VALSPAR CORP
Form DEF 14A
January 23, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [_]

Check the appropriate box:

[_] Preliminary Proxy Statement

[_] Confidential, for Use of the Commission Only (as permitted by Rule 14A-6(E)(2))

[X] Definitive Proxy Statement

[_] Definitive Additional Materials

[_] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

The Valspar Corporation

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required

[_] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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[_] Fee paid previously with preliminary materials.

[_] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
February 25, 2004

The annual meeting of stockholders of The Valspar Corporation will be held at the Research Center of the Corporation at 312 South 11th Avenue, Minneapolis, Minnesota, on Wednesday, February 25, 2004 at 11:00 A.M., for the following purposes:

1. To elect four directors (Class III) for a term of three years;
2. To approve the Corporation s Amended and Restated Key Employee Annual Bonus Plan to permit compliance with Internal Revenue Code Section 162(m);
3. To ratify the appointment of independent auditors to examine the Corporation s accounts for the fiscal year ending October 29, 2004; and
4. To transact such other business as may properly come before the meeting or any adjournments thereof.

Stockholders of record at the close of business on December 31, 2003 are entitled to notice of and to vote at the meeting.

Your attention is directed to the Proxy Statement accompanying this Notice for a more complete statement of the matters to be considered at the meeting. A copy of the Annual Report for the year ended October 31, 2003 also accompanies this Notice.

By Order of the Board of Directors,

/s/ Rolf Engh

ROLF ENGH,
Secretary

Approximate Date of Mailing of Proxy Material:
January 23, 2004

Please refer to the enclosed proxy card and the attached proxy statement for information on voting options: Internet Telephone Mail

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1101 Third Street South
P.O. Box 1461
Minneapolis, Minnesota 55440

PROXY STATEMENT
Annual Meeting of Stockholders
February 25, 2004

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of proxies in the accompanying form. Shares will be voted in the manner directed by the stockholders; provided, however, that if no direction is given by a stockholder, the shares will be voted as recommended by the Corporation s Board of Directors. A stockholder giving a proxy may revoke it at any time before it is exercised by (i) giving written notice of revocation to the Office of the Secretary of the Corporation, (ii) delivering a duly executed proxy bearing a later date, or (iii) voting in person at the Annual Meeting.

Registered stockholders may vote in one of three ways; by completing and returning the enclosed proxy card via regular mail or by voting via the Internet or telephone, as permitted by Delaware law. Specific instructions for using these methods are set forth on the enclosed proxy card. The Internet and telephone procedures are designed to authenticate the stockholder s identity and to allow stockholders to vote their shares and confirm that their instructions have been properly recorded.

Proxies are being solicited by mail, and, in addition, directors, officers and employees of the Corporation may solicit proxies personally, by telephone, telegram or letter at no additional compensation to them. The Corporation will pay the expense of soliciting proxies and will reimburse brokerage firms and others for their expenses in forwarding proxy materials to beneficial owners of Common Stock.

If a stockholder abstains from voting on any matter, the abstention will be counted for purposes of determining whether a quorum is present at the Annual Meeting of Stockholders for the transaction of business as well as shares entitled to vote on that matter. Under Section 216 of the Delaware General Corporation Law, on matters other than the election of directors, an action of the stockholders generally requires the affirmative vote of shares present in person or represented by proxy at the meeting and entitled to vote on the matter. Accordingly, an abstention on any matter other than the election of directors will have the same effect as a vote against that matter. A non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Broker non-votes on a matter are counted as present for purposes of establishing a quorum for the meeting, but are not considered entitled to vote on that particular matter. Consequently, non-votes generally do not have the same effect as a negative vote on the matter.

PROPOSAL NUMBER ONE
Election of Directors

In accordance with the Corporation s By-Laws, the number of directors is currently fixed at twelve, divided into three classes. Each class consists of four seats, with each director serving a term of three years. There are currently eleven directors serving on the Board of Directors. The terms of Class III

directors will expire at the annual meeting in 2004. The Board of Directors has nominated Charles W. Gaillard, Mae C. Jemison, Gregory R. Palen and Lawrence Perlman for re-election as Class III directors. Unless otherwise directed by the stockholders, it is intended that shares represented by proxy will be voted in favor of the election of the four nominees listed in Class III below, to hold office until the annual meeting in 2007 and until their successors are elected and qualify. If any of the nominees is unable or unwilling to stand for election, it is intended that shares represented by proxy will be voted for a substitute nominee recommended by the Board of Directors, unless the stockholder otherwise directs. The Board is not aware that any of the nominees is unable or unwilling to stand for election.

Names, Principal Occupations for the Past Five Years and Selected

Other Information Concerning Nominees and Directors

CLASS I Directors Continuing in Office Until 2005

Thomas R. McBurney President, McBurney Management Advisors
Director since 1987
Age 65

Mr. McBurney has held his present position as President of McBurney Management Advisors, a management consulting firm, since 1990. Mr. McBurney is also a director of Wenger Corporation, Meritex Enterprises, Inc., American Express Certificate Company, IDS Life Series Fund, Inc., IDS Life Variable Annuity Funds A & B, American Express FSB and Greenspring Companies.

Richard M. Rompala Chairman and Chief Executive Officer of the Corporation
Director since 1994
Age 57

Mr. Rompala has held his present position as Chairman since February 1998 and Chief Executive Officer since October 1995. Mr. Rompala served as President from March 1994 to December 2001. Mr. Rompala is also a director of Olin Corporation.

Michael P. Sullivan, Sr. Of Counsel Gray, Plant, Mooty, Mooty & Bennett, P.A.
Director since 1990
Age 69

Mr. Sullivan has been Of Counsel with Gray, Plant, Mooty, Mooty & Bennett, P.A. since January 2003. Prior to 2003, Mr. Sullivan was Chairman of International Dairy Queen, Inc. from January 2001 through December 2002 and served as President and Chief Executive Officer of International Dairy Queen, Inc. from 1987 to 2001. Mr. Sullivan is also a director of Allianz Life Insurance Company of North America, Opus Corporation, Fabcon, Inc. and Adler Trust Company.

Richard L. White, Ph.D. Former Executive Vice President, Bayer Corporation
Director since 2000
Age 64

Dr. White retired as Executive Vice President of Bayer Corporation on November 1, 1999. Prior to 1999, Dr. White served as Executive Vice President since July 1991.

Names, Principal Occupations for the Past Five Years and Selected Other Information Concerning Nominees and Directors

CLASS II Directors Continuing in Office Until 2006

Susan S. Boren Partner, SpencerStuart
Director since 1991
Age 56

Names, Principal Occupations for the Past Five Years and Selected Other Information Concerning Nominees and Directors

Ms. Boren has been a Managing Partner   Minneapolis office of SpencerStuart, an executive search firm, since May 2001. Prior to 2001, Ms. Boren was a Principal with the Minneapolis office since May 2000 and was Director with the Minneapolis office from May 1998 to May 2000. Prior to 1998, Ms. Boren was the President of Trillium Advisors, Inc., a firm she founded in 1996 to advise executives and boards on the strategic integration of leadership, governance and organizational values.

Jeffrey H. Curler	President and Chief Executive Officer,
Director since 1997	Bemis Company, Inc.
Age 53	

Mr. Curler has held his present position as Chief Executive Officer since May 2000 and President since May 1996. Mr. Curler previously served as Chief Operating Officer from 1998 to 2000. Mr. Curler is also a director of Bemis Company, Inc.

Edward B. Pollak	Retired Senior Vice President,
Director since 1997	Olin Corporation
Age 69	

Mr. Pollak served as Chief Executive Officer of Yellow Cab Management, Inc. from November 2000 to November 2001. 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. Prior to 1994, Mr. Pollak served as Senior Vice President of Olin Corporation since 1991 and President and Chief Executive Officer of Olin Hunt Specialty Products, a wholly-owned subsidiary of Olin Corporation, since 1986.

Names, Principal Occupations for the Past Five Years and Selected Other Information Concerning Nominees and Directors

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CLASS III Nominees for Term Expiring in 2007

Charles W. Gaillard	Retired President, General Mills, Inc.
Director since 1999	
Age 63	

Mr. Gaillard retired as President of General Mills, Inc. on October 1, 1999. Prior to 1999, Mr. Gaillard served as President since May 1995 and Vice Chairman since December 1993.

Mae C. Jemison, M.D.	President, BioSentient Corporation;
Director since January 2002	President, The Jemison Group, Inc.
Age 47	

Dr. Jemison is President and founder of BioSentient Corporation, a medical devices company specializing in ambulatory physiologic monitoring, since December 2000. She has also been President of The Jemison Group, Inc. since 1993. The Jemison Group is a technology consulting company that applies and integrates

Names, Principal Occupations for the Past Five Years and Selected Other Information Concerning Nominees and Directors

science and advanced technology considering the worldwide social and technological circumstances of the users. Dr. Jemison founded and directs The Earth We Share, an international science camp for students ages 12-16 worldwide. She is A.D. White Professor At-Large at Cornell University. From 1987 to 1993, she was an astronaut with the National Aeronautics and Space Administration (NASA) and was a member of the Space Shuttle Endeavour Flight in September 1992. Dr. Jemison is also a director of Scholastic, Inc., a publishing company, and Kimberly-Clark Corporation and a member of the Institute of Medicine of the National Academy of Sciences.

Gregory R. Palen Director since 1992 Age 48	Chairman and Chief Executive Officer, Spectro Alloys Corporation; Chief Executive Officer, Palen/Kimball Company

Mr. Palen has held his present position as Chairman and Chief Executive Officer with Spectro Alloys Corporation, an aluminum recycler and manufacturing company, since 1989. He has been Chief Executive Officer of Palen/Kimball Company, a mechanical service company, since May 1993. Mr. Palen is also a director of Palen/Kimball Company, Spectro Alloys Corporation and Opus Northwest LLC and the Non-Executive Chairman of Polaris Industries Inc.

Lawrence Perlman Director since 1992 Age 65	Retired Chairman and Chief Executive Officer, Ceridian Corporation; Chairman, Arbitron, Inc.; Consultant and Private Investor

Mr. Perlman has held his present position as Chairman of Arbitron, Inc. since March 2001 and he served as Chairman and Chief Executive Officer of XIOtech Corporation from August 2001 to February 2002. Prior to 2001, Mr. Perlman retired as Chairman of Ceridian Corporation in April 2000 and as Co-Chairman of Seagate Technology, Inc. in December 2000. Prior to 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. Mr. Perlman is also a director of Arbitron, Inc., XIOtech Corporation and Carlson Companies, Inc.

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Board Committees

The standing committees of the Board of Directors for 2003 were as follows:

Name of Committee	Membership
Audit Committee	Susan S. Boren, Jeffrey H. Curler Chair, Charles W. Gaillard, Mae C. Jemison, Thomas R. McBurney and Richard L. White
Executive Committee	Thomas R. McBurney, Richard M. Rompala Chair and Michael P. Sullivan
Compensation Committee	Susan S. Boren, Thomas R. McBurney, Gregory R. Palen, Lawrence Perlman,

Name of Committee	Membership
	Edward B. Pollak and Michael P. Sullivan Chair
Governance Committee	Susan S. Boren, Jeffrey H. Curler, Charles W. Gaillard, Mae C. Jemison, Thomas R. McBurney Chair, Gregory R. Palen, Lawrence Perlman, Edward B. Pollak, Michael P. Sullivan and Richard L. White

The Board of Directors met six times during fiscal 2003.

The Audit Committee held five meetings during the fiscal year. The Audit Committee Chair also held six teleconferences with management and the Independent Auditors prior to quarterly earnings releases and other significant corporate announcements. The duties and activities of the Audit Committee are described in the Board Audit Committee Report on page 17. All members of the Audit Committee are independent , as required by the applicable listing standards of the New York Stock Exchange (NYSE), including the amended NYSE listing standards and the requirements for audit committee independence under Rule 10A-3 under the Securities Exchange Act of 1934, all of which will become effective on the date of the Annual Meeting. The Board of Directors has determined that at least one member of the Audit Committee, Jeffrey H. Curler, is an audit committee financial expert who is independent of management as defined in Item 401(h)(2) of Regulation S-K.

The Compensation Committee held four meetings during the fiscal year at which it reviewed and approved the compensation plans and arrangements or granted options for officers, key employees and directors.

The Governance Committee held two meetings during the fiscal year at which it conducted Chief Executive Officer performance evaluations, considered nominations for Board membership and considered other matters related to corporate governance.

The Governance Committee operates pursuant to a written charter. A copy of the Governance Committee s Charter is available on the Corporation s website at www.valspar.com. Each of the members of the Governance Committee are considered independent within the NYSE listing standards, including the amended NYSE listing standards that will become effective on the date of the Annual Meeting. During fiscal 2003, each director attended 75% or more of the meetings of the Board and of the committees on which the director served.

Director Nomination Process

The Corporation s Board of Directors has adopted a formal process by which individuals are reviewed for possible nomination to the Corporation s Board of Directors. Under this process, the Governance Committee will consider nominees for Board membership submitted by stockholders. Any stockholder recommendation should be submitted in writing to the Corporation in care of the Corporate Secretary at 1101 Third Street South, Minneapolis, Minnesota 55415, along with the written consent of such nominee to serve as a director if so elected. Any such recommendation by a stockholder shall be referred to the Governance Committee, and the Governance Committee, in consultation with the Corporation s General Counsel, will review the nomination in accordance with the Corporation s Board Candidate Review and Nomination Process, certificate of incorporation, by-laws and applicable laws and regulations. The Governance Committee considers general business experience, industry experience, track record as a director of other companies, probable tenure if elected and other factors as relevant in evaluating Board nominees.

The Governance Committee s process for reviewing nominees is as follows. When a Board vacancy occurs, or the Board otherwise determines that an individual should be recruited for possible nomination to the Board, the Governance Committee, in consultation with the Corporation s Chief Executive Officer, will prepare a profile of a candidate expected to provide the most meaningful contribution to the Board as a whole. The Governance Committee (or a subcommittee designated by the Governance Committee) will normally consider all of the following: (a) the candidate s skills, experience and other relevant biographical information, (b) the candidate s general interest in serving a public corporation, (c) the candidate s ability to attend Board and committee meetings and (d) any potential concerns regarding independence or conflicts of interest. Following the initial screening, if the Governance Committee approves a candidate for further review, the Governance Committee will establish an interview process for the candidate. It is expected that at least a majority of the members of the Governance Committee, along with the Corporation s Chief Executive Officer, would interview each candidate. At the same time, the Governance Committee, assisted by the Corporation s General Counsel, will conduct a comprehensive conflicts-of-interest assessment for the candidate. The Governance Committee will then consider reports of the interviews and the conflicts-of-interest assessment and determine whether to recommend the candidate to the full Board of Directors. A subcommittee of the Governance Committee, management representatives designated by the Governance Committee or a search firm selected by the Governance Committee may assist the process. Any nominee recommended by a stockholder would be subject to the same process.

Director Compensation

Directors who are not officers of the Corporation receive an annual fee of $40,000, with the Chairs of the Audit and Compensation Committees receiving an annual fee of $50,000 and the Chair of the Governance Committee receiving an annual fee of $55,000. Prior to January 1, 2004, the annual fee for Non-Employee Directors was $30,000, with the Chairs of the Audit and Compensation Committees receiving $35,000 and the Chair of the Governance Committee receiving $40,000. Attendance fees of $1,000 are paid for each meeting of the Board of Directors and $1,000 for each meeting of a committee of the Board of Directors. At a director s option, the annual fee and attendance fee may be paid by the Corporation purchasing shares of its Common Stock in the open market on behalf of the director. Any costs of such purchases are paid by the Corporation. In addition, each Non-Employee Director is automatically granted non-qualified stock options every year under the Corporation s Stock Option Plan for Non-Employee Directors. For grants in respect of service in fiscal year 2004 and subsequent fiscal years, each Non-Employee Director serving as a member of the Board of Directors on the date of the

October Board meeting in any year will automatically be granted on the date of such meeting non-qualified stock options with a value equal to $50,000. The number of shares subject to the option is determined by using the same option valuation model used to value options for purposes of the notes to the Corporation s audited financial statements for the current fiscal year. The per share option exercise price is equal to 100% of the fair market value of the Corporation s Common Stock on the date of grant as determined by the closing price on the day preceding the date of grant. Each option is immediately exercisable in full, has a term of ten years and is transferable to family members during the lifetime of the optionee. For grants in respect of service in fiscal year 2003, each Non-Employee Director serving as a member of the Board of Directors on the date of the October board meeting was automatically granted on the date of such meeting non-qualified stock options with a value equal to 100% of the amount of the current annual retainer and meeting fees paid for service during the current fiscal year. The per share option exercise price was equal to 100% of the fair market value of the Corporation s Common Stock on the date of grant as determined by the closing price on the day preceding the date of grant. The number of shares subject to the option was determined by using the same option valuation model used to value options for purposes of the notes to the Corporation s audited financial statements for the current fiscal year. Each option was immediately exercisable in full, had a term of ten years and was transferable to family members during the lifetime of the optionee. The Non-Employee Directors received options on October 15, 2003 to purchase the following numbers of shares at an exercise price of $47.88: Ms. Boren, 3,850 shares; Mr. Curler, 4,050 shares; Mr. Gaillard, 3,600 shares; Dr. Jemison, 3,550 shares; Mr. McBurney, 4,800 shares; Mr. Palen, 3,550 shares; Mr. Perlman, 3,350 shares; Mr. Pollak, 3,550 shares; Mr. Sullivan, 3,950 shares; and Dr. White, 3,600 shares.

Director Independence

The Board of Directors of the Corporation is comprised of a majority of directors who are considered independent within the meaning of the NYSE listing standards, including the amended standards that will become effective on the date of the Annual Meeting. This determination has been made based on written answers provided by each of the directors to a director questionnaire regarding relationships and possible conflicts of interest between each of the directors and members of their family and the Corporation.

CERTAIN TRANSACTIONS

The Leveraged Equity Purchase Plan (the LEPP), which was approved by the stockholders in February 1991, provided key employees (including executive officers) with loans from the Corporation, up to an aggregate amount of $6,000,000, to permit them to acquire Common Stock of the Corporation in the open market. The LEPP is administered by the Compensation Committee, with the Committee selecting the individuals to be granted loans and determining the size of such loans. A participant may borrow from the Corporation 90% of the cost of the shares being purchased, such loan being evidenced by a nonrecourse promissory note bearing interest at a reasonable market rate and having a term up to five years. All loans reflected in the table below were granted in fiscal 1999 and 2000 and bear an interest rate of 5.1% and 6.39%, respectively. The aggregate outstanding loan balance at fiscal year-end 2001, 2002 and 2003 was $1,880,424, $1,395,365 and $707,820, respectively. Pursuant to the Sarbanes-Oxley Act of 2002, new loans to executive officers by the Corporation are prohibited, and existing loans may not be amended or extended. As a result, the Corporation will not grant any new loans or extend or amend any existing loans under the LEPP. The LEPP will be terminated when the last LEPP loan to have been granted before enactment of the Sarbanes-Oxley Act of 2002 has been satisfied, which is expected to be on or before February 13, 2007. The following lists each director and executive officer whose loan from

the Corporation exceeded $60,000 at any time during fiscal 2003, and indicates (i) the largest loan amount outstanding for such individual at any time since October 26, 2002, and (ii) the loan amount outstanding for such individual as of December 31, 2003:

Name of Executive Officer	Largest Amount Outstanding since October 26, 2002	Amount Outstanding as of December 31, 2003
Rolf Engh	$142,202	$0
Steven L. Erdahl	79,217	0

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the 1934 Act), requires the Corporation s directors, executive officers and beneficial owners of more than 10% of the common stock of the Corporation to file with the Securities and Exchange Commission (SEC) certain reports regarding their ownership of common stock or any changes in such ownership. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Corporation with copies of all Section 16(a) forms that they file.

Based solely on its review of the copies of such reports received by it, and/or written representations from certain reporting persons that no Forms 5 were required for such persons, the Corporation believes that, during the year ended October 31, 2003, and except as set forth below, the reporting persons have complied with all filing requirements of Section 16(a) of the 1934 Act. There was a late filing of one Form 4 on behalf of Mr. Steven L. Erdahl, an executive officer of the Corporation, reporting one transaction. This was an inadvertent omission, and the Form 4 was promptly filed upon discovery of the oversight.

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EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table shows, for the fiscal years ended October 31, 2003, October 25, 2002 and October 26, 2001, the cash compensation paid by the Corporation, as well as certain other compensation paid or accrued for those years, to Richard M. Rompala, the Corporation s Chairman and Chief Executive Officer, and each of the four other most highly compensated executive officers of the Corporation (together with Mr. Rompala, the Named Executives):

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long Term Compensation Awards		
Name and Principal Position*	**Year**	**Salary**	**Bonus[2]**	**Restricted Stock Awards[3][4]**	**Options (No. of Shares)[5]**	**All Other Compensation[6]**
Richard M. Rompala	2003	$ 900,000	$ 1,254,880[1]	$ 444,880	0	$ 140,631
Chairman and Chief	2002	876,914	1,000,000	1,000,000	0	83,800
Executive Officer	2001	732,300	213,207	213,207	176,500	73,087
John M. Ballbach	2003	452,689	165,578	0	25,000	71,087
President and Chief	2002	396,148	322,755	982,840	69,000	43,356
Operating Officer[7]	2001	283,070	101,594	101,594	52,000	36,269
William L. Mansfield	2003	391,069	195,000	195,000	18,000	66,160
Executive Vice President,	2002	364,990	290,000	950,085	28,000	35,937
Architectural, Packaging and Specialty Coatings	2001	300,184	90,055	90,055	55,500	23,951

		Annual Compensation		Long Term Compensation Awards		
Paul C. Reyelts	2003	363,856	150,000	150,000	19,000	50,524
Senior Vice President,	2002	341,930	258,439	918,524	19,000	32,544
Finance and Chief	2001	300,184	0	188,276	64,500	23,951
Financial Officer						
Steven L. Erdahl	2003	391,069	120,000	120,000	16,000	72,478
Executive Vice President,	2002	364,990	230,000	890,085	28,000	36,207
Industrial and Automotive	2001	300,184	99,061	99,061	55,500	23,740
Coatings						

* As of October 31, 2003

(1) Includes an allocation of $810,000 under a deferred compensation plan. See Board Compensation Committee Report on Executive Compensation Compensation of the Chief Executive Officer.

(2) Includes, for these fiscal years, cash bonuses under the Incentive Bonus Plan. Does not include bonuses under the Incentive Bonus Plan for these fiscal years received in restricted stock or stock options pursuant to elections under the Key Employee Annual Bonus Plan. See note (3) below and Board Compensation Committee Report on Executive Compensation. Also does not include awards under the Key Employee Long-Term Incentive Bonus Program. See Long Term Incentive Plans table below.

(3) Pursuant to the 2001 Stock Incentive Plan, each of the Named Executives, other than Mr. Rompala, received a restricted stock grant in fiscal 2002 as additional compensation for services. Each such person received a grant of 16,711 shares, which had an aggregate market value of $660,085 on the date of grant. The grant of restricted stock is subject to forfeiture if the individual s employment terminates on or before April 30, 2004 for any reason other than death, disability or a change in control. Mr. Ballbach and the Corporation entered into a separation agreement in December 2003. Under this agreement, the Corporation agreed to vest Mr. Ballbach in his restricted stock and distribute the stock in March 2004. See Termination of Employment and Change in Control Agreements. Pursuant to the Key Employee Annual Bonus Plan, each of the Named Executives elected to receive their bonus under the Incentive Bonus Plan for fiscal 2003 in cash, and each Named Executive, other than Mr. Ballbach, received an additional restricted stock grant with a value equal to the amount of the

bonus. For fiscal 2001, Mr. Reyelts elected to receive his bonus in restricted stock, and each Named Executive received an additional restricted stock grant with a value equal to the amount of the bonus. Each grant of restricted stock under the Key Employee Annual Bonus Plan is subject to forfeiture if the individual s employment terminates within three years for any reason other than death, disability, retirement or a change of control.

(4) As of October 31, 2003, such individuals held the following numbers of shares of restricted stock with the following market values, based on the closing sale price of the Corporation s common stock on such date: Mr. Rompala, 27,798 shares, $1,325,965; Mr. Ballbach, 26,518 shares, $1,264,909; Mr. Mansfield, 25,491 shares, $1,215,921; Mr. Reyelts, 27,288 shares, $1,301,638; and Mr. Erdahl, 24,379 shares, $1,162,878. Dividends are paid on shares of restricted stock from the date of grant.

(5) Options indicated for fiscal 2003, 2002 and 2001 were granted pursuant to the Key Employee Annual Bonus Plan based on a percentage of each individual s base salary.

(6) Represents contributions or allocations by the Corporation to defined contribution or savings plans (tax-qualified and supplemental) on behalf of the Named Executive.

(7) Mr. Ballbach resigned from these positions in December 2003.

Stock Options

The following table contains information concerning grants of stock options under the Corporation s 1991 Stock Option Plan to the Named Executives during fiscal 2003:

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants				Potential Realizable Value at Assumed Annual Rate of Stock Appreciation for Option Term(3)	
Name	**Options Granted(1)**	**% of Total Options Granted to Employees in Fiscal Year**	**Exercise Price Per Share(2)**	**Expiration Date**	**5%**	**10%**
Richard M. Rompala	0					
John M. Ballbach[4]	25,000	3.1	$47.88	10/15/13	$752,750	$1,907,750
William L. Mansfield	18,000	2.2	47.88	10/15/13	541,980	1,373,580
Paul C. Reyelts	19,000	2.4	47.88	10/15/13	572,090	1,449,890
Steven L. Erdahl	16,000	2.0	47.88	10/15/13	481,760	1,220,960

(1) All options granted become exercisable starting one year from date of grant in one-third increments. Options include the right to pay the exercise price in cash or in previously acquired Common Stock.

(2) Exercise price is the fair market value of the Corporation s Common Stock, defined as the closing price on the day preceding the date that the option is granted.

(3) These assumed values result from certain prescribed rates of stock price appreciation. The actual value of these option grants is dependent on future performance of the Common Stock and overall stock market conditions. There is no assurance that the values reflected in this table will be achieved.

(4) Under Mr. Ballbach s separation agreement, the Corporation has made or will make payments to Mr. Ballbach in connection with the termination of all of the options granted in 2003. See Termination of Employment and Change in Control Agreements.

Option Exercises and Holdings

The following table sets forth information with respect to the Named Executives concerning the exercise of options during fiscal 2003 and unexercised options held as of October 31, 2003:

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise	Value Realized[1]	Number of Unexercised Options at October 31, 2003 Exercisable	Number of Unexercised Options at October 31, 2003 Unexercisable	Value of Unexercised In-the-Money Options at October 31, 2003[2] Exercisable	Value of Unexercised In-the-Money Options at October 31, 2003[2] Unexercisable
Richard M. Rompala	0		643,763	58,833	$ 13,589,440	$ 918,384
John M. Ballbach[3]	0		132,351	88,332	2,194,753	590,563
William L. Mansfield	0		151,641	55,166	2,464,703	419,765
Paul C. Reyelts	0		148,415	53,165	2,320,751	417,480
Steven L. Erdahl	0		170,397	53,166	3,073,938	419,765

(1) The value realized on the exercise of options is based on the difference between the exercise price and the fair market value of the Corporation s Common Stock on the date of exercise.

(2) The value of unexercised in-the-money options is based on the difference between the exercise price of the options and the fair market value of the Corporation s Common Stock on October 31, 2003.

(3) Under Mr. Ballbach s separation agreement, the Corporation has made or will make payments to Mr. Ballbach in connection with the termination of a portion of his options. See Termination of Employment and Change in Control Agreements.

LONG TERM INCENTIVE PLANS AWARDS IN LAST FISCAL YEAR

Name	Number of Shares, Units or Other Rights (#)[1]	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans: Threshold ($ or #)[1]	Target ($ or #)[1]	Maximum ($ or #)[1]
Richard M. Rompala			$ 0	$ 0	$ 0
John M. Ballbach[2]		11/01/02 10/31/05	74,375	185,938	297,500
William L. Mansfield		11/01/02 10/31/05	57,000	142,500	228,000
		11/01/02	61,250	153,125	245,000

	Number of Shares, Units or Other Rights (#)[1]	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
Paul C. Reyelts					
		10/31/05			
Steven L. Erdahl		11/01/02	57,000	142,500	228,000
		10/31/05			

(1) The participants in The Valspar Corporation Key Employee Long-Term Incentive Bonus Program have been selected to receive a cash bonus in the range described above based on the achievement by the Corporation of a specified range of earnings per share for the three-year period. The Compensation Committee has the authority to accelerate the achievement of performance goals or make other adjustments it deems appropriate.

The threshold and maximum amounts set forth in the table are the minimum and maximum bonus levels for each participant. To be eligible to receive the award, the participant must be an active employee of the Corporation on the last day of the performance period, provided that the participant will receive a prorated amount if his or her employment terminated during the performance period due to death, disability or retirement.

(2) Under Mr. Ballbach s separation agreement, the Corporation will make payments to Mr. Ballbach in connection with the vesting of the unvested payout value of his account under the plan for 2002 and 2003. See Termination of Employment and Change in Control Agreements.

EQUITY COMPENSATION PLANS

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans[1]
Equity Compensation Plans Approved by Security Holders	6,334,226	$ 34.91	3,273,596
Equity Compensation Plans	None	None	None

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans[(1)]
Not Approved by Security Holders			
Total	6,334,226	$ 34.91	3,273,596

(1) The number of securities remaining available for future issuance under equity compensation plans consists of the following corporate plans: The Valspar Corporation 1991 Stock Option Plan, The Valspar Corporation Key Employee Annual Bonus Plan, The Valspar Corporation Stock Option Plan for Non-Employee Directors and the 2001 Stock Incentive Plan.

TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL AGREEMENTS

The Corporation has entered into agreements with certain key employees, including the Named Executives, providing for the continued employment of such executives for a period of up to two years following a change in control of the Corporation. During such two-year period, executives would continue to be employed and compensated commensurate with their positions and compensation prior to the change in control. Each agreement continues in effect until the earlier of (i) a termination of the executive s employment prior to the occurrence of a change in control or (ii) a payment event shall have occurred and the Corporation shall have satisfied all of its obligations under the agreement. Payment event means the occurrence of a change in control coincident with or followed at any time before the end of 24-month period immediately following the month in which the change in control occurred, by the termination of the executive s employment with the Corporation or a subsidiary for any reason other than: (a) by the executive without good reason; (b) by the Corporation as a result of the disability of the executive or for cause; or (c) as a result of the death of the executive. Payments required under each agreement include a severance payment amount which, in the case of the Named Executives, is equal to: (a) the higher of: (i) three times the sum of executive s annual base salary in effect prior to the change in control and the target potential amount payable to the executive under all incentive compensation plans with a performance period commencing coincident with or most recently prior to the date on which a payment event occurs, assuming continuous employment until the end of the performance period (the applicable incentive amount) or (ii) three times the sum of executive s annual base salary in effect prior to the payment event and the applicable incentive amount; plus (b) the pro rata portion

of the applicable incentive amount for the year during which the termination occurs. The Corporation will also pay any excise taxes that the executive may incur as a result of such payments, and any income and excise taxes on such excise tax payments.

Effective October 29, 2001, the Corporation established The Valspar Corporation Supplemental Executive Retirement Plan for Richard Rompala (the SERP), a non-qualified unfunded retirement plan. Mr. Rompala will be entitled to receive the benefits under the SERP if his employment terminates due to death, disability, normal retirement or involuntary termination by the Corporation other than for cause. If Mr. Rompala is eligible, payments will commence on a date selected by him after the date of termination of employment. The basic SERP benefit will be an annual annuity amount specified in the SERP, ranging from $250,000 to $400,000 per year, depending on the date of termination. In lieu of the annuity payment, Mr. Rompala can elect to receive a lump sum payment equal to the actuarial equivalent of the annuity payments for his life, with a minimum lump sum payment ranging from $2,790,000 to $4,000,000, depending on the date of termination. If Mr. Rompala elects the lump sum payment option, the actual lump sum payment may exceed the minimum, depending on the date of termination and interest rates prevailing at the time of payment. In lieu of these amounts, Mr. Rompala may also elect an annual payment for the joint lives of Mr. Rompala and his wife, or an annual payment for his life and, upon his death, 50% of the annual payment for the life of his wife. These amounts are calculated to be the actuarial equivalent of the annual annuity payment for his life set forth in the SERP.

On December 5, 2003, the Corporation entered into a separation agreement with John M. Ballbach, its former President and Chief Operating Officer. Mr. Ballbach resigned from these positions on the date of the agreement, and his employment with the Corporation terminates on March 31, 2004.

Under the agreement, Mr. Ballbach was paid a bonus of $165,578 for fiscal 2003, based on achievement of his objectives outlined under the Corporation s Incentive Bonus Plan. Mr. Ballbach and the Corporation also agreed that stock options to acquire 156,333 shares of the Corporation s common stock held by Mr. Ballbach would be cancelled in exchange for cash payments equal to the aggregate value of the option spread for each cancelled option. Mr. Ballbach received a payment of $747,065 relating to vested options to acquire 68,001 shares in January 2004. Vested options to acquire 18,123 shares were not affected by the agreement and remain in effect in accordance with their terms.

Mr. Ballbach agreed to comply with several restrictive covenants, including a two year non-compete relating to employment with specified competitors; a three year covenant not to solicit employees of the Corporation and its affiliates to leave their employment; and a covenant not to disclose confidential information of the Corporation. The Corporation agreed to pay Mr. Ballbach certain additional compensation in return for these restrictive covenants. Mr. Ballbach will receive 52 weeks of separation pay at his current salary of $475,000, less applicable withholding, payable in three equal quarterly installments starting in July 2004. He will receive payments relating to unvested options to acquire 88,332 shares, equal to the aggregate option spread of $691,262, in three equal quarterly installments starting in July 2004. With respect to 16,711 shares of restricted stock held by Mr. Ballbach, which were scheduled to vest in April 2004, the Corporation agreed to vest 100% of the shares, which will be delivered to Mr. Ballbach in March 2004. The Corporation also agreed to 100% vest Mr. Ballbach in his unvested payout value of $301,903 under the Key Employee Long-Term Incentive Bonus Program for calendar 2002 and 2003, with this amount to be paid in three equal quarterly installments starting in July 2004.

The agreement also contains provisions relating to, among other things, medical, dental and life insurance coverage continuation at reduced rates, provision of outplacement services and a mutual release of claims.

BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors (the Committee) is comprised entirely of outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) and the rules and regulations thereunder. The Committee is responsible for setting and administering the policies which govern both annual compensation and stock ownership programs. The Corporation s incentive plans are designed to condition a significant amount of an executive s compensation on the performance of the executive and of the Corporation as a whole. The compensation plans are also designed to encourage employee stock ownership. The Compensation Committee believes such ownership effectively motivates executives to increase stockholder value and aligns the interests of employees with those of the stockholders. In its administration of the various compensation plans, the Committee focuses on these goals of tying compensation to performance and encouraging executive stock ownership.

Compensation of Executive Officers

Salary. In setting each executive officer s base salary, the Committee considers quantitative measures related to the Corporation s financial performance as well as a number of qualitative measures related to the executive s duties and responsibilities. The Committee also uses compensation studies provided by an independent consultant to compare the salary of its executive officers with salaries of executive officers of other companies of similar size and profitability, including, but not limited to, the companies in the peer group used in connection with the Stock Performance Graphs on pages 18 and 19. The purpose of using these studies is to assure that the Corporation s compensation of executive officers reflects financial performance and is competitive with compensation offered by comparable companies. The base salary of the Named Executives increased by an average of 7.5% from fiscal 2002 to fiscal 2003. The Committee does not use the market value or performance of the Corporation s Common Stock as a direct factor in determining the base salaries or bonuses of the executive officers.

Bonus Programs. Since prior to fiscal 1988, the Corporation has had a policy of granting incentive bonuses to its key employees (including executive officers), referred to as the Incentive Bonus Plan. In the first quarter of each fiscal year, specific performance targets are identified for each participant in the Incentive Bonus Plan, including both general corporate measures of performance (such as sales, profits, expense control, unit growth, cash flow and return on equity) and specific measures of performance within the participant s area of responsibility. After the end of such fiscal year, if the participant remains employed by the Corporation, a bonus not to exceed a specified percentage of the participant s salary (capped at 81.25% 125% for executive officers in fiscal 2003) will be paid, depending on the level of achievement of the participant s performance targets. For executive officers, general corporate performance measures and specific measures within the executive s area of responsibility are included. Among these corporate performance measures, net income is generally weighted most heavily. The bonuses earned by the Named Executives under the Incentive Bonus Plan for fiscal 2003 ranged from 30.7% to 49.9% of salary.

Pursuant to the Key Employee Annual Bonus Plan (the Key Employee Plan), adopted for fiscal 1993 and subsequent years, the Committee may select those key employees (including executive officers) who are eligible to participate in the plan. Twenty-eight employees, including all executive officers, were selected to participate for fiscal year 2003 in the plan. In addition, 482 employees were selected to participate in the Annual Option Bonus Plan, in which a participant receives stock options, with the number of options calculated as a percentage of base salary for the fiscal year based on performance. The Key Employee Plan is comprised of four elements: a stock option grant, a cash bonus, a restricted stock award equal to the cash bonus and, for some employees (including the Named Executives), an award under the LTIP (as defined below).

Participants in the Key Employee Plan receive a nonqualified stock option, with the value of shares subject to the option calculated as a percentage of base salary for the fiscal year based on performance.

For employees who qualify for participation in The Valspar Corporation Key Employee Long-Term Incentive Bonus Program (the LTIP) as described below, including the Named Executives, the option was reduced by 50%, and the other 50% of the value of the option was awarded in the form of a LTIP award. The value of the shares subject to options for fiscal 2003 bonuses ranged from 150% to 175% of the 2003 base salary for the Named Executives, after the 50% reduction of the option as a result of the LTIP award. However, the Chief Executive Officer did not receive the stock option grant for fiscal 2003, as described below under Compensation of Chief Executive Officer. These options were granted in October 2003 with an exercise price based on the fair market value of the Corporation s Common Stock at the closing price on the day preceding the date of grant.

As to the cash bonus element of the Key Employee Plan, each participant could elect prior to the beginning of fiscal 2003 to convert all or any portion of his or her cash bonus under the Incentive Bonus Plan into a grant of restricted stock. The participant was required to be employed on the last day of fiscal 2003 to receive the restricted stock grant for that fiscal year, and the restricted stock was granted in January 2004. The restricted stock is forfeitable for three years from the date of grant if the participant s employment with the Corporation terminates for any reason other than death, disability, retirement or a change in control of the Corporation. In addition, participants in the Key Employee Plan receive a restricted stock grant equal in amount to their cash bonus and having the same forfeiture provisions. The Key Employee Plan was amended in 2003 to increase the maximum amount of the cash bonus element of the plan. See Proposal Two Approval of Amended and Restated Key Employee Annual Bonus Plan.

On January 22, 2002, the Committee approved The Valspar Corporation Key Employee Long-Term Incentive Bonus Program (the LTIP). The purpose of the LTIP is to provide long-term incentives for the participants and to reduce dependence on stock option grants as a component of executive compensation. Nineteen officers of the Corporation, including all of the Named Executives other than Mr. Rompala, were selected in fiscal 2003 for an award that will provide a future cash bonus based on the achievement by the Corporation of a specified range of earnings per share for the three-year period ending in fiscal 2005. The Compensation Committee has the authority to accelerate the achievement of performance goals or make other adjustments it deems appropriate. To be eligible to receive the award, the participant must be an active employee of the Corporation on the last day of the performance period, provided that the participant will receive a prorated amount if his or her employment terminated during the performance period due to death, disability or retirement. The ranges of bonuses awarded to each of the Named Executives in fiscal 2003 are described under Executive Compensation Long Term Incentive Plans Awards in Last Fiscal Year above. These bonuses will be paid after the end of the three-year performance period in October 2005. These awards were calculated so that the target payout level is equal to the value of the stock option granted under the Key Employee Plan described above, as calculated under the Black-Scholes valuation model.

Option Programs. In 1991, the Corporation s stockholders approved the adoption of the Corporation s 1991 Stock Option Plan. Currently, 10,000,000 shares of common stock are reserved for issuance upon exercise of options granted thereunder. Options granted under the 1991 Plan are granted at exercise prices equal to the fair market value of the Corporation s common stock at the closing price on the day preceding the date of grant. The options granted to the Named Executives in 2003 were determined under the Key Employee Plan as described under Bonus Programs above.

Deductibility of Compensation. Section 162(m) of the Internal Revenue Code, enacted in 1993, generally limits to $1 million the tax deductibility of compensation paid by a public company to its chief executive and four other most highly compensated executive officers. Certain performance-based compensation is not subject to the limitation. The Committee considers the deductibility of compensation arrangements as one factor in executive compensation decisions for executives. However, deductibility is not the sole factor used by the Committee in ascertaining appropriate levels or modes of compensation.

The provisions of the 1991 Stock Option Plan and the Key Employee Plan are intended to permit compensation income of the Named Executives received under such plans to be deductible by the Corporation. Since corporate objectives may not always be consistent with the requirements for full deductibility, it is conceivable that the Corporation may enter into compensation arrangements under which compensation in excess of $1 million is not deductible under Section 162(m).

Compensation of the Chief Executive Officer

In setting Mr. Rompala s base salary, the Committee considered quantitative measures related to the Corporation s financial performance as well as a number of qualitative measures related to Mr. Rompala s duties and responsibilities. The Committee also compared Mr. Rompala s salary with salaries of chief executive officers of other companies of similar size and profitability, including, but not limited to, the companies in the peer group used in connection with the Stock Performance Graphs on pages 18 and 19. Mr. Rompala s base salary increased approximately 2.6% from fiscal 2002 to fiscal 2003. This increase reflected general corporate performance, based on sales, profits, expense control, unit growth, cash flow and return on equity. The Corporation also granted an incentive bonus to Mr. Rompala under the Incentive Bonus Plan. Mr. Rompala s performance targets included net income, net sales and modified cash flow. Mr. Rompala was eligible for a bonus of up to 125% of his salary, depending upon the level of achievement of these performance targets. Net income of the Corporation was weighted most heavily in connection with Mr. Rompala s compensation. Mr. Rompala s bonus earned under the Incentive Bonus Plan for fiscal 2003 was $444,880 or 49.4% of his salary. Under the terms of the Key Employee Plan, Mr. Rompala elected to receive the bonus in cash and also received a grant of restricted stock with a fair market value equal to the amount of the bonus.

As described under Termination of Employment and Change in Control Agreements, the Corporation established a supplemental non-qualified unfunded retirement plan (the SERP) for Mr. Rompala effective October 29, 2001. The SERP provides for annuity or lump-sum payments to Mr. Rompala upon his retirement or in certain other circumstances. The Committee established the SERP to provide Mr. Rompala with additional compensation in lieu of his participation in a one-time restricted stock grant program for executive officers in January 2002.