

RPM INTERNATIONAL INC/DE/

Form 10-Q

April 07, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended February 28, 2011.**
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from        to        .**

**Commission File No. 1-14187**

**RPM International Inc.**

*(Exact name of Registrant as specified in its charter)*

**DELAWARE**

*(State or other jurisdiction of  
incorporation or organization)*

**02-0642224**

*(IRS Employer  
Identification No.)*

**P.O. BOX 777;  
2628 PEARL ROAD;  
MEDINA, OHIO**

*(Address of principal executive offices)*

**44258**

*(Zip Code)*

**(330) 273-5090**

*(Registrant's telephone number including area code)*

**Not Applicable**

*(Former name, former address and former fiscal year, if changed since last report)*

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

As of April 1, 2011  
130,430,299 Shares of RPM International Inc. Common Stock were outstanding.

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES\***

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\* As used herein, the terms "RPM" and the "Company" refer to RPM International Inc. and its subsidiaries, unless the context indicates otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****RPM INTERNATIONAL INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	February 28, 2011 (Unaudited)	May 31, 2010
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 275,479	\$ 215,355
Trade accounts receivable (less allowances of \$22,485 and \$20,525, respectively)	543,870	633,910
Inventories	472,984	386,982
Deferred income taxes	21,434	19,788
Prepaid expenses and other current assets	217,962	194,126
<b>Total current assets</b>	<b>1,531,729</b>	<b>1,450,161</b>
<b>Property, Plant and Equipment, at Cost</b>	<b>978,169</b>	<b>924,086</b>
Allowance for depreciation and amortization	(596,691)	(541,559)
<b>Property, plant and equipment, net</b>	<b>381,478</b>	<b>382,527</b>
<b>Other Assets</b>		
Goodwill	824,413	768,244
Other intangible assets, net of amortization	314,368	303,159
Other	103,770	99,933
<b>Total other assets</b>	<b>1,242,551</b>	<b>1,171,336</b>
<b>Total Assets</b>	<b>\$ 3,155,758</b>	<b>\$ 3,004,024</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 264,539	\$ 299,596
Current portion of long-term debt	2,867	4,307
Accrued compensation and benefits	127,964	136,908
Accrued loss reserves	64,885	65,813

<b>Other accrued liabilities</b>	<b>144,398</b>	<b>124,870</b>
<b>Total current liabilities</b>	<b>604,653</b>	<b>631,494</b>
<b>Long-Term Liabilities</b>		
<b>Long-term debt, less current maturities</b>	<b>932,839</b>	<b>924,308</b>
<b>Other long-term liabilities</b>	<b>256,265</b>	<b>243,829</b>
<b>Deferred income taxes</b>	<b>55,331</b>	<b>43,152</b>
<b>Total long-term liabilities</b>	<b>1,244,435</b>	<b>1,211,289</b>
<b>Stockholders Equity</b>		
<b>Preferred stock, par value \$0.01; authorized 50,000 shares; none issued</b>		
<b>Common stock, par value \$0.01; authorized 300,000 shares; issued 134,253 and outstanding 130,430 as of February 2011; issued 132,219 and outstanding 129,918 as of May 2010</b>	<b>1,304</b>	<b>1,299</b>
<b>Paid-in capital</b>	<b>745,514</b>	<b>724,089</b>
<b>Treasury stock, at cost</b>	<b>(62,430)</b>	<b>(40,686)</b>
<b>Accumulated other comprehensive (loss)</b>	<b>(13,122)</b>	<b>(107,791)</b>
<b>Retained earnings</b>	<b>540,258</b>	<b>502,562</b>
<b>Total RPM International Inc. stockholders equity</b>	<b>1,211,524</b>	<b>1,079,473</b>
<b>Noncontrolling interest</b>	<b>95,146</b>	<b>81,768</b>
<b>Total Equity</b>	<b>1,306,670</b>	<b>1,161,241</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 3,155,758</b>	<b>\$ 3,004,024</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28,</b>		<b>February 28,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>			
	<b>(In thousands, except share and per share amounts)</b>			
Net Sales	\$ 678,920	\$ 666,594	\$ 2,400,073	\$ 2,441,205
Cost of Sales	409,402	406,762	1,415,632	1,424,332
Gross Profit	269,518	259,832	984,441	1,016,873
Selling, General and Administrative Expenses	255,930	256,976	759,421	799,975
Interest Expense	16,502	15,802	49,012	43,271
Investment (Income), Net	(4,903)	(1,833)	(11,189)	(4,984)
Income Before Income Taxes	1,989	(11,113)	187,197	178,611
Provision for Income Taxes	796	(1,949)	57,507	58,305
Net Income	1,193	(9,164)	129,690	120,306
Less: Net Income Attributable to Noncontrolling Interests	96	236	10,806	788
Net Income Attributable to RPM International Inc. Stockholders	\$ 1,097	\$ (9,400)	\$ 118,884	\$ 119,518
Average Number of Shares of Common Stock Outstanding:				
Basic	127,166	127,500	127,383	126,940
Diluted	129,442	127,500	128,020	127,539
Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic	\$ 0.01	\$ (0.07)	\$ 0.92	\$ 0.93
Diluted	\$ 0.01	\$ (0.07)	\$ 0.91	\$ 0.93
Cash Dividends Declared per Share of Common Stock	\$ 0.210	\$ 0.205	\$ 0.625	\$ 0.610

The accompanying notes to consolidated financial statements are an integral part of these statements.





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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended</b> <b>February 28,</b> <b>2011                      2010</b> <b>(Unaudited)</b> <b>(In thousands)</b>	
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 129,690	\$ 120,306
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	39,482	46,622
Amortization	15,049	16,600
Deferred income taxes	5,831	23,765
Stock-based compensation expense	8,769	7,423
Other	(308)	(1,130)
<b>Changes in assets and liabilities, net of effect from purchases and sales of businesses:</b>		
Decrease in receivables	98,554	154,567
(Increase) in inventory	(81,387)	(27,732)
(Increase) in prepaid expenses and other current and long-term assets	(15,564)	(16,906)
(Decrease) in accounts payable	(38,356)	(72,592)
(Decrease) in accrued compensation and benefits	(9,509)	(10,246)
(Decrease) in accrued loss reserves	(958)	(2,830)
(Decrease) increase in other accrued liabilities	25,284	4,171
Payments made for asbestos-related claims		(57,437)
Other	14,407	4,292
<b>Cash From Operating Activities</b>	<b>190,984</b>	<b>188,873</b>
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(21,737)	(14,069)
Acquisition of businesses, net of cash acquired	(38,972)	(63,669)
Purchase of marketable securities	(71,556)	(76,166)
Proceeds from sales of marketable securities	63,369	66,375
Other	2,347	(186)
<b>Cash (Used For) Investing Activities</b>	<b>(66,549)</b>	<b>(87,715)</b>
<b>Cash Flows From Financing Activities:</b>		
Additions to long-term and short-term debt	37,831	304,106
Reductions of long-term and short-term debt	(30,739)	(327,472)
Cash dividends	(81,189)	(78,798)
Repurchase of stock	(21,759)	(1,832)
Exercise of stock options	8,053	6,919

<b>Cash (Used For) Financing Activities</b>	<b>(87,803)</b>	<b>(97,077)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>23,492</b>	<b>(1,269)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>60,124</b>	<b>2,812</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>215,355</b>	<b>253,387</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 275,479</b>	<b>\$ 256,199</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**February 28, 2011**

**(Unaudited)**

**NOTE 1 CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION**

Our financial statements include all of our majority-owned subsidiaries, except for certain subsidiaries that were deconsolidated on May 31, 2010 (please refer to Note 2). We account for our investments in less-than-majority-owned joint ventures under the equity method. Effects of transactions between related companies, except for certain subsidiaries that were deconsolidated, are eliminated in consolidation.

Noncontrolling interests are presented in our Consolidated Financial Statements as if parent company investors (controlling interests) and other minority investors (noncontrolling interests) in partially-owned subsidiaries have similar economic interests in a single entity. As a result, investments in noncontrolling interests are reported as equity in our consolidated financial statements. Additionally, our Consolidated Financial Statements include 100% of a controlled subsidiary's earnings, rather than only our share. Transactions between the parent company and noncontrolling interests are reported in equity as transactions between stockholders provided that these transactions do not create a change in control.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by Generally Accepted Accounting Principles in the U.S. ( GAAP ) for complete financial statements. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three and nine month periods ended February 28, 2011 and 2010. For further information, refer to the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended May 31, 2010.

Our business is dependent on external weather factors. Historically, we have experienced strong sales and net income in our first, second and fourth fiscal quarters comprising the three month periods ending August 31, November 30 and May 31, respectively, with weaker performance in our third fiscal quarter (December through February).

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

**NOTE 2 DECONSOLIDATION OF SPECIALTY PRODUCTS HOLDING CORP. ( SPHC )**

On May 31, 2010, Bondex International, Inc. ( Bondex ) and its parent, SPHC, filed Chapter 11 reorganization proceedings in the United States Bankruptcy Court for the District of Delaware. SPHC is our wholly owned subsidiary. In accordance with Accounting Standards Codification ( ASC ) 810, when a subsidiary becomes subject to the control of a government, court, administrator, or regulator, deconsolidation of that subsidiary is generally required. We have therefore deconsolidated SPHC and its subsidiaries from our balance sheet as of May 31, 2010, and have eliminated the results of SPHC's operations from our results of operations beginning on that date. We believe we have no responsibility for liabilities of SPHC and Bondex. As a result of the Chapter 11 reorganization proceedings, on a prospective basis we will continue to account for our investment in SPHC under the cost method.

We had a net receivable from SPHC at May 31, 2010, that we expect will remain unchanged until the bankruptcy proceedings have been finalized. Included in this net amount are receivables and payables, which we concluded we have the right to report as a net amount based on several factors, including the fact that all amounts are determinable, the balances are due to and from our subsidiaries, and we have been given reasonable assurance that netting the

applicable receivables and payables would remain legally enforceable. We analyzed our net investment in SPHC as of May 31, 2010, which included a review of our advances to SPHC, an assessment of the collectibility of our net receivables due from SPHC, and a computation of the gain to be recorded upon deconsolidation based on the carrying amount of our investment in SPHC. In accordance with GAAP, the gain on deconsolidation related to

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the carrying amount of net assets of SPHC at May 31, 2010, was calculated in accordance with ASC 810-10-40-5, as follows:

- a) the aggregate of (1) the fair value of consideration received, (2) the fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated, and (3) the carrying amount of any noncontrolling interest in the former subsidiary; less
- b) the carrying amount of the former subsidiary's assets and liabilities.

In determining the carrying value of any retained noncontrolling investment in SPHC at the date of deconsolidation we considered several factors, including analyses of cash flows combined with various assumptions relating to the future performance of this entity and a discounted value of SPHC's recorded asbestos-related contingent obligations based on information available to us as of the date of deconsolidation. The discounted cash flow approach relies primarily on Level 3 unobservable inputs, whereby expected future cash flows are discounted using a rate that includes assumptions regarding an entity's average cost of debt and equity, incorporates expected future cash flows based on internal business plans, and applies certain assumptions about risk and uncertainties due to the bankruptcy filing. Our estimates are based upon assumptions we believe to be reasonable, but which by nature are uncertain and unpredictable. As a result of this analysis, we determined that the carrying value of our retained interest in SPHC approximated zero.

As a result of the combined analyses of each of the components of our net investment in SPHC, we recorded a net loss of approximately \$7.9 million, which was reflected in Other Expense, Net, during the fourth fiscal quarter of the year ended May 31, 2010. No changes have been made to these amounts through February 28, 2011.

**NOTE 3 INVENTORIES**

Inventories were composed of the following major classes:

	<b>February 28, 2011</b>	<b>May 31, 2010</b>
	<b>(In thousands)</b>	
Raw material and supplies	\$ 143,278	\$ 123,144
Finished goods	329,706	263,838
<b>Total Inventory</b>	<b>\$ 472,984</b>	<b>\$ 386,982</b>

**Table of Contents****RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 4 MARKETABLE SECURITIES**

The following tables summarize marketable securities held at February 28, 2011 and May 31, 2010 by asset type:

February 28, 2011	Amortized Cost	Available-for-Sale Securities		Fair Value (Net Carrying Amount)
		Unrealized Gains	Unrealized Losses	
		(In thousands)		
Equity securities:				
Stocks	\$ 47,050	\$ 14,462	\$ (168)	\$ 61,344
Mutual funds	43,458	6,670	(402)	49,726
Total equity securities	90,508	21,132	(570)	111,070
Fixed maturity:				
U.S. treasury and other government	15,530	219	(172)	15,577
Corporate bonds	3,075	244	(2)	3,317
Mortgage-backed securities	294	105		399
Total fixed maturity securities	18,899	568	(174)	19,293
Total	\$ 109,407	\$ 21,700	\$ (744)	\$ 130,363

May 31, 2010	Amortized Cost	Available-for-Sale Securities		Fair Value (Net Carrying Amount)
		Unrealized Gains	Unrealized Losses	
		(In thousands)		
Equity securities:				
Stocks	\$ 46,188	\$ 10,926	\$ (1,181)	\$ 55,933
Mutual funds	24,168	3,397	(470)	27,095
Total equity securities	70,356	14,323	(1,651)	83,028
Fixed maturity:				
U.S. treasury and other government	19,730	412	(62)	20,080
Corporate bonds	7,921	507	(33)	8,395
State and municipal bonds	387	4	(3)	388
Foreign bonds	1,305	55	(8)	1,352

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Mortgage-backed securities	491	178	(2)	667
Total fixed maturity securities	29,834	1,156	(108)	30,882
Total	\$ 100,190	\$ 15,479	\$ (1,759)	\$ 113,910

Marketable securities, included in other current and long-term assets, totaling \$102.8 million and \$27.6 million at February 28, 2011, respectively, and \$91.7 million and \$22.2 million at May 31, 2010, respectively, are composed of available-for-sale securities and are reported at fair value. Realized gains and losses on sales of investments are recognized in net income on the specific identification basis. Changes in the fair values of securities that are considered temporary are recorded as unrealized gains and losses, net of applicable taxes, in accumulated other comprehensive income (loss) within stockholders' equity. Other-than-temporary declines in market value from original cost are reflected in operating income in the period in which the unrealized losses are deemed other than temporary. In order to determine whether an other-than-temporary decline in market value has occurred, the

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duration of the decline in value and our ability to hold the investment are considered in conjunction with an evaluation of the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related market value.

Gross gains and losses realized on sales of investments were \$4.7 million and \$1.5 million, respectively, for the quarter ended February 28, 2011. Gross gains and losses realized on sales of investments were \$0.9 million and \$0.5 million for the quarter ended February 28, 2010. During the third quarter of fiscal 2010, we recognized losses of \$0.1 million for securities deemed to have other-than-temporary impairments. There were no losses recognized for securities with other-than-temporary impairments during the third quarter of fiscal 2011.

Gross gains and losses realized on sales of investments were \$10.6 million and \$3.5 million, respectively, for the nine month period ended February 28, 2011. Gross gains and losses realized on sales of investments were \$2.3 million and \$1.0 million, respectively, for the nine month period ended February 28, 2010. During the first nine months of fiscal 2011 and fiscal 2010, we recognized losses of \$0.5 million and \$0.2 million, respectively, for securities deemed to have other-than-temporary impairments. These amounts are included in investment income, net in the Consolidated Statements of Income.

Summarized below are the securities we held at February 28, 2011 and May 31, 2010 that were in an unrealized loss position and that were included in accumulated other comprehensive income, aggregated by the length of time the investments had been in that position:

	<b>February 28, 2011</b>		<b>May 31, 2010</b>	
	<b>Fair</b>	<b>Gross</b>	<b>Fair</b>	<b>Gross</b>
	<b>Value</b>	<b>Unrealized</b>	<b>Value</b>	<b>Unrealized</b>
		<b>Losses</b>		<b>Losses</b>
	<b>(In thousands)</b>			
Total investments with unrealized losses	\$ 27,904	\$ (744)	\$ 31,249	\$ (1,759)
Unrealized losses with a loss position for less than 12 months	27,507	(716)	22,002	(1,385)
Unrealized losses with a loss position for more than 12 months	397	(28)	9,247	(374)

We have reviewed all of the securities included in the table above and have concluded that we have the ability and intent to hold these investments until their cost can be recovered, based upon the severity and duration of the decline. Therefore, we did not recognize any other-than-temporary impairment losses on these investments. Unrealized losses at February 28, 2011 were generally related to the volatility in valuations over the last several months for a portion of our portfolio of investments in marketable securities. The unrealized losses generally relate to investments whose fair values at February 28, 2011 were less than 15% below their original cost or have been in a loss position for less than six consecutive months. Although we have begun to see recovery in general economic conditions over the past year, if we were to experience continuing or significant unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.





**Table of Contents****RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The net carrying values of debt securities at February 28, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	<b>Amortized Cost (In thousands)</b>	<b>Fair Value</b>
Due:		
Less than one year	\$ 294	\$ 299
One year through five years	10,562	10,629
Six years through ten years	4,448	4,506
After ten years	3,595	3,859
	<b>\$ 18,899</b>	<b>\$ 19,293</b>

**NOTE 5 FAIR VALUE MEASUREMENTS**

Financial instruments recorded on the balance sheet include cash and cash equivalents, trade accounts receivable, marketable securities, notes and accounts payable, and debt.

An allowance for anticipated uncollectible trade receivable amounts is established using a combination of specifically identified accounts to be reserved, and a reserve covering trends in collectibility. These estimates are based on an analysis of trends in collectibility, past experience, and individual account balances identified as doubtful based on specific facts and conditions. Receivable losses are charged against the allowance when we confirm uncollectibility.

All derivative instruments are recognized on our Consolidated Balance Sheet and measured at fair value. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any ineffective portion of hedges are recognized as a gain or (loss) in our Consolidated Statement of Income in the current period. Changes in the fair value of derivative instruments used effectively as fair value hedges are recognized in earnings (losses), along with the change in the value of the hedged item. We do not hold or issue derivative instruments for speculative purposes.

The valuation techniques utilized for establishing the fair values of assets and liabilities are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect management's market assumptions. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value, as follows:

**Level 1 Inputs** Quoted prices for identical instruments in active markets.

**Level 2 Inputs** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs Instruments with primarily unobservable value drivers.

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The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Fair Value at February 28, 2011</b>
	<b>(In thousands)</b>			
U.S. Treasury and other government	\$	\$	15,577	\$ 15,577
Mortgage-backed securities			399	399
Corporate bonds			3,317	3,317
Stocks	61,344			61,344
Mutual funds			49,726	49,726
Foreign currency forward contract			2,479	2,479
Cross-currency swap			(15,000)	(15,000)
<b>Total</b>	<b>\$ 61,344</b>	<b>\$ 56,498</b>	<b>\$</b>	<b>\$ 117,842</b>

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Fair Value at May 31, 2010</b>
	<b>(In thousands)</b>			
U.S. Treasury and other government	\$	\$	20,080	\$ 20,080
State and municipal bonds			388	388
Foreign bonds			1,352	1,352
Mortgage-backed securities			667	667
Corporate bonds			8,395	8,395
Stocks	55,933			55,933
Mutual funds			27,095	27,095
Cross-currency swap			(1,412)	(1,412)
<b>Total</b>	<b>\$ 55,933</b>	<b>\$ 56,565</b>	<b>\$</b>	<b>\$ 112,498</b>

Our marketable securities are composed of mainly available-for-sale securities, and are valued using a market approach based on quoted market prices for identical instruments. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For most of our financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

Our cross-currency swap is a liability that has a fair value of \$15.0 million at February 28, 2011, that was originally designed to fix our interest and principal payments in euros for the life of our unsecured 6.70% senior notes due November 1, 2015, which resulted in an effective euro fixed-rate borrowing of 5.31%. The basis for determining the rates for this swap included three legs at the inception of the agreement: the USD fixed rate to a USD floating rate; the euro floating to euro fixed rate; and the dollar to euro basis fixed rate at inception. Therefore, we essentially exchanged fixed payments denominated in USD for fixed payments denominated in euros, paying fixed euros at 5.31% and receiving fixed USD at 6.70%. The ultimate payments are based on the notional principal amounts of 150 million USD and approximately 125 million euros. There will be an exchange of the notional

**Table of Contents****RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

amounts at maturity. The rates included in this swap are based upon observable market data, but are not quoted market prices, and therefore, the cross-currency swap is considered a Level 2 liability on the fair value hierarchy. Additionally, this cross-currency swap has been designated as a hedging instrument, and is classified as other long-term liabilities in our Consolidated Balance Sheets.

We have a foreign currency forward contract that is classified as an asset in our Consolidated Balance Sheets with a fair value of \$2.5 million at February 28, 2011. This foreign currency forward contract, which has not been designated as a hedge, was designed to reduce our exposure to the changes in the cash flows of intercompany foreign-currency-denominated loans related to changes in foreign currency exchange rates by fixing the functional currency cash flows. Upon inception of the contract, we purchased USD \$80.4 million and sold approximately EUR 59.9 million. Changes in the U.S. Dollar/Euro exchange rate will either increase or decrease our USD functional currency earnings, and will be reflected in Selling, General and Administrative Expenses on our Consolidated Statements of Income. During the quarter ended February 28, 2011, we recognized a gain of approximately \$5.0 million as a result of changes in the foreign exchange rates of this foreign currency forward contract. However, these gains were more than offset by the change in exchange rates associated with the related intercompany foreign currency denominated loans, for which we recognized a loss of approximately \$5.4 million during the quarter ended February 28, 2011. During the nine months ended February 28, 2011, we recognized a gain of approximately \$2.5 million as a result of changes in the foreign exchange rates of this foreign currency forward contract. However, these gains were more than offset by the change in exchange rates associated with the related intercompany foreign currency denominated loans, for which we recognized a loss of approximately \$2.7 million during the nine months ended February 28, 2011. The foreign currency forward contract matures on November 23, 2011, one year from the date of inception. There will be an exchange of the notional amounts at maturity. The foreign exchange rates included in this forward contract are based upon observable market data, but are not quoted market prices, and therefore, the forward currency forward contract is considered a Level 2 liability on the fair value hierarchy.

The carrying value of our current financial instruments, which include cash and cash equivalents, marketable securities, trade accounts receivable, accounts payable, and short-term debt approximates fair value because of the short-term maturity of these financial instruments. At February 28, 2011 and May 31, 2010, the fair value of our long-term debt was estimated using active market quotes, based on our current incremental borrowing rates for similar types of borrowing arrangements, which are considered to be Level 2 inputs. Based on the analysis performed, the fair value and the carrying value of our financial instruments and long-term debt as of February 28, 2011 and May 31, 2010 are as follows:

	<b>At February 28, 2011</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
Cash and cash equivalents	\$ 275,479	\$ 275,479
Marketable equity securities	111,070	111,070
Marketable debt securities	19,293	19,293
Long-term debt, including current portion	935,706	996,085

**At May 31, 2010**

	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
Cash and cash equivalents	\$ 215,355	\$ 215,355
Marketable equity securities	83,028	83,028
Marketable debt securities	30,882	30,882
Long-term debt, including current portion	928,615	1,000,128

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 6 REORGANIZATION PROCEEDINGS OF CERTAIN SUBSIDIARIES**

*General* Bondex and SPHC are defendants in various asbestos-related bodily injury lawsuits filed in various state courts. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposures to asbestos-containing products.

On May 31, 2010, Bondex and its parent, SPHC, filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. SPHC is the parent company of Bondex and is also the parent company for various operating companies that are not part of the reorganization filing, including Chemical Specialties Manufacturing Corp., Day-Glo Color Corp., Dryvit Holdings, Inc., Guardian Protection Products Inc., Kop-Coat Inc., TCI, Inc. and RPM Wood Finishes Group, Inc. SPHC and Bondex (the filing entities) took this action to permanently and comprehensively resolve all pending and future asbestos-related liability claims associated with Bondex and SPHC-related products. As a result of the filing, all Bondex and SPHC asbestos personal injury lawsuits have been stayed due to the imposition of an automatic stay applicable in bankruptcy cases. In addition, at the request of SPHC and Bondex, the bankruptcy court has entered orders staying all claims against RPM International Inc. and its affiliates that are derivative of the asbestos claims against SPHC and Bondex. Through the Chapter 11 proceedings, the filing entities intend ultimately to establish a trust in accordance with section 524(g) of the Bankruptcy Code and seek the imposition of a channeling injunction that will direct all future SPHC-related and Bondex-related claims to the trust. It is anticipated that the trust will compensate claims at appropriate values established by the trust documents and approved by the bankruptcy court. At this time, it is not possible to predict how long the proceedings will last, the form of any ultimate resolution or when an ultimate resolution might occur.

Prior to the bankruptcy filing, the filing entities had engaged in a strategy of litigating asbestos-related products liability claims brought against them. Claims paid during the year ended May 31, 2010, prior to the bankruptcy filing, were \$92.6 million, which included defense-related payments during the year of \$42.6 million. No claims have been paid since the bankruptcy filing and it is not contemplated that any claims will be paid until a plan of reorganization is confirmed and an asbestos trust is established and operating.

Prior to the Chapter 11 bankruptcy filing, we recorded asbestos-related contingent liabilities that included estimations of future costs, which by nature are subject to many uncertainties that may change over time, including (i) the ultimate number of claims filed; (ii) the amounts required to resolve both currently known and future unknown claims; (iii) the amount of insurance, if any, available to cover such claims, including the outcome of coverage litigation against the filing entities' third-party insurers; (iv) future earnings and cash flow of the filing entities; (v) the impact of bankruptcies of other companies whose share of liability may be imposed on the filing entities under certain state liability laws; (vi) the unpredictable aspects of the litigation process including a changing trial docket and the jurisdictions in which trials are scheduled; (vii) the outcome of any such trials including judgments or jury verdicts, as a result of our more aggressive defense posture, which included taking selective cases to verdict; (viii) the lack of specific information in many cases concerning exposure to products for which one of our subsidiaries is responsible and the claimants' diseases; (ix) potential changes in applicable federal and/or state law; and (x) the potential impact of various proposed structured settlement transactions or subsidiary bankruptcies by other companies, some of which are the subject of federal appellate court review, the outcome of which could have materially affected future asbestos-related liability estimates.

*Historical Asbestos Liability Reserve* In fiscal 2006, management retained Crawford & Winiarski (C&W), an independent, third-party consulting firm with expertise in the area of asbestos valuation work, to assist it in calculating



an estimate of Bondex's liability for unasserted-potential-future-asbestos-related claims. C&W's methodology to project Bondex's liability for unasserted-potential-future-asbestos-related claims included an analysis of: (a) a widely accepted forecast of the population likely to have been exposed to asbestos; (b) epidemiological studies estimating the number of people likely to develop asbestos-related diseases; (c) the historical rate at which mesothelioma incidences resulted in the payment of claims by Bondex; (d) the historical settlement averages to value the projected number of future compensable mesothelioma claims; (e) the historical

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ratio of mesothelioma-related indemnity payments to non-mesothelioma indemnity payments; and (f) the historical defense costs and their relationship with total indemnity payments. Based upon the results of this analysis, Bondex recorded an accrued liability for asbestos claims through 2016 as of May 31, 2006 of \$421.3 million. This amount was calculated on a pre-tax basis and was not discounted for the time value of money.

During the fiscal year ended May 31, 2008, the ten-year asbestos liability established as of May 31, 2006 was reviewed and evaluated. As part of that process, the credibility of epidemiological studies of Bondex's mesothelioma claims, first introduced to management by C&W some two-and-one-half years earlier, was validated. At the core of the evaluation process, and the basis of C&W's actuarial work on behalf of Bondex, is the Nicholson Study. The Nicholson Study is the most widely recognized reference in bankruptcy trust valuations, global settlement negotiations and the Congressional Budget Office's work done on the proposed FAIR Act in 2006. Based on our ongoing comparison of the Nicholson Study projections and Bondex's specific actual experience, which at that time continued to bear an extremely close correlation to the study's projections, the asbestos liability projection was extended out to the year 2028. C&W assisted in calculating an estimate of our liability for unasserted-potential-future-asbestos-related claims out to 2028. C&W projected that the cost of extending the asbestos liability to 2028, coupled with an updated evaluation of Bondex's current known claims to reflect its most recent actual experience, would be \$288.1 million. Therefore, management added \$288.1 million to the existing asbestos liability, which brought Bondex's total asbestos-related balance sheet liabilities at May 31, 2008 to \$559.7 million. On May 30, 2010, the day prior to the bankruptcy filing, Bondex had recorded an asbestos related product liability of \$397.7 million.

The table below illustrates movements in the Bondex asbestos liability for fiscal 2008, 2009 and 2010:

**Asbestos Liability Movement  
(Current and Long-Term)**

	<b>Balance at Beginning of Period</b>	<b>Additions to Asbestos Charge</b>	<b>Deductions(1) (In thousands)</b>	<b>Impact of Deconsolidation of SPHC(2)</b>	<b>Balance at End of Period</b>
Year Ended May 31, 2010	\$ 490,328		\$ 92,621	\$ (397,707)	\$
Year Ended May 31, 2009	559,745		69,417		490,328
Year Ended May 31, 2008	354,268	\$ 288,100	82,623		559,745

(1) Deductions include payments for defense-related costs and amounts paid to settle claims.

(2) During the year ended May 31, 2010, SPHC and Bondex filed Chapter 11 reorganization proceedings in the United States Bankruptcy Court for the District of Delaware, and as a result, were deconsolidated from our results, as required. Refer to Note 2 for further information.

This liability, as a result of the accounting for the deconsolidation of SPHC and its subsidiaries set forth in Note 2, is no longer included in RPM International Inc.'s consolidated balance sheet, effective May 31, 2010.

*Insurance Coverage Litigation* During calendar year 2003, the filing entities' third-party insurers claimed exhaustion of coverage. On July 3, 2003, certain of our subsidiaries, including the filing entities, filed the case of Bondex International, Inc. et al. v. Hartford Accident and Indemnity Company et al., Case No. 1:03-cv-1322, in the United States District Court for the Northern District of Ohio, for declaratory judgment, breach of contract and bad faith against the named third-party insurers, challenging their assertion that their policies covering asbestos-related claims had been exhausted. On December 1, 2008, the trial court denied the plaintiffs' motions for partial summary judgment and granted the defendants' motions for summary judgment against plaintiffs, including the filing entities, and entered judgment on all remaining claims and counterclaims, and dismissed the action. Plaintiffs, including the filing entities, appealed the trial court's decision to the United States Court of Appeals for the Sixth Circuit, which appeal is currently pending. The Sixth Circuit had initially stayed the appeal as a result of the

**Table of Contents****RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

bankruptcy filing, but has since lifted the stay and the appeal process has resumed. The parties have agreed to a briefing schedule, which provides that briefing will conclude May 31, 2011. Bondex has not included any potential benefits from the ongoing insurance coverage litigation in calculating its asbestos liability. RPM International Inc. is not a party to this insurance litigation.

*Debtor-in-Possession ( DIP ) Financing* In connection with the bankruptcy filing, SPHC, Bondex and certain of SPHC's subsidiaries entered into a three-year, \$40.0 million DIP Credit facility (the DIP Credit Facility) with Wachovia Capital Finance Corporation (New England). The Bankruptcy Court approved this facility, and granted Wachovia a super priority administrative expense claim for all amounts owed under the facility. The facility is secured by security interests and liens in virtually all of the real and personal property and assets of Bondex, SPHC and certain of SPHC's subsidiaries. The DIP Credit Facility generally permits borrowings for working capital, capital expenditures and other general corporate purposes. The DIP Credit Facility also imposes certain financial and non-financial covenants on SPHC and its subsidiaries. RPM International Inc. is not a party to the DIP Credit Facility and it has not guaranteed obligations under such facility.

*Financial Results and Reorganization Items* The SPHC condensed consolidated financial statements set forth below have been prepared in conformity with ASC 852, Reorganizations ( ASC 852 ).

**Specialty Products Holding Corp.**  
**Consolidated Statements of Income**  
 Unaudited

	<b>Quarter Ended February 28, 2010</b>	<b>Nine Months Ended February 28, 2010</b>
	<b>(In thousands)</b>	
<b>Net Sales</b>	\$ 64,477	\$ 214,512
Net sales to RPM	3,260	12,825
Total net sales	67,737	227,337
Cost of sales	44,707	145,157
Gross profit	23,030	82,180
Selling, general & administrative expenses	23,392	68,290
Interest expense	5	16
Investment expense (income), net	(41)	(210)
Income before income taxes	(326)	14,084
Provision for income taxes	383	5,646
<b>Net income</b>	\$ (709)	\$ 8,438

SPHC and its subsidiaries routinely engage in intercompany transactions with other entities within RPM in the ordinary course of business, including services provided by RPM International Inc. to SPHC and its subsidiaries under an administrative services agreement. These services include risk management and insurance services, benefits administration, IT services, legal services, environmental, health and safety compliance management, tax planning and compliance services, treasury and cash management, various accounting services, including preparation of accounting books and financial statement preparation, internal audit services, benefits associated with group purchasing of various supplies and equipment, and consulting services associated with various business development activities. The Bankruptcy Court has approved this administrative services agreement.

As a result of their bankruptcy filing, SPHC and Bondex are precluded from paying dividends to shareholders and from making payments on any pre-bankruptcy filing accounts or notes payable that are due and owing to any

**Table of Contents****RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

other entity within the RPM group of companies (the Pre-Petition Intercompany Payables ) or other pre-petition creditors during the pendency of the bankruptcy case, without the Bankruptcy Court's approval. Moreover, no assurances can be given that any of the Pre-Petition Intercompany Payables will ever be paid or otherwise satisfied.

When SPHC emerges from the jurisdiction of the Bankruptcy Court, the subsequent accounting will be determined based upon the applicable circumstances and facts at such time, including the terms of any plan of reorganization.

SPHC has assessed its liquidity position as a result of the bankruptcy filing and believes that it can continue to fund its and its subsidiaries' operating activities and meet its debt and capital requirements for the foreseeable future. The SPHC condensed consolidated financial information set forth above has been prepared on a going concern basis which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the ordinary course of business.

**NOTE 7 CONTINGENCIES AND OTHER ACCRUED LOSSES**

We provide, through our wholly-owned insurance subsidiaries, certain insurance coverage, primarily product liability coverage, to our other subsidiaries. Excess coverage is provided by third-party insurers. Our reserves provide for these potential losses as well as other uninsured claims.

We also offer warranty programs at several of our industrial businesses and have established a product warranty liability. We review this liability for adequacy on a quarterly basis and adjust it as necessary. The primary factors that could affect this liability may include changes in the historical system performance rate as well as the costs of replacement. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted, as required, to reflect actual experience. It is probable that we will incur future losses related to warranty claims we have received but that have not been fully investigated and related to claims not yet received, which are not currently estimable due to the significant number of variables contributing to the extent of any necessary remediation. While our warranty liability represents our best estimate at February 28, 2011, we can provide no assurances that we will not experience material claims in the future or that we will not incur significant costs to resolve such claims beyond the amounts accrued or beyond what we may recover from our suppliers. Product warranty expense is recorded within selling, general and administrative expense.

The following table includes the changes in our accrued warranty balances:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28,</b>		<b>February 28,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Beginning Balance	\$ 15,931	\$ 15,097	\$ 17,602	\$ 18,993
Deductions(1)	(3,434)	(3,741)	(14,717)	(18,200)
Provision charged to SG&A expense	4,440	3,263	14,052	13,826
Ending Balance	\$ 16,937	\$ 14,619	\$ 16,937	\$ 14,619

(1) Primarily claims paid during the year.

In addition, like other companies participating in similar lines of business, some of our subsidiaries are involved in several proceedings relating to environmental matters. It is our policy to accrue remediation costs when it is probable that such efforts will be required and the related costs can be reasonably estimated. These liabilities are undiscounted.

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 8 INVESTMENT (INCOME) EXPENSE, NET**

Investment (income) expense, net, consists of the following components:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28,</b>		<b>February 28,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Interest (income)	\$ (1,068)	\$ (996)	\$ (3,349)	\$ (2,768)
(Gain) loss on sale of marketable securities	(3,194)	(355)	(7,060)	(1,284)
Other-than-temporary impairment on securities	57	89	542	235
Dividend (income)	(698)	(571)	(1,322)	(1,167)
Investment (income) expense, net	\$ (4,903)	\$ (1,833)	\$ (11,189)	\$ (4,984)

**NOTE 9 INCOME TAXES**

The effective income tax rate was 40.0% for the three months ended February 28, 2011 compared to an effective income tax rate of 17.5% for the three months ended February 28, 2010. The effective income tax rate was 30.7% for the nine months ended February 28, 2011 compared to an effective income tax rate of 32.6% for the same period a year ago.

For the three and nine months ended February 28, 2011 and February 28, 2010, respectively, the effective tax rate differed from the federal statutory rate principally due to decreases in taxes as a result of the impact of certain foreign operations on our U.S. taxes, the effect of lower income tax rates in certain of our foreign jurisdictions, the domestic manufacturing deduction and the research tax credit. These decreases in taxes were partially offset by state and local income taxes, non-deductible business operating expenses and provisions for valuation allowances associated with losses incurred by certain of our foreign businesses and for foreign tax credit carryforwards. Additionally, for the nine months ended February 28, 2011, a decrease in the effective income tax rate resulted from a one-time benefit related to changes in tax laws in the United Kingdom, including the effect of lower income tax rates.

As of February 28, 2011, we had unrecognized tax benefits of approximately \$3.4 million, of which approximately \$2.5 million would impact the effective tax rate, if recognized. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. At February 28, 2011, the accrual for interest and penalties totaled approximately \$1.6 million. We do not anticipate any significant changes to the total unrecognized tax benefits within the next 12 months that would impact the effective tax rate.

We, or our subsidiaries, file income tax returns in the U.S. and in various state, local and foreign jurisdictions. As of February 28, 2011 we are subject to U.S. federal income tax examinations for the fiscal years 2007 through 2010. In addition, with limited exceptions, we, or our subsidiaries, are subject to state and local or non-U.S. income tax examinations by tax authorities for the fiscal years 2003 through 2010. We are currently under examination in the U.S. and in various non-U.S. jurisdictions including an ongoing audit by the Internal Revenue Service ( IRS ) for the



fiscal 2007 and 2008 tax years. Although it is possible that certain tax examinations, including the IRS examination of fiscal years 2007 and 2008, could be resolved during the next 12 months, the timing and outcomes are uncertain.

As of February 28, 2011, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, we intend to maintain the tax valuation allowances recorded at February 28, 2011 for those deferred tax assets until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support their reversal. These valuation allowances relate to U.S. foreign tax credit carryforwards, certain foreign net operating losses and net foreign deferred tax assets. A portion of the valuation allowance is associated with deferred tax assets recorded in

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purchase accounting for prior year acquisitions. In accordance with ASC 805, Business Combinations, any reversal of the valuation allowance that was recorded in purchase accounting reduces income tax expense.

We include SPHC and its domestic subsidiaries (collectively, the SPHC Group) in our consolidated federal income tax return. We entered into a tax-cooperation agreement (the Agreement) with the SPHC Group, effective from June 1, 2010. Generally, the Agreement provides, amongst other items, that the federal income taxes of the SPHC Group are to be computed on a stand-alone separate return basis. The current portion of such income tax payable, if any, is due from the SPHC Group to us. Conversely, subject to the terms of the Agreement, income tax benefits associated with net operating loss or tax credit carryovers generated by the SPHC Group, if any, for the taxable year that benefits our consolidated income tax return for that taxable year are payable by us to the SPHC Group. Additionally, pursuant to the terms of the Agreement, a similar approach is applied to consolidated, combined or unitary state tax returns.

**NOTE 10 PENSION AND POSTRETIREMENT HEALTH CARE BENEFITS**

We offer defined benefit pension plans, defined contribution pension plans, as well as several unfunded health care benefit plans primarily for certain of our retired employees. The following tables provide the retirement-related benefit plans impact on income before income taxes for the three and nine month periods ended February 28, 2011 and 2010:

<b>Pension Benefits</b>	<b>U.S. Plans Quarter Ended February 28,</b>		<b>Non-U.S. Plans Quarter Ended February 28,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Service cost	\$ 4,238	\$ 3,505	\$ 830	\$ 486
Interest cost	3,435	3,375	1,782	1,823
Expected return on plan assets	(3,139)	(2,448)	(1,655)	(1,502)
Amortization of:				
Prior service cost	90	87	3	3
Net actuarial losses recognized	1,980	1,638	584	235
<b>Net Periodic Benefit Cost</b>	<b>\$ 6,604</b>	<b>\$ 6,157</b>	<b>\$ 1,544</b>	<b>\$ 1,045</b>

<b>Postretirement Benefits</b>	<b>U.S. Plans Quarter Ended February 28,</b>		<b>Non-U.S. Plans Quarter Ended February 28,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Service cost	\$ 2	\$	\$ 170	\$ 81
Interest cost	110	143	213	160
Amortization of:				

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Prior service cost	(22)	(7)		
Net actuarial (gains) losses recognized	(48)	(34)	21	(33)
<b>Net Periodic Benefit Cost</b>	<b>\$ 42</b>	<b>\$ 102</b>	<b>\$ 404</b>	<b>\$ 208</b>

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<b>Pension Benefits</b>	<b>U.S. Plans</b>		<b>Non-U.S. Plans</b>	
	<b>Nine Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28,</b>		<b>February 28,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Service cost	\$ 12,717	\$ 10,515	\$ 2,491	\$ 1,459
Interest cost	10,304	10,124	5,347	5,467
Expected return on plan assets	(9,418)	(7,346)	(4,966)	(4,506)
Amortization of:				
Prior service cost	269	263	8	7
Net actuarial losses recognized	5,939	4,915	1,754	706
<b>Net Periodic Benefit Cost</b>	<b>\$ 19,811</b>	<b>\$ 18,471</b>	<b>\$ 4,634</b>	<b>\$ 3,133</b>

<b>Postretirement Benefits</b>	<b>U.S. Plans</b>		<b>Non-U.S. Plans</b>	
	<b>Nine Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28,</b>		<b>February 28,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Service cost	\$ 4	\$ 2	\$ 509	\$ 244
Interest cost	330	427	639	480
Amortization of:				
Prior service cost	(65)	(21)		
Net actuarial (gains) losses recognized	(143)	(103)	62	(100)
<b>Net Periodic Benefit Cost</b>	<b>\$ 126</b>	<b>\$ 305</b>	<b>\$ 1,210</b>	<b>\$ 624</b>

We previously disclosed in our financial statements for the fiscal year ended May 31, 2010 that we expected to contribute approximately \$10.1 million to our retirement plans in the U.S. and approximately \$8.9 million to plans outside the U.S. during the current fiscal year. As of February 28, 2011, an additional \$10.1 million has been contributed to our retirement plans in the U.S. for a total expected contribution of \$20.2 million to these plans during the current fiscal year. No changes to planned contribution levels relating to our plans outside the U.S. are anticipated.

On May 31, 2010, we deconsolidated SPHC and its subsidiaries from our balance sheet, and eliminated the results of SPHC's operations beginning on that date. Therefore, the information reflected above for the three and nine month periods ended February 28, 2011 for the U.S. Plans pension benefits excludes amounts related to SPHC's pension plans.

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 11 EARNINGS PER SHARE**

The following table sets forth the reconciliation of the numerator and denominator of basic and diluted earnings per share, as calculated using the two-class method, for the nine months ended February 28, 2011 and 2010. For the quarters ended February 28, 2011 and 2010, the treasury stock method was utilized for the purpose of computing basic and diluted earnings per share, as the result under the two-class method would have been less dilutive:

	<b>Quarter Ended February 28, 2011</b>		<b>Nine Months Ended February 28, 2011</b>	
	<b>2010</b>		<b>2010</b>	
	<b>(In thousands, except per share amounts)</b>			
<b>Numerator for earnings per share:</b>				
Net income attributable to RPM International Inc. stockholders	\$	1,097	\$	(9,400)
			\$	118,884
				\$
Less: Allocation of earnings and dividends to participating securities				(1,869)
				(1,446)
Net income available to common shareholders basic		1,097		(9,400)
Add: Undistributed earnings reallocated to unvested shareholders				3
				3
Net income available to common shareholders diluted	\$	1,097	\$	(9,400)
			\$	117,018
				\$
				118,075
<b>Denominator for basic and diluted earnings per share:</b>				
Basic weighted average common shares		127,166		127,500
Average diluted options				637
Net issuable common share equivalents		2,276		599
Total shares for diluted earnings per share (1), (2)		129,442		127,500
				128,020
				127,539
<b>Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders:</b>				
Basic Earnings Per Share of Common Stock	\$	0.01	\$	(0.07)
			\$	0.92
				\$
				0.93
Diluted Earnings Per Share of Common Stock	\$	0.01	\$	(0.07)
			\$	0.91
				\$
				0.93

(1) For the quarters ended February 28, 2011 and 2010, approximately 2,607,000 shares and 2,107,000 shares of stock, respectively, granted under stock-based compensation plans were excluded from the calculation of diluted

EPS for those periods, as the effect would have been anti-dilutive.

- (2) For the nine month periods ended February 28, 2011 and 2010, approximately 2,111,000 shares and 1,913,000 shares of stock, respectively, granted under stock-based compensation plans were excluded from the calculation of diluted EPS for those periods, as the effect would have been anti-dilutive.

**NOTE 12 SEGMENT INFORMATION**

We operate a portfolio of businesses and product lines that manufacture and sell a variety of specialty paints, protective coatings and roofing systems, sealants and adhesives. We manage our portfolio by organizing our businesses and product lines into two reportable segments: the industrial reportable segment and the consumer reportable segment. Within each reportable segment, we aggregate several operating segments that consist of individual groups of companies and product lines, which generally address common markets, share similar economic characteristics, utilize similar technologies and can share manufacturing or distribution capabilities. Our

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

five operating segments represent components of our business for which separate financial information is available that is utilized on a regular basis by our chief executive officer in determining how to allocate the assets of the Company and evaluate performance. These five operating segments are each managed by an operating segment manager, who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment s underlying businesses.

Our industrial reportable segment products are sold throughout North America and also account for the majority of our international sales. Our industrial product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. This reportable segment comprises three separate operating segments our Building Solutions Group, Performance Coatings Group, and RPM2 Group. Products and services within this reportable segment include construction chemicals; roofing systems; weatherproofing and other sealants; polymer flooring; edible coatings and specialty glazes for pharmaceutical, cosmetic and food industries; and other specialty chemicals.

Our consumer reportable segment manufactures and markets professional use and do-it-yourself ( DIY ) products for a variety of mainly consumer applications, including home improvement and personal leisure activities. Our consumer segment s major manufacturing and distribution operations are located primarily in North America, along with a few locations in Europe. Consumer segment products are sold directly to mass merchandisers, home improvement centers, hardware stores, paint stores, craft shops and to other smaller customers through distributors. This reportable segment comprises two operating segments our DAP Group and our Rust-Oleum Group. Products within this reportable segment include specialty, hobby and professional paints; caulks; adhesives; silicone sealants; and wood stains.

In addition to our two reportable segments, there is a category of certain business activities and expenses, referred to as corporate/other, that does not constitute an operating segment. This category includes our corporate headquarters and related administrative expenses, results of our captive insurance companies, gains or losses on the sales of certain assets and other expenses not directly associated with either reportable segment. Assets related to the corporate/other category consist primarily of investments, prepaid expenses, deferred pension assets, and headquarters property and equipment. These corporate and other assets and expenses reconcile reportable segment data to total consolidated income before income taxes and identifiable assets. Our comparative three and nine month

**Table of Contents****RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

results for the periods ended February 28, 2011 and 2010, and identifiable assets as of February 28, 2011 and May 31, 2010 are presented in segment detail in the following table.

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28, 2011</b>	<b>February 28, 2010</b>	<b>February 28, 2011</b>	<b>February 28, 2010</b>
	<b>(In thousands)</b>			
<b>Net Sales</b>				
Industrial Segment	\$ 449,092	\$ 457,683	\$ 1,633,914	\$ 1,695,206
Consumer Segment	229,828	208,911	766,159	745,999
<b>Consolidated</b>	<b>\$ 678,920</b>	<b>\$ 666,594</b>	<b>\$ 2,400,073</b>	<b>\$ 2,441,205</b>
<b>Gross Profit</b>				
Industrial Segment	\$ 186,663	\$ 184,174	\$ 696,766	\$ 727,125
Consumer Segment	82,855	75,658	287,675	289,748
<b>Consolidated</b>	<b>\$ 269,518</b>	<b>\$ 259,832</b>	<b>\$ 984,441</b>	<b>\$ 1,016,873</b>
<b>Income (Loss) Before Income Taxes</b>				
Industrial Segment	\$ 12,603	\$ 1,442	\$ 162,754	\$ 160,742
Consumer Segment	16,002	12,340	92,381	94,320
Corporate/Other	(26,616)	(24,895)	(67,938)	(76,451)
<b>Consolidated</b>	<b>\$ 1,989</b>	<b>\$ (11,113)</b>	<b>\$ 187,197</b>	<b>\$ 178,611</b>
			<b>February 28, 2011</b>	<b>May 31, 2010</b>
<b>Identifiable Assets</b>				
Industrial Segment			\$ 1,856,780	\$ 1,666,005
Consumer Segment			1,143,783	1,135,211
Corporate/Other			155,195	202,808
<b>Consolidated</b>			<b>\$ 3,155,758</b>	<b>\$ 3,004,024</b>

**NOTE 13 STOCK REPURCHASE PROGRAM**

On January 8, 2008, we announced our authorization of a stock repurchase program under which we may repurchase shares of RPM International Inc. common stock at management's discretion for general corporate purposes. Our



current intent is to limit our repurchases only to amounts required to offset dilution created by stock issued in connection with our equity-based compensation plans, or approximately one to two million shares per year. As a result of this authorization, we may repurchase shares from time to time in the open market or in private transactions at various times and in amounts and for prices that our management deems appropriate, subject to insider trading rules and other securities law restrictions. The timing of our purchases will depend upon prevailing market conditions, alternative uses of capital and other factors. We may limit or terminate the repurchase program at any time. During the nine months ended February 28, 2011, we repurchased approximately 1.0 million shares of our common stock at a cost of \$17.9 million under this program.

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 14 EQUITY**

The following table illustrates the components of total equity and comprehensive income for the quarter ended February 28, 2011:

	<b>Total RPM International Inc. Equity</b>	<b>Noncontrolling Interest (In thousand)</b>	<b>Total Equity</b>
<b>Total equity at November 30, 2010</b>	<b>\$ 1,187,418</b>	<b>\$ 96,863</b>	<b>\$ 1,284,281</b>
Net income	1,097	96	1,193
Other Comprehensive Income:			
Foreign currency translation adjustments	44,038	(2,835)	41,203
Pension and other postretirement benefit liability adjustments, net of tax	54	(329)	(275)
Unrealized gain (loss) on securities, net of tax	(4,718)	1,337	(3,381)
Unrealized gain on derivatives, net of tax	51	14	65
Total Other Comprehensive Income, net of tax	39,425	(1,813)	37,612
<b>Comprehensive Income</b>	<b>40,522</b>	<b>(1,717)</b>	<b>38,805</b>
Dividends paid	(27,278)		(27,278)
Other	3,068		3,068
Stock option exercises, net	5,440		5,440
Stock based compensation expense	531		531
Restricted awards, net	1,823		1,823
<b>Total Equity at February 28, 2011</b>	<b>\$ 1,211,524</b>	<b>\$ 95,146</b>	<b>\$ 1,306,670</b>

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table illustrates the components of total equity and comprehensive income for the nine months ended February 28, 2011:

	<b>Total RPM International Inc. Equity</b>	<b>Noncontrolling Interest (In thousands)</b>	<b>Total Equity</b>
<b>Total equity at May 31, 2010</b>	<b>\$ 1,079,473</b>	<b>\$ 81,768</b>	<b>\$ 1,161,241</b>
Net income	118,884	10,806	129,690
Other Comprehensive Income:			
Foreign currency translation adjustments	84,455	2,150	86,605
Pension and other postretirement benefit liability adjustments, net of tax	2,289	(414)	1,875
Unrealized gain (loss) on securities, net of tax	4,853		4,853
Unrealized gain on derivatives, net of tax	3,072	836	3,908
Total Other Comprehensive Income, net of tax	94,669	2,572	97,241
<b>Comprehensive Income</b>	<b>213,553</b>	<b>13,378</b>	<b>226,931</b>
Dividends paid	(81,189)		(81,189)
Other	4,156		4,156
Shares repurchased	(17,948)		(17,948)
Stock option exercises, net	8,052		8,052
Stock based compensation expense	1,543		1,543
Restricted awards, net	3,884		3,884
<b>Total Equity at February 28, 2011</b>	<b>\$ 1,211,524</b>	<b>\$ 95,146</b>	<b>\$ 1,306,670</b>

The following table illustrates the components of total comprehensive income for the prior year comparative periods:

	<b>Quarter Ended February 28, 2010</b>	<b>Nine Months Ended February 28, 2010 (In thousands)</b>
Net income (loss)	\$ (9,164)	\$ 120,306
Other Comprehensive Income:		
Foreign currency translation adjustments	(41,556)	(1,093)
Pension and other postretirement benefit liability adjustments, net of tax	1,323	3,539
Unrealized gain on securities, net of tax	811	8,428

Unrealized gain on derivatives, net of tax	(2,087)	(1,386)
Total Other Comprehensive Income, net of tax	(41,509)	9,488
Comprehensive Income	(50,673)	129,794
Less: Net Income and Other Comprehensive Income Attributable to Noncontrolling Interest	236	788
<b>Total Comprehensive Income Attributable to RPM International Inc. Stockholders</b>	<b>\$ (50,909)</b>	<b>\$ 129,006</b>

**NOTE 15 SUBSEQUENT EVENTS**

We have evaluated events subsequent to February 28, 2011, through the date the financial statements were issued, and have determined no events have occurred that require adjustment of or disclosure in the consolidated financial statements.

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**ITEM 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our Consolidated Financial Statements include the accounts of RPM International Inc. and its majority-owned subsidiaries, except for certain subsidiaries that were deconsolidated on May 31, 2010 (please refer to Note 2 to the Consolidated Financial Statements for further information). Preparation of our financial statements requires the use of estimates and assumptions that affect the reported amounts of our assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We continually evaluate these estimates, including those related to our allowances for doubtful accounts; inventories; allowances for recoverable taxes; useful lives of property, plant and equipment; goodwill and other intangible assets; environmental, warranties and other contingent liabilities; income tax valuation allowances; pension plans; and the fair value of financial instruments. We base our estimates on historical experience, our most recent facts, and other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of our assets and liabilities. Actual results, which are shaped by actual market conditions, may differ materially from our estimates.

We have identified below the accounting policies and estimates that are the most critical to our financial statements.

***Revenue Recognition***

Revenues are recognized when realized or realizable, and when earned. In general, this is when title and risk of loss pass to the customer. Further, revenues are realizable when we have persuasive evidence of a sales arrangement, the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable, and collectibility is reasonably assured. We reduce our revenues for estimated customer returns and allowances, certain rebates, sales incentives and promotions in the same period the related sales are recorded.

We also record revenues generated under long-term construction contracts, mainly in connection with the installation of specialized roofing and flooring systems, and related services. In general, we account for long-term construction contracts under the percentage-of-completion method, and therefore record contract revenues and related costs as our contracts progress. This method recognizes the economic results of contract performance on a timelier basis than does the completed-contract method; however, application of this method requires reasonably dependable estimates of progress toward completion, as well as other dependable estimates. When reasonably dependable estimates cannot be made, or if other factors make estimates doubtful, the completed-contract method is applied. Under the completed-contract method, billings and costs are accumulated on the balance sheet as the contract progresses, but no revenue is recognized until the contract is complete or substantially complete.

***Translation of Foreign Currency Financial Statements and Foreign Currency Transactions***

Our reporting currency is the U.S. dollar. However, the functional currency for each of our foreign subsidiaries is its local currency. We translate the amounts included in our Consolidated Statements of Income from our foreign subsidiaries into U.S. dollars at weighted-average exchange rates, which we believe are representative of the actual exchange rates on the dates of the transactions. Our foreign subsidiaries' assets and liabilities are translated into U.S. dollars from local currency at the actual exchange rates as of the end of each reporting date, and we record the resulting foreign exchange translation adjustments in our Consolidated Balance Sheets as a component of accumulated other comprehensive income (loss). If the U.S. dollar strengthens, we will reflect the resulting losses as a component of accumulated other comprehensive income (loss). Conversely, if the U.S. dollar were to weaken, foreign exchange translation gains could result, which would favorably impact accumulated other comprehensive income. Translation

adjustments will be included in net earnings in the event of a sale or liquidation of any of our underlying foreign investments, or in the event that we distribute the accumulated earnings of consolidated foreign subsidiaries. If we determine that the functional currency of any of our foreign subsidiaries should be the U.S. dollar, our financial statements will be affected. Should this occur, we will adjust our reporting to appropriately account for any such changes.

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As appropriate, we use permanently invested intercompany loans as a source of capital to reduce exposure to foreign currency fluctuations at our foreign subsidiaries. These loans, on a consolidated basis, are treated as being analogous to equity for accounting purposes. Therefore, foreign exchange gains or losses on these intercompany loans are recorded in accumulated other comprehensive income (loss). If we determine that the functional currency of any of our subsidiaries should be the U.S. dollar, we will no longer record foreign exchange gains or losses on such intercompany loans.

### ***Goodwill***

We test our goodwill balances at least annually, or more frequently as impairment indicators arise, using a fair-value approach at the reporting unit level. Our reporting units have been identified at the component level, which is the operating segment level or one level below our operating segments. We perform a two-step impairment test. In the first step, we compare the fair value of each of our reporting units to its carrying value. We have elected to perform our annual required impairment tests, which involve the use of estimates related to the fair market values of the reporting units with which goodwill is associated, during our fourth fiscal quarter. Calculating the fair market values of reporting units requires our use of estimates and assumptions.

We use significant judgment in determining the most appropriate method to establish the fair values of each of our reporting units. We estimate the fair values of our reporting units by employing various valuation techniques, depending on the availability and reliability of comparable market value indicators, and employ methods and assumptions which include the application of third-party market value indicators and the computation of discounted future cash flows for each of our reporting unit's annual projected earnings before interest, taxes, depreciation and amortization ( EBITDA ). For each of our reporting units, we calculate a break-even multiple based on its carrying value as of the testing date. We then compare each reporting unit's break-even EBITDA market multiple to guideline EBITDA market multiples applicable to our industry and peer group, the data for which we develop internally and through third-party sources. The result of this analysis provides us with insight and sensitivity as to which reporting units, if any, may have a higher risk for a potential impairment.

We then supplement this analysis with an evaluation of discounted future cash flows for each reporting unit's projected EBITDA. Under this approach, we calculate the fair value of each reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not impaired. An indication that goodwill may be impaired results when the carrying value of the net assets of a reporting unit exceeds the fair value of the reporting unit. At that point, the second step of the impairment test is performed, which requires a fair value estimate of each tangible and intangible asset in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

In applying the discounted cash flow methodology, we rely on a number of factors, including future business plans, actual and forecasted operating results, and market data. The significant assumptions employed under this method include discount rates, revenue growth rates, including assumed terminal growth rates, and operating margins used to project future cash flows for each reporting unit. The discount rates utilized reflect market-based estimates of capital costs and discount rates adjusted for management's assessment of a market participant's view with respect to other risks associated with the projected cash flows of the individual reporting units. Our estimates are based upon assumptions we believe to be reasonable, but which by nature are uncertain and unpredictable. We believe we incorporate ample sensitivity ranges into our analysis of goodwill impairment testing for each reporting unit, such that actual experience would need to be materially out of the range of expected assumptions in order for an impairment to remain undetected.

Our annual goodwill impairment analysis for fiscal 2010 did not result in any impairment loss. The excess of fair value over carrying value for reporting units as of March 1, 2010, ranged from approximately \$3.4 million (for a new reporting unit acquired within the last 12 months) to \$647.1 million. In order to evaluate the sensitivity of the fair value calculations of our goodwill impairment test, we applied a hypothetical 5% decrease to the fair values of each reporting unit. This hypothetical 5% decrease would result in excess fair value over carrying value ranging from approximately \$0.3 million to \$603.7 million for our reporting units. Further, we compare the sum of the fair values of our reporting units resulting from our discounted cash flow calculations to our market capitalization as of



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our valuation date. We use this comparison to further assess the reasonableness of the assumptions employed in our valuation calculations. As of the valuation date, the sum of the fair values we calculated for our reporting units approximated our market capitalization.

Should the future earnings and cash flows at our reporting units decline and/or discount rates increase, future impairment charges to goodwill and other intangible assets may be required.

### ***Other Long-Lived Assets***

We assess identifiable, non-goodwill intangibles and other long-lived assets for impairment whenever events or changes in facts and circumstances indicate the possibility that the carrying values of these assets may not be recoverable over their estimated remaining useful lives. Factors considered important in our assessment, which might trigger an impairment evaluation, include the following:

significant under-performance relative to historical or projected future operating results;

significant changes in the manner of our use of the acquired assets;

significant changes in the strategy for our overall business; and

significant negative industry or economic trends.

Additionally, we test all indefinite-lived intangible assets for impairment at least annually during our fiscal fourth quarter. Measuring a potential impairment of non-goodwill intangibles and other long-lived assets requires the use of various estimates and assumptions, including the determination of which cash flows are directly related to the assets being evaluated, the respective useful lives over which those cash flows will occur and potential residual values, if any. If we determine that the carrying values of these assets may not be recoverable based upon the existence of one or more of the above-described indicators or other factors, any impairment amounts would be measured based on the projected net cash flows expected from these assets, including any net cash flows related to eventual disposition activities. The determination of any impairment losses would be based on the best information available, including internal estimates of discounted cash flows; quoted market prices, when available; and independent appraisals, as appropriate, to determine fair values. Cash flow estimates would be based on our historical experience and our internal business plans, with appropriate discount rates applied. Our fiscal 2010 annual impairment tests of each of our indefinite-lived intangible assets did not result in any impairment loss.

### ***Income Taxes***

Our provision for income taxes is calculated using the liability method, which requires the recognition of deferred income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in valuation allowances. We provide valuation allowances against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In determining the adequacy of valuation allowances, we consider cumulative and anticipated amounts of domestic and international earnings or losses, anticipated amounts of foreign source income, as well as the anticipated taxable income resulting from the reversal of future taxable temporary differences. We intend to maintain any recorded valuation allowances until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support a reversal of the tax valuation allowances.

Further, at each interim reporting period, we estimate an effective income tax rate that is expected to be applicable for the full year. Significant judgment is involved regarding the application of global income tax laws and regulations and when projecting the jurisdictional mix of income. Additionally, interpretation of tax laws, court decisions or other guidance provided by taxing authorities influences our estimate of the effective income tax rates. As a result, our actual effective income tax rates and related income tax liabilities may differ materially from our estimated effective tax rates and related income tax liabilities. Any resulting differences are recorded in the period they become known.

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***Contingencies***

We are party to claims and lawsuits arising in the normal course of business. Although we cannot precisely predict the amount of any liability that may ultimately arise with respect to any of these matters, we record provisions when we consider the liability probable and reasonably estimable. Our provisions are based on historical experience and legal advice, reviewed quarterly and adjusted according to developments. Estimating probable losses requires the analysis of multiple forecasted factors that often depend on judgments about potential actions by third parties, such as regulators, courts, and state and federal legislatures. Changes in the amounts of our loss provisions, which can be material, affect our Consolidated Statements of Income. Due to the inherent uncertainties in the process undertaken to estimate potential losses, we are unable to estimate an additional range of loss in excess of our accruals. While it is reasonably possible that such excess liabilities, if they were to occur, could be material to operating results in any given quarter or year of their recognition, we do not believe that it is reasonably possible that such excess liabilities would have a material adverse effect on our long-term results of operations, liquidity or consolidated financial position.

Our environmental-related accruals are similarly established and/or adjusted as more information becomes available upon which costs can be reasonably estimated. Here again, actual costs may vary from these estimates because of the inherent uncertainties involved, including the identification of new sites and the development of new information about contamination. Certain sites are still being investigated; therefore, we have been unable to fully evaluate the ultimate costs for those sites. As a result, accruals have not been estimated for certain of these sites and costs may ultimately exceed existing estimated accruals for other sites. We have received indemnities for potential environmental issues from purchasers of certain of our properties and businesses and from sellers of some of the properties or businesses we have acquired. We also have purchased insurance to cover potential environmental liabilities at certain sites. If the indemnifying or insuring party fails to, or becomes unable to, fulfill its obligations under those agreements or policies, we may incur environmental costs in addition to any amounts accrued, which may have a material adverse effect on our financial condition, results of operations or cash flows.

Several of our industrial businesses offer extended warranty terms and related programs, and thus have established a corresponding warranty liability. Warranty expense is impacted by variations in local construction practices and installation conditions, including geographic and climate differences.

Additionally, our operations are subject to various federal, state, local and foreign tax laws and regulations which govern, among other things, taxes on worldwide income. The calculation of our income tax expense is based on the best information available and involves our significant judgment. The actual income tax liability for each jurisdiction in any year can be, in some instances, determined ultimately several years after the financial statements have been published.

We maintain accruals for estimated income tax exposures for many different jurisdictions. Tax exposures are settled primarily through the resolution of audits within each tax jurisdiction or the closing of a statute of limitation. Tax exposures can also be affected by changes in applicable tax laws or other factors, which may cause us to believe a revision of past estimates is appropriate. We believe that appropriate liabilities have been recorded for income tax exposures; however, actual results may differ materially from our estimates.

***Allowance for Doubtful Accounts Receivable***

An allowance for anticipated uncollectible trade receivable amounts is established using a combination of specifically identified accounts to be reserved and a reserve covering trends in collectibility. These estimates are based on an analysis of trends in collectibility, past experience and individual account balances identified as doubtful based on specific facts and conditions. Receivable losses are charged against the allowance when we confirm uncollectibility.

Actual collections of trade receivables could differ from our estimates due to changes in future economic or industry conditions or specific customer's financial conditions.

***Inventories***

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out (FIFO) basis and market being determined on the basis of replacement cost or net realizable value. Inventory costs include raw

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materials, labor and manufacturing overhead. We review the net realizable value of our inventory in detail on an on-going basis, with consideration given to various factors, which include our estimated reserves for excess, obsolete, slow moving or distressed inventories. If actual market conditions differ from our projections, and our estimates prove to be inaccurate, write-downs of inventory values and adjustments to cost of sales may be required. Historically, our inventory reserves have approximated actual experience.

**Marketable Securities**

Marketable securities, included in other current and long-term assets, are composed of available-for-sale securities and are reported at fair value. Realized gains and losses on sales of investments are recognized in net income on the specific identification basis. Changes in fair values of securities that are considered temporary are recorded as unrealized gains and losses, net of applicable taxes, in accumulated other comprehensive income (loss) within stockholders' equity. Other-than-temporary declines in market value from original cost are reflected in operating income in the period in which the unrealized losses are deemed other than temporary. In order to determine whether an other-than-temporary decline in market value has occurred, the duration of the decline in value and our ability to hold the investment to recovery are considered in conjunction with an evaluation of the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related market value.

**Pension and Postretirement Plans**

We sponsor qualified defined benefit pension plans and various other nonqualified postretirement plans. The qualified defined benefit pension plans are funded with trust assets invested in a diversified portfolio of debt and equity securities and other investments. Among other factors, changes in interest rates, investment returns and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future contribution requirements. A significant decrease in investment returns or the market value of plan assets or a significant decrease in interest rates could increase our net periodic pension costs and adversely affect our results of operations. A significant increase in our contribution requirements with respect to our qualified defined benefit pension plans could have an adverse impact on our cash flow.

Changes in our key plan assumptions would impact net periodic benefit expense and the projected benefit obligation for our defined benefit and various postretirement benefit plans. Based upon May 31, 2010 information, the following tables reflect the impact of a 1% change in the key assumptions applied to our defined benefit pension plans in the U.S. and internationally:

	U.S.		International	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	(In millions)			
Discount Rate				
Increase (decrease) in expense in FY 2010	\$ (2.6)	\$ 3.0	\$ (1.3)	\$ 1.3
Increase (decrease) in obligation as of May 31, 2010	\$ (27.1)	\$ 30.1	\$ (17.7)	\$ 25.9
Expected Return on Plan Assets				
Increase (decrease) in expense in FY 2010	\$ (1.1)	\$ 1.1	\$ (1.0)	\$ 1.0
Increase (decrease) in obligation as of May 31, 2010	N/A	N/A	N/A	N/A
Compensation Increase				
Increase (decrease) in expense in FY 2010	\$ 2.1	\$ (1.9)	\$ 0.9	\$ (0.6)

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Increase (decrease) in obligation as of May 31, 2010	\$ 10.3	\$ (9.4)	\$ 5.3	\$ (4.8)
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Based upon May 31, 2010 information, the following tables reflect the impact of a 1% change in the key assumptions applied to our various postretirement health care plans:

	U.S.		International	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	(In millions)			
<b>Discount Rate</b>				
Increase (decrease) in expense in FY 2010	\$	\$	\$ (0.2)	\$ 0.2
Increase (decrease) in obligation as of May 31, 2010	\$ (0.6)	\$ 0.7	\$ (2.4)	\$ 3.1
<b>Healthcare Cost Trend Rate</b>				
Increase (decrease) in expense in FY 2010	\$	\$	\$ 0.2	\$ (0.2)
Increase (decrease) in obligation as of May 31, 2010	\$ 0.4	\$ (0.3)	\$ 3.2	\$ (2.5)

**BUSINESS SEGMENT INFORMATION**

Our business is divided into two reportable segments: the industrial reportable segment and the consumer reportable segment. Within each reportable segment, we aggregate several operating segments that consist of individual groups of companies and product lines, which generally address common markets, share similar economic characteristics, utilize similar technologies and can share manufacturing or distribution capabilities. Our five operating segments represent components of our business for which separate financial information is available that is utilized on a regular basis by our chief executive officer in determining how to allocate the assets of the Company and evaluate performance. These five operating segments are each managed by an operating segment manager, who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment's underlying businesses. We evaluate the profit performance of our segments primarily based on gross profit, and, to a lesser extent, income (loss) before income taxes, but also look to earnings (loss) before interest and taxes ( EBIT ) as a performance evaluation measure because interest expense is essentially related to corporate acquisitions, as opposed to segment operations.

Our industrial reportable segment products are sold throughout North America and also account for the majority of our international sales. Our industrial product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. This reportable segment comprises three separate operating segments – our Building Solutions Group, Performance Coatings Group, and RPM2 Group. Products and services within this reportable segment include construction chemicals; roofing systems; weatherproofing and other sealants; polymer flooring; edible coatings and specialty glazes for pharmaceutical, cosmetic and food industries; and other specialty chemicals.

Our consumer reportable segment manufactures and markets professional use and do-it-yourself ( DIY ) products for a variety of mainly consumer applications, including home improvement and personal leisure activities. Our consumer segment's major manufacturing and distribution operations are located primarily in North America, along with a few locations in Europe. Consumer segment products are sold throughout North America directly to mass merchants, home improvement centers, hardware stores, paint stores, craft shops and to other smaller customers through distributors. This reportable segment comprises two operating segments – our DAP Group and our Rust-Oleum Group. Products within this reportable segment include specialty, hobby and professional paints; caulks; adhesives; silicone sealants; and wood stains.

In addition to our two reportable segments, there is a category of certain business activities and expenses, referred to as corporate/ other, that does not constitute an operating segment. This category includes our corporate headquarters and related administrative expenses, results of our captive insurance companies, gains or losses on the sales of certain assets and other expenses not directly associated with either reportable segment. Assets related to the corporate/other category consist primarily of investments, prepaid expenses, deferred pension assets, and headquarters property and equipment. These corporate and other assets and expenses reconcile reportable segment data to total consolidated income before income taxes, interest expense and earnings before interest and taxes.



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The following table reflects the results of our reportable segments consistent with our management philosophy, and represents the information we utilize, in conjunction with various strategic, operational and other financial performance criteria, in evaluating the performance of our portfolio of product lines.

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28, 2011</b>	<b>February 28, 2010</b>	<b>February 28, 2011</b>	<b>February 28, 2010</b>
<b>(In thousands)</b>				
<b>Net Sales</b>				
Industrial Segment	\$ 449,092	\$ 457,683	\$ 1,633,914	\$ 1,695,206
Consumer Segment	229,828	208,911	766,159	745,999
<b>Consolidated</b>	<b>\$ 678,920</b>	<b>\$ 666,594</b>	<b>\$ 2,400,073</b>	<b>\$ 2,441,205</b>
<b>Gross Profit</b>				
Industrial Segment	\$ 186,663	\$ 184,174	\$ 696,766	\$ 727,125
Consumer Segment	82,855	75,658	287,675	289,748
<b>Consolidated</b>	<b>\$ 269,518</b>	<b>\$ 259,832</b>	<b>\$ 984,441</b>	<b>\$ 1,016,873</b>
<b>Income (Loss) Before Income Taxes(a)</b>				
Industrial Segment				
Income Before Income Taxes(a)	\$ 12,603	\$ 1,442	\$ 162,754	\$ 160,742
Interest (Expense), Net	(968)	(17)	(2,837)	(384)
EBIT(b)	\$ 13,571	\$ 1,459	\$ 165,591	\$ 161,126
Consumer Segment				
Income Before Income Taxes(a)	\$ 16,002	\$ 12,340	\$ 92,381	\$ 94,320
Interest (Expense), Net	3	3	33	(7)
EBIT(b)	\$ 15,999	\$ 12,337	\$ 92,348	\$ 94,327
Corporate/Other				
(Expense) Before Income Taxes(a)	\$ (26,616)	\$ (24,895)	\$ (67,938)	\$ (76,451)
Interest (Expense), Net	(10,634)	(13,955)	(35,019)	(37,896)
EBIT(b)	\$ (15,982)	\$ (10,940)	\$ (32,919)	\$ (38,555)
<b>Consolidated</b>				
Income (Loss) Before Income Taxes(a)	\$ 1,989	\$ (11,113)	\$ 187,197	\$ 178,611
Interest (Expense), Net	(11,599)	(13,969)	(37,823)	(38,287)
EBIT(b)	\$ 13,588	\$ 2,856	\$ 225,020	\$ 216,898

- (a) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by generally accepted accounting principles ( GAAP ) in the U.S., to EBIT.
- (b) EBIT is defined as earnings (loss) before interest and taxes. We evaluate the profit performance of our segments based on income before income taxes, but also look to EBIT as a performance evaluation measure because interest expense is essentially related to corporate acquisitions, as opposed to segment operations. We believe EBIT is useful to investors for this purpose as well, using EBIT as a metric in their investment decisions. EBIT should not be considered an alternative to, or more meaningful than, operating income as determined in accordance with GAAP, since EBIT omits the impact of interest and taxes in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness and ongoing tax obligations. Nonetheless, EBIT is a key measure expected by and useful to our fixed income investors, rating agencies and the banking community all of whom believe, and we concur, that this measure is critical to the capital markets analysis of our segments core operating performance. We also evaluate EBIT

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because it is clear that movements in EBIT impact our ability to attract financing. Our underwriters and bankers consistently require inclusion of this measure in offering memoranda in conjunction with any debt underwriting or bank financing. EBIT may not be indicative of our historical operating results, nor is it meant to be predictive of potential future results.

**RESULTS OF OPERATIONS*****Three Months Ended February 28, 2011****Net Sales*

On a consolidated basis, net sales of \$678.9 million for the third quarter ended February 28, 2011 improved by 1.8%, or \$12.3 million, from net sales of \$666.6 million during the same period last year. As outlined in Note 2 to our Consolidated Financial Statements, at May 31, 2010, we deconsolidated SPHC and its subsidiaries from our balance sheet, and eliminated the results of SPHC's operations from our results of operations beginning on that date. The combined impact of removing net sales relating to SPHC and its subsidiaries from the prior year third quarter and adding back intercompany sales to the deconsolidated group that previously would have been eliminated in consolidation, results in an adjusted prior year third quarter net sales of \$603.1 million, a decrease of \$63.5 million, or approximately 9.5% of the prior year's third quarter net sales, as reported. Net sales for the third quarter of fiscal 2011 increased 12.6% or \$75.8 million from adjusted net sales during last year's third quarter, reflecting organic growth of 10.8%, or \$65.1 million, versus adjusted net sales during the same period a year ago. The organic improvement included volume-related improvements approximating 9.0% or \$54.2 million, combined with net favorable foreign exchange rates year-over-year, which amounted to 0.3%, or \$1.6 million, and an overall favorable change in pricing representing 1.5% of the prior period adjusted sales, or \$9.3 million. These favorable pricing initiatives, including those across both of our reportable segments, were instituted primarily during prior periods in order to offset the escalated costs of many of our raw materials. Foreign exchange gains resulted primarily from the dollar's performance versus Canadian, Latin American and Asia Pacific currencies, offset partially by a stronger euro. Finally, ten small acquisitions, net of a divestiture of a small product line over the past year provided 1.8% of sales growth this quarter over last year's adjusted third quarter net sales, or \$10.7 million.

Industrial segment net sales, which comprised 66.1% of the current quarter's consolidated net sales, totaled \$449.1 million, a decline of 1.9% from \$457.7 million during last year's third quarter. As discussed above, our current third quarter net sales reflect the impact of the deconsolidation of SPHC and its subsidiaries. Net sales relating to the deconsolidated group for the prior year third quarter totaled \$63.8 million, or 13.9% of last year's reported third quarter industrial segment net sales. Compared with the prior year third quarter adjusted net sales of \$393.9 million, this segment's current quarter net sales increased by 14.0%, reflecting organic growth of 11.2% or \$44.3 million. The organic growth included volume-related improvements approximating 8.8%, favorable pricing versus adjusted industrial segment net sales for the same period a year ago approximating 2.1% and 0.3% from net favorable foreign exchange differences versus the adjusted net sales for the same period a year ago. Eight small acquisitions provided 2.8% growth over the prior year adjusted third quarter. The pure unit organic sales growth in the industrial segment resulted from general improvement in the overall economy, which impacted many of our industrial product lines, including roofing, sealants and polymer flooring, particularly in Europe and Canada, and corrosion control coatings. We continue to secure new business through strong brand offerings, new product innovations and international expansion.

Consumer segment net sales of \$229.8 million comprised 33.9% of the current quarter's consolidated net sales and improved by 10.0% versus the segment's prior year third quarter net sales of \$208.9 million. The divestiture of a product line outweighed the acquisition of two smaller product lines, negatively impacting this segment's third quarter net sales performance by 0.1% versus net sales from the prior year period, while unit volume improved by

approximately 9.5%. Slight changes in pricing versus the prior year period favorably impacted the segment's current quarter net sales by 0.4%, while the impact of net favorable foreign exchange rates improved the segment's current quarter net sales by approximately 0.1% versus the prior year period. Our consumer segment continues to increase market penetration at major retail accounts with various new product launches and broader channel penetration, while also maintaining a focus on our existing repair and maintenance oriented products.

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*Gross Profit Margin*

Our consolidated gross profit improved to 39.7% of net sales this quarter from 39.0% of net sales for the same period a year ago, and from 39.3% of adjusted net sales for the same period a year ago, despite our overall 9.0% improvement in organic sales volume as described above. The year-over-year impact of higher raw material costs had an unfavorable impact on the current quarter's gross profit margin versus last year's adjusted gross profit margin. This reflects year-over-year higher demand for raw materials, higher oil price impact, increased disparity between oil and natural gas, and continued supplier consolidation. Other factors that had a slightly offsetting favorable impact on our current quarter gross profit margin were favorable pricing, product mix and labor costs.

Our industrial segment gross profit for the third quarter of fiscal 2011 improved to 41.6% of net sales from last year's third quarter result of 40.2% of net sales, and from last year's third quarter adjusted result of 40.9% of net sales. Contributing to this 70 bps increase versus the prior period adjusted gross profit margin was the combination of favorable pricing and mix of sales along with lower labor costs during the current quarter versus the same period a year ago, which more than offset higher raw material costs.

Our consumer segment gross profit for the quarter declined slightly to 36.1% of net sales from last year's 36.2% of net sales. Most of the decline in this margin resulted from the impact of higher raw material costs during the current fiscal quarter versus the same period a year ago, offset slightly by lower labor and overhead costs.

*Selling, General and Administrative Expenses ( SG&A )*

Our consolidated SG&A improved to 37.7% of net sales for the current quarter compared with 38.6% a year ago and with consolidated SG&A as a percent of adjusted prior period net sales of 38.8%. The 110 bps decrease in SG&A as a percent of adjusted net sales primarily reflects the overall favorable impact of the 9.0% unit volume growth in net sales during the current quarter versus adjusted net sales for the same period a year ago. While there were unfavorable increases in employee compensation expense, warranty expense, benefits and commissions during the current quarter versus last year's third quarter, there were favorable declines in bad debt expense during this year's third quarter versus the same period a year ago. Finally, during the current quarter we recognized a reimbursement from SPHC for certain services provided to the deconsolidated entities under a service agreement.

Our industrial segment SG&A improved to 38.6% of net sales for the current quarter versus 39.9% of actual net sales and 40.5% of adjusted net sales for the same period last year. This segment's current quarter SG&A margin reflects the impact of its 8.8% growth in organic sales volume, as discussed above, combined with lower bad debt expense and overall lower discretionary spending during the current quarter versus the same period a year ago. Partially offsetting those improvements was the impact of higher compensation expense, including commissions on sales resulting from the current quarter growth in organic sales, and higher warranty and distribution expense during the current quarter versus the same period a year ago.

Our consumer segment SG&A as a percentage of net sales for the current quarter decreased to 29.1% of net sales compared with 30.3% of net sales a year ago. Reflected in this segment's improved SG&A margin this quarter is the impact of its 9.5% growth in sales volume, as discussed above, along with favorable foreign exchange adjustments and tighter cost controls versus the same period last year, including lower legal and environmental expense. Slightly offsetting those savings were higher distribution expenses, higher employee-related compensation expense and higher advertising and promotional expense incurred during the current quarter versus the same period a year ago.

SG&A expenses in our corporate/other category increased during the current quarter to \$16.0 million from \$10.9 million during the corresponding period last year. This \$5.1 million increase reflects the combination of higher legal, environmental and acquisition-related expenses. Additionally, there was higher employee-related compensation

and benefit expense incurred during the current quarter compared with the same period last year.

License fee and joint venture income of approximately \$0.7 million and \$0.5 million for each of the quarters ended February 28, 2011 and 2010, respectively, are reflected as reductions of consolidated SG&A expenses.

We recorded total net periodic pension and postretirement benefit costs of \$8.6 million and \$7.5 million for the quarters ended February 28, 2011 and 2010, respectively. This increased pension expense of \$1.1 million was

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primarily the result of increased service cost of \$1.2 million combined with approximately \$0.7 million in higher net actuarial losses recognized during the current quarter versus the same period a year ago, partially offset by \$0.8 million for a higher expected return on plan assets during the current quarter versus the same period a year ago. We expect that pension expense will fluctuate on a year-to-year basis, depending primarily upon the investment performance of plan assets and potential changes in interest rates, but such changes are not expected to be material to our consolidated financial results. See Note 10, Pension and Postretirement Health Care Benefits, for additional information regarding these benefits.

*Interest Expense*

Interest expense was \$16.5 million for the third quarter of fiscal 2011 versus \$15.8 million for the same period of fiscal 2010. Additional borrowings for acquisitions incurred during the current quarter versus the same period last year increased interest expense this quarter by approximately \$0.7 million versus last year's third quarter, while lower average borrowings year-over-year decreased interest expense by approximately \$1.0 million. Higher interest rates, which averaged 6.92% overall for the third quarter of fiscal 2011 compared with 6.63% for the same period of fiscal 2010, increased interest expense by approximately \$0.2 million versus last year's third quarter. Lastly, during the third quarter of fiscal 2011 we replaced our old revolving credit facility with a new credit facility, and wrote off the remaining \$0.8 million in fees associated with the old facility.

*Investment Expense (Income), Net*

Net investment income of \$4.9 million during the third quarter of fiscal 2011 compares to fiscal 2010 third quarter net investment income of \$1.8 million. Net realized gains on the sales of investments resulted in a net gain of \$3.2 million for the quarter ended February 28, 2011 versus a net gain of approximately \$0.4 million for the same period during fiscal 2010, resulting from the timing of sales of securities. Dividend and interest income totaling \$1.7 million during the current quarter compares with \$1.5 million of income during last year's third quarter. Impairments recognized on securities that management has determined had other-than-temporary declines in value during the prior year third quarter approximated \$0.1 million, while there were no impairments recorded during the current period.

*Income Before Income Taxes ( IBT )*

Our consolidated pretax income for this year's third quarter of \$2.0 million compares with last year's third quarter pretax loss of \$11.1 million, for a profit margin on net sales of 0.3% versus a negative 1.7% a year ago. Excluding SPHC's IBT from the prior year's third quarter IBT, our current quarter pretax income was \$12.8 million higher than last year's adjusted pretax loss of \$10.8 million, for a profit margin on adjusted net sales of 1.8% during last year's third quarter.

Our industrial segment had IBT of \$12.6 million, for a profit margin on net sales of 2.8%, for this year's third quarter versus last year's third quarter IBT of \$1.4 million, for a profit margin on net sales of 0.3%, principally reflecting the impact on this segment of the deconsolidation of SPHC on May 31, 2010, as previously discussed. Excluding SPHC's results from last year's third quarter, our industrial segment's IBT was \$1.7 million, for a profit margin on adjusted net sales of 0.4%. The industrial segment's current quarter improvement in the profit margin on net sales versus last year's third quarter adjusted margin primarily reflects the 11.2% growth in organic sales versus adjusted net sales for the same period a year ago, combined with overall lower discretionary spending. Our consumer segment IBT improved to \$16.0 million for the quarter, for a profit margin on net sales of 7.0%, from \$12.3 million during the third quarter last year, for a profit margin on net sales of 5.9%, primarily from this segment's 9.9% growth in organic sales during the current quarter versus last year's adjusted third quarter net sales, combined with tighter cost controls.

*Income Tax Rate*

The effective income tax rate was 40.0% for the three months ended February 28, 2011 compared to an effective income tax rate of 17.5% for the three months ended February 28, 2010.



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For the three months ended February 28, 2011 and, to a greater extent for the three months ended February 28, 2010, the effective tax rate differed from the federal statutory rate principally due to increases in taxes as a result of the impact of non-deductible business operating expenses, state and local income taxes and provisions for valuation allowances associated with losses incurred by certain of our foreign businesses and for foreign tax credit carryforwards. The increases in the tax rates were offset by the impact of certain foreign operations on our U.S. taxes, the effect of lower tax rates in certain of our foreign jurisdictions, the domestic manufacturing deduction and the research tax credit.

As of February 28, 2011, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, we intend to maintain the tax valuation allowances recorded at February 28, 2011 for those deferred tax assets until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support their reversal. These valuation allowances relate to U.S. foreign tax credit carryforwards, certain foreign net operating losses and net foreign deferred tax assets. A portion of the valuation allowance is associated with deferred tax assets recorded in purchase accounting for prior year acquisitions. Any reversal of the valuation allowance that was recorded in purchase accounting reduces income tax expense.

*Net Income*

Net income of \$1.2 million for the three months ended February 28, 2011 compares to a net loss of \$9.2 million for the same period last year, for a net margin on sales of 0.2% for the current quarter compared to the prior year period's negative 1.4% net margin on sales. Excluding the results of the deconsolidated group from the prior period net income, the prior year's third quarter net loss was \$8.5 million on an adjusted basis, for a prior period net margin on adjusted sales of negative 1.4%. During the quarter ended February 28, 2011, we had net income from noncontrolling interests of \$0.1 million, primarily related to our recent deconsolidation of SPHC. If the deconsolidation of SPHC had occurred prior to fiscal 2010, there would have been approximately \$1.2 million in net income from noncontrolling interests during that quarter. Net income attributable to RPM International Inc. Stockholders was \$1.1 million for the three months ended February 28, 2011, versus a net loss of \$9.4 million for the same period a year ago, for a margin on net sales of 0.2% for the current quarter compared to the prior period's negative 1.4% net margin on sales. On an adjusted basis, the prior year third quarter net loss attributable to RPM International Inc. Stockholders was \$9.7 million, for an adjusted margin on net sales of negative 1.6%.

Diluted earnings per share of common stock for this year's third quarter of \$0.01 compares with a loss of \$0.07 a year ago and an adjusted loss of \$0.08 for the same period last year.

*Nine Months Ended February 28, 2011**Net Sales*

On a consolidated basis, net sales of \$2.40 billion for the nine months ended February 28, 2011 declined 1.7%, or \$41.1 million, over net sales of \$2.44 billion during the same period last year. As previously discussed, at May 31, 2010, we deconsolidated SPHC and its subsidiaries from our balance sheet, and eliminated the results of SPHC's operations from our results of operations beginning on that date. The combined impact of removing net sales relating to SPHC and its subsidiaries from the prior year first nine months and adding back intercompany sales to the deconsolidated group that previously would have been eliminated in consolidation, results in an adjusted prior year first nine months net sales of \$2.23 billion, a decrease of \$210.7 million, or approximately 8.6% of the prior year's first nine months net sales, as reported. As such, net sales for the first nine months of fiscal 2011 increased 7.6%, or \$169.6 million from adjusted net sales for the same period a year ago. The organic growth in sales amounted to 5.4%, or \$119.7 million, of the increase in the current period net sales versus adjusted net sales for the same period a year

ago, which includes volume-related improvements approximating 5.4% or \$119.9 million, and the impact of favorable pricing initiatives, approximating 0.6% of the prior period adjusted net sales, or \$13.3 million. These favorable pricing initiatives, including those across both of our reportable segments, were instituted primarily during prior periods in order to offset the escalated costs of many of our raw materials. Also reflected in the 5.4% growth in organic sales is the impact of unfavorable foreign exchange rates year-over-year, which amounted to 0.6% of adjusted net sales for last year's first nine months, or \$13.5 million. These losses resulted primarily from the

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strong dollar against the euro, offset in part by favorable adjustments across nearly all major foreign currencies. Twelve small acquisitions, net of a product line divestiture, over the past year provided 2.2% of net sales growth over last year's adjusted first nine months, or \$49.9 million.

Industrial segment net sales, which comprised 68.1% of consolidated net sales for this year's first nine months, totaled \$1.63 billion, a decline of 3.6% from \$1.70 billion during last year's first nine months. As discussed above, net sales for the first nine months of fiscal 2011 reflect the impact of the deconsolidation of SPHC and its subsidiaries. Net sales relating to the deconsolidated group for the prior year first nine months totaled \$211.1 million, or 12.5% of last year's first nine months net sales, as reported. Compared with the prior year's first nine months adjusted net sales of \$1.48 billion, this segment's year-to-date net sales increased by 10.1% or \$149.8 million. This increase in the industrial segments' net sales reflects organic growth of 6.8%, including unit volume growth of approximately 6.8% and favorable pricing of approximately 0.7% of the prior period adjusted net sales, offset partially by unfavorable foreign exchange, which approximated 0.7% of the prior period adjusted net sales. Nine small acquisitions provided 3.3% of this segment's current period growth in net sales versus adjusted net sales for the prior year's first nine months.

Consumer segment net sales, which comprised 31.9% of consolidated net sales for this year's first nine months, totaled \$766.2 million, an increase of 2.7% from \$746.0 million during last year's first nine months. The improvement in this segment resulted from organic growth in sales of 2.5%, including growth in unit volume sales approximating 2.6% of the prior period net sales, the impact of current period price increases, approximating 0.2% of the prior period net sales, offset partially by the impact of unfavorable foreign exchange, which amounted to 0.3% of the prior period net sales. Two small acquisitions, net of a product line divestiture, provided approximately 0.1% of the net change in this segment's net sales during this year's first nine months versus the same period a year ago.

*Gross Profit Margin*

Our consolidated gross profit declined to 41.0% of net sales for this year's first nine months from 41.7% of net sales for the same period a year ago, and from 41.9% of adjusted net sales for the same period a year ago, despite our 5.4% growth in organic sales volume versus the prior period adjusted results. The primary source of this current period decline in gross profit margin was raw material costs, which were higher during this year's first nine months versus the first nine months of fiscal 2010.

Our industrial segment gross profit for the first nine months of fiscal 2011 declined to 42.6% of net sales from last year's first nine months result of 42.9% of net sales as reported and versus last year's first nine months result of 43.5% of adjusted net sales. Raw material costs were higher during this year's first nine months versus the first nine months of fiscal 2010, which negatively impacted the current period's gross profit margin versus the adjusted gross profit margin for the same period a year ago. Additionally, during this year's first nine months, this segment had unfavorable overhead and mix of sales versus the same period a year ago.

Our consumer segment gross profit for the first nine months of fiscal 2011 declined by 130 bps to 37.5% of net sales from 38.8% of net sales for the same period last year, mainly as a result of the impact of higher raw material costs incurred during the current period versus the same period a year ago.

*Selling, General and Administrative Expenses ( SG&A )*

Our consolidated SG&A improved to 31.6% of net sales for the first nine months of fiscal 2011 compared with 32.8% of actual and adjusted net sales for the same period a year ago. The 120 bps decrease in SG&A as a percent of net sales versus the prior period adjusted SG&A margin primarily reflects the impact of the 5.4% unit volume growth in net sales. Additionally, we incurred lower advertising and promotional expenses during this year's first nine months versus the same period a year ago, along with a favorable reduction in insurance-related expenses. Partially offsetting

those improvements during this year's first nine months was the combination of higher compensation expenses and higher commissions relating to the current period growth in sales, in addition to higher legal and distribution expenses versus the same period a year ago.

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Our industrial segment SG&A improved to 32.4% of net sales for this year's first nine months from 33.4% of net sales for the same period last year, and versus 33.6% of adjusted net sales for last year's first nine months, primarily reflecting the impact of the 6.8% growth in sales volume year-over-year in this segment, in addition to favorable foreign exchange adjustments and lower bad debt expense. Partially offsetting those improvements were higher commissions on sales resulting from the current period growth in organic sales, as well as higher compensation and employee benefit expense.

Our consumer segment SG&A as a percentage of net sales for this year's first nine months improved by 80 bps to 25.4% compared with 26.2% a year ago, primarily reflecting the favorable margin impact of lower discretionary spending on advertising expense, including promotional costs, lower compensation expense and reductions in environmental accruals and legal expenses during this year's first nine months versus the same period last year. This segment experienced slightly higher distribution, which partially offset the improvement in the SG&A margin resulting from the tighter cost controls mentioned above.

SG&A expenses in our corporate/other category decreased during this year's first nine months to \$32.9 million from \$38.5 million during the corresponding period last year. This \$5.6 million decrease reflects the combination of a reimbursement received from an outside service provider in connection with a correction to prior billings, along with lower hospitalization, employee benefit expenses and lower insurance related expense. Partially offsetting those lower expenses was the combination of unfavorable foreign exchange adjustments and higher stock compensation expenses during the current period versus last year's first nine months.

License fee and joint venture income of approximately \$1.9 million and \$2.0 million for the first nine months of fiscal 2011 and fiscal 2010 are reflected as reductions of consolidated SG&A expenses.

We recorded total net periodic pension and postretirement benefit costs of \$25.8 million and \$22.5 million for the first nine months of fiscal 2011 and fiscal 2010, respectively. This increased pension expense of \$3.3 million was primarily the result of a \$3.6 million increase in service and interest cost during the first nine months of the current year versus the same period a year ago, combined with \$2.2 million of additional net actuarial losses incurred during this year's first nine months versus the same period a year ago. A higher expected return on plan assets had a favorable impact on pension expense of approximately \$2.5 million for the current period versus the same period a year ago. We expect that pension expense will fluctuate on a year-to-year basis, depending primarily upon the investment performance of plan assets and potential changes in interest rates, but such changes are not expected to be material to our consolidated financial results.

*Interest Expense*

Interest expense was \$49.0 million for the first nine months of fiscal 2011 versus \$43.3 million for the same period a year ago. Higher average borrowings, combined with additional borrowings for acquisitions, increased interest expense this year's first nine months by approximately \$3.6 million versus last year's first nine months. Higher interest rates, which averaged 6.34% overall for the first nine months of fiscal 2011 compared with 6.16% for the same period of fiscal 2010, increased interest expense by approximately \$1.3 million versus last year's first nine months. Lastly, during the first nine months of fiscal 2011 we replaced our old revolving credit facility with a new credit facility, and wrote off the remaining \$0.8 million in fees associated with the old facility.

*Investment Expense (Income), Net*

Net investment income of \$11.2 million during this year's first nine months compares to net investment income of \$5.0 million for the same period a year ago. Dividend and interest income totaled \$4.6 million during this year's first nine months versus \$3.9 million of income during the same period last year. Net realized gains on the sales of

investments resulted in a net gain of \$7.1 million for this year's first nine months versus a net gain of \$1.3 million for the same period during fiscal 2010. Slightly offsetting those gains were impairments recognized on securities that management has determined are other-than-temporary declines in value, which approximated \$0.5 million for the first nine months of fiscal 2011, versus \$0.2 million for the same period a year ago.

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Our consolidated pretax income for this year's first nine months of \$187.2 million compares with pretax income of \$178.6 million for the same period last year, and with adjusted pretax income of \$165.0 million for the same period last year. This results in a profit margin on net sales of 7.8% for the current period versus an adjusted profit margin on net sales of 7.4% a year ago.

Our industrial segment had IBT of \$162.8 million, for a profit margin on net sales of 10.0%, for this year's first nine months versus IBT of \$160.7 million, for a profit margin on net sales of 9.5%, for the same period last year, principally reflecting the impact on this segment of the deconsolidation of SPHC on May 31, 2010, as previously discussed. Excluding SPHC's results from last year's first nine months, our industrial segment's IBT was \$147.0 million, for a profit margin on adjusted net sales of 9.9%, or flat compared with the current period result. Our consumer segment IBT declined to \$92.4 million, or 12.1% of net sales for the period, from last year's first nine months' result of \$94.3 million, or 12.6% of net sales, primarily from the impact of increased raw material costs during the current period versus the same period a year ago.

*Income Tax Rate*

The effective income tax rate was 30.7% for the first nine months of fiscal 2011 compared to an effective income tax rate of 32.6% for the same period a year ago.

For the first nine months of fiscal 2011 and fiscal 2010, the effective tax rate differed from the federal statutory rate principally due to decreases in taxes as a result of the impact of certain foreign operations on our U.S. taxes, the effect of lower tax rates in certain of our foreign jurisdictions, the domestic manufacturing deduction and the research tax credit. These decreases in taxes were partially offset by state and local income taxes, non-deductible business operating expenses and provisions for valuation allowances associated with losses incurred by certain of our foreign businesses and for foreign tax credit carryforwards. Additionally, for the nine months ended February 28, 2011, a decrease in the effective income tax rate resulted from a one-time benefit related to changes in tax laws in the United Kingdom, including the effect of lower income tax rates.

As described in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the three month period ended February 28, 2011, there is uncertainty as to whether we will be able to recognize certain deferred tax assets. Refer to the section captioned, "Three Months Ended February 28, 2011 - Income Tax Rate," for further information.

*Net Income*

Net income of \$129.7 million for the first nine months of fiscal 2011 compares to \$120.3 million for the same period last year, and to adjusted net income of \$112.3 million for the same period last year. This results in a net margin on sales of 5.4% for this year's first nine months compared to the prior year period's adjusted 5.0% net margin on sales. The slight improvement in this net margin on an adjusted basis year-over-year primarily resulted from the benefit of our overall 10.8% growth in organic sales during the current period versus adjusted net sales for the same period last year. During the nine months ended February 28, 2011, we had net income from noncontrolling interests of \$10.8 million, primarily related to our recent deconsolidation of SPHC. If the deconsolidation of SPHC had occurred prior to fiscal 2010, there would have been approximately \$10.6 million in net income from noncontrolling interests during last year's first nine months. Net income attributable to RPM International Inc. Stockholders was \$118.9 million for the nine months ended February 28, 2011, versus \$119.5 million for the same period a year ago, for a margin on net sales of 5.0% for the current year-to-date period compared to the prior period's 4.9% net margin on sales. On an adjusted basis, the prior year first nine months' net income attributable to RPM International Inc. Stockholders was

\$101.7 million, for an adjusted margin on net sales of 4.6%.

Diluted earnings per share of common stock for this year's first nine months of \$0.91 compares with \$0.93 a year ago and an adjusted \$0.79 for the same period last year.



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**LIQUIDITY AND CAPITAL RESOURCES**

***Cash Flows From:***

*Operating Activities*

Operating activities provided cash flow of \$191.0 million for the first nine months of fiscal 2011 compared with \$188.9 million during the same period of fiscal 2010.

The net increase in cash from operations includes the change in net income, which increased by \$9.4 million during this year's first nine months versus the same period last year, items adjusting net income for non-cash expenses and income, which decreased cash flows by approximately \$24.5 million during the current period versus last year's first nine months, and changes in working capital accounts and other accruals.

The current period decrease in accounts receivable since May 31, 2010 represents cash collections of \$98.6 million versus the \$154.6 million of cash provided by accounts receivable during the same period last year, or approximately \$56.0 million less cash provided year-over-year. Days sales outstanding at February 28, 2011 increased to 68.0 days from 62.5 days at February 28, 2010.

Inventory balances required the use of \$81.4 million of cash during this year's first nine months, compared with a use of cash of \$27.7 million during the same period a year ago, or \$53.7 million more cash used year-over-year. Days of inventory outstanding at February 28, 2011 increased to 104.0 days from 97.7 days at February 28, 2010.

With regard to accounts payable, we used \$34.2 million less cash during this year's first nine months compared to the same period a year ago, as a result of a change in the timing of certain payments during the current period versus the same period a year ago. Accrued compensation and benefits used approximately \$0.7 million less cash versus the prior year period. Although there were higher bonus payments made during this year's first nine months versus the same period a year ago, there were fewer payments made for workers compensation and commissions. Other accruals, including those for other short-term and long-term items, provided \$21.1 million more in cash versus last year's first nine months, due to changes in the timing of such payments. Cash provided from operations, along with the use of available credit lines, as required, remain our primary sources of liquidity.

As outlined in Note 2 to our Consolidated Financial Statements, as a result of SPHC and Bondex's bankruptcy filing, all Bondex and SPHC asbestos personal injury lawsuits have been stayed due to the imposition of an automatic stay applicable in bankruptcy cases. In addition, at the request of SPHC and Bondex, the Bankruptcy Court has entered orders staying all claims against RPM International Inc. and its affiliates that are derivative of the asbestos claims against SPHC and Bondex. No claims have been paid since the bankruptcy filing and it is not contemplated that any claims will be paid until a plan of reorganization is confirmed and an asbestos trust is established and operating. See Note 6 to our Consolidated Financial Statements, Reorganization Proceedings of Certain Subsidiaries, for additional information.

*Investing Activities*

Capital expenditures, other than for ordinary repairs and replacements, are made to accommodate our continued growth to achieve production and distribution efficiencies, to expand capacity and to enhance our administration capabilities. Capital expenditures of \$21.7 million during the current year's first nine months compare with depreciation of \$39.5 million. We expect capital spending to continue to trail depreciation expense at least through the end of fiscal 2011. Due to additional capacity, which we have brought on-line over the last several years, we believe there is adequate production capacity to meet our needs based on anticipated growth rates. Any additional capital

expenditures made over the next few years likely will relate primarily to new products and technology. Not reflected in our capital expenditures is the capacity added through our recent acquisitions of product lines and businesses, which totaled approximately \$3.0 million during the first nine months of fiscal 2011. We presently anticipate that additional shifts at our production facilities, coupled with the capacity added through acquisition activity, will enable us to meet increased demand during the current fiscal year even with these lower levels of capital spending this fiscal year.

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Our captive insurance companies invest their excess cash in marketable securities in the ordinary course of conducting their operations, and this activity will continue. Differences in the amounts related to these activities on a year-over-year basis are primarily attributable to differences in the timing and performance of their investments balanced against amounts required to satisfy claims. At February 28, 2011, the fair value of our investments in marketable securities totaled \$130.4 million, of which investments with a fair value of \$27.9 million were in an unrealized loss position. Gross unrealized losses that were included in accumulated other comprehensive income at February 28, 2011 totaled \$0.7 million. The fair value of our portfolio of marketable securities is based on quoted market prices for identical, or similar, instruments in active or non-active markets or model-derived-valuations with observable inputs. We have no marketable securities whose fair value is subject to unobservable inputs. At May 31, 2010, the fair value of our investments in marketable securities totaled \$113.9 million, of which investments with a fair value of \$31.2 million were in an unrealized loss position. Total pre-tax unrealized losses recorded in accumulated other comprehensive income at February 28, 2011 and May 31, 2010 were \$0.7 million and \$1.8 million, respectively.

We regularly review our marketable securities in unrealized loss positions in order to determine whether or not we have the ability and intent to hold these investments. That determination is based upon the severity and duration of the decline, in addition to our evaluation of the cash flow requirements of our businesses. Unrealized losses at May 31, 2010 were generally related to the volatility in valuations over the last several months for a portion of our portfolio of investments in marketable securities. The unrealized losses generally relate to investments whose fair values at May 31, 2010 were less than 15% below their original cost or that have been in a loss position for less than six consecutive months. Although we have begun to see recovery in general economic conditions over the past year, if we were to experience continuing or significant unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.

*Financing Activities*

As a result of the SPHC bankruptcy filing, our access to the cash flows of SPHC and its subsidiaries has been restricted. However, the bankruptcy filing has not resulted in any reductions in our credit ratings by Moody's Investor Service, Standard & Poors or Fitch Ratings. Therefore, we feel this has not adversely impacted our ability to gain access to capital.

On October 9, 2009, we sold \$300.0 million aggregate principal amount of 6.125% Notes due 2019 (the Notes). The net proceeds from the offering of the Notes were used to repay \$163.7 million in principal amount of our unsecured notes due October 15, 2009, and approximately \$120.0 million in principal amount of short-term borrowings outstanding under our accounts receivable securitization program. The balance of the net proceeds was used for general corporate purposes.

On April 7, 2009, we replaced our existing \$125.0 million accounts receivable securitization program, which was set to expire on May 7, 2009, with a new, three-year, \$150.0 million accounts receivable securitization program (the AR program). The AR program, which was established with two banks for certain of our subsidiaries (originating subsidiaries), contemplates that the originating subsidiaries will sell certain of their accounts receivable to RPM Funding Corporation, a wholly-owned special purpose entity (SPE), which will then transfer undivided interests in such receivables to the participating banks. Once transferred to the SPE, such receivables are owned in their entirety by the SPE and are not available to satisfy claims of our creditors or creditors of the originating subsidiaries until the obligations owing to the participating banks have been paid in full. The transactions contemplated by the AR program do not constitute a form of off-balance sheet financing and are, and will be, fully reflected in our financial statements. Entry into the AR program increased our liquidity by \$25.0 million, but also increased our financing costs due to higher market rates. The amounts available under the AR program are subject to changes in the credit ratings of our

customers, customer concentration levels or certain characteristics of the underlying accounts receivable, and therefore at certain times we may not be able to fully access the \$150.0 million of funding available under the AR program. At February 28, 2011, approximately \$80.3 million was available under this AR program.

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On February 20, 2008 we issued and sold \$250.0 million of 6.50% Notes due February 15, 2018. The proceeds were used to repay our \$100.0 million Senior Unsecured Notes due March 1, 2008, the outstanding principal under our \$125.0 million accounts receivable securitization program and \$19.0 million in short-term borrowings under our revolving credit facility. This financing strengthened our credit profile and liquidity position, as well as lengthened the average maturity of our outstanding debt obligations.

On December 29, 2006, we replaced our \$330.0 million revolving Prior Credit Facility with a \$400.0 million five-year Prior Credit Facility (the "Prior Credit Facility"). The Prior Credit Facility was used for working capital needs and general corporate purposes, including acquisitions. The Prior Credit Facility provided for borrowings in U.S. dollars and several foreign currencies and provides sublimits for the issuance of letters of credit in an aggregate amount of up to \$35.0 million and a swing-line of up to \$20.0 million for short-term borrowings of less than 15 days. In addition, the size of the Prior Credit Facility was able to be expanded, subject to lender approval, upon our request by up to an additional \$175.0 million, thus potentially expanding the Prior Credit Facility to \$575.0 million.

On May 29, 2009, we entered into an amendment to our Prior Credit Facility agreement with our lenders. The amendment required us to comply with various customary affirmative and negative covenants. These included financial covenants requiring us to maintain certain leverage and interest coverage ratios. The definition of EBITDA was amended to add back the sum of all (i) non-cash charges relating to the write-down or impairment of goodwill and other intangibles during the applicable period, (ii) other non-cash charges up to an aggregate of \$25.0 million during such applicable period and (iii) one-time cash charges incurred during the period from June 1, 2008 through May 31, 2010, but only up to an aggregate of not more than \$25.0 million during such applicable period. The interest coverage ratio is calculated at the end of each fiscal quarter for the four fiscal quarters then ended. The minimum required consolidated interest coverage ratio, EBITDA to interest expense, remained 3.50 to 1 under the amendment, but allowance of the add-backs referred to above had the effect of making this covenant less restrictive. Under the terms of the leverage covenant, we could not permit our consolidated indebtedness at any date to exceed 55% of the sum of such indebtedness and our consolidated shareholders' equity on such date, and could not permit the indebtedness of our domestic subsidiaries (determined on a combined basis and excluding indebtedness to us and indebtedness incurred pursuant to permitted receivables securitizations) to exceed 15% of our consolidated shareholders' equity. This amendment also added a fixed charge coverage covenant beginning with our fiscal quarter ended August 31, 2009. Under the fixed charge coverage covenant, the ratio of our consolidated EBITDA for any four-fiscal-quarter-period to the sum of our consolidated interest expense, income taxes paid in cash (other than taxes on non-recurring gains), capital expenditures, scheduled principal payments on our amortizing indebtedness (other than indebtedness scheduled to be repaid at maturity) and dividends paid in cash (or, for testing periods ending on or before May 31, 2010, 70% of dividends paid in cash), in each case for such four-fiscal-quarter period, could not be less than 1.00 to 1. This amendment also included a temporary, one-year restriction on certain mergers, asset dispositions and acquisitions, and contained customary representations and warranties.

On May 28, 2010, we entered into Amendment No. 2 to our Prior Credit Facility agreement with our lenders. Pursuant to Amendment No. 2, Specialty Products Holding Corp., and Ohio corporation, and its subsidiaries, including Bondex, (collectively, the "Excluded Subsidiaries"), were to be excluded from the defined term "Subsidiary" as used in the Prior Credit Facility. Furthermore, the defined term "EBITDA" as used in the Prior Credit Facility was revised to add back non-cash charges or losses and subtract non-cash gains in each case related to or resulting from the bankruptcy filing of any Excluded Subsidiary.

We are subject to the same leverage, interest coverage and fixed charge coverage covenants under the AR program as those contained in our Prior Credit Facility (other than the 15% subsidiary debt leverage covenant contained in such Prior Credit Facility). On May 29, 2009, we also entered into an amendment to our AR program. The AR program amendment included the same amendments to the definition of EBITDA, an identical reduction in the maximum consolidated leverage ratio and the same fixed charge coverage covenants as were included in our Prior Credit Facility

amendment, as outlined above. As of February 28, 2011, we were in compliance with all covenants contained in our AR Program, including the leverage, interest coverage and fixed charge coverage ratio covenants. At that date, our leverage ratio was 43.9%, while our interest coverage and fixed charge coverage ratios were 6.50:1 and 1.63:1, respectively.

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In addition, on May 28, 2010 we entered into an amendment to the AR Program whereby certain Excluded Subsidiaries would be excluded from the defined term, Subsidiary as used in the Receivables Agreement. Furthermore, the defined term EBITDA as used in the Receivables Agreement has been revised to add back non-cash charges or losses and subtract non-cash gains in each case related to or resulting from the bankruptcy filing of any Excluded Subsidiary.

Our failure to comply with the covenants described above and other covenants contained in the Prior Credit Facility could have resulted in an event of default under that agreement, entitling the lenders to, among other things, declare the entire amount outstanding under the Prior Credit Facility to be due and payable. The instruments governing our other outstanding indebtedness generally include cross-default provisions that provide that under certain circumstances, an event of default that results in acceleration of our indebtedness under the Credit Facility will entitle the holders of such other indebtedness to declare amounts outstanding immediately due and payable.

On January 5, 2011, we established a new \$400.0 million senior unsecured multi-currency revolving Credit Facility with a group of banks (the New Credit Facility). The New Credit Facility provides a \$35.0 million sub-limit for swing loans (relatively short-term borrowings used for working capital purposes) and a \$100.0 million sub-limit for the issuance of letters of credit. Subsequent to the date of the loan agreement, we have the option to increase the New Credit Facility by an aggregate principal amount not to exceed \$100.0 million. The purpose of this New Credit Facility was to refinance our Prior Credit Facility, and the proceeds of this New Credit Facility may also be used for working capital, capital expenditures and general corporate purposes. This New Credit Facility matures four years from its closing date. The terms of the New Credit Facility revised our leverage covenant such that our consolidated indebtedness as of any fiscal quarter end must not exceed 60% of the sum of such indebtedness and our consolidated shareholders' equity on such date, which is less restrictive than the leverage covenant under our Prior Credit Facility. Also, the terms of the New Credit Facility eliminated the Prior Credit Facility's fixed charge coverage ratio requirement and the leverage covenant applicable to subsidiary indebtedness. Furthermore, the defined term EBITDA as used in the Prior Credit Facility has been revised to allow, among other things, an add back of up to \$10.0 million of acquisition related costs on an annual basis. All other covenants were substantially unchanged from the Prior Credit Facility.

As of February 28, 2011, we were in compliance with all covenants contained in our New Credit Facility, including the leverage and interest coverage ratio covenants. At that date, our leverage ratio was 43.9%, while our interest coverage ratio was 7.04:1.

Our access to funds under our New Credit Facility is dependent on the ability of the financial institutions that are parties to the New Credit Facility to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. Moreover, the obligations of the financial institutions under our New Credit Facility are several and not joint and, as a result, a funding default by one or more institutions does not need to be made up by the others.

We are exposed to market risk associated with interest rates. We do not use financial derivative instruments for trading purposes, nor do we engage in foreign currency, commodity or interest rate speculation. Concurrent with the issuance of our 6.7% Senior Unsecured Notes, RPM United Kingdom G.P. entered into a cross currency swap, which fixed the interest and principal payments in euros for the life of the 6.7% Senior Unsecured Notes and resulted in an effective euro fixed rate borrowing of 5.31%.

Our available liquidity, including our cash and cash equivalents and amounts available under our committed credit facilities, stood at \$715.7 million at February 28, 2011. Our debt-to-capital ratio was 43.6% at February 28, 2011, compared with 46.2% at May 31, 2010.





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The following table summarizes our financial obligations and their expected maturities at February 28, 2011 and the effect such obligations are expected to have on our liquidity and cash flow in the periods indicated.

	<b>Total Contractual Payment Stream</b>	<b>Contractual Obligations</b>			
		<b>2012</b>	<b>Payments Due In</b>		<b>After 2016</b>
			<b>2013-14</b>	<b>2015-16</b>	
		<b>(In thousands)</b>			
Long-term debt obligations	\$ 935,706	\$ 2,867	\$ 201,987	\$ 181,883	\$ 548,969
Capital lease obligations	2,108	444	810	766	88
Operating lease obligations	162,706	37,811	50,507	28,098	46,290
Other long-term liabilities(1):					
Interest payments on long-term debt obligations	356,552	56,291	100,084	87,584	112,593
Contributions to pension and postretirement plans(2)	314,400	19,900	75,700	78,300	140,500
<b>Total</b>	<b>\$ 1,771,472</b>	<b>\$ 117,313</b>	<b>\$ 429,088</b>	<b>\$ 376,631</b>	<b>\$ 848,440</b>

(1) Excluded from other long-term liabilities is our liability for unrecognized tax benefits, which totaled \$5.2 million at February 28, 2011. Currently, we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

(2) These amounts represent our estimated cash contributions to be made in the periods indicated for our pension and postretirement plans, assuming no actuarial gains or losses, assumption changes or plan changes occur in any period. The projection results assume the required minimum contribution will be contributed.

***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet financings, other than the minimum operating lease commitments included in the above Contractual Obligations table. We do not have any interests in or relationships with any special purpose entities that are not reflected in our financial statements.

**OTHER MATTERS*****Environmental Matters***

Environmental obligations continue to be appropriately addressed and, based upon the latest available information, it is not anticipated that the outcome of such matters will materially affect our results of operations or financial condition. Our critical accounting policies and estimates set forth above describe our method of establishing and adjusting environmental-related accruals and should be read in conjunction with this disclosure. For additional information, refer to Part II, Item 1. Legal Proceedings.

**FORWARD-LOOKING STATEMENTS**

The foregoing discussion includes forward-looking statements relating to our business. These forward-looking statements, or other statements made by us, are made based on our expectations and beliefs concerning future events impacting us and are subject to uncertainties and factors (including those specified below), which are difficult to predict and, in many instances, are beyond our control. As a result, our actual results could differ materially from those expressed in or implied by any such forward-looking statements. These uncertainties and factors include (a) global markets and general economic conditions, including uncertainties surrounding the volatility in financial markets, the availability of capital and the effect of changes in interest rates, and the viability of banks and other financial institutions; (b) the prices, supply and capacity of raw materials, including assorted pigments, resins, solvents, and other natural gas- and oil-based materials; packaging, including plastic containers; and transportation services, including fuel surcharges; (c) continued growth in demand for our products; (d) legal, environmental and litigation risks inherent in our construction and chemicals businesses and risks related to the adequacy of our

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insurance coverage for such matters; (e) the effect of changes in interest rates; (f) the effect of fluctuations in currency exchange rates upon our foreign operations; (g) the effect of non-currency risks of investing in and conducting operations in foreign countries, including those relating to domestic and international political, social, economic and regulatory factors; (h) risks and uncertainties associated with our ongoing acquisition and divestiture activities; (i) risks related to the adequacy of our contingent liability reserves; (j) risks and uncertainties associated with the SPHC bankruptcy proceedings; and (k) other risks detailed in our filings with the Securities and Exchange Commission, including the risk factors set forth in our Annual Report on Form 10-K for the year ended May 31, 2010, as the same may be updated from time to time. We do not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the filing date of this document.

**ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We are exposed to market risk from changes in raw materials costs, interest rates and foreign exchange rates since we fund our operations through long- and short-term borrowings and conduct our business in a variety of foreign currencies. There were no material potential changes in our exposure to these market risks since May 31, 2010.

**ITEM 4. *CONTROLS AND PROCEDURES***

**(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.**

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of February 28, 2011 (the Evaluation Date), have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

**(b) CHANGES IN INTERNAL CONTROL.**

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended February 28, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. *LEGAL PROCEEDINGS***

**Asbestos Litigation and the Bankruptcy Filings by SPHC and Bondex**

For information regarding asbestos litigation involving SPHC and Bondex, see Note 2 to the Consolidated Financial Statements. On May 31, 2010, Bondex and its parent, SPHC, filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware to reorganize under Chapter 11 of the Bankruptcy Code.

**Environmental Proceedings**

As previously reported, several of our subsidiaries are, from time to time, identified as a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation and Liability Act and similar state

environmental statutes. In some cases, our subsidiaries are participating in the cost of certain clean-up efforts or other remedial actions. Our share of such costs, however, has not been material and we believe that these environmental proceedings will not have a material adverse effect on our consolidated financial condition or results of operations. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Other Matters, in Part I of this Quarterly Report on Form 10-Q.

**Table of Contents****ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2010.

**ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS**

(c) The following table presents information about repurchases of common stock we made during the third quarter of fiscal 2011:

Period	Total Number of Shares Purchased as Part of Publicly	Average Price Paid per Share	Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(2)
December 1, 2010 through December 31, 2010	35,999	\$ 21.16		
January 1, 2011 through January 31, 2011	1,344	\$ 22.47		
February 1, 2011 through February 28, 2011	2,436	\$ 23.78		
Total Third Quarter	39,779	\$ 21.36		

(1) All of the shares of common stock reported as purchased are attributable to shares of common stock that were disposed of back to us in satisfaction of tax obligations related to the vesting of restricted stock which was granted under RPM International Inc.'s Amended and Restated 2004 Omnibus Equity and Incentive Plan, RPM International Inc.'s Deferred Compensation Plan, the 1997 Restricted Stock Plan and the 2007 Restricted Stock Plan.

(2) Refer to Note 13 of the Notes to Consolidated Financial Statements for further information regarding our stock repurchase program.

**ITEM 6. EXHIBITS**

Exhibit Number	Description
10.1	

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Credit Agreement among RPM International Inc., the Borrowers party thereto, the Lenders party thereto and PNC Bank, National Association, as Administrative Agent, dated January 5, 2011, which is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2010.(x)

31.1	Rule 13a-14(a) Certification of the Company's Chief Executive Officer.(x)
31.2	Rule 13a-14(a) Certification of the Company's Chief Financial Officer.(x)
32.1	Section 1350 Certification of the Company's Chief Executive Officer.(x)
32.2	Section 1350 Certification of the Company's Chief Financial Officer.(x)
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

(x) Filed herewith.

\* Management contract or compensatory plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**RPM International Inc.**

Frank C. Sullivan  
Chairman and Chief Executive Officer

By: /s/ Frank C. Sullivan

Robert L. Matejka  
Senior Vice President and Chief Financial Officer

By: /s/ Robert L. Matejka

Dated: April 7, 2011

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