368	$22.70

Options outstanding at October 30, 1998, had an average remaining contractual life of 6.9 years. Options exercisable of 665,194 at October 30, 1998, had a weighted average exercise price of $17.99.

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 an amount equal to one-half of the employee contributions. The Company's contributions were $2,649, $2,615 and $2,231, for 1998, 1997 and 1996, 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 8 Retirement 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 $9,342, $8,603 and $7,583, for 1998, 1997 and 1996, 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 components of net periodic pension cost for the defined benefit pension plans were as follows:

Year Ended	1998	1997	1996
Service cost	$ 986	$ 913	$ 761
Interest cost	2,050	1,855	1,564
Return on assets	(4,559)	(2,422)	(1,993)
Net amortization and deferral	1,638	127	128
	$ 115	$ 473	$ 460

The funded status of the plans was as follows:

	1998	1997
Projected benefit obligation (PBO)	$ (30,669)	$ (27,517)
Plan assets at fair value	39,907	35,722
Excess of plan assets over PBO	9,238	8,205
Unrecognized net transition asset	(1,010)	(1,096)
Unrecognized prior service cost	2,532	2,771
Unrecognized net gains	(8,066)	(7,536)
Net prepaid pension cost	$ 2,694	$ 2,344

The actuarial assumptions were as follows:

	1998	1997
Discount rate	6.25%–8.0%	7.5%–8.0%
Expected long-term return on assets	7.5%–8.0%	8.0%–8.5%
Average increase in compensation	3.75%–6.0%	5.0%–6.0%

Note 9 Benefits Other Than Pensions

In addition to the Company's defined benefit pension plans, the Company sponsors a health care plan that provides post-retirement medical benefits for some of its employees. The Company's policy is to fund these benefits as they are paid.

The Company's accrued post-retirement benefit liability recognized in the Company's balance sheet was $1,599 and $1,616 at October 30, 1998, and October 31, 1997, respectively. Net periodic post-retirement expense was $103, $98 and $125 in 1998, 1997 and 1996, respectively.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 6.75% and 7.5% at October 30, 1998, and October 31, 1997, respectively. The assumed health-care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 8.0% in 1998, 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 10 Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results for the years ended October 30, 1998, and October 31, 1997:

	Net Sales	Gross Margin	Net Income	Net Income Per Share Diluted
1998 Quarter Ended:				
January 30	$ 225,359	$ 63,714	$ 8,895	$ .20
May 1	292,462	90,041	19,951	.45
July 31	327,684	101,324	22,246	.50
October 30	309,629	96,815	21,038	.48
	$1,155,134	$351,894	$72,130	$1.63
1997 Quarter Ended:				
January 24	$ 189,288	$ 53,438	$ 7,928	$ .18
April 25	252,768	82,809	17,103	.39
July 25	282,655	88,655	20,668	.47
October 31	292,560	93,895	20,178	.46
	$1,017,271	$318,797	$65,877	$1.49

Note 11 Pending Acquisition

In August, 1998, the Company agreed to purchase from Dexter Corporation its worldwide Packaging Coatings business which supplies beverage can coatings, food can and specialty coatings to the packaging market. The acquisition also includes Dexter Corporation's Industrial Coatings business in France. Completion of the transaction is expected in early 1999 and is subject to customary closing conditions.

Note 12 Recently Issued Accounting Standards

The FASB recently issued SFAS No. 130, Reporting Comprehensive Income, providing for the reporting and presentation of comprehensive income and its components; SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which establishes standards for defining operating segments and reporting certain information about such segments; and SFAS No. 132, Employers' Disclosure about Pension and Other Post-retirement Benefits, which revised disclosure requirements relative to pension and other post-retirement benefits. Since these statements only affect financial information disclosures in interim and annual periods, the adoption of these standards will not affect the Company's financial condition or results of operations. The Company is continuing to evaluate the effect of these standards on its disclosures.

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 30, 1998, and October 31, 1997, 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 30, 1998. 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 audits 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 30, 1998, and October 31, 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 30, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Minneapolis, Minnesota
November 16, 1998

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

Corporate Data

Directors

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

Officers

Richard M. Rompala	*Chairman, President and Chief Executive Officer*
Stephen M. Briggs	*Senior Vice President – Architectural, Automotive and Specialty Coatings Products*
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*
Kenneth H. Arthur	*Group Vice President – Architectural*
John M. Ballbach	*Group Vice President – Packaging*
Joel C. Hart	*Group Vice President – Automotive and International*
Robert T. Smith	*Group Vice President – Industrial*
Larry B. Brandenburger	*Vice President – Technology*
Gary E. Gardner	*Vice President – Human Resources and Public Affairs*
Steven C. Lindberg	*Vice President – Engineered Polymer Solutions and Color Corporation of America*
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

Annual Meeting

Wednesday, February 24, 1999, 11:00 AM Corporate Research and Development Center, 312 11th Ave. South, Minneapolis, MN

Corporate Reports, Earnings Announcements and News Releases

Form 10K's and Annual Reports may be obtained by calling or writing to Corporate Secretary at Corporate Headquarters.
For Earnings Announcements and News Releases, call 800-VAL-4929.

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.

The Valspar Corporation

Manufacturing Plants – United States

Azusa, CA • Los Angeles, CA • Tampa, FL • Covington, GA • Carol Stream, IL • Chicago, IL • Kankakee, IL • Marengo, IL • Rockford, IL • Wheeling, IL • Fort Wayne, IN • Louisville, KY • Hagerstown, MD • Picayune, MS • High Point, NC • Statesville, NC • Medina, OH • Pittsburgh, PA • Rochester, PA • Jackson, TN • Garland, TX • Grand Prairie, TX

Manufacturing Plants – International

Dandenong, Australia • Glendenning, Australia • Toronto, Canada • Shenzhen, China • Nantes, France • Cienega de Flores, Mexico • Mjondalen, Norway • Singapore • Machen, United Kingdom • Sawton, United Kingdom

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