VALSPAR CORP
Form 424B2
April 18, 2001

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Filed pursuant to Rule 424(b)(2)
Registration No.: 333-56658

PROSPECTUS SUPPLEMENT
(To prospectus dated March 21, 2001)

6,000,000 Shares

Common Stock

The Valspar Corporation is selling all of the shares. The shares of Common Stock are listed on the New York Stock Exchange under the symbol "VAL." On April 17, 2001, the last sale price of the shares as reported on the New York Stock Exchange was $28.41 per share.

Investing in our shares involves risks.

See "Risk Factors" beginning on page S-7.

	Per Share	Total
Public offering price	$28.00	$168,000,000
Underwriting discount	$1.19	$7,140,000
Proceeds, before expenses, to Valspar	$26.81	$160,860,000

We have granted the underwriters a 30-day option to purchase up to 900,000 additional shares of our common stock to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, will deliver the shares on or about April 23, 2001.

LEHMAN BROTHERS

BANC OF AMERICA SECURITIES LLC

GOLDMAN, SACHS & CO.

April 17, 2001

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You should rely on the information contained in this prospectus supplement and the accompanying prospectus to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying prospectus may only be used where it is legal to sell these securities. The information in this prospectus supplement and the accompanying prospectus may only be accurate on the date of this prospectus supplement.

SUMMARY OF OFFERING

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read this entire prospectus supplement and the accompanying prospectus carefully, including the consolidated financial statements included in this prospectus supplement and the documents incorporated by reference into the accompanying prospectus. Unless we indicate otherwise, all references in this prospectus supplement to pro forma financial results gives effect to our acquisition of Lilly Industries, Inc., which we completed on December 20, 2000.

Valspar

The Valspar Corporation is a global leader in the paint and coatings industry, manufacturing and selling a broad range of coatings products. In the fiscal year ended October 27, 2000, we had net sales of $1.48 billion and income from operations of $163.9 million. Pro forma for our acquisition of Lilly Industries, we had fiscal 2000 net sales of $2.15 billion. Our products include industrial coatings (representing 45 percent of fiscal 2000 pro forma net sales), packaging coatings (representing 24 percent of fiscal 2000 pro forma net sales), architectural, automotive and specialty coatings (representing 25 percent of fiscal 2000 pro forma net sales) and other products (representing 6 percent of fiscal 2000 pro forma net sales).

In December 2000, we acquired Lilly Industries, a company that manufactures and distributes a wide variety of industrial coatings products, in a transaction valued at $1.036 billion and accounted for under the purchase method of accounting. At the time of the acquisition, we believed Lilly Industries to be one of the five largest industrial coatings manufacturers in North America with reported net sales of $670 million for its fiscal year ended November 30, 2000.

We produce a broad range of industrial coatings including decorative and protective coatings for metal, wood, plastic and glass, primarily for sale to original equipment manufacturers (OEMs) in North America and Australia and selected countries in Europe and Asia. We refer to these products as our Industrial coatings product line, which includes fillers, primers, stains and topcoats used by customers in a wide range of manufacturing industries, including building products, railcar, appliance, automotive parts, office furniture, agricultural equipment, construction equipment and metal fabrication. We are also a leading U.S. supplier of coating systems that are used to coat coils of metal prior to fabrication into pre-engineered products such as doors, building system components, lighting fixtures and appliances. Within our Industrial coatings product line, we use a variety of coatings technologies to meet customer requirements, including electro-deposition, powder, high solids, water-borne and UV light-cured coatings.

We also make a variety of coatings used in the packaging industry, which we refer to as our Packaging coatings product line. Our Packaging coatings product line includes coatings and inks for rigid packaging containers, principally food containers and beverage cans. We believe we are the largest global coatings supplier to the rigid packaging industry. Packaging coatings for application to the interiors and exteriors of food containers and beverage cans comprise the largest portion of our sales of these products. We also produce coatings for aerosol and paint cans, bottle crowns for glass and plastic packaging and glass bottle closures. These coatings are required to meet the regulations of the U.S. Food and Drug Administration and the U.S. Department of Agriculture, as well as the laws and regulations of the other countries in which we sell our Packaging coatings products.

We offer a broad line of architectural coatings, including interior and exterior paints, stains, primers and varnishes. We also manufacture specialty decorative products such as enamels, aerosols and faux finishes, primarily for the do-it-yourself market. Our architectural customers include home centers, mass merchants, hardware wholesalers and independent dealers. We also manufacture and sell automotive and fleet refinish coatings, aerosol spray paints for automobiles, and specialty products such

as high performance floor coatings for industrial and commercial use. All of these architectural, automotive refinish and specialty products are part of what we call our Architectural, Automotive & Specialty coatings product line, referred to as our AAS coatings products line.

We also make specialty polymers and colorants for our own use and for sale to other paint and coatings manufacturers. We refer to these products as our Other products.

Risk Factors

For a discussion of some of the risks you should consider before purchasing our common stock, see "Risk Factors" beginning on page S-7 of this prospectus supplement.

Our principal executive offices are located at 1101 South Third Street, Minneapolis, Minnesota 55415. Our telephone number is (612) 332-7371. Our Internet address is www.valspar.com. The information contained on our website is not part of this prospectus supplement and is not incorporated by reference in this prospectus supplement or the accompanying prospectus.

The Offering

Common Stock offered	6,000,000 shares[(1)]
Common stock to be outstanding after the offering, net of treasury shares	48,606,826 shares[(2)]
Use of proceeds	To repay bank debt
New York Stock Exchange symbol	VAL

(1) Does not include 900,000 shares of common stock that we will sell if the underwriters exercise their over-allotment option in full. Some of the disclosures in this prospectus supplement will be different if the underwriters exercise their option. Unless otherwise indicated, the information in this prospectus supplement assumes that the underwriters will not exercise their option.

(2) Based on the number of shares outstanding as of April 17, 2001, not including 10,714,486 shares held in treasury. Excludes (a) 4,329,158 shares of our common stock issuable upon the exercise of outstanding and unexercised options as of April 17, 2001, and (b) 987,099 shares available for future issuance under our stock option plans.

Summary Consolidated Financial Data

The summary consolidated financial data shown below are as of and for the years ended October 30, 1998, October 29, 1999 and October 27, 2000 and for the quarters ended January 28, 2000 and January 26, 2001. The information for the three years ended October 30, 1998, October 29, 1999 and October 27, 2000 is derived from our consolidated financial statements for such years, which have been audited by Ernst & Young LLP, our independent auditors. The summary historical data for the quarters ended January 28, 2000 and January 26, 2001 are derived from our unaudited condensed consolidated financial statements for the respective periods. In the opinion of our management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations and financial position of our company as of the date of and for the periods presented. You should read this information in conjunction with "Capitalization," "Selected Historical Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and related notes for both Valspar and Lilly Industries included in this prospectus supplement.

	Fiscal Year Ended			Quarter Ended	
	October 30, 1998	**October 29, 1999**	**October 27, 2000**	**January 28, 2000**	**January 26, 2001[(1)]**
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Net sales	$ 1,155,134	$ 1,387,677	$ 1,483,320	$ 323,671	$ 336,980
Cost of sales	803,240	960,395	1,039,267	231,230	243,645
Selling, administrative and other expenses	230,152	282,271	280,118	68,453	71,982
Income from operations	121,742	145,011	163,935	23,988	21,353
Interest expense	10,707	19,089	21,989	4,903	14,214
Net income	72,130	82,142	86,466	11,455	4,458
Net income per common share basic	1.66	1.90	2.02	.27	.10
Net income per common share diluted	1.63	1.87	2.00	.26	.10
Dividends paid per common share	.42	.46	.52	.13	.135
Average shares outstanding basic	43,457	43,298	42,706	42,993	42,492
Average shares outstanding diluted	44,320	43,836	43,196	43,687	42,948
Balance Sheet Data:					
Cash and cash equivalents	$ 14,990	$ 33,189	$ 20,935	$ 27,605	$ 27,761
Other current assets	411,079	481,739	512,929	479,477	638,215
Property, plant and equipment, net	233,482	312,133	298,747	304,855	435,215
Total assets	801,680	1,110,720	1,125,030	1,094,080	2,240,320
Long-term debt	164,768	298,874	300,300	316,734	1,340,291
Stockholders' equity	340,188	393,756	437,571	402,382	440,117
Other Cash Flow Data:					
Capital expenditures	$ 42,833	$ 31,400	$ 32,425	$ 4,753	$ 3,687

	Fiscal Year Ended			Quarter Ended	
Depreciation and amortization expense	30,742	39,800	45,238	12,339	13,783

(1)
Includes approximately five weeks of Lilly Industries' financial results following the completion of our acquisition of Lilly Industries on December 20, 2000.

Pro Forma Summary Financial Data

The selected unaudited pro forma financial data shown below reflects our acquisition of Lilly Industries as if the acquisition had occurred at the beginning of each of the periods indicated. The unaudited pro forma financial information has been prepared by our management. You should read this information in conjunction with the consolidated financial statements of both Valspar and Lilly Industries, including the related notes, included in this prospectus supplement. This information is provided for informational purposes only and does not purport to be indicative of future results or of the financial position of Valspar. For additional information, see our report on Form 8-K and amended report on Form 8-K/A filed with the Securities and Exchange Commission on January 4, 2001 and February 9, 2001, respectively, both of which are incorporated by reference into the accompanying prospectus.

	Pro Forma Fiscal Year Ended October 27, 2000[1]	Pro Forma Quarter Ended January 28, 2000[1]	Pro Forma Quarter Ended January 26, 2001[1]
	(In thousands, except per share amounts)		
Net sales	$ 2,153,019	$ 477,518	$ 434,478
Cost of sales	1,455,389	333,169	305,133
Selling, administrative and other expenses[2]	495,622	113,317	109,610
Interest expense[3]	95,797	23,427	26,288
Net income[4]	57,275	3,981	(2,428)
Net income per common share basic	1.34	.09	(.06)
Net income per common share diluted	1.33	.09	(.06)
Average shares outstanding basic	42,706	42,993	42,492
Average shares outstanding diluted	43,196	43,687	42,492

(1)
We expect to achieve certain cost savings and other synergies from the business combination with Lilly Industries, which are not reflected in the pro forma data above. The financial information for Lilly Industries used to arrive at the pro forma information for the year ended October 27, 2000 was as of November 30, 2000, the close of its fiscal year. The financial information for Lilly Industries used to arrive at the pro forma information for the quarter ended January 28, 2000 was for the three months ended February 29, 2000. The financial information for Lilly Industries used to arrive at the pro forma information for the quarter ended January 26, 2001 consisted of Lilly Industries' November and December 2000 results, and the January 2001 post-acquisition results.

(2)
Includes amortization of the excess amount of purchase price over acquired net assets, based on an estimated goodwill life of 40 years. The amortization adjustments were $20,395,000 for the fiscal year ended October 27, 2000, $5,098,000 for the quarter ended January 28, 2000, and $3,400,000 for the quarter ended January 26, 2001. These amounts are subject to further adjustments following completion of additional appraisals.

(3)
Reflects additional estimated interest expense, assuming an annual weighted average interest rate of 7 percent, on debt incurred as a result of the acquisition of Lilly Industries. The adjustments were $56,908,000 for the fiscal year ended October 27, 2000, $14,227,000 for the quarter ended January 28, 2000, and $9,485,000 for the quarter ended January 26, 2001.

(4)

The rate used to estimate tax expense is higher than the historical rate applicable to Valspar because of additional non-deductible goodwill. The effective tax rate was assumed to be 45 percent. The adjustments were $26,088,000 for the fiscal year ended October 27, 2000, $7,304,000 for the quarter ended January 28, 2000, and $4,090,000 for the quarter ended January 26, 2001.

RISK FACTORS

In addition to the other information in this prospectus supplement and the accompanying prospectus, the following risk factors should be considered carefully in evaluating us and our business and in deciding whether to invest in our common stock.

We may have difficulty integrating Lilly Industries' operations and realizing benefits from the acquisition.

Our acquisition of Lilly Industries requires us to merge the operations of two companies that previously operated independently. We may not be able to integrate Lilly Industries' operations without encountering difficulties or experiencing the loss of key employees or potential customers, and the benefits expected from the integration may not be realized. If our customers view the acquisition as a negative development, we may lose revenues and market share. In addition, we must integrate Lilly Industries' domestic operations into our domestic operations and its international operations into our international operations, which will require a significant amount of our management's attention. We cannot assure you that we will be successful in our integration efforts.

If our efforts to acquire other companies or product lines fail, our business may not grow.

As part of our growth strategy, we have pursued, and intend to continue pursuing, acquisitions of complementary businesses or products and joint ventures. Our ability to grow through acquisitions or joint ventures depends upon our ability to identify, negotiate and complete suitable acquisitions or joint venture arrangements. Even if we are successful in completing the acquisitions identified, we may also experience:

- difficulties in assimilating acquired companies and products into our existing business;
- delays in realizing the benefits from the acquired company or products;
- diversion of our management's time and attention from other business concerns;
- difficulties because of our lack of or limited prior experience in any new markets we may enter; or
- difficulties in retaining key employees of the acquired businesses.

In addition, an acquisition could materially impair our operating results by causing us to incur debt and/or by requiring us to amortize acquisition expenses, including goodwill.

Fluctuations in the supply and prices of raw materials could negatively impact our financial results.

We obtain the raw materials needed to manufacture our products from a number of suppliers. Many of our raw materials are petroleum-based derivatives, minerals and metals. Under normal market conditions, these materials are generally available on the open market. From time to time, however, the prices and availability of these raw materials fluctuate, which could impair our ability to procure necessary materials, or increase the cost of manufacturing our products. During the last several quarters, we have experienced increased raw material costs and reduced profit margins. If the prices of raw materials continue to increase, we will experience further reductions to our profit margins.

Many of our customers are in cyclical industries.

Many of our customers, especially in our Industrial coatings product line, are in businesses and industries that are cyclical in nature and sensitive to changes in general economic conditions. As a result, the demand for our products by these customers depends, in part, upon general economic conditions. Downward economic cycles affecting the industries of our customers will reduce sales of our products. We have experienced reductions in sales and earnings of our Industrial coatings product line

in recent months, primarily as a result of the general slowdown in the domestic economy. If general economic conditions continue to deteriorate, we may suffer further reductions in our sales and earnings. The risk of reduced sales and earnings during downward economic cycles has been increased as a result of our acquisition of Lilly Industries, since the majority of its products are in our Industrial coatings product line.

We have a significant amount of indebtedness.

We have a significant amount of indebtedness as a result of our acquisition of Lilly Industries. Our long-term debt increased from $300 million at October 27, 2000 to $1.34 billion at January 26, 2001, following the acquisition of Lilly Industries. This compares with $440 million in stockholders' equity at January 26, 2001. Although we intend to repay a portion of our indebtedness with the proceeds of this offering, our indebtedness will remain significantly higher than before the acquisition of Lilly Industries. This could have important consequences to you. For example, it:

- may require us to dedicate a material portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the cash flow available to fund working capital, capital expenditures, acquisitions, dividend payments or other general corporate purposes; or

- may limit our flexibility to adjust to changing business and market conditions and make us more vulnerable to a downturn in general economic conditions as compared to a competitor that may have less debt.

We derive a substantial portion of our revenues from foreign markets, which subjects us to additional business risks.

Revenues from products sold outside the United States provided approximately 24 percent of our fiscal 2000 net sales on a pro forma basis giving effect to our acquisition of Lilly Industries. Our international operations could be adversely affected by changes in political and economic conditions, trade protection measures and changes in regulatory requirements that restrict the sales of our products or increase our costs. Also, changes in exchange rates between the U.S. dollar and other currencies could potentially result in increases or decreases in our costs and earnings and may affect the value of our assets outside the United States.

Environmental laws and regulations could subject us to significant future liabilities.

We are subject to numerous environmental laws and regulations that impose various environmental controls on us, including among other things, the discharge of pollutants into the air and water, the handling, use, treatment, storage and clean-up of solid and hazardous wastes, and the investigation and remediation of soil and groundwater affected by hazardous substances, or otherwise relate to environmental protection and various health and safety matters. These laws and regulations govern actions that may have adverse environmental effects and also require compliance with certain practices when handling and disposing of hazardous wastes. These laws and regulations also impose strict, retroactive and joint and several liability for the costs of, and damages resulting from, cleaning up current sites, past spills, disposals and other releases of hazardous substances. We are currently undertaking remedial activities at a number of our facilities and properties, and have received notices under CERCLA or analogous state laws of liability or potential liability in connection with the disposal of material from our operations or former operations. We believe our expenditures related to environmental matters have not had, and are not currently expected to have, a material adverse effect on our financial condition, results of operations or cash flows. However, the environmental laws under which we operate are numerous, complicated and often increasingly more stringent, and may be applied retroactively. Accordingly, there can be no assurance that we will not be required to make additional expenditures to remain in or to achieve compliance with environmental laws in the future or

that any such additional expenditures will not have a material adverse effect on our financial condition, results of operations or cash flows. For a further discussion of the impact that environmental laws and regulations have on our company, please see the discussion set forth in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition" and "Business Environmental Matters."

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein contain certain "forward-looking" statements. These forward-looking statements are based on our 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 our control, that could cause actual results to differ materially from such statements. These uncertainties and other factors include risks related to our recent acquisition of Lilly Industries, which is our largest acquisition to date, including risks of adverse changes in the results of Lilly Industries' operations due to economic conditions or unforeseen factors; risks of higher than anticipated costs of integration of Lilly Industries' employees or systems; risks of disruptions in business resulting from the integration process; and significantly higher levels of debt for us resulting in higher interest costs. We also face general risks and uncertainties, such as our reliance on our relationships with government agencies, utilities and other third parties to avoid disruption to our business; dependence of internal earnings growth on economic conditions and growth in the domestic and international coatings industry (which may have a greater relative impact on Lilly Industries' sales); changes in our relationships with customers and suppliers; unusual weather conditions; and other risks and uncertainties. The foregoing list is not exhaustive. These and other factors are discussed above under "Risk Factors." We disclaim any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements.

ABOUT OUR COMPANY

Founded in 1806, we have grown into one of the world's leading paint and coatings manufacturers. Much of our growth has occurred during the last decade and, more recently, we have expanded our business into international markets. Our business growth has been accomplished mostly through acquisitions, as summarized below.

Date of Acquisition	Acquired Company(1)	Business
March 1995	Sunbelt Coatings, Inc.	Automotive refinish coatings
May 1996	Coates Coatings (Europe, USA and Australia)	Packaging coatings
November 1996	Gordon Bartels Company	Packaging coatings
November 1996	House of Kolor, Inc.	High-end automotive refinish
January 1997	Coates Coatings (Hong Kong and China)	Packaging coatings
January 1997	Sureguard, Incorporated	Industrial coatings (mirror coatings portion subsequently sold)
March 1997	Ameron International Corporation	Industrial coatings
April 1997	Master Builders, Inc.	Industrial floor coatings
July 1997	International Zinc, Coatings & Chemical Corporation	Marine coatings (subsequently sold)
September 1997	Forton B.V. (Netherlands)	Specialty polymers
December 1997	Hilemn Laboratories, Inc.	Industrial mirror coatings (subsequently sold)
April 1998	Plasti-Kote Co., Inc. (USA, UK and Denmark)	Aerosol coatings, primarily architectural
April 1998	Anzol Pty Ltd. (Australia)	Packaging and Industrial coatings
December 1998	Dyflex B.V. (Netherlands)	Specialty polymers
September 1999	Farboil Company	Industrial powder coatings (purchase of joint venture partner's interest)
February 1999	Dexter Corporation (USA, Europe and worldwide)	Packaging and Industrial coatings
October 2000	ValsparCoates (South Africa) and Dexter South Africa	Packaging coatings (combined 2 joint ventures in South Africa)
November 2000	Valspar Marlux (Mexico)	Packaging and Industrial coatings (purchase of joint venture partner's interest)
December 2000	Lilly Industries, Inc.	Industrial coatings

(1) Businesses of the acquired companies were based primarily in the U.S., unless otherwise indicated.

The most important acquisitions among those described above include our acquisitions of Coates Coatings, Dexter Packaging and Lilly Industries. Our purchase of Coates and its line of packaging coatings products was structured as a series of acquisitions. In the first acquisition, completed in May 1996, we acquired packaging coatings businesses in Europe, Australia and the United States, marking a significant step in the globalization of our Packaging coatings product line. This business had approximately $70 million in sales in its last full fiscal year prior to our acquisition. We completed the second Coates acquisition in January 1997, which included packaging coatings businesses in Hong Kong and China which in the aggregate had approximately $10 million in sales in 1996. We commenced the third acquisition in December 1997 by entering into a joint venture for a packaging coatings business in South Africa. In October 2000, we acquired a majority interest in this business, called ValsparCoates.

ValsparCoates had approximately $9 million in net sales in 1999, the last full fiscal year prior to the time we completed this part of the Coates acquisition.

In February 1999, we acquired the worldwide packaging and French industrial coatings business of Dexter Corporation. The Dexter acquisition provided us with additional packaging coatings facilities and businesses in Europe, the United States and Asia. Dexter S.A., Dexter's industrial coatings subsidiary in France, expanded our international presence in industrial coatings products. The Dexter businesses that we acquired generated $212 million in sales in 1998, the last full fiscal year prior to the acquisition.

In December 2000, we completed the acquisition of Lilly Industries, our largest acquisition to date. We acquired all outstanding Lilly Industries shares for $31.75 per share in cash, in a transaction valued at $1.036 billion, including the assumption of approximately $218 million of debt. The transaction was accounted for under the purchase method of accounting. At the time of the acquisition, we believed Lilly Industries to be one of the five largest industrial coatings and specialty chemical manufacturers in North America, with reported net sales of $670 million for its fiscal year ended November 30, 2000. Lilly Industries formulates, manufactures and markets industrial coatings and specialty chemicals to original equipment manufacturers for products such as furniture, appliances, building products and transportation, agricultural and construction equipment. Lilly Industries has manufacturing facilities and sales offices in the United States, Canada, Mexico, the United Kingdom, Ireland, Germany, China, Malaysia, Taiwan, Singapore and Australia. In connection with the acquisition, the U.S. Federal Trade Commission required us to dispose of our former mirror coatings business, which has been replaced with Lilly Industries' mirror coatings business. The Lilly Industries acquisition was significant not only due to its size but because, through the acquisition, we believe we have become the world's largest supplier of wood, coil and mirror coatings and the leading North American supplier of non-automotive industrial coatings. Lilly Industries also provides us with complementary product lines and new technology, expanding the breadth and depth of our Industrial coatings product line.

As we have done with past acquisitions, we are taking aggressive steps to integrate the Lilly Industries business into our company in order to take advantage of cost savings synergies between the two businesses. Following the acquisition, we eliminated duplicative selling, general and administrative services and personnel and closed redundant production facilities. We expect to achieve approximately $70 million in annualized cost savings within two years of the closing of the Lilly Industries acquisition. Through March 2001, we have identified and implemented actions that are expected to result in approximately $35 million of cost savings during this fiscal year and approximately $60 million on an annualized basis. We have closed or are currently in the process of closing five plants that we acquired in this transaction.

USE OF PROCEEDS

We estimate that the net proceeds to us from this common stock offering will be approximately $160,560,000 ($184,689,000 if the underwriters exercise their over-allotment option in full) after deducting the estimated discounts, commissions and other expenses of this offering. All of the net proceeds that we receive in this offering will be used to reduce our bank debt. As of January 26, 2001, we had total borrowings of $1.25 billion outstanding under credit agreements with our bank group. As of January 26, 2001, we had $328 million outstanding that matures on November 16, 2001 and has an interest rate of 6.65 percent, and we had $925 million outstanding that matures on December 20, 2005 and has an interest rate of 6.75 percent. Banc of America Securities LLC is an affiliate of Bank of America, N.A., Credit Lyonnais

Securities (USA) Inc. is an affiliate of Credit Lyonnais, Chicago Branch, SG Cowen Securities Corporation is an affiliate of Societe Generale, U.S. Bancorp Piper Jaffray Inc. is an affiliate of US Bank National Association, Ragen MacKenzie Incorporated is an affiliate of Wells Fargo Bank and Wachovia Securities, Inc. is an affiliate of Wachovia Bank, N.A. All of the foregoing banking affiliates of the underwriters are parties to our credit agreements and will receive their proportionate shares of the debt repayments made from the proceeds of this offering.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock is traded on the New York Stock Exchange under the symbol "VAL." The following table sets forth the high and low sale prices on the New York Stock Exchange for the periods indicated.

	High	Low
YEAR ENDED OCTOBER 29, 1999		
First Quarter	$ 37.75	$ 28.00
Second Quarter	35.00	29.25
Third Quarter	39.69	33.75
Fourth Quarter	37.56	30.19
YEAR ENDED OCTOBER 27, 2000		
First Quarter	$ 43.31	$ 29.88
Second Quarter	38.75	31.63
Third Quarter	40.25	30.19
Fourth Quarter	31.38	19.75
YEAR ENDED OCTOBER 26, 2001		
First Quarter	$ 33.60	$ 24.45
Second Quarter (through April 17, 2001)	33.78	26.48

On April 17, 2001, the last reported sale price of our common stock on the New York Stock Exchange was $28.41 per share. As of April 2, 2001, we had approximately 1,700 stockholders of record of our common stock.

Our stockholders are entitled to receive dividends out of assets legally available at the times and in the amounts that our board of directors may from time to time determine. In fiscal 1999, we paid dividends of $0.115 per share for each quarter or $0.46 for the year. In fiscal 2000, we paid quarterly dividends of $0.13 per share, or $0.52 per share for the year. For each of the first and second quarters of fiscal 2001, we paid a dividend of $0.135 per share.

CAPITALIZATION

The following table sets forth our capitalization as of January 26, 2001, and as adjusted to give effect to (i) the sale of 6,000,000 shares of our common stock in this offering at the offering price of $28.00 per share and (ii) the application of the net proceeds from this offering to repay bank debt assuming the underwriters' over-allotment option is not exercised and after deducting the underwriting discount and estimated offering expenses.

The outstanding common stock information excludes shares of common stock issuable upon the exercise of outstanding options. This information should be read in conjunction with our consolidated financial statements and the related notes that we have included in this prospectus supplement.

	January 26, 2001	
	Actual	As adjusted
	(Dollars in thousands) (unaudited)	

	January 26, 2001	
Cash and cash equivalents	$ 27,761	$ 27,761
Long-term debt	$ 1,340,291	$ 1,179,731
Stockholders' equity:		
Common stock (par value $.50 per share; Authorized 120,000,000 shares; Shares issued, including shares in treasury, 53,321,312 actual and 59,321,312 as adjusted)	26,660	29,660
Additional paid-in capital	34,768	192,328
Retained earnings	494,887	494,887
Other	(3,015)	(3,015)
	553,300	713,860
Less cost of common stock in treasury (10,809,339 shares)	(113,183)	(113,183)
Total stockholders' equity	$ 440,117	$ 600,677
Total capitalization	$ 1,780,408	$ 1,780,408

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following selected historical consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus supplement. The consolidated statements of operations data for each of the years in the five-year period ended October 27, 2000, and the consolidated balance sheet data as of the end of each fiscal year are derived from our consolidated financial statements. The summary historical data for the quarters ended January 28, 2000 and January 26, 2001 are derived from our unaudited condensed consolidated financial statements for the respective periods. In the opinion of our management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations and financial position of our company as of the date of and for the periods presented. Historical results are not necessarily indicative of the results to be expected in the future.

	Fiscal Year Ended					Quarter Ended	
	October 25, 1996	October 31, 1997	October 30, 1998	October 29, 1999	October 27, 2000	January 28, 2000	January 26, 2001[1]
	(in thousands, except per share amounts)					(unaudited)	
Statement of Operations Data:							
Net sales	$ 859,799	$ 1,017,271	$ 1,155,134	$ 1,387,677	$ 1,483,320	$ 323,671	$ 336,980
Cost of sales	594,935	698,474	803,240	960,395	1,039,267	231,230	243,645
Selling, admin. & other expenses	169,873	206,834	230,152	282,271	280,118	68,453	71,982
Income from operations	94,991	111,963	121,742	145,011	163,935	23,988	21,353
Interest expense	3,029	5,294	10,707	19,089	21,989	4,903	14,214
Net income	55,893	65,877	72,130	82,142	86,466	11,455	4,458
Net income per share basic	1.28	1.51	1.66	1.90	2.02	.27	.10
Net income per share diluted	1.26	1.49	1.63	1.87	2.00	.26	.10

	Fiscal Year Ended					Quarter Ended	
Dividends paid per share	.33	.36	.42	.46	.52	.13	.135
Average shares outstanding basic	43,782	43,521	43,457	43,298	42,706	42,993	42,492
Average shares outstanding diluted	44,403	44,233	44,320	43,836	43,196	43,687	42,948
Balance Sheet Data:							
Cash and cash equivalents	$ 7,112	$ 11,113	$ 14,990	$ 33,189	$ 20,935	$ 27,605	$ 27,761
Other current assets	268,088	345,734	411,079	481,739	512,929	479,477	638,215
Property, plant & equipment, net	153,819	185,748	233,482	312,133	298,747	304,855	435,215
Total assets	486,440	615,470	801,680	1,110,720	1,125,030	1,094,080	2,240,320
Long-term debt	31,948	35,844	164,768	298,874	300,300	316,734	1,340,291
Stockholders' equity	253,703	295,065	340,188	393,756	437,571	402,382	440,117
Other Cash Flow Data:							
Capital expenditures	$ 25,376	$ 48,131	$ 42,833	$ 31,400	$ 32,425	$ 4,753	$ 3,687
Depreciation and amortization expense	22,262	25,771	30,742	39,800	45,238	12,339	13,783

(1) Includes approximately five weeks of Lilly Industries' financial results following the completion of our acquisition of Lilly Industries on December 20, 2000.

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

We have compiled the following discussions of Valspar's results of operations and financial condition from Valspar's Quarterly Report on Form 10-Q for the quarter ended January 26, 2001 and from Valspar's Annual Report on Form 10-K for the year ended October 27, 2000. We have not attempted to update this discussion in any way, except as specifically noted. You should read the following discussions in conjunction with our consolidated financial statements and related notes included in this prospectus supplement and incorporated by reference in the accompanying prospectus. You should also read the other documents that we have filed with the Securities and Exchange Commission since the date of those periodic reports and the "About Our Company" section of this prospectus supplement to obtain more information about subsequent developments involving Valspar.

Overview

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

Quarter ended January 26, 2001 On December 20, 2000, we completed our acquisition of Lilly Industries, our largest acquisition to date, valued at $1.036 billion. See note 14 to our audited consolidated financial statements included in this prospectus supplement for detail on the acquisition. In November 2000, we completed the purchase of our joint venture in Mexico.

Fiscal 2000 We combined our two joint ventures in South Africa so that we now have a majority position in a joint venture with Plascon (Pty) Limited which includes our combined packaging coatings businesses in South Africa.

Fiscal 1999 We completed three acquisitions, including the Dexter acquisition, and two divestitures, for which net consideration paid was $203.0 million.

Fiscal 1998 We completed three acquisitions and one divestiture. Net consideration paid was $83.9 million.

These acquisitions were accounted for as purchases and are discussed in detail in note 2 to our consolidated financial statements included in this prospectus supplement.

Prior to the Lilly Industries acquisition, we had two reportable segments: coatings and coatings intermediates. After the Lilly Industries acquisition, we reviewed our reportable segments. Based on the similar nature of ours and Lilly Industries' products, technologies, manufacturing processes, distribution methods, regulatory environment and internal management structure, and considering the aggregation criteria of Statement of Financial Accounting Standard No. 131, we included the former Lilly Industries operations in our coatings segment. As a result, the coatings intermediates segment, which had been separately reported, no longer meets the quantitative criteria for separate reporting. We now refer to these products as Other products.

We now operate our business in one reportable segment coatings. We manufacture and distribute a broad portfolio of coatings products. Our Industrial coatings product line includes decorative and protective coatings for metal, wood, plastic and glass. Our Packaging coatings product line includes coatings and inks for rigid packaging containers. Our AAS coatings product line includes interior and exterior paints, stains, primers, varnishes and specialty decorative products, such as enamels, aerosols and faux finishes, as well as automotive refinish and high performance floor coatings. Our Other products include specialty polymers and colorants, which are used internally and sold to other coatings manufacturers.

Results of Operations, Quarter Ended January 26, 2001 vs. Quarter Ended January 28, 2000

Net sales for the quarter increased 4.1 percent to $336,980,000 from $323,671,000 in 2000. Core business decline was approximately 3.2 percent, with the impact of acquisitions and divestitures accounting for 10.6 percent growth and foreign currency translation accounting for a 3.3 percent reduction in sales reported for the quarter. The decline in sales, excluding acquisitions and divestitures, was primarily driven by volume decreases in the Industrial and AAS coatings product lines. Due to the seasonal nature of our business, sales for the first quarter are not necessarily indicative of sales for the full year.

The gross profit margin decreased to 27.7 percent in the first quarter of 2001 from 28.6 percent in the first quarter of 2000. The lower margin was attributable to cost increases for key raw materials.

Operating expenses (research and development, selling and administrative) increased 5.2 percent to $71,982,000 (21.4 percent of net sales) in the first quarter of 2001 compared to $68,453,000 (21.1 percent of net sales) in 2000. This increase was primarily attributable to higher operating costs associated with the Lilly Industries acquisition as well as the related amortization charges. Excluding the impact of acquisitions and divestitures, operating expenses decreased approximately 6 percent.

Interest expense increased to $14,214,000 in the first quarter of 2001 from $4,903,000 in 2000 due to higher debt levels resulting from the Lilly Industries acquisition.

Net income in the first quarter of 2001 decreased 61.1 percent to $4,458,000 or $0.10 per diluted share.

Results of Operations, Fiscal Year 2000 vs. 1999

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

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

Operating expenses (research and development, selling and administrative, but excluding the impact of restructuring) increased 2.7 percent to $281,318,000 (19.0 percent of net sales) in 2000 compared to $273,925,000 (19.7 percent of net sales) in 1999. Excluding the impact of acquisitions and divestitures, operating expenses increased approximately 3 percent. This increase was primarily attributable to higher expenditures to support the AAS coatings product line. We recorded a non-recurring restructuring charge of $8,346,000 in 1999 related to the closure of existing Valspar facilities and workforce reductions following the Dexter acquisition. During the second quarter of 2000, restructuring accruals in the amount of $1,200,000 were reversed. These reversals were primarily related to lower than estimated employee termination benefits and fewer program cancellation costs than originally estimated. See note 3 to our audited consolidated financial statements included in this prospectus supplement for detail of the restructuring.

Other income/(expense) decreased to ($200,000) in 2000 from $9,164,000 in 1999. The 1999 income was driven by the gains on the divestitures of our marine and flexible packaging coatings businesses, which were partially offset by losses on the disposal of certain assets.

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

2000 net income of $86,466,000 or $2.00 per diluted share represents the 26th consecutive year of increased earnings for our company. Net income increased 5.3 percent from 1999 primarily due to sales

growth and expense controls. Income from operations increased by 13.1 percent and was partially offset by higher interest expense.

Results of Operations, Fiscal Year 1999 vs. 1998

Net sales increased 20.1 percent 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 percent, primarily driven by volume increases in the Industrial coatings product line and Other products.

The gross profit margin increased to 30.8 percent in 1999 from 30.5 percent in 1998. The higher margin was attributable to cost and waste reductions in our 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 percent to $273,925,000 (19.7 percent of net sales) in 1999 compared to $230,152,000 (19.9 percent of net sales) in 1998. Excluding the impact of acquisitions and divestitures, operating expenses increased approximately 7 percent. This increase was primarily attributable to higher expenditures to support the AAS coatings product line as well as a reduction in royalties from licensees of our technology. We recorded a non-recurring restructuring charge of $8,346,000 in 1999 related to the closure of existing Valspar facilities and workforce reductions following the Dexter acquisition. See note 3 to the consolidated financial statements for detail of the restructuring.

Other income, net of expense, increased to $9,164,000 in 1999 from $7,753,000 in 1998. The 1999 income was driven by the gains on the divestitures of our marine and flexible packaging coatings businesses, which were partially offset by losses on the disposal and abandonment of certain assets.

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

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

Financial Condition

The net cash used by our operations was $6,179,000 for the first three months of 2001, compared with $8,432,000 for the first three months of 2000. During the first quarter of 2001, $820,930,000 in proceeds from bank borrowings were used to fund $807,042,000 in acquisition investments, $3,687,000 in capital expenditures and $5,735,000 in dividend payments. Cash provided by operating activities was $93,338,000 in 2000 compared with $127,249,000 in 1999 and $109,439,000 in 1998. The operating cash flow decrease in 2000 was due to merchandising aids, advance rebates to customers, and acquisition of the majority interest in joint ventures. The cash provided by operating activities and current cash balances was used largely to fund $12,278,000 in repayment of bank borrowings, $32,425,000 in capital expenditures, $3,935,000 in Farboil acquisition related building commitments, $15,586,000 net joint venture and other investments, $22,185,000 in dividend payments, and $21,124,000 in payments for share repurchases.

During the first quarter of 2001, accounts receivable decreased $44,546,000 as higher year end balances resulting from 2000 fourth quarter sales were collected and sales volumes decreased. Accounts receivable increased $17,100,000 in 2000 compared to 1999, as a result of increased sales. Inventories and other assets increased $12,741,000 in the first quarter of 2001 as a result of prepaid acquisition costs. Inventories and other assets increased $14,397,000 in 2000 compared to 1999 as a result of increased merchandising aids and advance rebates to customers and acquisition of the majority interest in joint ventures within the Coatings segment. During the first three months of 2001, accounts payable and accrued liabilities decreased $58,549,000 primarily as a result of payment of various year-end accruals and the timing of payables disbursements. For 2000 compared to 1999, accounts payable and accrued liabilities decreased $8,074,000 primarily as a result of utilization of prior year restructuring accruals.

Capital expenditures in the first quarter of 2001 for property, plant and equipment were $3,687,000, compared with $4,753,000 in the first three months of 2000. This decrease was related to tight spending controls. Capital expenditures for property, plant and equipment were $36,360,000 (which includes $3,935,000 for the Farboil building) in 2000 compared with $31,400,000 in 1999 and $42,833,000 in 1998. We anticipate capital spending in fiscal 2001 to be somewhat lower than 2000, excluding potential spending due to the Lilly Industries acquisition.

In June 2000, we, along with Lilly Industries, announced that our respective boards of directors approved a definitive merger agreement under which we would acquire all outstanding shares of Lilly Industries common stock for $31.75 per share in cash. The merger was completed on December 20, 2000. On November 17, 2000, a syndicate of banks entered into credit facilities to provide us a total of $1.5 billion, with $500 million available for 364 days and $1 billion available for five years.

In order to finance the Lilly Industries acquisition, we increased our borrowings with banks by $820,930,000 during the first quarter of 2001. The ratio of total debt to capital increased to 75.9 percent, compared to 43.8 percent at the close of fiscal 2000. Our total debt to capital ratio as of the close of the first quarter 2000 was 47.7 percent and 47.3 percent as of the close of fiscal 1999. Average debt outstanding during 2000 was $362,855,000 at a weighted average interest rate of 6.06 percent versus $346,142,000 at 5.53 percent last year, increasing the current year's interest expense to $21,989,000 from $19,089,000 in the prior year. The total debt to capital ratio as of January 28, 2000 was 47.7 percent. We intend to use all of the proceeds from this offering to repay bank debt.

At January 26, 2001, we had unused lines of credit available from banks of $248.8 million. These lines are expected to be adequate to cover current financing needs.

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

We have continuing authorization to purchase shares of our common stock for treasury at our management's discretion for general corporate purposes. Purchases under this program were 661,000, 494,000 and 452,000 shares in 2000, 1999 and 1998, respectively.

We are involved in various claims relating to environmental and waste disposal matters at a number of current and former plant sites. We engage or participate in remedial and other environmental compliance activities at certain of these sites. At other sites, we have been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous waste. Our management reviews each individual site, considering the number of parties involved, the level of our potential liability or contribution 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, our 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.

We accrue 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 our ultimate environmental liabilities, our management believes

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

Market Risk

Our foreign sales and results of operations are subject to the impact of foreign currency fluctuations. We have not hedged our exposure to translation gains and losses; however, we have reduced our exposure by borrowing funds in local currencies. A 10 percent adverse change in foreign currency rates would not have a material effect on our results of operations or financial position.

We are also subject to interest rate risk. We have not hedged our exposure to interest rate fluctuations. Including the impact of the debt incurred to fund the Lilly Industries acquisition in the first quarter of 2001, if interest rates are 10 percent higher in 2001, interest expense would increase by approximately $10 million.

BUSINESS

Overview

Founded in 1806, Valspar has grown into a leading global paint and coatings manufacturer. We manufacture and distribute a broad portfolio of products, including:

- Industrial coatings for factory application by industrial customers and original equipment manufacturers (OEMs);
- Packaging coatings and inks for rigid containers, particularly food and beverage cans;
- Architectural paints, varnishes and stains for the do-it-yourself and professional markets;
- Automotive refinish and other specialty coatings, including high performance floor coatings; and
- Specialty polymers and colorants for use by coatings manufacturers including Valspar.

Our strategy is to grow our business through acquisitions and internal growth while maintaining our position as a low cost manufacturer in each of our key product lines. We believe we have been successful in doing this as evidenced by our 26 consecutive years of earnings per share increases. Since 1995, we have completed 19 acquisitions, the most recent of which is our purchase of Lilly Industries in a transaction valued at $1.036 billion. Over the same time, our net sales have increased from $790 million in fiscal 1995 to approximately $2.15 billion in fiscal 2000 on a pro forma basis giving effect to the Lilly Industries acquisition, for a compound annual growth rate of 22.2 percent. The following table reflects our pro forma fiscal 2000 sales by product line:

Product Line	**2000 Pro Forma Net Sales ($ million)**	**Percent of Sales**
Industrial coatings	$ 960	45%
Packaging coatings	509	24
Architectural, Automotive & Specialty coatings	538	25
Other products	146	6
Total	$ 2,153	100%

We have developed a number of leading product lines and we believe we have the following key market positions:

- No. 1 North American Non-automotive Industrial Coatings
- No. 1 Worldwide Packaging Coatings
- No. 1 Worldwide Wood, Coil and Mirror Coatings

No. 4 North American Coatings

No. 6 Worldwide Coatings

Paints & Coatings Market Overview

Paints and coatings serve two primary functions, protection and decoration. Coatings lengthen the life span of products by protecting them from the effects of external elements and enhance their marketability and aesthetic appeal. Global sales of paints and coatings were estimated to be approximately $60 billion in 1997. According to industry analysts, major paints and coatings market segments are comprised of:

Industrial coatings, which represented approximately 40 percent of total coatings industry sales in 1997, and include coatings for appliances, packaging, industrial machinery, furniture, automobiles (for OEM application), and other manufacturing applications. Our Industrial and

Packaging coatings product lines are considered to be in the industrial coatings market segment. We do not have significant sales of coatings in the automotive OEM market.

Architectural coatings, which represented approximately 45 percent of total coatings industry sales in 1997, and include interior and exterior paints and coatings for new and existing construction, as well as stains, undercoats, primers and sealers. Our architectural coatings products in our AAS coatings product line are considered to be in the architectural coatings market segment.

Special purpose coatings, which represented the remaining 15 percent of total coatings industry sales in 1997, and include all other types of coatings such as aerosols, automotive refinish, hobby and craft paints, high performance floor coatings, roof paints and other specialty applications. Our automotive refinish and specialty coatings in our AAS coatings product line are considered to be in the special purpose market segment.

Our Other products consist primarily of raw materials used for production of paints and coatings, such as specialty polymers and colorants. Specialty polymers act as binding agents in coatings and other products, and colorants provide color for coatings.

According to industry analysts, growth in the overall paints and coatings industry has historically been consistent with global GDP growth of approximately 3 percent, with specific segments, such as coil and powder coatings, experiencing significantly faster growth due, in part, to their technological advantages and environmental benefits.

The global paints and coatings industry has been experiencing consolidation, with the world's ten largest suppliers controlling a larger percentage of the overall market today than ten years ago. However, after the top ten suppliers, the industry remains highly fragmented with several hundred suppliers providing the bulk of the remaining sales.

Our Strategy

We compete in each of the three major paints and coatings industry categories, with the exception of the automotive OEM portion of the industrial coatings market segment. Our objective is to build shareholder value by maintaining our rapid growth in sales and earnings and by being an industry leader and a low cost manufacturer in each of our chosen market segments. We plan to accomplish this by being the supplier of choice to leading coatings consumers and by broadening our coatings portfolio with strategic acquisitions. Specifically, we are employing the following strategies to accomplish our growth and leadership objectives:

Focus on high growth segments. We focus on high growth product and geographic markets in three ways. First, we seek to align ourselves with leading customers. We believe that selling to rapidly growing, market leading customers will lead to above average growth in our own business. For example, our relationships with Lowe's and Wal-Mart have allowed us to increase sales to both of those customers as they have expanded and opened new stores. Second, we have expanded our technology base through research and development efforts and technologies obtained through acquisitions to enhance our ability to offer products in new and growing market segments. For example, our technology positions in coil and powder coatings have allowed us to participate in the growth of these markets as these technologies displace older coatings technologies. Third, we have expanded our geographic scope to meet the needs of customers who are also expanding globally. For example, we formed joint ventures in China and Brazil to meet customer needs in those countries.

Strategic acquisitions and rapid integration. Acquisitions have played a significant role in our growth. Our strategy is to target businesses that are closely aligned with our core operations and which allow us to expand the breadth of our product lines, technology or geographic scope. This

strategy has also allowed us to augment our internal growth by taking advantage of the global market positions and infrastructure obtained through our acquisitions. Historically, we have been successful in rapidly integrating our acquisitions due to our experience with the acquisition process and our expertise in low-cost coatings manufacturing.

Maintain a broad and balanced mix of products and markets. We have chosen to take a broad and balanced approach by operating in each of the coating industry's three principal segments and by offering our Packaging and Industrial coatings product lines globally. We believe this approach allows us to achieve consistent sales and earnings growth by reducing our overall reliance on a particular product segment or geographic area.

Low cost culture. A key factor behind our historical ability to sustain earnings growth under both strong and weak economic conditions is our company-wide focus on cost control. We believe we are widely regarded as the one of the most cost conscious coatings companies in the world. We have had significant historical success in imparting our culture to the businesses we acquire, evidenced by the fact that corporate administration costs have consistently been less than or equal to two percent of net sales, even during recent periods of significant growth. We actively involve our employees in cost control and efficiency efforts through programs such as "MIDAS," in which our employees join cross-functional teams to identify and realize cost savings in our global supply chain. We estimate that cumulative savings from the MIDAS program have exceeded $40 million since 1995. Finally, our investment in new technology and modern manufacturing and research facilities has also contributed to our ability to maintain a low-cost platform by streamlining our manufacturing processes.

Employee ownership. We believe that employee ownership aligns the interests of our employees with those of our shareholders and customers. Through various stock-based compensation plans, our employees are encouraged to own shares of our common stock. As of the end of fiscal 2000, our employees directly or indirectly owned approximately 15 percent of our outstanding stock.

Acquisition Integration

Once we consummate an acquisition, we move aggressively to integrate the operations of the acquired company and cut costs across the organization. We typically begin by focusing on the most profitable portions of the acquired business, as these segments often provide the greatest opportunity to realize immediate cost savings. When integrating an acquisition, we focus on the following areas to reduce costs and develop synergies:

Eliminate duplicative administrative, sales and research personnel and expenses;

Leverage the buying power of the larger, combined entity to reduce raw material costs;

Rationalize production and distribution facilities;

Maximize the selling potential of a broader product line and more complete technology portfolio; and

Instill a corporate culture of cost savings, efficient resource usage and employee ownership.

We believe we have been successful in executing this strategy of integrating our acquisitions. We have demonstrated the ability to realize pre-tax cost savings in excess of 10 percent of a target's revenues within a relatively short period of time following an acquisition. These savings have typically been a result of a combination of raw material cost savings, headcount reduction, manufacturing rationalization and utilization of internally, as opposed to externally, produced polymers. We expect to achieve approximately $70 million in annualized cost savings within two years of the closing of the Lilly Industries acquisition. Through March 2001, we have identified and implemented actions that are expected to result in approximately $35 million of cost savings during this fiscal year and approximately

$60 million on an annualized basis. See "About Our Company" for a discussion of the current status of our efforts to integrate the Lilly Industries businesses.

Products

Industrial Coatings

Pro forma net sales for our Industrial coatings product line were $960 million in fiscal 2000. Our Industrial coatings product line includes a broad range of decorative and protective coatings for metal, wood, plastic and glass, primarily for sale to OEM customers in North America and Australia and selected countries in Europe and Asia. Products within our Industrial coatings product line include fillers, primers, stains and topcoats used by customers in a wide range of manufacturing industries, including building products, transportation, appliance, automotive parts, furniture, agricultural equipment, construction equipment and metal fabrication. We are also a leading U.S. supplier of coatings that are applied to metal coils prior to fabrication into pre-engineered products such as doors, building system components, lighting fixtures and appliances.

We utilize a wide variety of coatings technologies to meet our customers' industrial coatings requirements, including electro-deposition, powder, high solids, water-borne and UV light-cured coatings. This broad technical capability allows us to customize our Industrial coatings products to our customers' specifications and to provide "one stop" integrated solutions. For example, in the appliance coatings market, we believe that we are one of only a small number of coatings manufacturers that currently have the technological and manufacturing capabilities to be a single source coatings supplier to appliance customers.

Selected major customers of our Industrial coatings product line include Pre-Coat Metals, Doublecoat and Metal Coaters. These companies, like many customers of our Industrial coatings products, are coatings applicators. They apply our coatings to metal and, in some cases, fabricate or process the coated metal further. The ultimate users of the coated products, such as coated metal coils, include companies like Butler Manufacturing (pre-engineered building systems), Varco Pruden International (metal building systems), NCI/MBCI (metal roofing), General Electric (appliances) and The Trane Company (HVAC products). The ultimate users of the coated products are important to us because they often specify the coatings to be used by the coatings applicator.

Through our acquisition of Lilly Industries, which reported fiscal 2000 net sales of approximately $670 million primarily in the industrial coatings market segment, we have significantly increased our presence in industrial coatings, particularly in the furniture, appliance, building product, transportation, agriculture and construction equipment and mirror manufacturing industries.

Packaging Coatings

Pro forma net sales for our Packaging coatings product line were $509 million in fiscal 2000. Packaging coatings are a distinct portion of the global industrial coatings market segment. Our Packaging coatings product line provides coatings for both interior and exterior use in rigid packaging containers, principally food containers and beverage cans for global customers. Interior coatings are used to protect the interior surface of packaging materials from consumable products such as beer, soda, fish and other food products, while exterior coatings enhance the appearance of the package's exterior. We also produce coatings for aerosol and paint cans, bottle crowns for glass and plastic packaging, and glass bottle closures. These coatings are required to meet the regulations of the U.S. Food and Drug Administration and the U.S. Department of Agriculture, as well as the laws and regulations of the other countries in which we sell our Packaging coatings products.

Historically, we have been a strong competitor in the global packaging coatings market segment, and we believe we have become the world's largest supplier of rigid packaging coatings following our

1996 acquisition of the Coates Coatings business in the United States, Europe and Australia. In addition to providing us with a global manufacturing presence, this acquisition provided us with external packaging coatings and metal decorating ink technologies, thereby improving the depth and breadth of our product line. Our 1999 acquisition of Dexter's packaging coatings business further expanded our international presence, providing us with additional manufacturing facilities in Europe and Asia. We believe we are now the only coatings manufacturer in the global beverage can market that supplies coatings for the entire can.

Selected major customers of our Packaging coatings product line include Crown, Cork and Seal/CMB, Ball, Alcoa, Silgan Holdings and Alcan. These global companies apply our coatings in the production of rigid packaging products, principally food containers and beverage cans, on a global basis. Consolidation and globalization of our customers has been most apparent in this market segment, and we have responded to these trends by offering a wide variety of packaging coatings products throughout the world.

Architectural, Automotive & Specialty Coatings

Pro forma net sales for our AAS coatings product line were $538 million in fiscal 2000. The largest portion of our AAS coatings product line is our architectural coatings products. We offer a broad portfolio of interior and exterior paints, stains, primers, varnishes and specialty decorative products, such as enamels, aerosols and faux finishes, used primarily in the do-it-yourself market. The primary distribution channels for these products are home centers, mass merchants, hardware wholesalers and independent dealers, including Lowe's, Wal-Mart and Do-It-Best stores. Due to the weather requirements of house painting, sales of our AAS coatings product line are seasonal, with the lowest levels occurring in the first quarter of our fiscal year when weather conditions in much of North America are ill-suited for exterior painting.

We develop highly customized merchandising and marketing support programs for our architectural coatings customers, enabling them to differentiate their paint departments from their competitors' through point-of-purchase materials, labeling, and product and color selection assistance. Through such programs we offer branded product lines under the names Valspar, Plasti-Kote, Colony, Magicolor and McCloskey. We also manufacture customer exclusive brands such as One & Only, Severe Weather, Enterprise, American Tradition and Decorative Effects, in addition to a variety of other private label brands. At key customers such as Lowe's, we also offer additional marketing and customer support by providing in-store employees to answer coatings questions. We have been recognized as the paint supplier of the year six times for Lowe's and twice for Wal-Mart.

Within the AAS coatings product line, we also manufacture and distribute automotive refinish coatings under the brand names Valspar and House of Kolor, and aerosol spray paints for automotive distributors and large automotive supply retailers under the brand names Plasti-Kote, Tempo and Mr. Spray. Major customers for these products include large automotive supply retailers such as AutoZone and Pep Boys. We also manufacture and distribute high performance floor coatings for commercial and industrial applications.

Other Products

Pro forma net sales of our Other products were $146 million in fiscal 2000. In addition to our main product lines, we make and sell specialty polymers and colorants. We produce these products for internal use as well as for external sale to other coatings and building products manufacturers. We believe our ability to develop proprietary polymers for use in our coatings products provides us with an advantage over many of our competitors who cannot produce these products themselves.

Competition

All aspects of the coatings business are highly competitive. We face strong competitors in all areas of our business, some of which are larger and better capitalized than we are.

Competition in the market segments in which we sell our Industrial and Packaging coatings product lines is based on technical capabilities for specific product formulation, the ability to meet customer delivery requirements, technical assistance to the customer in product application, price and new product concepts. In addition, the markets for industrial coatings are becoming increasingly global, and customers are looking for global coatings solutions. We believe we can provide global coatings solutions to our customers in a manner in which many of our competitors cannot because of our focus on industrial coatings for the global market, our position as one of the world's largest industrial coatings manufacturers and our commitment to developing innovative technologies.

Competition in the markets in which we sell our AAS coatings product line is based on factors such as price, product quality, distribution, and consumer recognition. In this segment, we offer highly customized merchandising and marketing support programs to our AAS customers and have maintained product recognition through high-quality and well-designed products. Relationships, such as the ones we have with key retailers like Lowe's and Wal-Mart, are highly important as these firms account for most of the growth in the architectural coatings market segment.

Significant Customers

In fiscal 2000, pro forma for the acquisition of Lilly Industries, our sales to Lowe's exceeded 10 percent of net sales, and our 10 largest customers accounted for approximately 30 percent of net sales.

Raw Materials

We obtain raw materials from a number of suppliers. Many of these raw materials are petroleum-based derivatives, minerals and metals. Under normal conditions, all of these materials are generally available on the open market, although prices and availability are subject to fluctuation. In general, higher oil and gas costs result in higher prices for our raw materials.

Because our raw material costs average approximately 80 percent of our costs of goods sold, raw material efficiency is a critical component of the cost of the products we manufacture. To address our need to maximize efficiency, we started a program in 1999 known as "First Run Capability," which has re-focused our efforts to reduce rework and waste in our manufacturing and business processes. We believe this program may generate millions of dollars in future cost savings.

Safety

Safety is a core value of our company. In fiscal 2000, two-thirds of our manufacturing facilities achieved either zero injuries or a substantial reduction in injuries from 1999. Our Pittsburgh, Pennsylvania facility was awarded OSHA Star Status one of only three facilities in the entire U.S. coatings industry to receive such recognition. Star Status is OSHA's highest level of safety recognition in the United States, with less than 0.1 percent of all manufacturing facilities meeting the requirements for the award.

Technology and Research & Development

Many of the products we offer today have been developed in the last five years. We have adopted a "best practices" approach to technology development by combining our technology efforts with those of the businesses we have acquired. This has resulted in several successful new product developments. For example, we have advanced our Packaging coatings product line technology by focusing on

universal coatings for two-piece food cans, and we have further advanced our Industrial coatings product line technology by developing electro-coat technology. Finally, we have continued to expand our line of polymers and now have a full portfolio of both water-based and conventional polymers.

Research and development costs for fiscal 2000 were $46.4 million, representing a 5.1 percent increase over fiscal 1999 ($44.1 million). Fiscal 1999 costs increased 11.5 percent over those of fiscal 1998 ($39.6 million). During this period our primary emphasis has been on developing and refining emerging technologies in our Industrial and Packaging coatings product lines.

Our policy is to seek patent protection for our products and manufacturing processes when appropriate. We also license some patented technology from other sources. Although we believe our patent rights are valuable, our knowledge and trade secret information regarding our manufacturing processes and materials have also been important in maintaining our competitive position. As a condition of employment, we now require domestic employees to sign a confidentiality agreement relating to proprietary information and patent rights. Our business is not materially dependent upon licenses or similar rights or on any single patent or trademark or group of related patents or trademarks.

While we make efforts to protect our trade secret information, others may independently develop or otherwise acquire substantially equivalent proprietary information or techniques, or gain access to our proprietary technology or disclose this technology. Any of these factors could adversely impact the value of our proprietary trade secret information and harm our business.

Employees

As of the end of January 2001, we employed over 6,700 persons; approximately 4,700 employees in the United States and about 2,000 employees in our international operations. Approximately 900 of our domestic employees are represented by labor unions, and the majority of our international employees are represented by trade unions and other labor organizations. All union employees in the U.S. are operating under signed collective bargaining agreements, except for the union employees in our Bowling Green, Kentucky facility. This is a former Lilly Industries facility at which the union was certified prior to our acquisition. We are currently negotiating a collective bargaining agreement with this union. Collective bargaining agreements for 281 union employees at our Medina, Ohio and Kankakee, Illinois facilities will expire during

2001. We believe our relations with the labor unions representing our employees are good. We also believe we offer our employees competitive wages and benefits compared with employees in similar businesses and locations.

Foreign Operations and Export Sales

Our foreign operations consist of a mixture of subsidiaries, joint ventures and, to a lesser extent, licensing arrangements with independent third parties. In recent years, we have placed greater emphasis on the development of our majority-owned subsidiaries and joint ventures, and a reduced emphasis on the use of licensing arrangements. The bulk of our foreign operations have been acquired in the last five years. In 1996, we acquired the European, U.S. and Australian metal decorating inks and packaging coatings business of Coates Coatings to provide our customers with global support. In 1999, we acquired the global packaging coatings business of the Dexter Corporation, along with its industrial coatings business in France. This acquisition added several manufacturing facilities throughout Europe and in Singapore. In December 2000, we completed our acquisition of Lilly Industries, which included its manufacturing operations in Canada, Mexico, Europe and Asia. We now have operations in, among other countries, Australia, Brazil, Canada, France, Germany, Hong Kong, Ireland, Malaysia, Norway, Singapore, Spain, Switzerland, Taiwan and the United Kingdom. We also have joint ventures in Brazil, China, Hong Kong, India, Japan and South Africa.

Properties

Our principal offices in Minneapolis, Minnesota are owned. We conduct manufacturing operations at 68 North American locations, primarily in Illinois, California, Texas, Indiana, North Carolina and Pennsylvania, with three plants each in Canada and Mexico. Sixty-three plants with approximate square footage of 6,480,000 are owned, and 5 plants with square footage of 515,000 are leased. Manufacturing operations in Europe are conducted at 7 owned locations, with plants in the United Kingdom, France, Germany, Ireland and Switzerland with a combined square footage of 736,000. We also own two plants in Australia and one plant in each of China, Malaysia and Taiwan with a combined approximate square footage of 240,000. We lease a plant in each of Singapore, China, Malaysia, Australia, and the United Kingdom with a combined square footage of approximately 104,000. We have closed or are currently in the process of closing five plants that we acquired in the Lilly Industries transaction.

We believe our principal properties and facilities owned or leased are well maintained, in good operating condition and adequate for the purposes for which they are being used. Operating capacity varies by product line, but additional production capacity is available for most product lines by increasing the number of shifts worked.

Environmental Matters

While uncertainties exist with respect to the amounts and timing of our ultimate environmental liabilities, we believe that such liabilities, individually and in the aggregate, will not have a material adverse effect on our financial condition, results of operation or cash flows.

We are involved in various claims relating to environmental and waste disposal matters at the sites of 25 current and former facilities. We participate in remedial and other compliance activities at certain of these sites.

At approximately 50 other sites, we have been named as a potentially responsible party (PRP) under federal and state environmental laws for the remediation of hazardous waste. We review each site, consider the number of parties involved, the level of our potential liability for contribution relative to the other parties, the nature and magnitude of the wastes involved, the method and extent of remediation, potential insurance coverage, estimated legal and consulting expense and the time period over which any costs would likely be incurred. Based on this analysis, our management estimates the restoration or other clean-up costs and related claims for each site. The estimates are also based, in part, on discussions with other PRPs, governmental agencies and engineering firms. We then accrue reserves for potential environmental liabilities, which are reviewed on a continuous basis and adjusted as additional information becomes available. During the past fiscal year, cash payments for environmental clean-up related costs have been less than $2.2 million. We believe the reserves we have accrued are adequate for our potential environmental liabilities.

Legal Matters

We are one of a number of defendants in numerous proceedings that allege that the plaintiffs suffered injuries or contracted diseases from exposure to chemicals used in the production of some of our products. We are also a defendant in a number of other legal proceedings which we believe are not out of the ordinary for a business of our type and size. In some of these matters, the remedies sought or damages claimed are substantial. While it is not possible to predict with certainty the outcome of legal proceedings, our management believes, after consultation with counsel, that the resolution of our legal matters, individually and in the aggregate, will not have a material adverse effect on our business or financial condition.

We are a defendant in two cases in the State of Maryland in which the plaintiffs seek damages for personal injuries and property damage resulting from exposure to various forms of lead, including paint

containing lead pigment, found in and around homes and apartments. Upon consultation with counsel, we believe that the Maryland plaintiffs' likelihood of recovery is low, and we believe we are adequately insured to protect us from any significant loss. Aside from those two cases, we have not been named as a defendant in any of the numerous cases pending around the United States involving lead exposure. As a general matter, many of the defendants in these cases produced pigments containing lead at some time. We have sold paint containing lead pigment but have never produced lead pigments. We believe that our exposure to liability stemming from the lead litigation will not have a material adverse effect on our business or financial condition. However, we cannot assure you that this will be the case if the foregoing litigation or any future action or proceeding that may arise concerning the effects of lead results in an adverse determination against us and our insurance is for whatever reason insufficient or unavailable to cover the costs of defending such a matter or the amount of any judgment.

MANAGEMENT

Executive Officers and Directors

Our executive officers and directors are described below. Our by-laws provide for 12 directors, divided into three classes. Each class consists of four director seats, with each director serving a 3-year term. We currently have 10 directors serving on our board.

Name	Age	Positions with the Company
Richard M. Rompala	54	Chairman, President and Chief Executive Officer
John M. Ballbach	40	Senior Vice President, Operations, E-Commerce, EPS and Color Corporation
Rolf Engh	47	Senior Vice President, General Counsel & Secretary
Steven L. Erdahl	49	Senior Vice President, Industrial Coatings and Automotive
William M. Mansfield	53	Senior Vice President, Architectural and Packaging Coatings
Paul C. Reyelts	54	Senior Vice President, Finance and Chief Financial Officer
Susan S. Boren	54	Director
Jeffrey H. Curler	50	Director
Charles W. Gaillard	60	Director
Thomas R. McBurney	62	Director
Gregory R. Palen	45	Director
Lawrence R. Perlman	63	Director
Edward B. Pollak	66	Director
Michael P. Sullivan	66	Director
Richard L. White	61	Director

Richard M. Rompala has served as Chairman of Valspar since February 1998, as Chief Executive Officer since October 1995 and as President since March 1994. Mr. Rompala is also a director of Olin Corporation.

John M. Ballbach has been our Senior Vice President, Operations, E-Commerce, EPS and Color Corporation since February 2000. Prior to that time, Mr. Ballbach was Group Vice President Packaging since November 1998 and President Europe, Middle East and South Africa since June 1996.

Rolf Engh has been General Counsel and Secretary of our company since April 1993. From September 1993 to November 1998, he was also Vice President, International. Prior to joining our company, Mr. Engh was a partner at Lindquist & Vennum, PLLP, a Minneapolis law firm.

Steven L. Erdahl has been in his current position of Senior Vice President, Industrial Coatings and Automotive since December 2000. Prior to that time, he was served our company as Senior Vice President Packaging and Industrial Coatings since February 2000, and prior to that, as Senior Vice President Operations since November 1998. Mr. Erdahl was our Vice President Industrial Coatings Group from June 1991 to November 1998.

William M. Mansfield is currently our Senior Vice President, Architectural and Packaging Coatings since December 2000. Before then Mr. Mansfield served our company as Senior Vice President Architectural, Automotive and Specialty Coatings since February 2000, and as Senior Vice President Packaging and Industrial Coatings since November 1998. Prior to November 1998, Mr. Mansfield was our Vice President Packaging Coatings Group since February 1991.

Paul C. Reyelts has been our Senior Vice President, Finance and Chief Financial Officer since November 1998. Prior to that time, he served our company as Vice President, Finance.

Susan S. Boren has been a director of Valspar since 1991. Since May 2000, Ms. Boren has been Principal-Minneapolis office of Spencer Stuart, an executive search firm. Prior to 2000, Ms. Boren was Director-Minneapolis office of Spencer Stuart, since May 1998. Prior to 1998, she was the President of Trillium Advisors, a firm she founded in 1996 to advise executives and boards on the strategic integration of leadership, governance and organizational values. Previously, Ms. Boren served for 15 years as an executive with Target Corporation in senior financial, human resources and operating and marketing positions.

Jeffrey H. Curler has been on our board of directors since 1997 and has held his present position as Chief Executive Officer of Bemis Company, Inc. since May 2000 and served as its President since May 1996 and Chief Operating Officer since May 1998. Prior to 1996, Mr. Curler served as Executive Vice President of Bemis Company since 1991. Mr. Curler is also a director of that company.

Charles W. Gaillard has been a director of Valspar since June 1999. He retired as President of General Mills, Inc. in October 1999. Prior to that time, Mr. Gaillard served General Mills as its President since May 1995 and Vice Chairman since December 1993. He is also a director of Whitman Corporation.

Thomas R. McBurney has served on our board of directors since 1987. He is currently President of McBurney Management Advisors, a management consulting firm, a position he has held since 1990. Mr. McBurney is also a director of Wenger Corporation, Meritex Enterprises, Inc., Allina Health System, American Express Certificate Company, IDS Life Series Fund, Inc., IDS Variable Annuity Funds A & B and Greenspring Companies.

Gregory R. Palen has been a director of our company since 1992. Mr. Palen has held his present position as Chairman and Chief Executive Officer of Spectro Alloys Corporation, an aluminum recycler and manufacturing company, since 1988. He has also been Chief Executive Officer and a director of Palen/Kimball Company, a mechanical service company, since May 1993. Mr. Palen is also a director of Spectro Alloys Corporation, Opus Northwest LLC and Polaris Industries Inc.

Lawrence R. Perlman, currently a private investor, has been a director of Valspar since 1992. He retired as Chairman of Ceridian Corporation in April 2000 and as Co-Chairman of Seagate Technology, Inc. in December 2000. Mr. Perlman served as Chairman since November 1992 and Chief Executive Officer from 1990 through 1999 of Ceridian Corporation and as Co-Chairman of Seagate Technology, Inc. since 1998. He is also Chairman and a director of The Arbitron Company, Inc. and a director of Amdocs Limited, Carlson Companies, Inc. and Computer Network Technology.

Edward B. Pollak has served on our board of directors since 1997 and has held his present position as Chief Executive Officer of Yellow Cab Management, Inc. since November 2000. Prior to 2000, Mr. Pollak served as Vice President of Crompton Corporation (formerly CK Witco Corporation) since October 1999 and served as Vice President Asia Pacific, Witco Corporation since August 1997. Prior to 1997, Mr. Pollak served as Vice President International, OSi Specialties, Inc., a subsidiary of Witco Corporation, since July 1994.

Michael P. Sullivan has been a director of Valspar since 1990. He currently is the Chairman of International Dairy Queen, Inc., a position he has held since January 2001. Mr. Sullivan previously served as President and Chief Executive Officer of International Dairy Queen since 1987. Mr. Sullivan is also a director of International Dairy Queen, Allianz Life Insurance Company of North America, Adler Trust Company and Opus Corporation.

Richard L. White, Ph.D. has been a director of our company since 2000. Dr. White retired as Executive Vice President of Bayer Corporation in November 1999, a position he had held since July 1991. Dr. White is also a director of Petro Rem.

UNDERWRITING

We intend to offer the shares through the underwriters. Lehman Brothers Inc. is acting as representative of the underwriters named below. Subject to the terms and conditions described in an underwriting agreement between us and the underwriters, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

Underwriter	Number of Shares
Lehman Brothers Inc.	2,967,000
Banc of America Securities LLC	1,214,000
Goldman, Sachs & Co.	1,214,000
Fidelity Capital Markets, a division of National Financial Services LLC	60,000
Credit Lyonnais Securities (USA) Inc.	60,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	60,000
Prudential Securities Incorporated	60,000
SG Cowen Securities Corporation	60,000
U.S. Bancorp Piper Jaffray Inc.	60,000
Chatsworth Securities LLC	35,000
Fahnestock & Co. Inc.	35,000
First Analysis Securities Corporation	35,000
Edward D. Jones & Co., L.P.	35,000
First Tennessee Securities Corporation	35,000
Ragen MacKenzie Incorporated	35,000
Wachovia Securities, Inc.	35,000
Total	6,000,000

The underwriters have agreed to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Fidelity Capital markets, a division of National Financial Services LLC, is acting as an underwriter or a selling group member in this offering and will facilitate electronic distribution through the Internet.

Commissions and Discounts

The representative has advised us that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at

that price less a selling concession not in excess of $.68 per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $.10 per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to Valspar. The information assumes either no exercise or full exercise by the underwriters of their over-allotment options. The underwriting fee is the difference between the public offering price and the amount the underwriters pay to Valspar.

	Per Share	Without Option	With Option
Public offering price	$28.00	$168,000,000	$193,200,000
Underwriting discount	$1.19	$7,140,000	$8,211,000
Proceeds, before expenses, to Valspar	$26.81	$160,860,000	$184,989,000

The expenses of the offering, not including the underwriting discount, are estimated at $300,000 and are payable by Valspar.

Over-Allotment Option

We have granted options to the underwriters to purchase up to 900,000 additional shares at the public offering price less the underwriting discount and commissions. The underwriters may exercise these options for 30 days from the date of this prospectus supplement solely to cover any over-allotments. If the underwriters exercise these options, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

No Sales of Similar Securities

We and our executive officers and directors have agreed, with exceptions, not to sell or transfer any common stock for 90 days after the date of this prospectus supplement without first obtaining the written consent of Lehman Brothers Inc. Specifically, we and these other individuals have agreed not to directly or indirectly

- offer, pledge, hedge, sell or contract to sell any common stock,
- sell any option, right or warrant with respect to any shares of common stock,
- purchase any option or contract to sell any common stock,
- grant any option, right or warrant with respect to any shares of common stock,
- lend or otherwise dispose of or transfer any common stock, or
- enter into any swap or other derivatives transaction that transfers, in whole or in part, the economic consequence of ownership of any common stock, whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

New York Stock Exchange Listing

The shares are listed on the New York Stock Exchange under the symbol "VAL."

Price Stabilization and Short Positions

The underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of

1934:

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the representatives or the lead managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Canadian Sales

This prospectus supplement is not, and under no circumstances is to be construed as, an advertisement or a public offering of shares in Canada or any province or territory thereof. Any offer or sales of shares in Canada will be made only under an exemption from the requirements to file a prospectus supplement or prospectus and an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made.

Stamp Taxes

Purchasers of the shares of our common stock offered by this prospectus supplement may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover of this prospectus supplement. Accordingly, we urge you to consult a tax advisor with respect to whether you may be required to pay those taxes or charges, as well as any other tax consequences that may arise under the laws of the country of purchase.

Other Relationships

In the ordinary course of their business, certain underwriters or their affiliates have engaged in, and may in the future engage in, investment and other commercial banking transactions with Valspar. Banc of America Securities LLC is an affiliate of Bank of America, N.A., Credit Lyonnais Securities (USA) Inc. is an affiliate of Credit Lyonnais, Chicago Branch, SG Cowen Securities Corporation is an affiliate of Societe Generale, U.S. Bancorp Piper Jaffray Inc. is an affiliate of US Bank National Association, Ragen MacKenzie Incorporated is an affiliate of Wells Fargo Bank and Wachovia Securities, Inc. is an affiliate of Wachovia Bank, N.A. All of the foregoing banking affiliates of the underwriters are parties to our credit agreements currently in place and will receive their proportionate shares of the debt repayments made from the proceeds of this offering. See "Use of Proceeds" in this prospectus supplement. Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in this offering, this offering will be conducted in accordance with Rule 2710(c)(8) of the Conduct Rules of the National Association of Securities Dealers, Inc.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedule incorporated by reference or included in our Annual Report on Form 10-K for the year ended October 27, 2000, as set forth in their report, which is included in this prospectus supplement and incorporated by reference in the accompanying prospectus and elsewhere in the registration statement. Our financial statements and schedule are incorporated by reference in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

Ernst & Young LLP, independent auditors, have audited the consolidated financial statements of Lilly Industries, Inc., included in our Form 8-K/A dated February 9, 2001, at November 30, 2000 and 1999 and for each of the three years in the period ended November 30, 2000, as set forth in their report, which is included in this prospectus supplement and incorporated by reference in the accompanying prospectus and elsewhere in the registration statement. These financial statements are incorporated by reference in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

LEGAL MATTERS

Rolf Engh, Esq., our Senior Vice President and General Counsel, will pass upon certain legal matters for us in connection with the securities offered by this prospectus supplement. Milbank, Tweed, Hadley & McCloy LLP, New York, New York, will pass upon certain legal matters for the underwriters in connection with the securities offered by this prospectus supplement. Mr. Engh owns, or has the right to own, a number of shares of our common stock, which represents less than 1 percent of the total number of outstanding shares of our common stock.

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The Valspar Corporation

Condensed Consolidated Balance Sheets

(Dollars in thousands)

	January 26, 2001	January 28, 2000	October 27, 2000
	(Unaudited)	(Unaudited)	(Note)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 27,761	$ 27,605	$ 20,935
Accounts receivable less allowance (1/26/01 - $7,361; 1/28/00 - $5,306; 10/27/00 - $4,925)	317,557	254,969	277,763
Inventories:			
Manufactured products	143,856	114,533	108,225
Raw materials, supplies and work-in-process	76,847	52,120	46,662
	220,703	166,653	154,887
Deferred income taxes	21,230	18,742	18,464
Prepaid expenses and other accounts	78,725	39,113	61,815
Total Current Assets	665,976	507,082	533,864
Goodwill, Net	1,040,592	215,828	208,748
Other Assets, Net	98,537	66,315	83,671
Property, Plant and Equipment	701,384	533,646	545,475
Less accumulated depreciation	(266,169)	(228,791)	(246,728)
Net Property, plant and Equipment	435,215	304,855	298,747
Total Assets	$ 2,240,320	$ 1,094,080	$ 1,125,030
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes payable to banks	$ 44,400	$ 50,961	$ 40,195
Trade accounts payable	167,376	139,497	153,996
Income taxes	18,477	19,909	10,910

	January 26, 2001	January 28, 2000	October 27, 2000
Accrued liabilities	174,515	120,972	129,187
Total Current Liabilities	404,768	331,339	334,288
Long-Term Debt	1,340,291	316,734	300,300
Deferred Income Taxes	23,021	11,172	22,366
Deferred Liabilities	32,123	32,453	30,505
Stockholders' Equity:			
Common Stock (Par Value - $.50; Authorized - 120,000,000 shares; Shares issued, including shares in treasury - 53,321,312)	26,660	26,660	26,660
Additional paid-in capital	34,768	32,347	34,267
Retained earnings	494,887	435,241	490,860
Other			