

RPM INTERNATIONAL INC/DE/

Form 10-Q

April 09, 2009

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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, 2009,
- 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 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(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 7, 2009

128,420,774 Shares of RPM International Inc. Common Stock were outstanding.

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, 2009 (Unaudited) (In thousands, except per share amounts)	May 31, 2008
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 205,237	\$ 231,251
Trade accounts receivable (less allowances of \$22,500 and \$24,554, respectively)	502,919	817,241
Inventories	463,613	476,149
Deferred income taxes	37,503	37,644
Prepaid expenses and other current assets	211,224	221,690
Total current assets	1,420,496	1,783,975
Property, Plant and Equipment, at Cost	1,008,251	1,054,719
Allowance for depreciation and amortization	(558,152)	(556,998)
Property, plant and equipment, net	450,099	497,721
Other Assets		
Goodwill	830,567	908,358
Other intangible assets, net of amortization	347,995	384,370
Other	161,293	189,143
Total other assets	1,339,855	1,481,871
Total Assets	\$ 3,210,450	\$ 3,763,567
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Current Liabilities		
Accounts payable	\$ 225,674	\$ 411,448
Current portion of long-term debt	172,424	6,934
Accrued compensation and benefits	100,543	151,493
Accrued loss reserves	77,505	71,981

Asbestos-related liabilities	65,000	65,000
Other accrued liabilities	117,363	139,505
Total current liabilities	758,509	846,361
Long-Term Liabilities		
Long-term debt, less current maturities	810,806	1,066,687
Asbestos-related liabilities	442,549	494,745
Other long-term liabilities	141,024	192,412
Deferred income taxes	17,073	26,806
Total long-term liabilities	1,411,452	1,780,650
Stockholders Equity		
Preferred stock, par value \$0.01; authorized 50,000 shares; none issued		
Common stock, par value \$0.01 authorized 300,000 shares; issued and outstanding 128,411 as of February 2009; issued and outstanding 122,189 as of May 2008	1,284	1,222
Paid-in capital	778,362	612,441
Treasury stock, at cost	(50,283)	(6,057)
Accumulated other comprehensive income (loss)	(120,820)	101,162
Retained earnings	431,946	427,788
Total stockholders equity	1,040,489	1,136,556
Total Liabilities and Stockholders Equity	\$ 3,210,450	\$ 3,763,567

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**

	Three Months Ended		Nine Months Ended	
	February 28,	February 29,	February 28,	February 29,
	2009	2008	2009	2008
	(Unaudited)			
	(In thousands, except per share amounts)			
Net Sales	\$ 635,396	\$ 731,773	\$ 2,510,826	\$ 2,567,820
Cost of Sales	400,738	440,528	1,515,853	1,524,935
Gross Profit	234,658	291,245	994,973	1,042,885
Selling, General and Administrative Expenses	265,618	266,160	837,290	811,913
Interest Expense, Net	13,520	9,462	41,500	34,287
Income (Loss) Before Income Taxes	(44,480)	15,623	116,183	196,685
Provision (Benefit) for Income Taxes	(13,547)	3,473	35,873	61,412
Net Income (Loss)	\$ (30,933)	\$ 12,150	\$ 80,310	\$ 135,273
Average Number of Shares of Common Stock Outstanding:				
Basic	126,575	120,091	126,295	120,077
Diluted	126,575	130,223	128,553	130,408
Basic Earnings (Loss) per Share of Common Stock	\$ (0.24)	\$ 0.10	\$ 0.64	\$ 1.13
Diluted Earnings (Loss) per Share of Common Stock	\$ (0.24)	\$ 0.10	\$ 0.63	\$ 1.06
Cash Dividends Declared per Share of Common Stock	\$ 0.200	\$ 0.190	\$ 0.590	\$ 0.555

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 CASH FLOWS**

	Nine Months Ended	
	February 28, 2009	February 29, 2008
	(Unaudited)	
	(In thousands)	
Cash Flows From Operating Activities:		
Net income	\$ 80,310	\$ 135,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	47,433	46,220
Amortization	16,709	16,182
Deferred income taxes	6,780	30,452
Earnings of unconsolidated affiliates	(1,004)	(908)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	317,443	181,245
Decrease (increase) in inventory	17,398	(51,889)
Decrease in prepaid expenses and other current and long-term assets	23,641	3,965
(Decrease) in accounts payable	(188,436)	(103,180)
(Decrease) in accrued compensation and benefits	(52,486)	(13,973)
Increase (decrease) in accrued loss reserves	5,279	(4,632)
(Decrease) in other accrued liabilities	(72,935)	(24,329)
Payments made for asbestos-related claims	(52,196)	(67,595)
Other	(13,349)	14,949
 Cash From Operating Activities	 134,587	 161,780
Cash Flows From Investing Activities:		
Capital expenditures	(37,024)	(29,825)
Acquisition of businesses, net of cash acquired	(6,649)	(13,995)
Purchase of marketable securities	(71,583)	(74,696)
Proceeds from sales of marketable securities	65,452	66,422
Proceeds from the sales of assets or businesses		44,800
Other	777	(1,472)
 Cash (Used For) Investing Activities	 (49,027)	 (8,766)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	108,146	130,288
Reductions of long-term and short-term debt	(202,175)	(2,715)
Issuance of stock for convertible bond redemption	150,612	
Cash dividends	(76,152)	(67,467)
Repurchase of stock	(45,188)	(5,940)
Exercise of stock options, including tax benefit	1,980	6,086

Cash From (Used For) Financing Activities	(62,777)	60,252
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(48,797)	18,680
Net Change in Cash and Cash Equivalents	(26,014)	231,946
Cash and Cash Equivalents at Beginning of Period	231,251	159,016
Cash and Cash Equivalents at End of Period	\$ 205,237	\$ 390,962

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

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FEBRUARY 28, 2009
(Unaudited)****NOTE A BASIS OF PRESENTATION**

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 (GAAP) in the U.S. 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, 2009 and February 29, 2008. 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, 2008.

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 B MARKETABLE SECURITIES

The following tables summarize marketable securities held at February 28, 2009 and May 31, 2008 by asset type:

	Available-For-Sale Securities			Estimated Fair Value (Net Carrying Amount)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
February 28, 2009				
		(In thousands)		
Equity securities:				
Stocks	\$ 38,831	\$ 245	\$ (16,786)	\$ 22,290
Mutual funds	23,657	1	(9,181)	14,477
Total equity securities	62,488	246	(25,967)	36,767
Fixed maturity:				
U.S. treasury and other government	9,338	381	(3)	9,716
Corporate	16,732	630	(92)	17,270
Total fixed maturity securities	26,070	1,011	(95)	26,986
Total	\$ 88,558	\$ 1,257	\$ (26,062)	\$ 63,753

\$3.8 million, respectively, for the nine months ended February 29, 2008. During the first nine months of fiscal 2009 and 2008, we recognized losses of \$7.4 million and \$0.8 million, respectively, for securities deemed to have other-than-temporary impairments.

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

Summarized below are the securities we held at February 28, 2009 and May 31, 2008 that were in an unrealized loss position included in accumulated other comprehensive income, aggregated by the length of time the investments had been in that position:

	February 28, 2009		May 31, 2008	
	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized
		Losses		Losses
		(In thousands)		
Total investments with unrealized losses	\$ 31,974	\$ (26,062)	\$ 25,785	\$ (1,747)
Unrealized losses with a loss position for less than 12 months	27,280	(21,302)	24,730	(1,635)
Unrealized losses with a loss position for more than 12 months	4,694	(4,760)	1,055	(112)

Included in the figures above is our investment in Kemrock Industries, which has a fair value of \$3.3 million and an unrealized loss of \$8.9 million at February 28, 2009. At May 31, 2008, our investment in Kemrock Industries had a fair value of \$20.9 million, and was in an unrealized gain position. 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, 2009 were generally caused by the recent decline in valuations in the financial markets and the volatility in the global economy, specifically over the last six months. If general economic conditions were to continue to deteriorate, including continued uncertainties surrounding the volatility in financial markets and the viability of banks and other financial institutions, and if we were to experience continuing or significant additional unrealized losses within our portfolio of investments in marketable securities, 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.

The net carrying value of debt securities at February 28, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized	
	Cost	Fair Value
	(In thousands)	
Due:		
Less than one year	\$ 1,242	\$ 1,264
One year through five years	13,816	14,345

Six years through ten years	4,271	4,449
After ten years	6,741	6,928
	\$ 26,070	\$ 26,986

NOTE C FAIR VALUE MEASUREMENTS

Effective June 1, 2008, we adopted Statement of Financial Accounting Standard No. 157 (SFAS No. 157), Fair Value Measurements. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value based on the inputs used to measure fair value and expands the disclosures of fair value measurements. In accordance with Financial Accounting Standards Board Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, we will defer the adoption of SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities until June 1, 2009, which is not expected to have a material impact on our financial

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

statements. Our adoption of the portion of SFAS No. 157 relating to our financial assets and liabilities did not have a material impact on our financial statements.

SFAS No. 157 valuation techniques 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.

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.

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Fair Value at February 28, 2009
			(In thousands)				
Marketable securities	\$ 63,753	\$			\$	\$	63,753
Interest rate swap			3,529				3,529
Cross-currency swap/interest rate swap			(3,231)				(3,231)
Total	\$ 63,753	\$	298		\$	\$	64,051

NOTE D INVENTORIES

Inventories were composed of the following major classes:

May 31, 2008

**February 28,
2009**

(In thousands)

Raw material and supplies	\$	147,282	\$	151,400
Finished goods		316,331		324,749
Total Inventory	\$	463,613	\$	476,149

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The following table illustrates the components of total comprehensive income for each of the three and nine month periods ended February 28, 2009 and February 29, 2008:

	Three Months Ended		Nine Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
	(In thousands)			
Net income (loss)	\$ (30,933)	\$ 12,150	\$ 80,310	\$ 135,273
Other Comprehensive Income:				
Foreign currency translation adjustments	(20,851)	9,705	(194,723)	47,082
Pension and other postretirement benefit liability adjustments, net of tax	1,314	1,637	6,302	1,637
Unrealized gain (loss) on securities, net of tax	(1,320)	(7,457)	(29,124)	2,203
Derivatives income, net of tax	(5,683)	(440)	(4,437)	5,181
Total Comprehensive Income (Loss)	\$ (57,473)	\$ 15,595	\$ (141,672)	\$ 191,376

NOTE F CONTINGENCIES AND OTHER ACCRUED LOSSES*Asbestos-related Contingencies*

Certain of our wholly-owned subsidiaries, principally Bondex International, Inc. (collectively referred to as our subsidiaries), are defendants in various asbestos-related bodily injury lawsuits filed in various state courts with the vast majority of current claims pending in six states – Texas, Florida, Mississippi, Maryland, Illinois and Ohio. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposures to asbestos-containing products previously manufactured by our subsidiaries or others.

As of February 28, 2009, our subsidiaries had a total of 10,281 active asbestos cases compared to a total of 11,350 cases as of February 29, 2008. For the quarter ended February 28, 2009, our subsidiaries secured dismissals and/or settlements of 228 cases and made total payments of \$19.8 million, which included defense-related payments of \$6.9 million. For the comparable period ended February 29, 2008, dismissals and/or settlements covered 225 cases and total payments were \$18.7 million, which included defense-related payments of \$9.4 million. For the nine months ended February 28, 2009, our subsidiaries secured dismissals and/or settlements of 2,253 cases and made total payments of \$52.2 million, which included defense-related payments of \$19.7 million. For the comparable period ended February 29, 2008, dismissals and/or settlements covered 882 cases and total payments were \$67.6 million, which included defense-related payments of \$32.0 million.

Of the 2,253 cases that were dismissed in the nine months ended February 28, 2009, 1,420 were non-malignancies or unknown disease cases that had been maintained on an inactive docket in Ohio and were administratively dismissed

by the Cuyahoga County Court of Common Pleas during our second fiscal quarter ended November 30, 2008. These claims were dismissed without prejudice and may be re-filed should the claimants involved be able to demonstrate disease in accordance with medical criteria laws established in the state of Ohio.

During the quarter ended February 28, 2009, one payment totaling \$3.6 million was made to satisfy an adverse judgment in a previous trial that occurred in calendar 2006 in California. This payment, which included a significant amount of accrued pre-judgment interest as required by California law, was made on December 8, 2008, approximately two and a half years after the adverse verdict and after all post-trial and appellate remedies had been exhausted. Such satisfaction of judgment amounts are not included in incurred costs until available appeals are

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

exhausted and the final payment amount is determined. As a result, the timing and amount of any such payments could have a significant impact on quarterly settlement costs.

During the prior fiscal year, our subsidiaries incurred higher year-over-year, defense-related payments as a result of implementing various changes to our management and defense of asbestos claims, including a transition to a new claims intake and database service provider. To facilitate that transition and other related changes, we incurred duplicate defense-related payments approximating \$3.0 million during last year's second fiscal quarter. The transition was completed during the quarter ended February 29, 2008.

Excluding defense-related payments, the average payment made to settle or dismiss a case approximated \$57,000 and \$41,000 for each of the quarters ended February 28, 2009 and February 29, 2008, respectively. The amount and timing of dismissals and settlements can fluctuate significantly from period to period, resulting in volatility in the average cost to resolve a case in any given quarter or year. In addition, in some jurisdictions, cases may involve more than one individual claimant. As a result, settlement or dismissal payments made on a per case basis are not necessarily reflective of the payment amounts on a per claimant basis. For example, the amount paid to settle or dismiss a case can vary widely depending on a variety of factors, including the mix of malignancy and non-malignancy claimants, and the amount of defense expenditures incurred during the period.

Estimating the future cost of asbestos-related contingent liabilities was and continues to be 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 our subsidiaries' third-party insurers; (iv) future earnings and cash flow of our subsidiaries; (v) the impact of bankruptcies of other companies whose share of liability may be imposed on our subsidiaries 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 includes 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 materially affect any future asbestos-related liability estimates.

In fiscal 2006, we retained Crawford & Winiarski (C&W), an independent, third-party consulting firm with expertise in the area of asbestos valuation work, to assist us in calculating an estimate of our liability for unasserted-potential-future-asbestos-related claims. The methodology used by C&W to project our liability for unasserted-potential-future-asbestos-related claims included C&W doing an analysis of: (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) historical rate at which mesothelioma incidences resulted in the payment of claims by us; (d) historical settlement averages to value the projected number of future compensable mesothelioma claims; (e) historical ratio of mesothelioma-related-indemnity payments to non-mesothelioma indemnity payments; and (f) historical defense costs and their relationship with total indemnity payments.

During fiscal 2006, we recorded a liability for asbestos claims in the amount of \$380.0 million, while paying out \$59.9 million for dismissals and/or settlements, which resulted in our accrued liability balance moving from

\$101.2 million at May 31, 2005 to \$421.3 million at May 31, 2006. This increase was based largely upon C&W's analysis of our total estimated liability for unasserted-potential-future-asbestos-related claims through May 31, 2016. This amount was also calculated on a pre-tax basis and was not discounted for the time value of money. In light of the uncertainties inherent in making long-term projections, we determined at that time that a ten-year period was the most reasonable time period over which reasonably accurate estimates might still be made for projecting asbestos liabilities and defense costs and, accordingly, our accrual did not include asbestos liabilities for any period beyond ten years.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the fiscal year ended May 31, 2008, we reviewed and evaluated our ten-year asbestos liability established as of May 31, 2006. As part of that review and evaluation process, the credibility of epidemiological studies of our mesothelioma claims, first introduced to management by C&W some two-and-one-half years ago, was validated. At the core of our 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 Offices' 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 continues to bear an extremely close correlation to the study's projections, we decided to extend our asbestos liability projection out to twenty years. C&W assisted us in calculating an estimate of our liability for unasserted-potential-future-asbestos-related claims out to that twenty-year period.

C&W has projected that the cost of extending the asbestos liability to twenty years, coupled with an updated evaluation of our current known claims to reflect our most recent actual experience, would be \$288.1 million. Therefore, we added \$288.1 million to our existing asbestos liability, which brought our total asbestos-related balance sheet liabilities at May 31, 2008 to \$559.7 million. Of that total, \$65.0 million was estimated to be the short-term liability due in fiscal 2009, with the remaining \$494.7 million balance reflected as a long-term liability. The material components of the accruals are: (i) the gross number of open malignancy claims (principally mesothelioma claims) as these claims have the most significant impact on our asbestos settlement costs; (ii) historical and current settlement costs and dismissal rates by various categories; (iii) analysis of the jurisdiction and governing laws of the states in which these claims are pending; (iv) outside defense counsel's opinions and recommendations with respect to the merits of such claims; and (v) analysis of projected liabilities for unasserted potential future claims.

In determining the amount of our asbestos liability, we relied on assumptions that are based on currently known facts and projection models. Our actual expenses could be significantly higher or lower than those recorded if assumptions used in our calculations vary significantly from actual results. Key variables in these assumptions include the period of exposure to asbestos claims, the number and type of new claims to be filed each year, the rate at which mesothelioma incidences result in compensable claims against us, the average cost of disposing of each such new claim, the dismissal rates each year and the related annual defense costs. Furthermore, predictions with respect to these variables are subject to greater uncertainty as the projection period lengthens. A significant upward or downward trend in the number of claims filed, depending on the nature of the alleged injury, the jurisdiction where filed, the average cost of resolving each such claim and the quality of the product identification, could change our estimated liability, as could any substantial adverse verdict at trial. A federal legislative solution, further state tort reform or a structured-settlement transaction could also change the estimated liability.

Subject to the foregoing variables, and based on currently available data, we believe that our current asbestos liability is sufficient to cover asbestos-related expenses for our known pending and unasserted-potential-future-asbestos-related claims through 2028. However, given the uncertainties associated with projecting matters into the future and numerous other factors outside of our control, we believe that it is reasonably possible we may incur additional material asbestos liabilities in periods before 2028. Due to the uncertainty inherent in the process undertaken to estimate our losses, we are unable at the present time to estimate an additional range of loss in excess of our existing accruals. While it is reasonably possible that such excess liabilities could be material to operating results in any given quarter or year, 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.

During fiscal 2004, certain of our subsidiaries' third-party insurers claimed exhaustion of coverage. On July 3, 2003, certain of our subsidiaries 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 these third-party insurers, challenging their assertion that their policies covering asbestos-related claims have been exhausted. The coverage litigation involves, among other matters, insurance coverage for claims arising out of alleged exposure to asbestos containing products manufactured by the previous owner of the Bondex tradename before March 1, 1966. On March 1, 1966, Republic

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

Powdered Metals Inc. (as it was known then), purchased the assets and assumed the liabilities of the previous owner of the Bondex tradename. That previous owner subsequently dissolved and was never a subsidiary of Republic Powdered Metals, Bondex, RPM, Inc. or the Company. Because of the earlier assumption of liabilities, however, Bondex has historically responded, and must continue to respond, to lawsuits alleging exposure to these asbestos-containing products. We discovered that the defendant insurance companies in the coverage litigation had wrongfully used cases alleging exposure to these pre-1966 products to erode their aggregate limits. This conduct, apparently known by the insurance industry based on discovery conducted to date, was in breach of the insurers' policy language. Two of the defendant insurers have filed counterclaims seeking to recoup certain monies should the plaintiffs prevail on their claims.

During the second fiscal quarter ended November 30, 2006, plaintiffs and one of the defendant insurers reached a settlement of \$15.0 million, the terms of which are confidential by agreement of the parties. The settling defendant was dismissed from the case.

In 2007, plaintiffs had filed motions for partial summary judgment against the defendants and defendants had filed motions for summary judgment against plaintiffs. In addition, plaintiffs had filed a motion to dismiss the counterclaim filed by one of the defendants. On December 1, 2008, the court decided the pending motions for summary judgment and dismissal. The court denied the plaintiffs' motions for partial summary judgment and granted the defendants' motions for summary judgment against plaintiffs on a narrow ground. The court also granted the plaintiffs' motion to dismiss one defendant's amended counterclaim. In light of its summary judgment rulings, the court entered judgment as a matter of law on all remaining claims and counterclaims, including the counterclaim filed by another defendant, and dismissed the action. The court also dismissed certain remaining motions as moot. Plaintiffs have filed a notice of appeal to the United States Sixth Circuit Court of Appeals and will continue to aggressively pursue their claims on appeal. At present, the appellate court has not yet entered a scheduling order in connection with the appeal.

We are unable at the present time to predict the timing or ultimate outcome of this insurance coverage litigation or whether there will be any further settlements. Consequently, we are unable to predict whether, or to what extent, any additional insurance may be available to cover a portion of our subsidiaries' asbestos liabilities. We have not included any potential benefits from this litigation in calculating our current asbestos liability. Our wholly-owned captive insurance companies have not provided any insurance or reinsurance coverage for any of our subsidiaries' asbestos-related claims.

The following table illustrates the movement of current and long-term asbestos-related liabilities through February 28, 2009:

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

Balance at Beginning of Period	Additions to Asbestos Charge (In thousands)	Deductions*	Balance at End of Period
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Nine Months Ended February 28, 2009	\$	559,745		\$	52,196	\$	507,549
Year Ended May 31, 2008		354,268	\$	288,100		82,623	559,745
Year Ended May 31, 2007		421,285				67,017	354,268

* Deductions include payments for defense-related costs and amounts paid to settle claims.

Other Contingencies

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

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

these potential losses as well as other uninsured claims. As of February 28, 2009, the current portion of these reserves amounted to \$61.8 million as compared with \$56.5 million at May 31, 2008, while the total long-term reserves of \$7.0 million at February 28, 2009 compare with \$8.5 million at May 31, 2008. Product warranty expense is recorded within selling, general and administrative expense. We also offer a warranty program for our roofing systems 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.

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.

NOTE G PENSION AND POSTRETIREMENT HEALTH CARE BENEFITS

We account for our pension plans and postretirement benefit plans in accordance with the provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. 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, 2009 and February 29, 2008:

Pension Benefits	U.S. Plans Quarter Ended		Non-U.S. Plans Quarter Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
	(In thousands)			
Service cost	\$ 3,680	\$ 3,560	\$ 760	\$ 867
Interest cost	2,976	2,574	1,915	1,634
Expected return on plan assets	(3,224)	(3,330)	(1,847)	(1,679)
Amortization of:				
Prior service cost	85	60	1	6
Net actuarial losses recognized	663	354	310	381
Net Periodic Benefit Cost	\$ 4,180	\$ 3,218	\$ 1,139	\$ 1,209

Postretirement Benefits	U.S. Plans Quarter Ended		Non-U.S. Plans Quarter Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
	(In thousands)			

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Service cost	\$		\$		\$	99	\$	123
Interest cost		108		130		189		168
Prior service cost		(7)		(7)				
Net actuarial (gains) losses recognized		(24)						23
Net Periodic Benefit Cost	\$	77	\$	123	\$	288	\$	314

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Pension Benefits	U.S. Plans		Non-U.S. Plans	
	Nine Months Ended		Nine Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
	(In thousands)			
Service cost	\$ 11,040	\$ 10,680	\$ 2,279	\$ 2,601
Interest cost	8,930	7,722	5,745	4,902
Expected return on plan assets	(9,670)	(9,990)	(5,540)	(5,036)
Amortization of:				
Prior service cost	256	180	3	19
Net actuarial losses recognized	1,989	1,061	932	1,144
Net Periodic Benefit Cost	\$ 12,545	\$ 9,653	\$ 3,419	\$ 3,630

Postretirement Benefits	U.S. Plans		Non-U.S. Plans	
	Nine Months Ended		Nine Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
	(In thousands)			
Service cost	\$	\$	\$ 295	\$ 370
Interest cost	324	391	567	505
Prior service cost	(21)	(21)		
Net actuarial (gains) losses recognized	(72)			67
Net Periodic Benefit Cost	\$ 231	\$ 370	\$ 862	\$ 942

We previously disclosed in our financial statements for the fiscal year ended May 31, 2008 that we expected to contribute approximately \$10.3 million to our retirement plans in the U.S. and approximately \$7.5 million to plans outside the U.S. during the current fiscal year. At November 30, 2008, we updated our expected contributions to the Retirement Plans in the U.S. to be \$10.2 million, and anticipated no change with regard to our foreign plans. As of February 28, 2009, we do not anticipate any changes to these contribution levels.

At February 28, 2009, the fair value of the assets held by our pension plans has declined since our measurement date of May 31, 2008, due primarily to the recent significant declines in the stock markets. Assuming that there will be no significant recovery in the stock markets and that we will not contribute significant funds to our plans prior to the end of our current fiscal year ending May 31, 2009, we may be required to increase our recorded liability for the net underfunded status of our pension plans, and we would expect pension expense in fiscal 2010 to increase from fiscal 2009. Further, a decline in the value of our pension plan assets could require accelerated and higher cash contributions

to our pension plans. Such amounts are not currently quantifiable because our required valuation of the assets and obligations of our pension plans will not occur until May 31, 2009.

We have determined that our postretirement medical plan provides prescription drug benefits that will qualify for the federal subsidy provided by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. For all groups of retirees, we have assumed that the subsidy will continue indefinitely.

As previously disclosed, we adopted the provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) beginning with our fiscal year ended May 31, 2008, and transitioned from a measurement date of February 28 to May 31.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE H COST REDUCTION INITIATIVES

During the first nine months of fiscal 2009, we undertook various actions to lower the fixed cost base of certain of our businesses in response to the current economic environment. As a result of these cost reduction measures, which have included personnel reductions, we have incurred employee separation costs. During the third quarter, we incurred \$14.5 million of pre-tax charges and \$20.3 million year to date in relation to these actions. We do not anticipate any further expenses in relation to these particular cost reduction initiatives. Of the \$14.5 million incurred during the third fiscal quarter ended February 28, 2009, \$11.2 million was related to our industrial reportable segment (industrial segment) and \$3.2 million was related to our consumer reportable segment (consumer segment) with the remainder recognized at the nonoperating level. These costs, all of which are cash costs, are reflected within selling, general and administrative expenses on our consolidated statements of income.

NOTE I EARNINGS PER SHARE

Our basic earnings per share calculation is based on the weighted-average number of shares of common stock outstanding. Our diluted earnings per share calculation is based on the weighted-average number of shares of common stock outstanding adjusted for the number of additional shares that would have been outstanding had all potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options, nonvested share awards and shares issuable under our employee stock purchase plan, as well as shares of common stock that would have been issued pursuant to the assumed conversion of our convertible notes. Since the potentially dilutive shares related to the convertible notes are included in the calculation of diluted earnings per share, the related interest expense, net of tax, is added back to net earnings, as this interest would not have been paid if the convertible notes had been converted to common stock. Nonvested market-based stock awards and nonvested

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performance-based awards are included in the average diluted shares outstanding each period if established market or performance criteria have been met at the end of the respective periods.

	Three Months Ended		Nine Months Ended	
	February 28,	February 29,	February 28,	February 29,
	2009	2008	2009	2008
	(In thousands, except per share amounts)			
Shares Outstanding				
Weighted-average common shares outstanding	126,575	120,091	126,295	120,077
Net issuable common share equivalents(1)		2,099	1,134	2,298
Additional shares issuable assuming conversion of convertible securities		8,033	1,124	8,033
Total shares for diluted earnings per share	126,575	130,223	128,553	130,408
Net Income (Loss)				
Net income (loss), basic	\$ (30,933)	\$ 12,150	\$ 80,310	\$ 135,273
Add: Income effect of convertible securities		771	280	2,313
Net income (loss), diluted	\$ (30,933)	\$ 12,921	\$ 80,590	\$ 137,586
Earnings (Loss) Per Share				
Basic Earnings (Loss) Per Share of Common Stock	\$ (0.24)	\$ 0.10	\$ 0.64	\$ 1.13
Diluted Earnings (Loss) Per Share of Common Stock	\$ (0.24)	\$ 0.10	\$ 0.63	\$ 1.06

(1) Conversion of the net issuable common share equivalents for the three month period ended February 28, 2009 was not assumed, since the result would have been anti-dilutive as a result of the net loss incurred for the quarter.

NOTE J INCOME TAXES

The effective income tax benefit rate was 30.5% for the three months ended February 28, 2009 compared to an effective income tax expense rate of 22.2% for the three months ended February 29, 2008.

For the three months ended February 28, 2009 and, to a lesser extent for the three months ended February 29, 2008, 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 and the effect of lower tax rates in certain of our foreign jurisdictions. The decreases in the effective tax rates were partially offset by provisions for valuation allowances

associated with losses incurred by certain of our foreign businesses, state and local income taxes and other non-deductible business operating expenses.

The effective income tax expense rate was 30.9% for the nine months ended February 28, 2009 compared to an effective income tax expense rate of 31.2% for the nine months ended February 29, 2008.

For the nine months ended February 28, 2009 and, to a lesser extent for the nine months ended February 29, 2008, the effective tax rate differed from the federal statutory rate principally as a result of the impact of certain

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

foreign operations on our U.S. taxes and the effect of lower tax rates in certain of our foreign jurisdictions. The decreases in the effective tax rates were partially offset by valuation allowances associated with losses incurred by certain of our foreign businesses, state and local income taxes and other non-deductible business operating expenses.

As of February 28, 2009, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, in accordance with the provisions of SFAS No. 109,

Accounting for Income Taxes, we intend to maintain the tax valuation allowance recorded at February 28, 2009 for certain deferred tax assets until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support the reversal of the tax valuation allowances. This valuation allowance relates to U.S. federal foreign tax credit carryforwards, certain foreign net operating losses and net foreign deferred tax assets recorded in purchase accounting. Any reversal of the valuation allowance that was recorded in purchase accounting would reduce goodwill.

As of February 28, 2009, we had unrecognized tax benefits of approximately \$3.2 million, of which approximately \$2.4 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, 2009, the accrual for interest and penalties totaled approximately \$1.3 million.

We file income tax returns in the U.S. and various state, local and foreign jurisdictions. As of February 28, 2009, we are subject to U.S. federal income tax examinations for the fiscal years 2006 through 2008. In addition, with limited exceptions, we are subject to various state and local or non-U.S. income tax examinations by tax authorities for the fiscal years 2002 through 2008. We do not anticipate any significant changes to the total unrecognized tax benefits within the next 12 months.

NOTE K 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 three 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 six 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 six 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 Tremco Group, StonCor Group, and RPM II/Industrial Group. Products and services within this reportable segment include construction chemicals, roofing systems, weatherproofing and other sealants, flooring and 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 three operating segments our DAP Group, Rust-Oleum/

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Zinsser Group, and RPM II/Consumer Group. Products within this reportable segment include specialty, hobby and professional paints; caulks; adhesives; silicone sealants; wood stains and specialty confectionary coatings and films.

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 results for the periods ended February 28, 2009 and February 29, 2008, and identifiable assets as of February 28, 2009 and May 31, 2008 are presented in segment detail in the following table.

	Three Months Ended		Nine Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
	(In thousands)			
Net Sales				
Industrial Segment	\$ 406,691	\$ 467,538	\$ 1,729,851	\$ 1,681,984
Consumer Segment	228,705	264,235	780,975	885,836
Consolidated	\$ 635,396	\$ 731,773	\$ 2,510,826	\$ 2,567,820
Gross Profit				
Industrial Segment	\$ 156,845	\$ 191,717	\$ 713,029	\$ 701,576
Consumer Segment	77,813	99,528	281,944	341,309
Consolidated	\$ 234,658	\$ 291,245	\$ 994,973	\$ 1,042,885
Income (Loss) Before Income Taxes				
Industrial Segment	\$ (21,135)	\$ 17,718	\$ 141,335	\$ 170,428
Consumer Segment	2,717	19,003	50,788	91,673
Corporate/Other	(26,062)	(21,098)	(75,940)	(65,416)
Consolidated	\$ (44,480)	\$ 15,623	\$ 116,183	\$ 196,685
Identifiable Assets			February 28, 2009	May 31, 2008
Industrial Segment			\$ 1,684,468	\$ 2,130,532

Consumer Segment	1,156,301	1,342,572
Corporate/Other	369,681	290,463
Consolidated	\$ 3,210,450	\$ 3,763,567

NOTE L 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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 month period ended February 28, 2009, we repurchased approximately 2.4 million shares of our common stock at a cost of approximately \$43.4 million under this program. There was no activity under this program during the third quarter of fiscal 2009.

NOTE M CONVERTIBLE NOTES

As previously reported, during our first fiscal quarter ended August 31, 2008, our Senior Convertible Notes (the Convertible Notes) due May 13, 2033 became eligible for conversion based upon the price of RPM International Inc. common stock. Subsequent to this event, on June 13, 2008, we called for the redemption of all of our outstanding Convertible Notes on the effective date of July 14, 2008 (the Redemption Date). Prior to the Redemption Date, virtually all of the holders had already converted their Convertible Notes into 8,030,455 shares of RPM International Inc. common stock, or 27.0517 shares of common stock for each \$1,000 Face Value Convertible Note they held. Any fractional shares from the conversion were paid in cash.

NOTE N SUBSEQUENT EVENT

On April 7, 2009, we replaced our existing \$125.0 million accounts receivable securitization program, under which we had no outstanding balance at February 28, 2009, and which was set to expire on May 7, 2009, with a new, three-year, \$150.0 million accounts receivable securitization program (the new program). The new 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 new program do not constitute a form of off-balance sheet financing and will be fully reflected in our financial statements. Entry into the new program increases our liquidity by \$25.0 million, but increases our financing costs due to higher market rates. The amounts available under the program are subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable.

NOTE O NEW ACCOUNTING STANDARDS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS No. 141(R) and SFAS No. 160 are required to be adopted simultaneously and are effective for our fiscal year ending May 31, 2010. Under SFAS No. 141(R), upon initially obtaining control of another entity or business, an acquirer will recognize 100% of the fair values of assets acquired, including goodwill, and liabilities assumed, with limited exceptions, even if the acquirer has not acquired 100% of the target. Also, under SFAS No. 141(R), transaction costs will no longer be considered part of the fair value of an acquisition, and will be expensed as incurred. We are currently evaluating the impact that the adoption of this statement will have on our financial statements.

SFAS No. 160 improves the relevance, comparability and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way. Additionally, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS No. 160 is effective for our fiscal year ending May 31, 2010. We are currently evaluating the impact that the adoption of this statement will have on our 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. 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 asbestos liability; allowances for doubtful accounts; inventories; allowances for recoverable taxes; useful lives of property, plant and equipment; goodwill and other intangible assets; environmental 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, including legal settlements, 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 continues to strengthen, we will continue to reflect the resulting losses as a component of accumulated other comprehensive income. 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 determined that the functional currency of any of our foreign subsidiaries should be the U.S. dollar, our financial statements would be affected. Should this occur, we would 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 were to determine that the functional currency of any of our subsidiaries should be the U.S. dollar, we would no longer record foreign exchange gains or losses on such intercompany loans.

Goodwill

We apply the provisions of SFAS No. 141, *Business Combinations*, which addresses the initial recognition and measurement of goodwill and intangible assets acquired in a business combination. We also apply the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, which requires that goodwill be tested at least on an annual basis, 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, or one level below our operating segments. 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 significant 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. In applying this methodology, we rely on a number of factors, including future business plans, actual and forecasted operating results, and market data. 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. In the event that our calculations indicate that goodwill is impaired, a fair value estimate of each tangible and intangible asset would be established. This process would require the estimation of the discounted cash flows expected to be generated by each asset in addition to independent asset appraisals, as appropriate, and, if impaired, these balances would be written down to fair value. Our cash flow estimates are based on our historical experience and our internal business plans, and appropriate discount rates are applied. Losses, if any, resulting from goodwill impairment tests would be reflected in pre-tax income in our income statement. We have not incurred any such impairment losses to date.

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

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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. We have not incurred any such impairment losses to date.

Deferred Income Taxes

Our provision for income taxes is calculated in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred income taxes using the liability method. 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.

Contingencies

We are party to claims and lawsuits arising in the normal course of business, including the various asbestos-related suits discussed in Note F to our Consolidated Financial Statements. 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, are reviewed quarterly and are 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 and, 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 have also 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.

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

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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 established 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 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, based on quoted market prices. 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, 2008 information,

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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)			
<u>Discount Rate</u>				
Increase (decrease) in expense in FY 2008	\$ (2.7)	\$ 2.9	\$ (2.1)	\$ 2.3
Increase (decrease) in obligation as of May 31, 2008	\$ (21.2)	\$ 23.2	\$ (19.7)	\$ 23.8
<u>Expected Return on Plan Assets</u>				
Increase (decrease) in expense in FY 2008	\$ (1.5)	\$ 1.5	\$ (1.0)	\$ 1.0
Increase (decrease) in obligation as of May 31, 2008	\$ N/A	\$ N/A	\$ N/A	\$ N/A
<u>Compensation Increase</u>				
Increase (decrease) in expense in FY 2008	\$ 2.4	\$ (2.1)	\$ 1.0	\$ (0.9)
Increase (decrease) in obligation as of May 31, 2008	\$ 9.7	\$ (8.6)	\$ 5.4	\$ (4.8)

Based upon May 31, 2008 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)			
<u>Discount Rate</u>				
Increase (decrease) in expense in FY 2008	\$	\$	\$ (0.2)	\$ 0.3
Increase (decrease) in obligation as of May 31, 2008	\$ (0.5)	\$ 0.5	\$ (2.1)	\$ 2.6
<u>Healthcare Cost Trend Rate</u>				
Increase (decrease) in expense in FY 2008	\$ 0.0	\$ (0.0)	\$ 0.4	\$ (0.1)
Increase (decrease) in obligation as of May 31, 2008	\$ 0.5	\$ (0.5)	\$ 2.9	\$ (1.9)

REPORTABLE 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 three 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 six 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 six 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.

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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 Tremco Group, StonCor Group, and RPM II/Industrial Group. Products and services within this reportable segment include construction chemicals, roofing systems, weatherproofing and other sealants, flooring and 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. 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 three operating segments – our DAP Group, Rust-Oleum/Zinsser Group, and RPM II/Consumer Group. Products within this reportable segment include specialty, hobby and professional paints; caulks; adhesives; silicone sealants; wood stains and specialty confectionary coatings and films.

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.

	Quarter Ended		Nine Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
(In thousands)				
Net Sales				
Industrial Segment	\$ 406,691	\$ 467,538	\$ 1,729,851	\$ 1,681,984
Consumer Segment	228,705	264,235	780,975	885,836
Consolidated	\$ 635,396	\$ 731,773	\$ 2,510,826	\$ 2,567,820
Gross Profit				
Industrial Segment	\$ 156,845	\$ 191,717	\$ 713,029	\$ 701,576
Consumer Segment	77,813	99,528	281,944	341,309
Consolidated	\$ 234,658	\$ 291,245	\$ 994,973	\$ 1,042,885
Income (Loss) Before Income Taxes(a)				
Industrial Segment				
Income Before Income Taxes(a)	\$ (21,135)	\$ 17,718	\$ 141,335	\$ 170,428
Interest (Expense), Net	(141)	(311)	(237)	(1,968)
EBIT(b)	\$ (20,994)	\$ 18,029	\$ 141,572	\$ 172,396
Consumer Segment				
Income Before Income Taxes(a)	\$ 2,717	\$ 19,003	\$ 50,788	\$ 91,673
Interest (Expense), Net	(1,022)	(855)	(3,438)	(2,705)
EBIT(b)	\$ 3,739	\$ 19,858	\$ 54,226	\$ 94,378
Corporate/Other				
(Expense) Before Income Taxes(a)	\$ (26,062)	\$ (21,098)	\$ (75,940)	\$ (65,416)
Interest (Expense), Net	(12,357)	(8,296)	(37,825)	(29,614)
EBIT(b)	\$ (13,705)	\$ (12,802)	\$ (38,115)	\$ (35,802)
Consolidated				
Income (Loss) Before Income Taxes(a)	\$ (44,480)	\$ 15,623	\$ 116,183	\$ 196,685
Interest (Expense), Net	(13,520)	(9,462)	(41,500)	(34,287)
EBIT(b)	\$ (30,960)	\$ 25,085	\$ 157,683	\$ 230,972

- (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

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critical to the capital markets analysis of our segments core operating performance. We also evaluate EBIT 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, 2009****Net Sales*

On a consolidated basis, net sales of \$635.4 million for the third quarter ended February 28, 2009 declined 13.2%, or \$96.4 million, over net sales of \$731.8 million during the same period last year. The organic decline in sales amounted to 16.2%, or \$118.4 million, of the shortfall in net sales over the prior year third quarter result, which includes volume-related declines approximating 13.1% or \$95.9 million, and the impact of net unfavorable foreign exchange rates year-over-year, which amounted to 6.7%, or \$49.0 million, offset partially by pricing initiatives representing 3.6% of the prior period sales, or \$26.5 million. These pricing initiatives, including those across both of our reportable segments, were instituted primarily during prior periods in order to offset the rising costs of many of our raw materials. Foreign exchange losses resulted from the strong dollar against nearly all major foreign currencies, with the majority of the losses resulting from the weaker euro and Canadian dollar. Seven small acquisitions provided 3.0% of sales growth over last year, or \$22.0 million.

Industrial segment net sales, which comprised 64.0% of the current quarter's consolidated net sales, totaled \$406.7 million, a decline of 13.0% from \$467.6 million during last year's third quarter. This segment's net sales decline resulted primarily from an overall decline in organic sales, which accounted for a 17.7% decline over prior year third quarter sales, and included 8.4% from net unfavorable foreign exchange differences and volume declines approximating 12.3%, offset partially by 3.0% as a result of prior period price increases. Six small acquisitions provided 4.7% growth over the prior year third quarter. The pure unit organic sales decline in the industrial segment resulted primarily from declines in exterior insulated finishing systems, sealants and certain specialty colorant and coatings product lines. There was slow, but continued growth during the quarter from ongoing industrial and commercial maintenance and improvement activities in Canada, Latin America, South Africa and the Middle East. A few of our industrial segment product lines, including corrosion control coatings and global roofing products and services, continued to grow organic sales during the quarter. Despite the impact of the continuing weak economic environment on certain sectors of our domestic commercial construction markets, which we expect will continue throughout the remainder of our current fiscal year, we continue to secure new business through strong brand offerings, new product innovations and international expansion.

Consumer segment net sales, which comprised 36.0% of the current quarter's consolidated net sales, decreased by 13.4% to \$228.7 million from \$264.2 million during last year's third quarter. The decline in this segment was purely organic, including volume declines approximating 14.4%, in addition to the impact of net unfavorable foreign exchange rates for approximately 3.6%, offset partially by prior period price increases, which provided 4.6%. The organic sales volume decline reflects the continued weakness in the economy, including sluggish sales for retailers and distributors impacted by the domestic housing recession. Our consumer segment continues to increase market penetration at major retail accounts with various new product launches, some of which occurred earlier in this fiscal year, while also refocusing efforts on our various repair and maintenance products.

Gross Profit Margin

Our consolidated gross profit declined to 36.9% of net sales this quarter from 39.8% of net sales for the same period a year ago, reflecting our overall lower overhead absorption resulting from a 13.1% decline in organic sales volume, which accounted for approximately 2.8% of sales, or 280 basis points (bps). Higher raw material costs, which impacted the current gross profit margin by approximately 280 bps, reflect the impact of year-over-year increases in oil prices and energy costs, which had previously put upward pressure on many of our raw material, packaging and transportation costs. Higher pricing, which favorably impacted our gross profit margin by approximately 270 bps, only partially offset the combination of these year-over-year higher raw materials costs

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and the impact of declining sales volumes. While many of our key raw materials costs were higher than they were during the same period a year ago, such as plasticizers, epoxies, various solvents and resins, we experienced some relief in certain other raw material and transportation costs this quarter, as a result of declines in certain energy prices. We anticipate that these changes will favorably impact our gross profit margin during the final quarter of the current fiscal year.

Our industrial segment gross profit for the third quarter of fiscal 2009 fell by 240 bps, to 38.6% of net sales from last year's third quarter result of 41.0% of net sales. This segment's 12.3% decline in organic sales volume unfavorably impacted this segment's gross margin by approximately 340 bps during the current period, in addition to higher raw material costs which had a negative impact of approximately 130 bps. Higher selling prices approximating 230 bps slightly offset these costs during the quarter.

Our consumer segment gross profit for the quarter declined to 34.0% of net sales from 37.7% of net sales for the same period last year, or approximately 370 bps, mainly as a result of the approximate 550 bps impact of higher raw material costs, partially offset by the impact of recent price increases approximating 370 bps. The remaining 190 bps related to this segment's organic sales volume decline of 14.4% versus last year's third quarter net sales.

Selling, General and Administrative Expenses (SG&A)

Our consolidated SG&A increased to 41.8% of net sales for the current quarter compared with 36.4% a year ago. The 540 bps increase in SG&A as a percent of sales primarily reflects certain additional strategic initiatives that were undertaken this quarter in order to reduce our fixed cost base in light of the worldwide recession, by certain of our businesses relating to additional headcount reductions, which resulted in severance costs approximating 230 bps for the quarter. We anticipate that these strategic reductions will favorably impact our margins during the fourth fiscal quarter of this year. The increase in SG&A as a percent of sales also reflects the impact of the overall unit volume decline in net sales, combined with additional bad debt, warranty and unfavorable foreign exchange adjustments over the prior year, offset partially by lower commissions on declining sales and lower compensation-related costs.

Our industrial segment SG&A increased to 43.8% of net sales for the current quarter from 37.1% for the same period last year, reflecting the impact of certain additional severance expenses incurred during the current quarter, which approximated 280 bps for this segment. Additionally, there were higher employment-related costs, including increased compensation and benefit-related accruals, and additional bad debt and warranty-related expense. Partially offsetting those items was the favorable impact of the prior quarter headcount reductions.

Our consumer segment SG&A as a percentage of net sales for the current quarter increased by 220 bps to 32.4% compared with 30.2% a year ago, reflecting the unfavorable margin impact of the sales volume decline in net sales in this segment, in addition to certain strategic reductions in this segment's workforce which approximated 140 bps.

SG&A expenses in our corporate/other category increased during the current quarter to \$13.7 million from \$12.8 million during the corresponding period last year. This increase essentially reflects the combination of net unfavorable foreign currency adjustments and higher legal expense. Partially offsetting these higher expenses was the impact of lower compensation-related expenses versus last year's third fiscal quarter.

License fee and joint venture income of approximately \$0.6 million and \$0.8 million for each of the quarters ended February 28, 2009 and February 29, 2008, respectively, are reflected as reductions of consolidated SG&A expenses.

We recorded total net periodic pension and postretirement benefit costs of \$5.7 million and \$4.9 million for the quarters ended February 28, 2009 and February 29, 2008, respectively. This increased pension expense of \$0.8 million was primarily the result of higher interest costs approximating \$0.6 million, along with net actuarial losses incurred of

approximately \$0.2 million. 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 G, Pension and Postretirement Health Care Benefits, for additional information regarding these benefits.

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Net Interest Expense

Net interest expense was approximately \$4.1 million higher in the third quarter of fiscal 2009 than in the corresponding period of fiscal 2008. We currently include interest income and expense, along with realized gains and losses on the sales of our marketable securities and other-than-temporary impairment losses on our marketable securities in this net figure.

Interest expense was \$12.4 million during this year's third fiscal quarter versus \$13.5 million for the corresponding period a year ago, for a decrease of \$1.1 million. The combination of lower interest rates, which averaged 4.7% overall during the quarter compared with 4.9% in the prior year period, and lower average borrowings this quarter reduced interest expense by approximately \$2.3 million versus last year's third quarter. Partially offsetting this reduction was the impact of higher weighted-average net borrowings associated with recent acquisitions, approximating \$120.6 million during the quarter, which increased interest expense by approximately \$0.7 million, and other additional interest-related costs approximating \$0.5 million.

Interest and dividend income was \$2.2 million during the third quarter of fiscal 2009 versus \$3.7 million during the corresponding period last year, or a decrease of \$1.5 million. Net realized gains on the sales of investments resulted in a net gain of \$0.6 million for the quarter ended February 28, 2009 versus a net gain of \$1.0 million for the same period last year. Additionally, there were impairments recognized on securities that management has determined are other-than-temporary declines in value, which approximated \$4.0 million and \$0.7 million for the third fiscal quarter of 2009 and 2008, respectively. The year over year changes in these items reflect the current global economic downturn and related declines in the U.S. financial markets..

Income (Loss) Before Income Taxes (IBT)

Our consolidated pretax loss for this year's third quarter of \$44.5 million compares with last year's third quarter pretax income of \$15.6 million, for a negative margin on net sales of 7.0% versus a profit margin on sales of 2.2% a year ago.

Our industrial segment had a pretax loss of \$21.1 million versus last year's pretax income of \$17.7 million, reflecting this segment's 12.3% decline in organic sales volume during the quarter, as previously discussed, in addition to certain higher raw material costs and additional severance expense occurring during this year's third quarter. Our consumer segment IBT declined to \$2.7 million for the quarter, from \$19.0 million last year, primarily as a result of the 14.4% organic sales decline combined with additional severance expenses and certain higher raw material costs.

Income Tax Rate

Our effective income tax benefit rate was 30.5% for the three months ended February 28, 2009 compared to an effective income tax expense rate of 22.2% for the three months ended February 29, 2008.

For the three months ended February 28, 2009 and, to a lesser extent for the three months ended February 29, 2008, 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 and the effect of lower tax rates in certain of our foreign jurisdictions. The decreases in the effective tax rates were partially offset by provisions for valuation allowances associated with losses incurred by certain of our foreign businesses, state and local income taxes and other non-deductible business operating expenses.

As of February 28, 2009, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, in accordance with the provisions of SFAS No. 109,

Accounting for Income Taxes, we intend to maintain the tax valuation allowance recorded at February 28, 2009 for certain deferred tax assets until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support the reversal of the tax valuation allowances. This valuation allowance relates to U.S. federal foreign tax credit carryforwards, certain foreign net operating losses and net foreign deferred tax assets recorded in purchase accounting. Any reversal of the valuation allowance that was recorded in purchase accounting would reduce goodwill.

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Net Income (Loss)

Net loss of \$30.9 million for the three months ended February 28, 2009 compares to net income of \$12.2 million for the same period last year, for a negative net margin on sales of 4.9% for the current quarter compared to the prior year's 1.7% net margin on sales. The decline in net margin year-over-year resulted from the combined impact of declining sales volumes in both segments, higher raw material costs and severance-related expense, offset partially by the impact of acquisitions and price increases.

Diluted loss per common share for this year's third quarter of \$0.24 compares with diluted earnings per share of \$0.10 a year ago.

Nine Months Ended February 28, 2009

Net Sales

On a consolidated basis, net sales of \$2.51 billion for the nine months ended February 28, 2009 decreased 2.2%, or \$56.9 million, over net sales of \$2.57 billion during the same period last year. Organic sales declined by 5.5%, or \$139.8 million, from last year, including volume-related declines approximating 6.3% or \$158.6 million, and the impact of net unfavorable foreign exchange rates year-over-year, which amounted to 2.4%, or \$62.0 million, offset partially by pricing initiatives representing 3.2%, or \$80.8 million. These pricing initiatives, including those across both of our reportable segments, were instituted primarily during prior periods in order to offset the rising costs of many of our raw materials. Foreign exchange losses resulted from the stronger dollar against nearly all major foreign currencies, with the majority of the losses resulting from the weaker euro and Canadian dollar. Ten small acquisitions, net of the lost revenue related to the divestiture of our Bondo subsidiary during last year's second fiscal quarter, provided 3.3% of the sales growth over last year, or \$82.9 million.

Industrial segment net sales, which comprised 68.9% of consolidated net sales for this year's first nine months, totaled \$1.73 billion, an increase of 2.8% from \$1.68 billion during last year's first nine months. This segment's net sales growth resulted primarily from eight small acquisitions, which contributed 6.7% of the growth over the prior year period. Organic sales declined by 3.9% from the corresponding prior year period, including the combination of 2.8% from net unfavorable foreign exchange differences and volume declines approximating 4.2%, offset partially by 3.1% from favorable pricing.

Consumer segment net sales, which comprised 31.1% of the current year's consolidated net sales, decreased by 11.8% to \$781.0 million from \$885.8 million during last year's first nine months. Contributing to this segment's net sales decline was the impact of the divestiture of our Bondo subsidiary during last year's second fiscal quarter, which was only slightly offset by recent acquisitions, for a net negative impact of 3.3%. Additionally, our consumer segment organic sales declined by 8.5%, which includes the combined impact of net unfavorable foreign exchange rates for approximately 1.7% and a decline in sales volume amounting to approximately 10.1%, offset partially by pricing, which provided approximately 3.3%.

Gross Profit Margin

Our consolidated gross profit declined to 39.6% of net sales this first nine months from 40.6% of net sales for the same period a year ago, reflecting the impact of increased raw material costs, which were only partially offset by our recent price increases, for a net negative impact of approximately 80 bps. Additionally, the impact of the 6.3% decline in organic sales volume, resulting in lower overhead absorption, provided the remainder of the decline in this year's gross profit margin.

Our industrial segment gross profit for the first nine months of fiscal 2009 dropped by approximately 50 bps to 41.2% of net sales from 41.7% of net sales a year ago. Higher raw materials costs net of higher selling prices during the current year period resulted in a net unfavorable impact on this segment's gross profit margin of approximately 10 bps, while the impact of the 4.2% decline in organic sales volume provided the remainder of the decline.

Our consumer segment gross profit for the first nine months of fiscal 2009 declined to 36.1% of net sales from 38.5% of net sales in the corresponding period last year, or approximately 240 bps, mainly as a result of the approximate 460 bps impact of higher raw material costs, partially offset by recent price increases approximating

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250 bps, combined with this segment's 10.1% organic sales volume decline over last year. Partially offsetting the impact of these items was a favorable mix of sales compared with the prior year period.

SG&A

Our consolidated SG&A increased to 33.3% of net sales for the first nine months of fiscal 2009 compared with 31.6% for the same period a year ago. The 170 bps increase in SG&A as a percentage of net sales primarily reflects the impact of certain additional strategic initiatives that were undertaken in order to reduce our fixed cost base, in light of the worldwide recession, by some of our businesses relating to further headcount reductions, which resulted in severance costs that impacted SG&A as a percentage of net sales by approximately 80 bps for the current year to date period. Also reflected in this increase was the overall unit volume decline in net sales, combined with additional bad debt, environmental and warranty-related expense versus the prior year. These additional expenses were partially offset by reductions in advertising and legal expense, and also reflect the favorable impact of declines in commissions and other compensation reductions that resulted from the reductions in force previously implemented across both segments. We anticipate that the additional strategic reductions taken during the current year's third fiscal quarter will favorably impact our margins during the final fiscal quarter of 2009.

Our industrial segment SG&A increased to 33.0% of net sales for the first nine months of the current fiscal year from 31.5% for the same period last year, reflecting certain severance expenses incurred during the current year to date period, which approximated 90 bps for this segment. The change also reflects the impact of higher employment-related costs, including increased compensation and benefit-related accruals, higher warranty-related expense, and additional bad debt expense over the prior year period. Partially offsetting those items was certain favorable foreign exchange transactions during the current year's first nine months.

Our consumer segment SG&A as a percentage of net sales for the first nine months of the current fiscal year increased by 130 bps to 29.2% compared with 27.9% a year ago, reflecting primarily the unit volume decline in net sales in this segment, in addition to certain strategic reductions in this segment's workforce which approximated 70 bps.

SG&A expenses in our corporate/other category increased during the current year to date period to \$38.1 million from \$35.8 million during the corresponding period last year. This increase essentially reflects the impact of net unfavorable foreign currency adjustments and prior year favorable insurance-related loss reserve adjustments, which did not recur this year, partially offset by this year's lower legal expenses and lower compensation-related expense versus last year's first nine months.

License fee and joint venture income of approximately \$2.1 million and \$1.9 million for each of the first nine months of fiscal 2009 and 2008, respectively, are reflected as reductions of consolidated SG&A expenses.

We recorded total net periodic pension and postretirement benefit costs of \$17.1 million and \$14.6 million for the nine month periods ended February 28, 2009 and February 29, 2008, respectively. This increased pension expense of \$2.5 million was primarily the result of higher interest costs approximating \$2.0 million, along with net actuarial losses incurred of approximately \$0.5 million. 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 G, Pension and Postretirement Health Care Benefits, for additional information regarding these benefits.

Net Interest Expense

Net interest expense was approximately \$7.2 million higher in the first nine months of fiscal 2009 than in the corresponding period of fiscal 2008. We currently include interest income and expense, along with realized gains and

losses on the sales of our marketable securities and other-than-temporary impairment losses on our marketable securities in this net figure.

Interest expense was \$42.3 million for the first nine months of fiscal 2009, versus \$45.0 million for the corresponding prior year period, or a decrease of \$2.7 million. Our lower average borrowings during the current period reduced interest expense by \$8.3 million, while higher interest rates, which averaged 5.4% overall during the current period, compared with 5.3% in the prior year period, caused interest expense to increase by approximately \$0.3 million. Additionally, higher weighted-average net borrowings associated with recent acquisitions, which

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approximated \$126.5 million during the current period, increased interest expense by approximately \$3.9 million, while other additional interest-related costs increased interest expense by an additional \$1.4 million.

Interest and dividend income was \$6.3 million during the first nine months of fiscal 2009 versus \$8.4 million during the corresponding period last year, or a decrease of \$2.1 million. Net realized gains on the sales of investments resulted in a net gain of \$1.9 million for the nine months ended February 28, 2009 versus a net gain of \$3.1 million for the same period last year. Additionally, there were impairments recognized on securities that management has determined are other-than-temporary declines in value, which approximated \$7.4 million and \$0.8 million for the first nine months of fiscal 2009 and 2008, respectively. The year over year changes in these items reflect the current global economic downturn and related declines in the U.S. financial markets.

IBT

Our consolidated IBT for this year's first nine months declined to \$116.2 million versus \$196.7 million during the same period a year ago, for a margin of 4.6% of net sales versus 7.7% a year ago.

Our industrial segment IBT decreased by 17.1%, to \$141.3 million from last year's \$170.4 million, reflecting this segment's 4.2% decline in organic sales over the prior year period, as previously discussed, combined with additional bad debt and warranty expense, compensation-related expense and severance expense occurring during this year's first nine months. Our consumer segment IBT declined by 44.6%, to \$50.8 million from \$91.7 million last year, primarily as a result of declining sales volumes combined with net higher raw material costs and severance expense versus the prior year to date period.

Income Tax Rate

The effective income tax expense rate was 30.9% for the nine months ended February 28, 2009 compared to an effective income tax expense rate of 31.2% for the nine months ended February 29, 2008.

For the nine months ended February 28, 2009 and, to a lesser extent for the nine months ended February 29, 2008, the effective tax rate differed from the federal statutory rate principally as a result of the impact of certain foreign operations on our U.S. taxes and the effect of lower tax rates in certain of our foreign jurisdictions. The decreases in the effective tax rates were partially offset by provisions for valuation allowances associated with losses incurred by certain of our foreign businesses, state and local income taxes and other non-deductible business operating expenses.

As described in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the three month period ended February 28, 2009, there is uncertainty as to whether we will be able to recognize certain deferred tax assets. Refer to that section for further information.

Net Income

Net income of \$80.3 million for the nine months ended February 28, 2009 compares to \$135.3 million for the same period last year for a net margin on sales of 3.2% for the current period compared to the prior period's 5.3% net margin on sales. The decline in net margin year-over-year resulted from the combined impact of declining sales volumes in both segments, higher raw material costs and severance expense, offset partially by the impact of acquisitions and favorable pricing.

Diluted earnings per common share for this year's first nine months declined by 40.6% to \$0.63 from \$1.06 a year ago.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows From:

Operating Activities

Operating activities provided cash flow of \$134.6 million during the first nine months of the current fiscal year compared with \$161.8 million of cash flow provided during the same period of fiscal 2008.

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The net decline in cash from operations includes the change in net income, which declined by approximately \$55.0 million versus last year, in addition to changes in working capital accounts and other accruals. A lower trade accounts receivable balance at the end of the current nine month period, resulting from additional cash collections, provided \$317.4 million in cash versus \$181.2 million last year, or approximately \$136.2 million more cash year over year. Inventory balances provided \$17.4 million of cash this year compared with a use of cash of \$51.9 million last year, or \$69.3 million more cash year-over-year. With regard to accounts payable, we used \$85.3 million more 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. Accrued compensation and benefits used an additional \$38.5 million versus the prior year, while other accruals, including those for other short-term and long-term items, used an additional \$48.6 million, 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.

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 \$37.0 million during this year's first nine months compare with current-year depreciation of \$47.4 million. Capital spending is expected to decline to a level which will trail depreciation expense at least through fiscal 2010. Due to additional capacity, which has been 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 will likely relate primarily to new products and technology.

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, 2009, the fair value of our investments in marketable securities totaled \$63.8 million, of which investments with a fair value of \$32.0 million were in an unrealized loss position. At May 31, 2008, the fair value of our investments in marketable securities totaled \$110.4 million, of which investments with a fair value of \$25.8 million were in an unrealized loss position. Total unrealized losses recorded in accumulated other comprehensive income at February 28, 2009 and May 31, 2008 were \$26.1 million and \$1.7 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 February 28, 2009 were generally caused by the recent decline in valuations in the financial sector and the volatility in the global economy, specifically over the last six months. If general economic conditions were to continue to deteriorate, including continued uncertainties surrounding the volatility in financial markets and the viability of banks and other financial institutions, and if we were to experience continuing or significant additional unrealized losses within our portfolio of investments in marketable securities, we may recognize additional other-than-temporary impairment losses in future periods. Such potential losses could have a material impact on our results of operations. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments until their cost can be recovered.

Financing Activities

On April 7, 2009, we replaced our existing \$125.0 million accounts receivable securitization program, under which we had no outstanding balance at February 28, 2009, and which was set to expire on May 7, 2009, with a new, three-year, \$150.0 million accounts receivable securitization program (the new program). The new 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

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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 new program do not constitute a form of off-balance sheet financing and will be fully reflected in our financial statements. Entry into the new program increases our liquidity by \$25.0 million, but increases our financing costs due to higher market rates. The amounts available under the program are subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable.

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 credit facility with a \$400.0 million five-year credit facility (the Credit Facility). The Credit Facility is used for working capital needs and general corporate purposes, including acquisitions. The Credit Facility provides 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 Credit Facility may be expanded, subject to lender approval, upon our request by up to an additional \$175.0 million, thus potentially expanding the Credit Facility to \$575.0 million.

Under the terms of the Credit Facility, we are required to comply with various customary affirmative and negative covenants. These include financial covenants requiring us to maintain certain leverage and interest coverage ratios. Under the terms of the leverage covenant, we may not permit our consolidated indebtedness at any date to exceed 65% of the sum of such indebtedness and our consolidated shareholders' equity on such date, and may 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. The interest coverage ratio covenant requires us not to permit the ratio, calculated at the end of each fiscal quarter for the four fiscal quarters then ended, of EBITDA, as defined in the Credit Facility, for such period to interest expense for such period to be less than 3.5:1. Identical leverage and interest coverage ratio covenants are contained in the documents governing the new accounts receivable securitization program.

Our failure to comply with these and other covenants contained in the Credit Facility may result in an event of default under that agreement, entitling the lenders to, among other things, declare the entire amount outstanding under the 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.

As of February 28, 2009, we were in compliance with all covenants contained in our Credit Facility, including the leverage and interest coverage ratio covenants. At that date, our leverage ratio was 48.6% and our interest coverage ratio was 5.78: 1. Additionally, in accordance with these covenants, at February 28, 2009, our domestic subsidiaries' indebtedness did not exceed 15% of consolidated shareholders' equity as of that date.

Our access to funds under our Credit Facility is dependent on the ability of the financial institutions that are parties to those facilities 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

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,

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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%. In addition to hedging the risk associated with our 6.7% Senior Unsecured Notes, our only other hedged risks are associated with certain fixed debt, whereby we have a \$163.7 million notional amount interest rate swap contract designated as a fair value hedge to pay floating rates of interest, based on six-month LIBOR that matures in our fiscal year ending May 31, 2010. Because critical terms of the debt and interest rate swap match, the hedge is considered perfectly effective against changes in fair value of debt, and therefore, there is no need to periodically reassess the effectiveness during the term of the hedge.

Our available liquidity, including our cash and cash equivalents and amounts available under our committed credit facilities, stood at \$504.4 million at February 28, 2009. Our debt-to-capital ratio was 48.6% at February 28, 2009, unchanged from May 31, 2008.

During the first quarter of fiscal 2009, we called for redemption all of our outstanding Senior Convertible Notes due May 13, 2033. Prior to the redemption, virtually all of the holders converted their Senior Convertible Notes into shares of our common stock. For additional information, refer to Note M, Convertible Notes, to the Consolidated Financial Statements.

The following table summarizes our financial obligations and their expected maturities at February 28, 2009 and the effect such obligations are expected to have on our liquidity and cash flow in the periods indicated.

Contractual Obligations

	Total Contractual Payment Stream	2010	Payments Due in		After 2014
			2011-12	2013-14	
			(In thousands)		
Long-term debt obligations	\$ 983,231	\$ 172,425	\$ 209,690	\$ 201,407	\$ 399,709
Capital lease obligations	3,194	537	964	852	841
Operating lease obligations	157,525	35,559	46,184	24,540	51,242
Other long-term liabilities(1):					
Interest payments on long-term debt obligations	259,281	41,258	74,341	61,841	81,841
Contributions to pension and postretirement plans(2)	213,600	18,700	38,300	52,700	103,900
Total	\$ 1,616,831	\$ 268,479	\$ 369,479	\$ 341,340	\$ 637,533

(1) Excluded from other long-term liabilities is our liability for unrecognized tax benefits, which totaled \$4.7 million at February 28, 2009. 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 \$10.2 million will be contributed to the U.S. plans in fiscal 2009; all other

plans and years assume the required minimum contribution will be contributed. Also included are expected interest payments on long-term debt.

Approximately \$172.4 million in principal amount of our outstanding long term debt will become due in the next fiscal year. We expect that we will need additional financing in the future to refinance this indebtedness and to provide liquidity to support our operations. Based on the results of our operations and financial condition, we believe that under normal market conditions, we should be able to obtain financing in amounts necessary to refinance our existing indebtedness as it matures and to otherwise meet the liquidity needs of our business. However, the financial markets have been subject to significant disruption in recent months. Continued weakness in the general economic conditions and/or United States or global financial markets could adversely affect our ability to raise capital on favorable terms or at all. From time to time we have relied, and may also rely in the future, on access to financial markets as a source of liquidity for working capital requirements, acquisitions and general

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corporate purposes. Longer term volatility and continued disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect our access to the liquidity needed for our businesses in the longer term. Such disruptions could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. The disruptions in the capital and credit markets have also resulted in higher interest rates on publicly issued debt securities and increased costs under credit facilities. Continuation of these disruptions would increase our interest expense and capital costs and could adversely affect our results of operations and financial position including our ability to grow our business through acquisitions.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financings, other than the minimum operating lease commitments included per the above Contractual Obligations table. We have no subsidiaries that are not included in our financial statements, nor do we 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) 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 price, 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 insurance coverage for such matters; (e) the effect of fluctuations in currency exchange rates upon our foreign operations; (f) 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; (g) risks and uncertainties associated with our ongoing acquisition and divestiture activities; (h) risks related to the adequacy of our contingent liabilities, including for asbestos-related claims; and (i) 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, 2008, 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, 2008.

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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, 2009 (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, 2009 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

Certain of our wholly-owned subsidiaries, principally Bondex International, Inc. (collectively referred to as our subsidiaries), are defendants in various asbestos-related bodily injury lawsuits filed in various state courts with the vast majority of current claims pending in six states—Texas, Florida, Mississippi, Maryland, Illinois and Ohio. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposures to asbestos-containing products previously manufactured by our subsidiaries or others.

As of February 28, 2009, our subsidiaries had a total of 10,281 active asbestos cases compared to a total of 11,350 cases as of February 29, 2008. For the quarter ended February 28, 2009, our subsidiaries secured dismissals and/or settlements of 228 cases and made total payments of \$19.8 million, which included defense-related payments of \$6.9 million. For the comparable period ended February 29, 2008, dismissals and/or settlements covered 225 cases and total payments were \$18.7 million, which included defense-related payments of \$9.4 million. For the nine months ended February 28, 2009, our subsidiaries secured dismissals and/or settlements of 2,253 cases and made total payments of \$52.2 million, which included defense-related payments of \$19.7 million. For the comparable period ended February 29, 2008, dismissals and/or settlements covered 882 cases and total payments were \$67.6 million, which included defense-related payments of \$32.0 million.

Of the 2,253 cases that were dismissed in the nine months ended February 28, 2009, 1,420 were non-malignancies or unknown disease cases that had been maintained on an inactive docket in Ohio and were administratively dismissed by the Cuyahoga County Court of Common Pleas during our second fiscal quarter ended November 30, 2008. These claims were dismissed without prejudice and may be re-filed should the claimants involved be able to demonstrate disease in accordance with medical criteria laws established in the state of Ohio.

During the quarter ended February 28, 2009, one payment totaling \$3.6 million was made to satisfy an adverse judgment in a previous trial that occurred in calendar 2006 in California. This payment, which included a significant amount of accrued pre-judgment interest as required by California law, was made on December 8, 2008,

approximately two and a half years after the adverse verdict and after all post-trial and appellate remedies had been exhausted. Such satisfaction of judgment amounts are not included in incurred costs until available appeals are exhausted and the final payment amount is determined. As a result, the timing and amount of any such payments could have a significant impact on quarterly settlement costs.

During the prior fiscal year, our subsidiaries incurred higher year-over-year, defense-related payments as a result of implementing various changes to our management and defense of asbestos claims, including a transition to a new claims intake and database service provider. To facilitate that transition and other related changes, we

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incurred duplicate defense-related payments approximating \$3.0 million during last year's second fiscal quarter. The transition was completed during the quarter ended February 29, 2008.

Excluding defense-related payments, the average payment made to settle or dismiss a case approximated \$57,000 and \$41,000 for each of the quarters ended February 28, 2009 and February 29, 2008, respectively. The amount and timing of dismissals and settlements can fluctuate significantly from period to period, resulting in volatility in the average cost to resolve a case in any given quarter or year. In addition, in some jurisdictions, cases may involve more than one individual claimant. As a result, settlement or dismissal payments made on a per case basis are not necessarily reflective of the payment amounts on a per claimant basis. For example, the amount paid to settle or dismiss a case can vary widely depending on a variety of factors, including the mix of malignancy and non-malignancy claimants, and the amount of defense expenditures incurred during the period.

For additional information on our asbestos litigation, including a discussion of our asbestos related loss contingencies and a discussion of certain of our subsidiaries complaint against certain third-party insurers, see Note F of the Notes to Consolidated Financial Statements.

EIFS Litigation

As of February 28, 2009, Dryvit, one of our wholly owned subsidiaries, was a defendant or co-defendant in various single family residential exterior insulated finish systems (EIFS) cases, the majority of which are pending in the southeastern region of the country. Dryvit is also defending EIFS lawsuits involving commercial structures, townhouses and condominiums. The vast majority of Dryvit's EIFS lawsuits seek monetary relief for water intrusion related property damages, although some claims in certain lawsuits allege personal injuries from exposure to mold.

Third party excess insurers have historically paid varying shares of Dryvit's defense and settlement costs in the individual commercial and residential EIFS lawsuits under various cost-sharing agreements. Dryvit has assumed a greater share of the costs associated with its EIFS litigation as it seeks funding commitments from our third party excess insurers and will likely continue to do so pending the outcome of coverage litigation involving these same third party insurers. This coverage litigation, Dryvit Systems, Inc. et al. v. Chubb Custom Insurance Company et al, Case No. CV 05 578004, is pending in the Cuyahoga County Court of Common Pleas. In accordance with a Court order, the parties filed dispositive motions on certain of the coverage issues. Oral argument on these motions was completed on September 2, 2008. The parties currently await a ruling on their respective summary judgment motions, after which they will participate in a court-ordered and agreed mediation. Discovery is stayed in the meantime. A trial date has not yet been scheduled. If mediation is not successful, the parties will resume discovery and a trial date will be scheduled.

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.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks, in addition to the other information set forth in this report and the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2008.

Our operations have been adversely affected by recent global market and economic conditions.

The worldwide recession has had an adverse effect on our operating results, particularly on our consumer products segment, where sales and earnings have declined during recent periods. Our industrial segment has also

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felt the impact of recession as sales growth has slowed over prior year's levels. We anticipate that our operations will continue to be adversely affected by global economic conditions during the remainder of fiscal 2009. The recession has resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and difficulty in managing inventory levels and collection of customer receivables. We also have experienced, and expect to continue to experience, increased competitive pricing pressure and customer turnover. In addition, customer difficulties have resulted, and could result in the future, in increases in bad debt write-offs and adjustments to our allowance for doubtful accounts receivable. We have also incurred severance and other expenses resulting from adjustments in certain RPM businesses to address the deteriorating business environment.

We may not have access to capital in the future due to changes in general economic conditions.

We expect that we will need additional financing in the future to provide liquidity to conduct our operations, expand our business or refinance existing indebtedness. Any sustained weakness in the general economic conditions and/or United States or global financial markets could adversely affect our ability to raise capital on favorable terms or at all. From time to time we have relied, and may also rely in the future, on access to financial markets as a source of liquidity for working capital requirements, acquisitions and general corporate purposes. Our access to funds under our Credit Facility is dependent on the ability of the financial institutions that are parties to those facilities 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 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. Longer term volatility and continued disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect our access to the liquidity needed for our businesses in the longer term. Such disruptions could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. The disruptions in the capital and credit markets have also resulted in higher interest rates on publicly issued debt securities and increased costs under credit facilities. Continuation of these disruptions would increase our interest expense and capital costs and could adversely affect our results of operations and financial position including our ability to grow our business through acquisitions.

Volatility in the equity markets or interest rates could substantially increase our pension costs and required pension contributions.

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.

Table of Contents**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 2009:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(2)
December 1, 2008 through December 31, 2008				
January 1, 2009 through January 31, 2009	340	\$ 12.31		
February 1, 2009 through February 28, 2009				
Total-Third Quarter	340	\$ 12.31		

- (1) A total of 340 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 2004 Omnibus Equity Plan.
- (2) Refer to Note L of the Notes to Consolidated Financial Statements for further information regarding our stock repurchase program.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Seventh Amendment to RPM International Inc. 1997 Restricted Stock Plan, effective December 31, 2008.(x)
10.2	Amendment Number One to RPM International Inc. 2007 Restricted Stock Plan, effective December 31, 2008.(x)
10.3	Amendment Number Two to the RPM International Inc. 2003 Restricted Stock Plan for Directors, effective December 31, 2008.(x)
10.4	RPM International Inc. Amended and Restated 2004 Omnibus Equity and Incentive Plan, effective December 31, 2008.(x)
10.5	

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- RPM International Inc. 2005 Deferred Compensation Plan, as Amended and Restated Generally, effective January 1, 2005.(x)
- 10.6 Amended and Restated Employment Agreement by and between the Company and Frank C. Sullivan, Chairman and Chief Executive Officer, effective December 31, 2008.(x)
- 10.7 Form of Amended and Restated Employment Agreement, by and between the Company and each of Ronald A. Rice, President and Chief Operating Officer; P. Kelly Tompkins, Executive Vice President-Administration and Chief Financial Officer; Paul G.P. Hoogenboom, Senior Vice President-Manufacturing and Operations, Chief Information Officer; and Stephen J. Knoop, Senior Vice President-Corporate Development.(x)
- 10.8 Amendment No. 3 to Amended and Restated Receivables Purchase Agreement, dated February 27, 2009, which is incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on March 5, 2009 (File No. 001-14187).
- 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)

(x) Filed herewith.

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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

P. Kelly Tompkins
Executive Vice President Administration and Chief Financial Officer

By: /s/ P. Kelly Tompkins

Dated: April 8, 2009