

RPM INTERNATIONAL INC/DE/  
Form 10-Q  
January 08, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

b **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2012,

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)

**P.O. BOX 777;**

**2628 PEARL ROAD;**

**MEDINA, OHIO**  
(Address of principal executive offices)

**02-0642224**  
(IRS Employer

Identification No.)

**44258**  
(Zip Code)

**(330) 273-5090**

(Registrant's telephone number including area code)

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**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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 January 4, 2013

132,354,215 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.

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****RPM INTERNATIONAL INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(In thousands, except per share amounts)*

	November 30, 2012 (Unaudited)	May 31, 2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 261,940	\$ 315,968
Trade accounts receivable (less allowances of \$29,226 and \$26,507, respectively)	727,897	745,541
Inventories	545,678	489,978
Deferred income taxes	21,041	19,868
Prepaid expenses and other current assets	241,984	239,982
<b>Total current assets</b>	<b>1,798,540</b>	<b>1,811,337</b>
<b>Property, Plant and Equipment, at Cost</b>	<b>1,138,474</b>	<b>1,050,965</b>
Allowance for depreciation and amortization	(663,784)	(632,133)
<b>Property, plant and equipment, net</b>	<b>474,690</b>	<b>418,832</b>
<b>Other Assets</b>		
Goodwill	1,120,437	849,346
Other intangible assets, net of amortization	478,212	345,620
Other	93,691	134,885
<b>Total other assets</b>	<b>1,692,340</b>	<b>1,329,851</b>
<b>Total Assets</b>	<b>\$ 3,965,570</b>	<b>\$ 3,560,020</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 316,105	\$ 391,467
Current portion of long-term debt	2,068	2,584
Accrued compensation and benefits	127,447	166,178
Accrued loss reserves	60,629	54,652
Other accrued liabilities	192,360	144,911
<b>Total current liabilities</b>	<b>698,609</b>	<b>759,792</b>
<b>Long-Term Liabilities</b>		
Long-term debt, less current maturities	1,413,101	1,112,952
Other long-term liabilities	409,538	346,967
Deferred income taxes	51,780	26,326
<b>Total long-term liabilities</b>	<b>1,874,419</b>	<b>1,486,245</b>
<b>Stockholders Equity</b>		
Preferred stock, par value \$0.01; authorized 50,000 shares; none issued		

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Common stock, par value \$0.01; authorized 300,000 shares; issued 136,601 and outstanding 132,347 as of November 2012; issued 135,741 and outstanding 131,555 as of May 2012	1,323	1,316
Paid-in capital	753,693	742,895
Treasury stock, at cost	(70,574)	(69,480)
Accumulated other comprehensive (loss)	(145,835)	(177,893)
Retained earnings	704,345	686,818
<b>Total RPM International Inc. stockholders equity</b>	<b>1,242,952</b>	<b>1,183,656</b>
<b>Noncontrolling interest</b>	<b>149,590</b>	<b>130,327</b>
<b>Total Equity</b>	<b>1,392,542</b>	<b>1,313,983</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 3,965,570</b>	<b>\$ 3,560,020</b>

The accompanying notes to Consolidated Financial Statements are an integral part of these statements.

**RPM INTERNATIONAL INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

*(In thousands, except per share amounts)*

	Three Months Ended November 30,		Six Months Ended November 30,	
	2012	2011	2012	2011
Net Sales	\$ 1,017,426	\$ 916,085	\$ 2,064,140	\$ 1,902,003
Cost of Sales	592,425	547,064	1,205,259	1,123,356
<b>Gross Profit</b>	<b>425,001</b>	<b>369,021</b>	<b>858,881</b>	<b>778,647</b>
Selling, General and Administrative Expenses	325,761	282,154	636,701	556,097
Interest Expense	19,868	17,909	38,298	35,715
Investment (Income), Net	(1,364)	(1,045)	(8,338)	(1,069)
Other Expense (Income), Net	9,694	(6,167)	49,116	(6,970)
<b>Income Before Income Taxes</b>	<b>71,042</b>	<b>76,170</b>	<b>143,104</b>	<b>194,874</b>
Provision for Income Taxes	24,955	22,251	59,150	57,615
<b>Net Income</b>	<b>46,087</b>	<b>53,919</b>	<b>83,954</b>	<b>137,259</b>
Less: Net Income Attributable to Noncontrolling Interests	4,419	3,988	8,373	10,517
<b>Net Income Attributable to RPM International Inc. Stockholders</b>	<b>\$ 41,668</b>	<b>\$ 49,931</b>	<b>\$ 75,581</b>	<b>\$ 126,742</b>
<b>Average Number of Shares of Common Stock Outstanding:</b>				
Basic	128,885	127,986	128,844	128,048
Diluted	129,700	128,432	129,635	128,537
<b>Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders:</b>				
Basic	\$ 0.32	\$ 0.38	\$ 0.57	\$ 0.97
Diluted	\$ 0.31	\$ 0.38	\$ 0.57	\$ 0.97
<b>Cash Dividends Declared per Share of Common Stock</b>	<b>\$ 0.225</b>	<b>\$ 0.215</b>	<b>\$ 0.440</b>	<b>\$ 0.425</b>

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

**RPM INTERNATIONAL INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)***(In thousands)*

	<b>Three Months Ended November 30,</b>		<b>Six Months Ended November 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Net Income</b>	\$ 46,087	\$ 53,919	\$ 83,954	\$ 137,259
Other Comprehensive Income, Net of Tax:				
Foreign Currency Translation Adjustments	(2,036)	(64,313)	37,194	(73,417)
Pension and Other Postretirement Benefit Liability Adjustments	3,378	3,181	4,584	5,399
Unrealized Gain (Loss) on Securities	2,076	(7,719)	1,724	(10,972)
Unrealized (Loss) on Derivatives	(744)	(2,793)	(557)	(3,872)
<b>Total Other Comprehensive Income</b>	<b>2,674</b>	<b>(71,644)</b>	<b>42,945</b>	<b>(82,862)</b>
<b>Total Comprehensive Income</b>	<b>48,761</b>	<b>(17,725)</b>	<b>126,899</b>	<b>54,397</b>
Less: Comprehensive Income Attributable to Noncontrolling Interests	6,230	1,535	19,263	8,729
<b>Comprehensive Income Attributable to RPM International Inc. Stockholders</b>	<b>\$ 42,531</b>	<b>\$ (19,260)</b>	<b>\$ 107,636</b>	<b>\$ 45,668</b>

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

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

(Unaudited)

*(In thousands)*

	Six Months Ended November 30,	
	2012	2011
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 83,954	\$ 137,259
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	27,644	25,891
Amortization	13,282	11,027
Impairment on investment in Kemrock	51,092	
Deferred income taxes	3,973	(1,620)
Stock-based compensation expense	8,135	6,692
Other	(685)	(5,204)
<b>Changes in assets and liabilities, net of effect from purchases and sales of businesses:</b>		
Decrease in receivables	51,830	76,864
(Increase) in inventory	(33,198)	(24,687)
Decrease (increase) in prepaid expenses and other current and long-term assets	14,799	(10,040)
(Decrease) in accounts payable	(89,300)	(46,345)
(Decrease) in accrued compensation and benefits	(43,108)	(36,662)
Increase (decrease) in accrued loss reserves	5,393	(5,313)
Increase (decrease) in other accrued liabilities	36,663	(14,952)
Other	(2,853)	(2,880)
<b>Cash From Operating Activities</b>	<b>127,621</b>	<b>110,030</b>
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(30,849)	(18,353)
Acquisition of businesses, net of cash acquired	(396,785)	(132,905)
Purchase of marketable securities	(68,442)	(39,337)
Proceeds from sales of marketable securities	58,194	36,937
Other	4,103	4,072
<b>Cash (Used For) Investing Activities</b>	<b>(433,779)</b>	<b>(149,586)</b>
<b>Cash Flows From Financing Activities:</b>		
Additions to long-term and short-term debt	334,247	7,215
Reductions of long-term and short-term debt	(41,269)	(22,845)
Cash dividends	(58,054)	(55,620)
Repurchase of stock	(1,094)	(5,999)
Other	5,650	3,181
<b>Cash From (Used For) Financing Activities</b>	<b>239,480</b>	<b>(74,068)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>12,650</b>	<b>(20,432)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(54,028)</b>	<b>(134,056)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>315,968</b>	<b>435,011</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 261,940</b>	<b>\$ 300,955</b>



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

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**November 30, 2012**

**(Unaudited)**

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

Our financial statements include all of our majority-owned subsidiaries, except for certain subsidiaries that were deconsolidated on May 31, 2010 (please refer to Note 3). We account for our investments in less-than-majority-owned joint ventures, for which we have the ability to exercise significant influence, under the equity method. Effects of transactions between related companies, except for certain subsidiaries that were deconsolidated, are eliminated in consolidation.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by Generally Accepted Accounting Principles in the U.S. ( GAAP ) for complete financial statements. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three- and six-month periods ended November 30, 2012 and 2011. 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, 2012.

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

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

**NOTE 2 INVESTMENT IN KEMROCK INDUSTRIES AND EXPORTS LTD.**

During the second quarter of fiscal 2012, we increased our ownership in Kemrock Industries and Exports Limited ( Kemrock ) to over 20% of Kemrock's outstanding shares of common stock. Kemrock is one of India's leading manufacturers of high performance reinforced polymer composites. At that time, and as a result of our ownership exceeding 20% of their outstanding shares, we changed our method of accounting for our investment in Kemrock stock from an available for sale security to the equity method.

Additionally, during fiscal 2012, we entered into three other, separate agreements with Kemrock. First, we agreed to loan Kemrock \$15.0 million, which was to be repaid in cash, or alternatively, goods and commercial materials, no later than September 15, 2012. The loan is classified as a note receivable and is included in prepaid and other current assets in our Consolidated Balance Sheet. Second, we entered into a global depository receipt ( GDR ) Purchase Agreement with Kemrock, whereby we purchased 693,072 GDRs of Kemrock for an aggregate purchase price of approximately \$7.2 million. The GDRs are included in our investment in Kemrock, which had a carrying value at the end of fiscal 2012 of \$42.2 million, and are classified as other long-term assets in our Consolidated Balance Sheet. Lastly, during fiscal 2012 we invested \$22.7 million in 5.5% convertible

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

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

bonds issued by Kemrock. The bonds are convertible into ordinary shares or GDRs each representing one ordinary share of Kemrock stock, and may be converted at any time on or after June 4, 2012 and up to the close of business on June 12, 2017. Our investment in Kemrock's convertible bonds is classified in other long-term assets in our Consolidated Balance Sheet.

The economy and financial markets in India have experienced significant deterioration in recent months, including a devaluation of the Indian rupee versus the U.S. dollar. Additionally, the market value of shares of Kemrock common stock declined significantly, from 531.0 rupees per share as of May 31, 2012 to 56.70 rupees per share as of November 30, 2012. The majority of the decline in the market value of Kemrock shares began to occur during the month of August 2012. As a result of these factors, we determined that it was appropriate to record an impairment loss during the three and six month periods ended November 30, 2012 of approximately \$10.1 million and \$42.2 million, respectively, on our equity method investment. The loss is classified in other (income) expense, net in our Consolidated Statements of Income. Please see Note 11, where information related to this investment is more fully described.

As of November 30, 2012, Kemrock had repaid approximately \$5.0 million of the \$15.0 million loan. We anticipate that we will receive approximately half of the remaining outstanding loan amount of \$10.0 million in goods and materials by the end of the current fiscal year, and therefore have recorded a loss of \$5.0 million for the amount deemed uncollectible during our first quarter ended August 31, 2012. The loss is classified in selling, general and administrative expense in our Consolidated Statements of Income.

Lastly, during the three and six month periods ended November 30, 2012, we recorded a loss of approximately \$0.8 million and \$9.0 million, respectively, associated with the decline in the value of the conversion option feature associated with the 5.5% convertible bonds. Please see Note 6, where information related to this investment is more fully described.

**NOTE 3 DECONSOLIDATION OF SPECIALTY PRODUCTS HOLDING CORP. ( SPHC )**

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

We had a net receivable from SPHC at May 31, 2010, that we expect may change before the bankruptcy proceedings have been finalized. The potential change relates to our indemnification of an insurer on appeal bonds pertaining to Bondex's appeal of two asbestos cases that had been underway prior to the bankruptcy filing, neither of which are material in amount. During our 2012 third fiscal quarter, one of the appeal bonds was satisfied, and one remains outstanding. Included in the net amount due from SPHC are receivables and payables, which we concluded we have the right to report as a net amount based on several factors, including the fact that all amounts are determinable, the balances are due to and from our subsidiaries, and we have been given reasonable assurance that netting the applicable receivables and payables would remain legally enforceable. We analyzed our net investment in SPHC as of May 31, 2010, which included a review of our advances to SPHC, an assessment of the collectibility of our net receivables due from SPHC, and a computation of the gain to be

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recorded upon deconsolidation based on the carrying amount of our investment in SPHC. In accordance with GAAP, the gain on deconsolidation related to the carrying amount of net assets of SPHC at May 31, 2010, was calculated in accordance with ASC 810-10-40-5, as follows:

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

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

As a result of the combined analyses of each of the components of our net investment in SPHC, we recorded a net loss of approximately \$7.9 million, which was reflected in Other Expense, Net, during the fourth fiscal quarter of the year ended May 31, 2010. No changes have been made to these amounts through November 30, 2012.

**NOTE 4 NEW ACCOUNTING PRONOUNCEMENTS**

In June 2011, the FASB issued amended disclosure requirements for the presentation of other comprehensive income (OCI) and accumulated other comprehensive income (AOCI). OCI is comprised of costs, expenses, gains and losses that are included in comprehensive income but excluded from net income, and AOCI comprises the aggregated balances of OCI in equity. The amended guidance eliminated the option to present period changes (OCI) as part of the Statement of Changes in Equity. Under the amended guidance, all period changes (OCI) are to be presented either in a single continuous statement of comprehensive income, or in two separate but consecutive financial statements. Only summary totals are to be included in the AOCI section of the Statement of Changes in Equity. In December 2011, the FASB deferred the requirement to present reclassifications from AOCI on the face of the Consolidated Statement of Income. We adopted these provisions as of June 1, 2012. There was no impact on our consolidated financial results as the amendments relate only to changes in financial statement presentation.

**NOTE 5 INVENTORIES**

Inventories were composed of the following major classes:

	November 30, 2012	May 31, 2012
	(In thousands)	
Raw material and supplies	\$ 193,627	\$ 160,869
Finished goods	352,051	329,109
<b>Total Inventory</b>	<b>\$ 545,678</b>	<b>\$ 489,978</b>



## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6 MARKETABLE SECURITIES

The following tables summarize marketable securities held at November 30, 2012 and May 31, 2012 by asset type:

	Available-For-Sale Securities			Fair Value (Net Carrying Amount)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(In thousands)</i>				
<b>November 30, 2012</b>				
Equity securities:				
Stocks foreign	\$ 1,321	\$ 235	\$ (12)	\$ 1,544
Stocks domestic	27,639	2,385	(691)	29,333
Mutual funds foreign	20,072	2,550		22,622
Mutual funds domestic	43,272	850	(5)	44,117
Total equity securities	92,304	6,020	(708)	97,616
Fixed maturity:				
U.S. treasury and other government	20,565	405	(32)	20,938
Kemrock convertible bonds	14,273			14,273
Corporate bonds	1,824	286	(1)	2,109
Foreign bonds	38	4		42
Mortgage-backed securities	128	65	(2)	191
Total fixed maturity securities	36,828	760	(35)	37,553
Total	\$ 129,132	\$ 6,780	\$ (743)	\$ 135,169

	Available-For-Sale Securities			Fair Value (Net Carrying Amount)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(In thousands)</i>				
<b>May 31, 2012</b>				
Equity securities:				
Stocks foreign	\$ 1,016	\$ 79	\$	\$ 1,095
Stocks domestic	24,380	2,776	(1,046)	26,110
Mutual funds foreign	17,489	521	(936)	17,074
Mutual funds domestic	39,246	1,114	(1,077)	39,283
Total equity securities	82,131	4,490	(3,059)	83,562
Fixed maturity:				
U.S. treasury and other government	19,347	530	(12)	19,865
Kemrock convertible bonds	13,670			13,670

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Coporate bonds	2,305	349	(5)	2,649
Foreign bonds	38	1		39
Mortgage-backed securities	241	105	(2)	344
Total fixed maturity securities	35,601	985	(19)	36,567
Total	\$ 117,732	\$ 5,475	\$ (3,078)	\$ 120,129

Marketable securities, included in other current and long-term assets, totaling \$120.9 million and \$14.3 million at November 30, 2012, respectively, and \$106.5 million and \$13.6 million at May 31, 2012, respectively, are

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

composed of available-for-sale securities and are reported at fair value. In April 2012, we invested \$22.7 million in 5.5% convertible bonds issued by Kemrock. The bonds are convertible into ordinary shares or global depository receipts each representing one ordinary share of Kemrock stock, and may be converted at any time on or after June 4, 2012 and up to the close of business on June 12, 2017. Our investment in Kemrock convertible bonds is an available for sale security, which reflects the offsetting value of the discount on the bond as of the balance sheet date, and is classified in other long-term assets in our Consolidated Balance Sheet.

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

Gross gains and losses realized on sales of investments were insignificant for the quarter ended November 30, 2012. Gross gains and losses realized on sales of investments were \$1.9 million and \$1.9 million, respectively, for the quarter ended November 30, 2011. During the second quarter of fiscal 2013 and 2012, we recognized losses of \$0.5 million and \$0.3 million, respectively, for securities deemed to have other-than-temporary impairments. These amounts are included in investment expense (income), net in the Consolidated Statements of Income.

Gross gains and losses realized on sales of investments were \$5.0 million and \$0.4 million, respectively, for the six months ended November 30, 2012. Gross gains and losses realized on sales of investments were \$3.8 million and \$4.7 million, respectively, for the six months ended November 30, 2011. During the first half of fiscal 2013 and 2012, we recognized losses of \$0.6 million and \$0.7 million, respectively, for securities deemed to have other-than-temporary impairments.

Summarized below are the securities we held at November 30, 2012 and May 31, 2012 that were in an unrealized loss position and that were included in accumulated other comprehensive income, aggregated by the length of time the investments had been in that position:

	November 30, 2012		May 31, 2012	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(In thousands)</i>				
Total investments with unrealized losses	\$ 20,227	\$ (743)	\$ 43,772	\$ (3,078)
Unrealized losses with a loss position for less than 12 months	19,531	(533)	42,114	(2,596)
Unrealized losses with a loss position for more than 12 months	696	(210)	1,658	(482)

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 November 30, 2012 were generally related to the volatility in valuations over the last several months for a portion of our portfolio of investments in marketable securities. The unrealized losses generally relate to investments whose fair values at November 30, 2012 were less than 15% below their original cost or have been in a loss position for less than six consecutive months. Although we have begun to see recovery in



## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

general economic conditions over the past year, if we were to experience continuing or significant unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.

The net carrying values of debt securities at November 30, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

<i>(In thousands)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due:		
Less than one year	\$ 1,627	\$ 1,626
One year through five years	28,849	29,096
Six years through ten years	4,672	4,888
After ten years	1,680	1,943
	\$ 36,828	\$ 37,553

**NOTE 7 FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

Level 3 Inputs Instruments with primarily unobservable value drivers.



## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at November 30, 2012
U.S. Treasury and other government	\$	\$ 20,938	\$	\$ 20,938
Foreign bonds		42		42
Mortgage-backed securities		191		191
Corporate bonds		2,109		2,109
Stocks foreign	1,544			1,544
Stocks domestic	29,333			29,333
Mutual funds foreign		22,622		22,622
Mutual funds domestic		44,117		44,117
Foreign currency forward contract		(2,567)		(2,567)
Cross-currency swap		(10,638)		(10,638)
Investment in Kemrock convertible debt		14,273		14,273
<b>Total</b>	<b>\$ 30,877</b>	<b>\$ 91,087</b>	<b>\$</b>	<b>\$ 121,964</b>

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at May 31, 2012
U.S. Treasury and other government	\$	\$ 19,865	\$	\$ 19,865
Foreign bonds		39		39
Mortgage-backed securities		344		344
Corporate bonds		2,649		2,649
Stocks foreign	1,095			1,095
Stocks domestic	26,110			26,110
Mutual funds foreign		17,074		17,074
Mutual funds domestic		39,283		39,283
Foreign currency forward contract		(1,356)		(1,356)
Cross-currency swap		(2,159)		(2,159)
Conversion option, Kemrock 5.5% bonds			9,031	9,031
Investment in Kemrock convertible debt		13,670		13,670
<b>Total</b>	<b>\$ 27,205</b>	<b>\$ 89,409</b>	<b>\$ 9,031</b>	<b>\$ 125,645</b>

Our marketable securities are composed of mainly available-for-sale securities, and are valued using a market approach based on quoted market prices for identical instruments. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For most of our financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely

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accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

Our cross-currency swap is a liability that has a fair value of \$10.6 million at November 30, 2012, that was originally designed to fix our interest and principal payments in euros for the life of our unsecured 6.70% senior

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

notes due November 1, 2015, which resulted in an effective euro fixed-rate borrowing of 5.31%. The basis for determining the rates for this swap included three legs at the inception of the agreement: the U.S. dollar (USD) fixed rate to a USD floating rate; the euro floating to euro fixed rate; and the dollar to euro basis fixed rate at inception. Therefore, we essentially exchanged fixed payments denominated in USD for fixed payments denominated in euros, paying fixed euros at 5.31% and receiving fixed USD at 6.70%. The ultimate payments are based on the notional principal amounts of 150 million USD and approximately 125 million euros. There will be an exchange of the notional amounts at maturity. The rates included in this swap are based upon observable market data, but are not quoted market prices, and therefore, the cross-currency swap is considered a Level 2 liability on the fair value hierarchy. Additionally, this cross-currency swap has been designated as a hedging instrument, and is classified as other long-term liabilities in our Consolidated Balance Sheets.

Our investment in Kemrock 5.5% convertible bonds includes the fair value of the conversion option feature as of the balance sheet date, and is classified in other long-term assets in our Consolidated Balance Sheet. During the three and six month periods ended November 30, 2012, we recognized a loss of approximately \$0.8 million and \$9.0 million, respectively, resulting from the decline in the fair value of the conversion option feature associated with the bond, driven primarily from the decline in the market value of Kemrock common stock, from 531.0 rupees per share at May 31, 2012 to 56.70 rupees per share at November 30, 2012. The majority of the decline in the market value of Kemrock shares began to occur during the Month of August 2012. This amount is reflected in other expense (income) in the Consolidated Statements of Income.

The carrying value of our current financial instruments, which include cash and cash equivalents, marketable securities, trade accounts receivable, accounts payable and short-term debt approximates fair value because of the short-term maturity of these financial instruments. At November 30, 2012 and May 31, 2012, the fair value of our long-term debt was estimated using active market quotes, based on our current incremental borrowing rates for similar types of borrowing arrangements, which are considered to be Level 2 inputs. Based on the analysis performed, the fair value and the carrying value of our financial instruments and long-term debt as of November 30, 2012 and May 31, 2012 are as follows:

<i>(In thousands)</i>	At November 30, 2012	
	Carrying Value	Fair Value
Cash and cash equivalents	\$ 261,940	\$ 261,940
Marketable equity securities	97,616	97,616
Marketable debt securities	37,553	37,553
Long-term debt, including current portion	1,415,169	1,554,588

<i>(In thousands)</i>	At May 31, 2012	
	Carrying Value	Fair Value
Cash and cash equivalents	\$ 315,968	\$ 315,968
Marketable equity securities	83,562	83,562
Marketable debt securities	36,567	36,567
Long-term debt, including current portion	1,115,536	1,232,180

**NOTE 8 REORGANIZATION PROCEEDINGS OF CERTAIN SUBSIDIARIES**

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

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

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

On May 31, 2010, Bondex and its parent, SPHC, filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. SPHC is the parent company of Bondex and is also the parent company for various operating companies that are not part of the reorganization filing, including Chemical Specialties Manufacturing Corp.; Day-Glo Color Corp.; Dryvit Holdings, Inc.; Guardian Protection Products Inc.; Kop-Coat Inc.; TCI, Inc. and RPM Wood Finishes Group, Inc. SPHC and Bondex (the filing entities) took this action to permanently and comprehensively resolve all pending and future asbestos-related liability claims associated with Bondex and SPHC-related products. As a result of the filing, all Bondex and SPHC asbestos personal injury lawsuits have been stayed due to the imposition of an automatic stay applicable in bankruptcy cases, with the exception of the cases referenced in Note 3 with respect to which the stay was lifted. In addition, at the request of SPHC and Bondex, the bankruptcy court has entered orders staying all claims against RPM International Inc. and its affiliates that are derivative of the asbestos claims against SPHC and Bondex. Through the Chapter 11 proceedings, the filing entities intend ultimately to establish a trust in accordance with section 524(g) of the Bankruptcy Code and seek the imposition of a channeling injunction that will direct all future SPHC-related and Bondex-related claims to the trust. It is anticipated that the trust will compensate claims at appropriate values established by the trust documents and approved by the bankruptcy court. At this time, it is not possible to predict how long the proceedings will last, the form of any ultimate resolution or when an ultimate resolution might occur.

Prior to the bankruptcy filing, the filing entities had engaged in a strategy of litigating asbestos-related products liability claims brought against them. Claims paid during the year ended May 31, 2010, prior to the bankruptcy filing, were \$92.6 million, which included defense-related payments during the year of \$42.6 million. With the exception of the appeal bond satisfied during our 2012 third fiscal quarter and the potential payment described in Note 3, no claims have been paid since the bankruptcy filing and it is not contemplated that any claims will be paid until a plan of reorganization is confirmed and an asbestos trust is established and operating.

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

As a result of their bankruptcy filing, SPHC and Bondex are precluded from paying dividends to shareholders and from making payments on any pre-bankruptcy filing accounts or notes payable that are due and owing to any other entity within the RPM group of companies (the Pre-Petition Intercompany Payables) or other pre-petition creditors during the pendency of the bankruptcy case, without the Bankruptcy Court's approval. Moreover, no assurances can be given that any of the Pre-Petition Intercompany Payables will ever be paid or otherwise satisfied.

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

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

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

SPHC has assessed its liquidity position as a result of the bankruptcy filing and believes that it can continue to fund its and its subsidiaries operating activities and meet its debt and capital requirements for the foreseeable future.

*Historical Asbestos Liability Reserve* In fiscal 2006, management retained Crawford & Winiarski ( C&W ), an independent, third-party consulting firm with expertise in the area of asbestos valuation work, to assist it in calculating an estimate of Bondex 's liability for unasserted-potential-future-asbestos-related claims. C&W 's methodology to project Bondex 's liability for unasserted-potential-future-asbestos-related claims included an analysis of: (a) a widely accepted forecast of the population likely to have been exposed to asbestos; (b) epidemiological studies estimating the number of people likely to develop asbestos-related diseases; (c) the historical rate at which mesothelioma incidences resulted in the payment of claims by Bondex; (d) the historical settlement averages to value the projected number of future compensable mesothelioma claims; (e) the historical ratio of mesothelioma-related indemnity payments to non-mesothelioma indemnity payments; and (f) the historical defense costs and their relationship with total indemnity payments. Based upon the results of this analysis, Bondex recorded an accrued liability for asbestos claims through 2016 as of May 31, 2006 of \$421.3 million. This amount was calculated on a pretax basis and was not discounted for the time value of money.

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

**NOTE 9 CONTINGENCIES AND OTHER ACCRUED LOSSES**

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

We also offer warranty programs at several of our industrial businesses and have established a product warranty liability. We review this liability for adequacy on a quarterly basis and adjust it as necessary. The primary factors that could affect this liability may include changes in the historical system performance rate as well as the costs of replacement. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted, as required, to reflect actual experience. It is probable that we will incur future losses related to warranty claims we have received but that have not been fully investigated and related to claims not yet received. While our warranty liability represents our best estimate at November 30, 2012, we can provide no assurances that we will not experience material claims in the future or that we will not incur significant costs to resolve such claims beyond the amounts accrued or beyond what we may recover from our suppliers. Product warranty expense is recorded within selling, general and administrative expense.

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2012	2011	2012	2011
	(In thousands)			
Beginning Balance	\$ 14,527	\$ 16,965	\$ 14,751	\$ 17,196
Deductions (1)	(4,082)	(4,833)	(7,987)	(8,905)
Provision charged to SG&A expense	4,693	4,198	8,374	8,039
Ending Balance	\$ 15,138	\$ 16,330	\$ 15,138	\$ 16,330

(1) Primarily claims paid during the year.

In addition, like other companies participating in similar lines of business, some of our subsidiaries are involved in several proceedings relating to environmental matters. It is our policy to accrue remediation costs when it is probable that such efforts will be required and the related costs can be reasonably estimated. These liabilities are undiscounted and are not material to our financial statements during any of the periods presented.

**NOTE 10 INVESTMENT (INCOME) EXPENSE, NET**

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2012	2011	2012	2011
<i>(In thousands)</i>				
Interest (income)	\$ (1,565)	\$ (1,116)	\$ (3,860)	\$ (2,233)
(Gain) loss on sale of marketable securities	(8)	(22)	(4,592)	892
Other-than-temporary impairment on securities	450	341	564	749
Dividend (income)	(241)	(248)	(450)	(477)
Investment (income) expense, net	\$ (1,364)	\$ (1,045)	\$ (8,338)	\$ (1,069)

**NOTE 11 OTHER EXPENSE (INCOME), NET**

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2012	2011	2012	2011
<i>(In thousands)</i>				
Royalty (income), net	\$ (433)	\$ (424)	\$ (727)	\$ (748)



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Loss on Kemrock conversion option	847		9,030	
Loss (income) related to unconsolidated equity affiliates	9,280	(5,743)	40,813	(6,222)
Other expense (income), net	\$ 9,694	\$ (6,167)	\$ 49,116	\$ (6,970)

***Equity in Income of Unconsolidated Affiliates***

Beginning with our fiscal year ended May 31, 2007, we began purchasing shares of Kemrock Industries and Exports Limited ( Kemrock ) common stock. Kemrock is one of India s leading manufacturers of high performance reinforced polymer composites, and is also part of a strategic alliance with certain of our subsidiaries for licensed manufacturing and supply of molded and pultruded gratings. By May 31, 2011, we had

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

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

acquired a total of approximately 3.2 million shares of Kemrock common stock, for an accumulated cost approximating \$24.2 million, which represented approximately 18% of Kemrock's outstanding shares at that time. Our investment in Kemrock common stock had been classified in other long-term assets on our balance sheet and included with available-for-sale securities, which are carried at fair value based on quoted market prices.

During fiscal 2012, we purchased approximately 870,000 additional shares of Kemrock common stock, which increased our ownership to 23% of Kemrock's outstanding shares. Also during fiscal 2012, we entered into a GDR Purchase Agreement with Kemrock, whereby we purchased from Kemrock 693,072 GDRs of Kemrock for an aggregate purchase price of approximately \$7.2 million. We account for our investment in the Kemrock GDRs as common stock equivalents within our total investment in Kemrock.

Due to the presumption under GAAP that an entity with an ownership percentage greater than 20% has significant influence, and no other factors would refute that presumption, we changed our accounting for this investment to the equity method. Adjustments are made to our investment in order to recognize our share of Kemrock's earnings as they occur, rather than as dividends or other distributions are received. Any changes in our proportionate share of the underlying equity of Kemrock, which could result from their issuance of additional equity securities, are recognized as increases or decreases in shareholders' equity, net of any related tax effects.

As discussed in Note 2, the economy and financial markets in India have experienced significant deterioration in recent months, including a devaluation of the Indian rupee versus the U.S. dollar. Additionally, the market value of shares of Kemrock common stock declined significantly, from 531.0 rupees per share as of May 31, 2012 to 56.70 rupees per share as of November 30, 2012. The majority of the decline in the market value of Kemrock shares began to occur during the month of August 2012. As a result of these factors, we determined that it was appropriate to record an impairment loss during the three and six month periods ended November 30, 2012 of approximately \$10.1 million and \$42.2 million, respectively, on our equity method investment. The loss is classified in other (income) expense, net in our Consolidated Statements of Income.

Our investment in Kemrock is reported in our Consolidated Balance Sheet at its adjusted carrying value and classified as a long-term asset. Our investment in Kemrock had no carrying value at November 30, 2012 and a carrying value of \$42.2 million at May 31, 2012.

**NOTE 12 INCOME TAXES**

The effective income tax rate was 35.1% for the three months ended November 30, 2012 compared to an effective income tax rate of 29.2% for the three months ended November 30, 2011. The effective income tax rate was 41.3% for the six months ended November 30, 2012 compared to an effective income tax rate of 29.6% for the same period a year ago.

For the three and six months ended November 30, 2012 and 2011, respectively, the effective tax rate was reduced below the federal statutory rate due to lower effective tax rates of certain of our foreign subsidiaries, the favorable impact of certain foreign operations on our U.S. taxes, the benefit of the domestic manufacturing deduction and due to net reductions to our reserves for contingencies, including interest thereon. Additionally, for the six months ended November 30, 2012 and 2011, decreases in the effective income tax rate resulted from a reduction in the United Kingdom income tax rate.

For the three and six months ended November 30, 2012 and 2011, respectively, the effective tax rate increased principally as a result of the impact of valuation allowances associated with U.S. foreign tax credit carryforwards and certain foreign net operating losses, state and local income taxes, and non-deductible business operating expenses.

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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

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

Furthermore, for the three and six month periods ended November 30, 2012, the effective tax rate differed from the federal statutory rate as a result of valuation allowances related to losses associated with our investments in Kemrock and as a result of the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits associated with net operating losses incurred by those foreign businesses are not recognized.

As of November 30, 2012, we had unrecognized tax benefits of approximately \$7.4 million, of which approximately \$6.5 million would impact the effective tax rate, if recognized. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. At November 30, 2012 the accrual for interest and penalties was \$5.7 million. Unrecognized tax benefits, including interest and penalties, have been classified as other long-term liabilities unless expected to be paid in one year. We classified approximately \$1.5 million of our reserve for uncertain tax positions, which includes associated interest and penalties, as a current liability as this amount could be reversed during the next 12 months. We do not anticipate any other significant changes to the total unrecognized tax benefits within the next 12 months.

We, or our subsidiaries, file income tax returns in the U.S. and in various state, local and foreign jurisdictions. As of November 30, 2012 we are subject to U.S. federal income tax examinations for the fiscal years 2009 through 2012. In addition, with limited exceptions, we, or our subsidiaries, are generally subject to state and local or non-U.S. income tax examinations by tax authorities for the fiscal years 2005 through 2012.

We are currently under examination, or have been notified of an upcoming tax examination for various Non-U.S. and U.S. jurisdictions including an ongoing Internal Revenue Service ( IRS ) examination of the company s U.S. income tax returns for the fiscal 2009 and 2010 tax years. During the second quarter of fiscal 2013, the IRS proposed adjustments for the fiscal 2009 and 2010 years relating to, amongst other items, the deductibility of certain expenditures. We have evaluated the proposed adjustments for fiscal years 2009 and 2010 and have reached an informal agreement with the IRS. We expect to receive the final IRS assessment during the third the quarter of this fiscal year. We do not expect the final resolution of this IRS examination to have a material impact on our financial statements.

Although it is possible that certain tax examinations could be resolved during the next 12 months, the timing and outcomes, other than for the ongoing IRS examination as described above, are uncertain.

As of November 30, 2012, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, we intend to maintain the tax valuation allowances recorded at November 30, 2012 for those deferred tax assets until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support their reversal. These valuation allowances relate to U.S. foreign tax credit carryforwards, U.S. capital loss carryforwards, certain foreign net operating losses and net foreign deferred tax assets. A portion of the valuation allowance is associated with deferred tax assets recorded in purchase accounting for prior year acquisitions.

We include SPHC and its domestic subsidiaries (collectively, the SPHC Group ) in our consolidated federal income tax return.

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

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 13 PENSION 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 six month periods ended November 30, 2012 and 2011:

Pension Benefits	U.S. Plans Three Months Ended November 30,		Non-U.S. Plans Three Months Ended November 30,	
	2012	2011	2012	2011
	<i>(In thousands)</i>			
Service cost	\$ 6,488	\$ 4,976	\$ 1,050	\$ 966
Interest cost	4,060	3,827	1,769	2,041
Expected return on plan assets	(4,358)	(4,354)	(1,846)	(2,037)
Amortization of:				
Prior service cost	87	88	2	3
Net actuarial losses recognized	4,222	2,128	692	559
<b>Net Periodic Benefit Cost</b>	<b>\$ 10,499</b>	<b>\$ 6,665</b>	<b>\$ 1,667</b>	<b>\$ 1,532</b>

Postretirement Benefits	U.S. Plans Three Months Ended November 30,		Non-U.S. Plans Three Months Ended November 30,	
	2012	2011	2012	2011
	<i>(In thousands)</i>			
Service cost	\$ 88	\$ 104	\$ 288	\$ 192
Interest cost	88	104	289	249
Amortization of:				
Prior service (credit)	(22)	(21)		
Net actuarial (gains) losses recognized	4	(15)	114	19
<b>Net Periodic Benefit Cost</b>	<b>\$ 70</b>	<b>\$ 68</b>	<b>\$ 691</b>	<b>\$ 460</b>

Pension Benefits	U.S. Plans Six Months Ended November 30,		Non-U.S. Plans Six Months Ended November 30,	
	2012	2011	2012	2011
	<i>(In thousands)</i>			
Service cost	\$ 12,976	\$ 9,953	\$ 2,100	\$ 1,931
Interest cost	8,120	7,654	3,538	4,081
Expected return on plan assets	(8,716)	(8,708)	(3,692)	(4,073)
Amortization of:				
Prior service cost	174	176	4	6
Net actuarial losses recognized	8,444	4,255	1,384	1,119
<b>Net Periodic Benefit Cost</b>	<b>\$ 20,998</b>	<b>\$ 13,330</b>	<b>\$ 3,334</b>	<b>\$ 3,064</b>



## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Postretirement Benefits	U.S. Plans Six Months Ended November 30,		Non-U.S. Plans Six Months Ended November 30,	
	2012	2011	2012	2011
	<i>(In thousands)</i>			
Service cost	\$	\$	\$ 576	\$ 384
Interest cost	176	208	578	499
Amortization of:				
Prior service (credit)	(44)	(43)		
Net actuarial (gains) losses recognized	8	(29)	228	37
<b>Net Periodic Benefit Cost</b>	<b>\$ 140</b>	<b>\$ 136</b>	<b>\$ 1,382</b>	<b>\$ 920</b>

We previously disclosed in our financial statements for the fiscal year ended May 31, 2012 that we expected to contribute approximately \$29.9 million to our retirement plans in the U.S. and approximately \$8.3 million to plans outside the U.S. during the current fiscal year. As of November 30, 2012, we expect to contribute \$5.4 million less to our retirement plans in the U.S., for a total of \$24.5 million.

**NOTE 14 EARNINGS PER SHARE**

The following table sets forth the reconciliation of the numerator and denominator of basic and diluted earnings per share, as calculated using the two-class method, for the three and six months ended November 30, 2012 and 2011:

(In thousands, except per share amounts)	Three Months Ended November 30,		Six Months Ended November 30,	
	2012	2011	2012	2011
<b>Numerator for earnings per share:</b>				
Net income attributable to RPM International Inc. stockholders	\$ 41,668	\$ 49,931	\$ 75,581	\$ 126,742
Less: Allocation of earnings and dividends to participating securities	(929)	(979)	(1,526)	(2,297)
Net income available to common shareholders basic	40,739	48,952	74,055	124,445
Add: Undistributed earnings reallocated to unvested shareholders	2	2	2	5
Net income available to common shareholders diluted	\$ 40,741	\$ 48,954	\$ 74,057	\$ 124,450
<b>Denominator for basic and diluted earnings per share:</b>				
Basic weighted average common shares	128,885	127,986	128,844	128,048
Average diluted options	815	446	791	489
Net issuable common share equivalents				
Total shares for diluted earnings per share (1), (2)	129,700	128,432	129,635	128,537
<b>Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders:</b>				
Basic Earnings Per Share of Common Stock	\$ 0.32	\$ 0.38	\$ 0.57	\$ 0.97
Diluted Earnings Per Share of Common Stock	\$ 0.31	\$ 0.38	\$ 0.57	\$ 0.97



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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

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

- (1) For the quarters ended November 30, 2012 and 2011, approximately 3,151,000 shares and 2,722,000 shares of stock, respectively, granted under stock-based compensation plans were excluded from the calculation of diluted EPS for those periods, as the effect would have been anti-dilutive.
- (2) For the six month periods ended November 30, 2012 and 2011, approximately 2,970,000 shares and 2,522,000 shares of stock, respectively, granted under stock-based compensation plans were excluded from the calculation of diluted EPS for those periods, as the effect would have been anti-dilutive.

**NOTE 15 SEGMENT INFORMATION**

We operate a portfolio of businesses and product lines that manufacture and sell a variety of specialty paints, protective coatings and roofing systems, sealants and adhesives. We manage our portfolio by organizing our businesses and product lines into two reportable segments: the industrial reportable segment and the consumer reportable segment. Within each reportable segment, we aggregate several operating segments that consist of individual groups of companies and product lines, which generally address common markets, share similar economic characteristics, utilize similar technologies and can share manufacturing or distribution capabilities. Our five operating segments represent components of our business for which separate financial information is available that is utilized on a regular basis by our chief executive officer in determining how to allocate the assets of the company and evaluate performance. These five operating segments are each managed by an operating segment manager, who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment's underlying businesses.

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

Our consumer reportable segment manufactures and markets professional use and do-it-yourself (DIY) products for a variety of mainly consumer applications, including home improvement and personal leisure activities. Our consumer segment's major manufacturing and distribution operations are located primarily in North America, along with a few locations in Europe. Consumer segment products are sold directly to mass merchandisers, home improvement centers, hardware stores, paint stores, craft shops and to other smaller customers through distributors. This reportable segment comprises three operating segments: DAP Group, RPM2-Consumer Group and Rust-Oleum Group. Products within this reportable segment include specialty, hobby and professional paints; nail care enamels; caulks; adhesives; silicone sealants and wood stains.

In addition to our two reportable segments, there is a category of certain business activities and expenses, referred to as corporate/other, that does not constitute an operating segment. This category includes our corporate headquarters and related administrative expenses, results of our captive insurance companies, gains or losses on the sales of certain assets and other expenses not directly associated with either reportable segment. Assets related to the corporate/other category consist primarily of investments, prepaid expenses 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.

We reflect income from our joint ventures on the equity method, and receive royalties from our licensees.



## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables reflect the results of our reportable segments consistent with our management philosophy, and represent the information we utilize, in conjunction with various strategic, operational and other financial performance criteria, in evaluating the performance of our portfolio of businesses.

	Three Months Ended		Six Months Ended	
	November 30, 2012	November 30, 2011	November 30, 2012	November 30, 2011
	<i>(In thousands)</i>			
<b>Net Sales</b>				
Industrial Segment	\$ 691,076	\$ 641,538	\$ 1,394,411	\$ 1,308,554
Consumer Segment	326,350	274,547	669,729	593,449
<b>Consolidated</b>	\$ 1,017,426	\$ 916,085	\$ 2,064,140	\$ 1,902,003
<b>Income (Loss) Before Income Taxes</b>				
Industrial Segment	\$ 75,495	\$ 77,224	\$ 149,799	\$ 168,770
Consumer Segment	38,561	26,753	97,349	78,265
Corporate/Other	(43,014)	(27,807)	(104,044)	(52,161)
<b>Consolidated</b>	\$ 71,042	\$ 76,170	\$ 143,104	\$ 194,874

	November 30, 2012	May 31, 2012
<b>Identifiable Assets</b>		
Industrial Segment	\$ 2,339,823	\$ 2,195,702
Consumer Segment	1,497,631	1,184,609
Corporate/Other	128,116	179,709
<b>Consolidated</b>	\$ 3,965,570	\$ 3,560,020

**NOTE 16 STOCK REPURCHASE PROGRAM**

On January 8, 2008, we announced our authorization of a stock repurchase program under which we may repurchase shares of RPM International Inc. common stock at management's discretion for general corporate purposes. Our current intent is to limit our repurchases only to amounts required to offset dilution created by stock issued in connection with our equity-based compensation plans, or approximately one to two million shares per year. As a result of this authorization, we may repurchase shares from time to time in the open market or in private transactions at various times and in amounts and for prices that our management deems appropriate, subject to insider trading rules and other securities law restrictions. The timing of our purchases will depend upon prevailing market conditions, alternative uses of capital and other factors. We may limit or terminate the repurchase program at any time. During the three months ended November 30, 2012, we did not repurchase any shares of our common stock under this program.

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 17 EQUITY

The following tables illustrate the components of total equity and comprehensive income for the three months ended November 30, 2012 and 2011:

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
<b>Total equity at August 31, 2012</b>	<b>\$ 1,226,240</b>	<b>\$ 143,360</b>	<b>\$ 1,369,600</b>
Net income	41,668	4,419	46,087
Other Comprehensive Income:			
Foreign currency translation adjustments	(3,659)	1,623	(2,036)
Pension and other postretirement benefit liability adjustments, net of tax	3,242	136	3,378
Unrealized gain (loss) on securities, net of tax	1,865	211	2,076
Unrealized (loss) on derivatives, net of tax	(585)	(159)	(744)
Total Other Comprehensive Income, net of tax	863	1,811	2,674
<b>Comprehensive Income</b>	<b>42,531</b>	<b>6,230</b>	<b>48,761</b>
Dividends paid	(29,773)		(29,773)
Other noncontrolling interest activity	(973)		(973)
Shares repurchased	(835)		(835)
Stock option exercises, net	1,501		1,501
Stock based compensation expense	623		623
Restricted awards, net	3,638		3,638
<b>Total Equity at November 30, 2012</b>	<b>\$ 1,242,952</b>	<b>\$ 149,590</b>	<b>\$ 1,392,542</b>

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
<b>Total equity at August 31, 2011</b>	<b>\$ 1,304,339</b>	<b>\$ 131,398</b>	<b>\$ 1,435,737</b>
Net income	49,931	3,988	53,919
Other Comprehensive Income:			
Foreign currency translation adjustments	(60,471)	(3,842)	(64,313)
Pension and other postretirement benefit liability adjustments, net of tax	2,799	382	3,181
Unrealized gain (loss) on securities, net of tax	(9,323)	1,604	(7,719)
Unrealized gain on derivatives, net of tax	(2,196)	(597)	(2,793)
Total Other Comprehensive Income, net of tax	(69,191)	(2,453)	(71,644)
<b>Comprehensive Income</b>	<b>(19,260)</b>	<b>1,535</b>	<b>(17,725)</b>
Dividends paid	(28,196)		(28,196)
Other noncontrolling interest activity	(1,603)		(1,603)

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Shares repurchased	(5,728)		(5,728)
Stock option exercises, net	1,975		1,975
Stock based compensation expense	3,567		3,567
<b>Total Equity at November 30, 2011</b>	<b>\$ 1,255,094</b>	<b>\$ 132,933</b>	<b>\$ 1,388,027</b>

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the components of total equity and comprehensive income for the six months ended November 30, 2012 and 2011:

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
<b>Total equity at May 31, 2012</b>	<b>\$ 1,183,656</b>	<b>\$ 130,327</b>	<b>\$ 1,313,983</b>
Net income	75,581	8,373	83,954
Other Comprehensive Income:			
Foreign currency translation adjustments	25,005	12,189	37,194
Pension and other postretirement benefit liability adjustments, net of tax	4,776	(192)	4,584
Unrealized gain (loss) on securities, net of tax	2,690	(966)	1,724
Unrealized (loss) on derivatives, net of tax	(416)	(141)	(557)
Total Other Comprehensive Income, net of tax	32,055	10,890	42,945
<b>Comprehensive Income</b>	<b>107,636</b>	<b>19,263</b>	<b>126,899</b>
Dividends paid	(58,054)		(58,054)
Other noncontrolling interest activity	309		309
Shares repurchased	(1,094)		(1,094)
Stock option exercises, net	2,365		2,365
Stock based compensation expense	1,211		1,211
Restricted awards, net	6,923		6,923
<b>Total Equity at November 30, 2012</b>	<b>\$ 1,242,952</b>	<b>\$ 149,590</b>	<b>\$ 1,392,542</b>

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
<b>Total equity at May 31, 2011</b>	<b>\$ 1,263,164</b>	<b>\$ 124,204</b>	<b>\$ 1,387,368</b>
Net income	126,742	10,517	137,259
Other Comprehensive Income:			
Foreign currency translation adjustments	(69,904)	(3,513)	(73,417)
Pension and other postretirement benefit liability adjustments, net of tax	4,840	559	5,399
Unrealized gain (loss) on securities, net of tax	(12,966)	1,994	(10,972)
Unrealized gain on derivatives, net of tax	(3,044)	(828)	(3,872)
Total Other Comprehensive Income, net of tax	(81,074)	(1,788)	(82,862)
<b>Comprehensive Income</b>	<b>45,668</b>	<b>8,729</b>	<b>54,397</b>
Dividends paid	(55,620)		(55,620)
Other noncontrolling interest activity	(1,993)		(1,993)
Shares repurchased	(5,998)		(5,998)
Stock option exercises, net	3,181		3,181
Stock based compensation expense	6,692		6,692

<b>Total Equity at November 30, 2011</b>	<b>\$ 1,255,094</b>	<b>\$ 132,933</b>	<b>\$ 1,388,027</b>
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**RPM INTERNATIONAL INC. AND SUBSIDIARIES**

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

**NOTE 18 RECENTLY COMPLETED ACQUISITIONS**

On September 5, 2012, we acquired Kirker Enterprises, Inc., a leading manufacturer of nail care enamels, coatings components and related products for the personal care industry. Based in Paterson, New Jersey, Kirker has annual sales in excess of \$100 million. Kirker will be managed and reported by our RPM2 Consumer operating segment.

On September 21, 2012, we acquired Synta, Inc., a producer and marketer of innovative and unique exterior wood deck and concrete restoration systems sold through leading national home centers and marketed under the brands of Deck Restore and Concrete Restore. Synta's products also include a craft coatings line. Based in Clarkston Georgia, Synta has annualized sales expected to exceed \$40 million. Synta will be managed and reported by our Rust-Oleum operating segment.

The preliminary fair value of acquired goodwill and other intangible assets for the two acquisitions described above totaled approximated \$160.9 million and \$103.3 million, respectively. Additionally, the preliminary fair value of contingent consideration for these two acquisitions combined totaled approximately \$63.5 million. Opening balance sheet valuations for these two recent acquisitions are ongoing. A final determination of the purchase price allocation will be made based upon the completion of the determination of the fair value of acquired tangible and intangible assets and our assessment of deferred income taxes.

**NOTE 19 \$300 MILLION NOTE OFFERING**

During the current quarter, we sold \$300 million of our 3.450% Notes due November 15, 2022. In accordance with the agreement, we will pay interest on the Notes semi-annually on May 15<sup>th</sup> and November 15<sup>th</sup> of each year, beginning on May 15, 2013. The net proceeds, totaling approximately \$297.7 million, were used to repay a portion of the outstanding borrowings under our revolving credit facility.

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

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Consolidated Financial Statements include the accounts of RPM International Inc. and its majority-owned subsidiaries, except for certain subsidiaries that were deconsolidated on May 31, 2010 (please refer to Note 1 to the Consolidated Financial Statements for further information). Investments in less-than-majority-owned joint ventures for which we have the ability to exercise significant influence over are accounted for under the equity method. Preparation of our financial statements requires the use of estimates and assumptions that affect the reported amounts of our assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We continually evaluate these estimates, including those related to our allowances for doubtful accounts; inventories; allowances for recoverable taxes; useful lives of property, plant and equipment; goodwill and other intangible assets; environmental, warranties and other contingent liabilities; income tax valuation allowances; pension plans; and the fair value of financial instruments. We base our estimates on historical experience, our most recent facts, and other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of our assets and liabilities. Actual results, which are shaped by actual market conditions, may differ materially from our estimates.

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

#### Revenue Recognition

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

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

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

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

U.S. dollar weakens, foreign exchange translation gains result, which favorably impact accumulated other comprehensive income. Translation adjustments may be included in net earnings in the event of a sale or liquidation of certain of our underlying foreign investments. If we determine that the functional currency of any of our foreign subsidiaries should be the U.S. dollar, our financial statements will be affected. Should this occur, we will adjust our reporting to appropriately account for any such changes.

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

### **Goodwill**

We test our goodwill balances at least annually, or more frequently as impairment indicators arise, at the reporting unit level. Our reporting units have been identified at the component level, which is the operating segment level or one level below our operating segments.

In the fourth quarter of our fiscal year ended May 31, 2012, we early adopted new Financial Accounting Standards Board ( FASB ) guidance that simplifies how an entity tests goodwill for impairment. It provides an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, and whether it is necessary to perform the two-step goodwill impairment test.

We assess qualitative factors in each of our reporting units that carry goodwill. Among other relevant events and circumstances that affect the fair value of our reporting units, we assess individual factors such as:

a significant adverse change in legal factors or the business climate;

an adverse action or assessment by a regulator;

unanticipated competition;

a loss of key personnel; and

a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of. We assess these qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the new guidance, this quantitative test is required only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount.

In applying the first step of the quantitative test, we compare the fair value of a reporting unit to its carrying value. Calculating the fair market value of a reporting unit requires our use of estimates and assumptions. We use significant judgment in determining the most appropriate method to establish the fair value of a reporting unit. We estimate the fair value of a reporting unit by employing various valuation techniques, depending on the availability and reliability of comparable market value indicators, and employ methods and assumptions that include the application of third-party market value indicators and the computation of discounted future cash flows for a reporting unit's annual projected earnings before interest, taxes, depreciation and amortization ( EBITDA ).

We evaluate discounted future cash flows for a reporting unit's projected EBITDA. Under this approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not





impaired. An indication that goodwill may be impaired results when the carrying value of the net assets of a reporting unit exceeds the fair value of the reporting unit. At that point, the second step of the impairment test is performed, which requires a fair value estimate of each tangible and intangible asset in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

In applying the discounted cash flow methodology, we rely on a number of factors, including future business plans, actual and forecasted operating results, and market data. The significant assumptions employed under this method include discount rates; revenue growth rates, including assumed terminal growth rates; and operating margins used to project future cash flows for a reporting unit. The discount rates utilized reflect market-based estimates of capital costs and discount rates adjusted for management's assessment of a market participant's view with respect to other risks associated with the projected cash flows of the individual reporting unit. 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 a reporting unit, such that actual experience would need to be materially out of the range of expected assumptions in order for an impairment to remain undetected.

Our annual goodwill impairment analysis for fiscal 2012 did not result in any impairment loss. Should the future earnings and cash flows at our reporting units decline and/or discount rates increase, future impairment charges to goodwill and other intangible assets may be required.

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

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

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

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

significant changes in the strategy for our overall business; and

significant negative industry or economic trends.

Additionally, we test all indefinite-lived intangible assets for impairment at least annually during our fiscal fourth quarter. Measuring a potential impairment of non-goodwill intangibles and other long-lived assets requires the use of various estimates and assumptions, including the determination of which cash flows are directly related to the assets being evaluated, the respective useful lives over which those cash flows will occur and potential residual values, if any. If we determine that the carrying values of these assets may not be recoverable based upon the existence of one or more of the above-described indicators or other factors, any impairment amounts would be measured based on the projected net cash flows expected from these assets, including any net cash flows related to eventual disposition activities. The determination of any impairment losses would be based on the best information available, including internal estimates of discounted cash flows; quoted market prices, when available; and independent appraisals, as appropriate, to determine fair values. Cash flow estimates would be based on our historical experience and our internal business plans, with appropriate discount rates applied. Our fiscal 2012 annual impairment tests of each of our indefinite-lived intangible assets did not result in any impairment loss.

## Income Taxes

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

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

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

## Contingencies

We are party to various claims and lawsuits arising in the normal course of business. Although we cannot precisely predict the amount of any liability that may ultimately arise with respect to any of these matters, we record provisions when we consider the liability probable and reasonably estimable. Our provisions are based on historical experience and legal advice, reviewed quarterly and adjusted according to developments. In general, our accruals, including our accruals for environmental, warranty, and tax liabilities, discussed further below, represent the best estimate of a range of possible losses. 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. While it is reasonably possible that 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 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. Actual costs may vary from these estimates because of the inherent uncertainties involved, including the identification of new sites and the development of new information about contamination. Certain sites are still being investigated; therefore, we have been unable to fully evaluate the ultimate costs for those sites. As a result, accruals have not been estimated for certain of these sites and costs may ultimately exceed existing estimated accruals for other sites. We have received indemnities for potential environmental issues from purchasers of certain of our properties and businesses and from sellers of some of the properties or businesses we have acquired. We also have purchased insurance to cover potential environmental liabilities at certain sites. If the indemnifying or insuring party fails to, or becomes unable to, fulfill its obligations under those agreements or policies, we may incur environmental costs in addition to any amounts accrued, which may have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

We also 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 and actual income tax liabilities can also be affected by changes in applicable tax laws, retroactive tax law changes, or other factors, which may cause us to believe revisions of past estimates are appropriate. Although we believe that appropriate liabilities have been recorded for our income tax expense and income tax exposures, 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. 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, 2012 information, the following tables reflect the impact of a 1% change in the key assumptions applied to our defined benefit pension plans in the U.S. and internationally:

	U.S.		International	
	1% Increase	1% Decrease	1% Increase	1% Decrease
<i>(In millions)</i>				
<b>Discount Rate</b>				
Increase (decrease) in expense in FY 2012	\$ (4.1)	\$ 4.9	\$ (1.9)	\$ 2.3
Increase (decrease) in obligation as of May 31, 2012	\$ (44.0)	\$ 54.7	\$ (26.0)	\$ 31.8
<b>Expected Return on Plan Assets</b>				
Increase (decrease) in expense in FY 2012	\$ (2.0)	\$ 2.0	\$ (1.4)	\$ 1.4
Increase (decrease) in obligation as of May 31, 2012	N/A	N/A	N/A	N/A
<b>Compensation Increase</b>				
Increase (decrease) in expense in FY 2012	\$ 3.1	\$ (2.8)	\$ 1.2	\$ (1.1)
Increase (decrease) in obligation as of May 31, 2012	\$ 17.7	\$ (15.8)	\$ 7.2	\$ (6.5)

Based upon May 31, 2012 information, the following table reflects 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
<i>(In millions)</i>				
<b>Discount Rate</b>				
Increase (decrease) in expense in FY 2012	\$	\$	\$ (0.2)	\$ 0.5
Increase (decrease) in obligation as of May 31, 2012	\$ (0.8)	\$ 0.9	\$ (4.2)	\$ 5.4
<b>Healthcare Cost Trend Rate</b>				
Increase (decrease) in expense in FY 2012	\$	\$	\$ 0.5	\$ (0.4)
Increase (decrease) in obligation as of May 31, 2012	\$ 0.4	\$ (0.3)	\$ 3.9	\$ (5.2)

**BUSINESS SEGMENT INFORMATION**

Our business is divided into two reportable segments: the industrial reportable segment and the consumer reportable segment. Within each reportable segment, we aggregate several operating segments that consist of individual groups of companies and product lines, which generally address common markets, share similar economic characteristics, utilize similar technologies and can share manufacturing or distribution capabilities. Our five operating segments represent components of our business for which separate financial information is available that is utilized on a regular basis by our chief executive officer in determining how to allocate the assets of the company and evaluate performance. These five operating segments are each managed by an operating segment manager who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment's underlying businesses. We evaluate the profit performance of our segments primarily based

on income before income taxes, but also look to earnings (loss) before interest and taxes ( EBIT ) as a performance evaluation measure because interest expense is essentially related to corporate acquisitions, as opposed to segment operations.

Our industrial reportable segment's 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 - Building Solutions Group, Performance Coatings Group and RPM2-Industrial Group. Products and services within this reportable segment include construction chemicals; roofing systems; weatherproofing and other sealants; polymer flooring; edible coatings and specialty glazes for pharmaceutical, cosmetic and food industries; and other specialty chemicals.

Our consumer reportable segment manufactures and markets professional use and do-it-yourself ( DIY ) products for a variety of mainly consumer applications, including home improvement and personal leisure activities. Our consumer reportable segment's major manufacturing and distribution operations are located primarily in North America, along with a few locations in Europe. Our consumer reportable segment's 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 - DAP Group, RPM2-Consumer Group and Rust-Oleum Group. Products within this reportable segment include specialty, hobby and professional paints; nail care enamels; caulks; adhesives; silicone sealants and wood stains.

In addition to our two reportable segments, there is a category of certain business activities and expenses, referred to as corporate/other, that does not constitute an operating segment. This category includes our corporate headquarters and related administrative expenses, results of our captive insurance companies, gains or losses on the sales of certain assets and other expenses not directly associated with either reportable segment. Assets related to the corporate/other category consist primarily of investments, prepaid expenses 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.

	Three Months Ended		Six Months Ended	
	November 30, 2012	November 30, 2011	November 30, 2012	November 30, 2011
	<i>(In thousands)</i>			
<b>Net Sales</b>				
Industrial Segment	\$ 691,076	\$ 641,538	\$ 1,394,411	\$ 1,308,554
Consumer Segment	326,350	274,547	669,729	593,449
<b>Consolidated</b>	\$ 1,017,426	\$ 916,085	\$ 2,064,140	\$ 1,902,003
<b>Income (Loss) Before Income Taxes (a)</b>				
Industrial Segment				
Income Before Income Taxes (a)	\$ 75,495	\$ 77,224	\$ 149,799	\$ 168,770
Interest (Expense), Net	(2,626)	(1,065)	(5,234)	(1,982)
EBIT (b)	\$ 78,121	\$ 78,289	\$ 155,033	\$ 170,752
Consumer Segment				
Income Before Income Taxes (a)	\$ 38,561	\$ 26,753	\$ 97,349	\$ 78,265
Interest (Expense), Net	(19)	(21)	(19)	15
EBIT (b)	\$ 38,580	\$ 26,774	\$ 97,368	\$ 78,250
Corporate/Other				
(Expense) Before Income Taxes (a)	\$ (43,014)	\$ (27,807)	\$ (104,044)	\$ (52,161)
Interest (Expense), Net	(15,859)	(15,778)	(24,707)	(32,679)
EBIT (b)	\$ (27,155)	\$ (12,029)	\$ (79,337)	\$ (19,482)
<b>Consolidated</b>				
Income (Loss) Before Income Taxes (a)	\$ 71,042	\$ 76,170	\$ 143,104	\$ 194,874
Interest (Expense), Net	(18,504)	(16,864)	(29,960)	(34,646)
EBIT (b)	\$ 89,546	\$ 93,034	\$ 173,064	\$ 229,520

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





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**RESULTS OF OPERATIONS****Three Months Ended November 30, 2012**

**Net Sales** On a consolidated basis, net sales of \$1.02 billion for the quarter ended November 30, 2012 improved 11.1%, or \$101.3 million, over net sales of \$916.1 million during the comparable prior year period. The organic growth in sales amounted to 2.7%, or \$24.8 million, of the increase in the current quarter net sales versus net sales for the same period last year, and includes volume-related improvements approximating 2.2%, or \$20.3 million, the impact of unfavorable foreign exchange of approximately 1.1% of the prior year period net sales, or \$10.2 million, and favorable pricing approximating 1.6%, or \$14.7 million. These favorable pricing initiatives, including those across both of our reportable segments, were instituted primarily during prior periods in order to offset escalating raw material costs. Seven acquisitions executed over the past 12 months provided 8.4% of net sales growth over the comparable prior year period, or \$76.5 million.

Industrial segment net sales, which comprised approximately 68% of consolidated net sales for the quarter ended November 30, 2012, totaled \$691.0 million, an increase of 7.7% from \$641.5 million during the comparable prior year period. The increase in the industrial segment's net sales includes volume growth of 1.5%, favorable pricing of approximately 1.3% of the prior period net sales and the impact of unfavorable foreign exchange of 1.6%. Four acquisitions contributed 6.5% of this segment's current period growth in net sales versus net sales for the comparable prior year period.

Consumer segment net sales, which comprised approximately 32% of consolidated net sales for the quarter ended November 30, 2012, totaled \$326.4 million, an increase of 18.9% from \$274.6 million during the same period a year ago. The improvement in this segment resulted from organic growth in sales of 6.2%, including growth in unit volume sales approximating 3.9% of the prior year second quarter net sales and the impact of current year price increases of approximately 2.4% of the prior year period net sales, which were slightly offset by the impact of unfavorable foreign exchange, which amounted to 0.1% of the prior year net sales. Three acquisitions executed over the last year had a favorable impact of approximately 12.7% on this segment's net sales during the current period versus the comparable prior year period.

**Gross Profit Margin** Our consolidated gross profit margin improved to 41.8% of net sales for the second quarter of fiscal 2013 versus a consolidated gross profit margin of 40.3% for the comparable period a year ago, reflecting the impact of our 2.2% growth in organic sales volume for the current quarter versus the comparable prior year period, combined with the impact of favorable pricing initiatives instituted primarily during prior periods in order to offset escalating raw material costs. The growth in organic sales volume for the current quarter was offset primarily by the impact of unfavorable foreign exchange and an unfavorable mix of sales during the second quarter of fiscal 2013 versus the comparable prior year period.

**Selling, General and Administrative Expenses ( SG&A )** Our consolidated SG&A increased to 32.0% of net sales for the quarter ended November 30, 2012 compared with 30.8% of net sales for the quarter ended November 30, 2011. The 120 basis point increase in SG&A as a percent of net sales versus the prior year includes the impact of increased employee compensation-related expenses, including pension and postretirement benefits expense, increased distribution expense and outside professional services expense. Warranty expense for the quarter ended November 30, 2012 increased slightly from the amount recorded during the comparable prior year period. We anticipate that warranty expense will fluctuate from period to period, but will likely continue to slowly decline over the next few years.

Our industrial segment SG&A was approximately \$23.9 million higher during the second quarter of fiscal 2013 versus the comparable prior year period, and was also higher as a percentage of net sales, reflecting the unfavorable impact of higher employee compensation, bad debt, higher legal and distribution expense versus the comparable prior year period.

Our consumer segment SG&A was approximately \$15.4 million higher during the second quarter of fiscal 2013 versus the comparable prior year period, and was also higher as a percentage of net sales in the second quarter of fiscal 2013 as compared with the same period a year ago, primarily reflecting the 12.7% growth in sales from recent

acquisitions during the second quarter of fiscal 2013 versus the comparable prior year period, and the additional acquisition-related expense and SG&A generated by those acquisitions. Although this segment posted a 6.2% organic growth in net sales during the current quarter versus the prior year second quarter, those gains were slightly offset by the combination of legal expense, distribution and advertising expense during the second quarter of fiscal 2013 versus the comparable prior year period.

SG&A expenses in our corporate/other category increased by \$4.3 million during the second quarter of fiscal 2013 to \$16.4 million from \$12.1 million during the comparable prior year period. The increase in SG&A expense reflects the impact of higher legal expense, employee compensation and benefit expense, partially offset by lower acquisition-related expense during the current quarter versus the same period a year ago.

We recorded total net periodic pension and postretirement benefit costs of \$12.9 million and \$8.7 million for the quarters ended November 30, 2012 and 2011, respectively. The \$4.2 million increase in pension expense was primarily the result of \$2.3 million of additional net actuarial losses incurred during the second quarter of fiscal 2013 versus the comparable prior year period and a \$1.7 million increase in service and interest cost during the second quarter of fiscal 2013 versus the comparable prior year period. In addition, a lower expected return on plan assets had an unfavorable impact on pension expense of approximately \$0.2 million for the current period versus the prior year period. 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 13, Pension Plans, for additional information regarding these benefits.

**Interest Expense** Interest expense was \$19.9 million for the second quarter of fiscal 2013 versus \$17.9 million for the same period a year ago. Higher average borrowings, related to recent acquisitions, increased interest expense during this year's second quarter by approximately \$3.0 million versus the same period a year ago. Excluding acquisition-related borrowings, lower average borrowings year-over-year decreased interest expense by approximately \$0.9 million. Lower interest rates, which averaged 5.08% overall for the second quarter of fiscal 2013 compared with 6.29% for the same period of fiscal 2012, decreased interest expense by approximately \$0.1 million during the current quarter versus the same period last year.

**Investment Expense (Income), Net** Net investment income was \$0.4 million higher during the second quarter of fiscal 2013 versus the same period last year. Dividend and interest income totaled \$1.9 million during the second quarter of fiscal 2013 versus \$1.3 million during the same period a year ago. Impairments recognized on securities that management has determined are other-than-temporary declines in value approximated \$0.5 million for the quarter ended November 30, 2012, versus \$0.3 million for the quarter ended November 30, 2011.

**Other Expense (Income), Net** Other expense for the quarter ended November 30, 2012 of \$9.7 million compares with other income of \$6.2 million during the comparable prior year period. The majority of other expense for the current quarter, approximately \$10.8 million, was recorded by our corporate/other segment, and represents the impairment loss recorded in relation to our various investments in Kemrock. As previously discussed, the economy and financial markets in India have experienced significant deterioration in recent months, including a devaluation of the Indian rupee versus the U.S. dollar. Additionally, the market value of shares of Kemrock common stock have declined, and as a result of the combination of these factors, we determined that it was appropriate to record an additional impairment loss on our investment during the current quarter. The majority of other income for the second quarter a year ago was recorded by our industrial segment, and represents the accounting change for our investment in Kemrock from an available for sale security to the equity method. In relation to that change, approximately \$4.6 million of net earnings was recorded during the prior year second quarter as a catch-up entry for income related to previous periods.

The majority of the remaining balance in other expense (income) is recorded by our industrial segment. Of that remaining balance in other expense (income), approximately \$0.4 million represents royalty income for each of quarters presented. Also included is our equity in earnings of unconsolidated affiliates totaling approximately \$0.7 million and \$1.2 million for the quarters ended November 30, 2012 and 2011, respectively.

**Income Before Income Taxes ( IBT )** Our consolidated pretax income for the second quarter of fiscal 2013 of \$71.0 million compares with pretax income of \$76.1 million for the quarter ended November 30, 2011, which results in a pretax profit margin on net sales of 7.0% and 8.3% for the second quarter of fiscal 2013 and 2012, respectively.

Our industrial segment had IBT of \$75.5 million, for a profit margin on net sales of 10.9% for the quarter ended November 30, 2012, versus IBT of \$77.2 million, for a profit margin on net sales of 12.0%, for the quarter ended November 30, 2011. The decline in IBT as a percent of sales for the industrial segment resulted primarily from increased distribution expense, bad debt and employee compensation expense during the current quarter versus the same period a year ago. Our consumer segment IBT increased to \$38.6 million, or 11.8% of net sales for the quarter ended November 30, 2012, from the comparable prior year period result of \$26.8 million, or 9.7% of net sales. This increase was driven primarily by the organic growth in sales for the consumer segment of approximately 6.2% in the second quarter of fiscal 2013 from the comparable prior year period.

**Income Tax Rate** The effective income tax rate was 35.1% for the three months ended November 30, 2012 compared to an effective income tax rate of 29.2% for the three months ended November 30, 2011.

For the three months ended November 30, 2012 and 2011, respectively, the effective tax rate was reduced below the federal statutory rate due to lower effective tax rates of certain of our foreign subsidiaries, the favorable impact of certain foreign operations on our U.S. taxes, the benefit of the domestic manufacturing deduction and due to net reductions to our reserves for contingencies, including interest thereon. For the three months ended November 30, 2012 and, to a lesser extent for the three months ended November 30, 2011, these decreases in the effective tax rates were offset principally as a result of the net impact of valuation allowances associated with U.S. foreign tax credit carryforwards and certain foreign net operating losses, state and local income taxes, and non-deductible business operating expenses.

Furthermore, for the three month period ended November 30, 2012, the effective tax rate differed from the federal statutory rate as a result of valuation allowances related to losses associated with our investments in Kemrock and as a result of the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits associated with net operating losses incurred by those foreign businesses are not recognized.

As of November 30, 2012, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, we intend to maintain the tax valuation allowances recorded at November 30, 2012 for those deferred tax assets until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support their reversal. These valuation allowances relate to U.S. foreign tax credit carryforwards, U.S. capital loss carryforwards, certain foreign net operating losses and net foreign deferred tax assets. A portion of the valuation allowance is associated with deferred tax assets recorded in purchase accounting for prior year acquisitions.

**Net Income** Net income of \$46.1 million for the quarter ended November 30, 2012 compares to net income of \$53.9 million for the quarter ended November 30, 2011, which results in a net margin on sales of 4.5% and 5.9% for the quarters ended November 30, 2012 and 2011, respectively. While organic sales volume grew by 2.2% during the second quarter of fiscal 2013 versus net sales for the second quarter of fiscal 2012, there was higher employee compensation, distribution and professional service expense during the second quarter of fiscal 2013 versus the comparable prior year period. Additionally, we recorded losses on our various investments in Kemrock, totaling \$10.8 million after-tax. During the quarter ended November 30, 2012, we had net income from noncontrolling interests of \$4.4 million versus \$4.0 million during the comparable prior year period. Net income attributable to RPM International Inc. stockholders was \$41.7 million for the quarter ended November 30, 2012, versus \$49.9 million for the quarter ended November 30, 2011, for a margin on net sales of 4.1% and 5.5% for the quarter ended November 30, 2012 and 2011, respectively.

Diluted earnings per share of common stock for the quarter ended November 30, 2012 of \$0.31 compares with \$0.38 for the quarter ended November 30, 2011.

#### *Six Months Ended November 30, 2012*

**Net Sales** On a consolidated basis, net sales of \$2.1 billion for the six months ended November 30, 2012 improved 8.5%, or \$162.1 million, over net sales of \$1.9 billion during the same period last year. The organic growth in sales amounted to 1.3%, or \$24.9 million, of the increase in the current period net sales versus net sales for the same period a year ago, which includes volume-related improvements approximating 2.2%, or \$42.8 million, and the impact of favorable pricing initiatives of approximately 1.8% of the prior period net sales, or \$34.1 million. These favorable pricing initiatives, including those across both of our reportable segments, were instituted primarily during prior periods in order to offset escalating raw material costs. Also reflected in the 1.3% growth in organic sales is the impact of unfavorable foreign exchange rates year-over-year, which amounted to 2.7% of net sales for last year's first six months, or \$52.0 million. These losses resulted primarily from the weak dollar against the euro, as well as versus the Latin American and Canadian currencies. Eight acquisitions over the past year provided 7.2% of net sales growth over last year's first six months, or \$137.2 million.

Industrial segment net sales, which comprised 68% of consolidated net sales for this year's first six months, totaled \$1.4 billion, an increase of 6.6% from \$1.3 billion during last year's first six months. This increase in the industrial segment's net sales reflects the favorable impact of five acquisitions, which provided 7.3% of this segment's current period growth in net sales versus net sales for the same period a year ago, offset partially by an organic decline of 0.7% of net sales for the prior year period. Reflected in the organic sales decline is unfavorable foreign exchange of 3.5%, offset partially by unit volume growth of approximately 1.3% and favorable pricing of approximately 1.5%.

Consumer segment net sales, which comprised 32% of consolidated net sales for this year's first six months, totaled \$669.7 million, an increase of 12.9% from \$593.4 million during the same period a year ago. The improvement in this segment resulted from organic growth in sales of 5.9%, including growth in unit volume sales approximating 4.5% of the prior period net sales, the impact of current period price increases of approximately 2.3% of the prior period net sales, offset partially by the impact of unfavorable foreign exchange, which amounted to 0.9% of the prior period net sales. Three acquisitions had a favorable impact of approximately 7.0% on this segment's net sales during this year's first six months versus the same period a year ago.

**Gross Profit Margin** Our consolidated gross profit margin improved to 41.6% of net sales for the first six months of fiscal 2013 from 40.9% of net sales for the same period last year, reflecting our 1.3% growth in organic sales volume for the current period versus the same period last year. Slightly offsetting that favorable impact was the combination of unfavorable foreign exchange and the current period unfavorable mix of sales. Additionally, the current six month period gross profit margin was negatively impacted by approximately 20 basis points as a result of one-time charges taken by the roofing division of RPM's Building Solutions Group. The charges were taken during the first quarter of the current fiscal year for revised cost estimates in conjunction with unprofitable contracts outside of North America.

**SG&A** Our consolidated SG&A increased to 30.8% of net sales for the first six months of fiscal 2013 compared with 29.2% of net sales for the same period a year ago. The 160 bps increase in SG&A as a percent of net sales versus the prior period primarily reflects the impact of the \$5.0 million bad debt write down recorded during this year's first quarter in relation to our \$10.0 million outstanding loan to Kemrock. Other items impacting SG&A were higher employee compensation and benefit expense, along with higher distribution, legal and warranty expense. We anticipate that warranty expense will fluctuate from period to period, but will likely decline slowly over the next few years.

Our industrial segment SG&A was approximately \$47.6 million higher during the first six months of fiscal 2013 versus the comparable prior year period, and higher as a percentage of net sales, reflecting the unfavorable impact of the \$5.0 million bad debt write down on our loan to Kemrock recorded during this year's first quarter. Additionally, the industrial segment's roofing division recorded a \$10.6 million loss during this year's first quarter related to a loss contract outside North America and exit costs related to this contract. Lastly, the industrial segment results for the first half of fiscal 2013 reflect the impact of higher employee compensation and benefit expense, higher legal and distribution expense versus the comparable prior year period.

Our consumer segment SG&A was approximately \$19.5 million higher during the first half of fiscal 2013 versus the comparable prior year period, and higher as a percentage of net sales during the first half of fiscal 2013 as compared with the same period a year ago, primarily reflecting the impact of higher acquisition-related expense, legal and advertising expense during this year's first half versus the same period a year ago.

SG&A expenses in our corporate/other category increased by \$13.5 million during the first half of fiscal 2013 to \$33.0 million from \$19.5 million during the comparable prior year period. The increase in SG&A expense reflects the combination of higher employee compensation and benefit expenses and higher legal expense.

We recorded total net periodic pension and postretirement benefit costs of \$25.9 million and \$17.5 million for the six months ended November 30, 2012 and 2011, respectively. The \$8.4 million increase in pension expense was primarily the result of \$4.7 million of additional net actuarial losses incurred during the first half of fiscal 2013 versus the comparable prior year period and a \$3.3 million increase in service and interest cost during the first half of fiscal 2013 versus the comparable prior year period. A lower expected return on plan assets had an unfavorable impact on pension expense of approximately \$0.4 million for the six months ended November 30, 2012 versus the comparable prior year period. We expect that pension expense will fluctuate on a year-to-year basis, depending primarily upon the investment performance of plan assets and potential changes in interest rates, but such changes are not expected to be material to our consolidated financial results.

**Interest Expense** Interest expense was \$38.3 million for the first six months of fiscal 2013 versus \$35.7 million for the same period a year ago. Higher average borrowings, related to recent acquisitions, increased interest expense during this year's first six months by approximately \$4.7 million versus the same period a year ago. Excluding acquisition-related borrowings, lower average borrowings year-over-year decreased interest expense by approximately \$1.2 million. Lower interest rates, which averaged 5.31% overall for the first six months of fiscal 2013 compared with 6.31% for the same period of fiscal 2012, decreased interest expense by approximately \$0.9 million during the current six-month period versus the same period last year.

**Investment Expense (Income), Net** Net investment income of \$8.3 million during this year's first six months compares to net investment income of \$1.1 million for the same period a year ago. Dividend and interest income totaled \$4.3 million during this year's first six months versus \$2.7 million of income during the same period last year. Net realized gains on the sales of investments resulted in a net gain of \$4.6 million for this year's first six months versus a net loss of \$0.9 million for the same period during fiscal 2012. Impairments recognized on securities that management has determined are other-than-temporary declines in value approximated \$0.6 million for the first six months of fiscal 2013, versus \$0.7 million for the same period a year ago.

**Other (Income), Net** Other expense for this year's first six months of \$49.1 million compares with other income of \$7.0 million during the same period a year ago. The majority of other expense for this year's first half, approximately \$46.4 million, was recorded by our corporate/other segment, and represents the impairment loss recorded in relation to our investment in Kemrock. As previously discussed, the economy and financial markets in India have experienced significant deterioration over the last year. Additionally, the market value of shares of Kemrock common stock have declined, and as a result of the combination of these factors, we determined that it was appropriate to record an impairment loss on our investment during the current fiscal year.

The majority of the remaining balance in other expense (income) is recorded by our industrial segment. Of that remaining balance in other expense (income), approximately \$0.7 million represents royalty income for each of

the periods presented. Also included is our equity in earnings of unconsolidated affiliates totaling approximately \$1.2 million and \$1.7 million for the first six months of fiscal 2013 and 2012, respectively. Also reflected in the current year-to-date period results for fiscal 2013 is the loss recorded by our industrial segment in relation to our investment in Kemrock, which approximated \$4.7 million.

**IBT** Our consolidated pretax income for this year's first six months of \$143.1 million compares with pretax income of \$194.9 million for the same period last year, resulting in a pretax profit margin on net sales of 6.9% for the current period versus a pretax profit margin on net sales of 10.2% a year ago.

Our industrial segment had IBT of \$149.8 million, for a profit margin on net sales of 10.7% for this year's first six months versus IBT of \$168.8 million, for a profit margin on net sales of 12.9%, for the same period last year. Our consumer segment IBT increased to \$97.3 million, or 14.5% of net sales for the period, from last year's first six months' IBT of \$78.3 million, or 13.2% of net sales. The increase in IBT as a percent of sales for the consumer segment resulted primarily from the impact of the 5.9% growth in organic sales combined with the impact of favorable acquisitions during the current period versus the same period a year ago.

**Income Tax Rate** The effective income tax rate was 41.3% for the six months ended November 30, 2012 compared to an effective income tax rate of 29.6% for same period a year ago.

For the six months ended November 30, 2012 and 2011, respectively, the effective tax rate was reduced below the federal statutory rate due to lower effective tax rates of certain of our foreign subsidiaries, the favorable impact of certain foreign operations on our U.S. taxes, a reduction in the United Kingdom income tax rate, the benefit of the domestic manufacturing deduction and due to net reductions to our reserves for contingencies, including interest thereon. For the six months ended November 30, 2012 and, to a lesser extent for the six months ended November 30, 2011, these decreases in the effective tax rates were offset principally as a result of the net impact of valuation allowances associated with U.S. foreign tax credit carryforwards and certain foreign net operating losses, state and local income taxes, and non-deductible business operating expenses.

Furthermore, for the six month period ended November 30, 2012, the effective tax rate differed from the federal statutory rate as a result of valuation allowances related to losses associated with our investments in Kemrock and as a result of the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits associated with net operating losses incurred by those foreign businesses are not recognized.

As described in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the three month period ended November 30, 2012, there is uncertainty as to whether we will be able to recognize certain deferred tax assets. Refer to the section captioned, "Three Months Ended November 30, 2012 - Income Tax Rate," for further information.

**Net Income** Net income of \$84.0 million for the first six months of fiscal 2013 compares to net income of \$137.3 million for the same period last year, or a decline of \$53.3 million period-over-period, principally due to losses we recorded on our various investments in Kemrock, totaling \$51.1 million after-tax. This results in a net margin on sales of 4.1% and 7.2% for the six month periods ended November 30, 2012 and 2011, respectively. While organic sales grew by 1.3% during the current period versus net sales for the same period last year, employee compensation, distribution and acquisition-related expenses were higher during the current period versus the same period a year ago. During the six months ended November 30, 2012, we had net income from noncontrolling interests of \$8.4 million versus \$10.6 million during the same period a year ago. Net income attributable to RPM International Inc. stockholders was \$75.6 million for the six months ended November 30, 2012, versus \$126.7 million for the same period a year ago, for a margin on net sales of 3.7% and 6.7% for the first six months of fiscal 2013 and 2012, respectively.

Diluted earnings per share of common stock for the first six months of fiscal 2013 of \$0.57 compares with \$0.97 for the same period last year.

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## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Operating activities provided cash flow of \$127.6 million for the six months ended November 30, 2012 compared with \$110.0 million during the prior fiscal year period, resulting in a net increase in cash of \$17.6 million during the first half of fiscal 2013 versus fiscal 2012.

The net change in cash from operations includes the change in net income, which decreased by \$53.3 million during the first half of fiscal 2013 versus the same period during fiscal 2012. Reflected in net income for the six months ended November 30, 2012 are \$61.7 million of one-time charges. The non-cash charges include an after-tax charge of \$53.3 million in write downs associated with our various investments in Kemrock; and an after-tax charge of approximately \$8.4 million associated with a combination of revised cost estimates in conjunction with loss contracts in our industrial segment's roofing division and exit costs related to those contracts. Other items impacting the net change in cash from operations included items adjusting net income for non-cash expenses and income, which increased cash flows by approximately \$66.7 million more during the current fiscal year period versus the prior fiscal year period; and changes in working capital accounts and all other accruals, which increased cash flows by \$4.2 million during the current fiscal year period versus the prior fiscal year period.

The decrease in accounts receivable since May 31, 2012 represents the generation of \$51.8 million in cash versus the \$76.9 million of cash generated by accounts receivable during the first half of fiscal 2012, or approximately \$25.1 million less cash generated year-over-year. This resulted from the timing of sales and collections on accounts receivable. Days sales outstanding at November 30, 2012 decreased slightly to 60.8 days from 61.6 days sales outstanding at November 30, 2011.

Inventory balances used \$33.2 million of cash during the first half of fiscal 2013, compared with a use of cash of \$24.7 million during the first half of fiscal 2013, or \$8.5 million more cash used year-over-year. Days of inventory outstanding at November 30, 2012 decreased slightly to 82.9 days from 84.0 days of inventory outstanding at November 30, 2011.

The current year-to-date change in accounts payable used \$43.0 million more cash during the current period compared to the same period a year ago, resulting from a change in the timing of certain payments during the current period versus the same period a year ago. Accrued compensation and benefits used approximately \$6.4 million more cash during the first half of fiscal 2013 versus the same period during the prior fiscal year, as there were higher bonus payments made during the current year versus the same period a year ago. Other accruals and prepaids, including those for other short-term and long-term items and changes, provided \$87.2 million more cash during the first half of fiscal 2013 versus the first quarter of the prior fiscal year, 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, expand capacity, introduce new technology, improve environmental health and safety capabilities, improve information systems, and enhance our administration capabilities. Capital expenditures of \$30.8 million during the first half of fiscal 2013 compare with depreciation of \$27.6 million. Our capital spending levels currently exceed depreciation expense, and we expect that trend to continue for the remainder of fiscal 2013. We believe our current production capacity, along with moderate plant modifications or additions will be adequate to meet our immediate needs based on anticipated growth rates. Not reflected in our capital expenditures is the capacity added through our recent acquisitions of product lines and

businesses, which totaled approximately \$46.3 million during fiscal 2013. We anticipate that additional shifts at our production facilities, coupled with the capacity added through acquisition activity and our planned increase in future capital spending levels, will enable us to meet increased demand during the current fiscal year.

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 November 30, 2012, the fair value of our investments in marketable securities totaled \$135.2 million, of which investments with a fair value of \$20.2 million were in an unrealized loss position. Included in the \$135.2 million of marketable securities, but held outside of our captive insurers, is our \$14.3 million investment in 5.5% convertible bonds issued by Kemrock in April 2012. The bonds are convertible into ordinary shares or GDRs, each representing one ordinary share of Kemrock stock, and may be converted at any time on or after June 4, 2012 and up to the close of business on June 12, 2017. The fair value of our portfolio of marketable securities is based on quoted market prices for identical, or similar, instruments in active or non-active markets or model-derived-valuations with observable inputs. We have no marketable securities whose fair value is subject to unobservable inputs. At May 31, 2012, the fair value of our investments in marketable securities totaled \$120.1 million, of which investments with a fair value of \$43.8 million were in an unrealized loss position. Total pretax unrealized losses recorded in accumulated other comprehensive income at November 30, 2012 and May 31, 2012 were \$0.7 million and \$3.1 million, respectively.

We regularly review our marketable securities in unrealized loss positions in order to determine whether or not we have the ability and intent to hold these investments. That determination is based upon the severity and duration of the decline, in addition to our evaluation of the cash flow requirements of our businesses. Unrealized losses at May 31, 2012 were generally related to the normal volatility in valuations over the past several months for a portion of our portfolio of investments in marketable securities. The unrealized losses generally relate to investments whose fair values at May 31, 2012 were less than 15% below their original cost or that have been in a loss position for less than six consecutive months. If we were to experience unrealized losses that were to continue for longer periods of time, or arise to more significant levels of unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.

As of November 30, 2012, approximately 91% of our consolidated cash and cash equivalents were held at various foreign subsidiaries. Currently, the funds held at our foreign subsidiaries are considered permanently reinvested to be used, for instance, to expand operations organically or for acquisitions in foreign jurisdictions. Our operations in the U.S. generate sufficient cash flow to satisfy U.S. operating requirements. Although we do not intend to repatriate any significant amounts of these cash balances to the U.S. in the foreseeable future, any repatriation of these balances could be subject to governmental restrictions and U.S. and foreign taxes. However, a portion of the foreign earnings have previously been subject to U.S. taxation and could be repatriated to the U.S. with little or no residual tax impact. We believe that the tax impact of repatriating these previously taxed earnings to the U.S. would not have a material impact on our financial results.

As previously stated, we intend to permanently reinvest the cash and cash equivalents held at our various foreign subsidiaries for foreign expansion and other uses. Due to the uncertainties and complexities involved in the various options for repatriation of foreign cash, including any associated governmental or other restrictions, it is not practicable to calculate the deferred taxes associated with the remittance of these cash balances.



### **Financing Activities**

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

Our available liquidity, including our cash and cash equivalents and amounts available under our committed credit facilities, stood at \$962.0 million at November 30, 2012. Our debt-to-capital ratio was 53.2% at November 30, 2012, compared with 48.5% at May 31, 2012.

#### ***3.45% Notes due 2022***

On October 23, 2012, we sold \$300 million aggregated principal amount of 3.45% Notes due 2022 (the *New Notes*). The net proceeds of \$297.7 million from the offering of the *New Notes* was used to repay short-term borrowings outstanding under our \$600 million revolving credit facility.

#### ***6.125% Notes due 2019***

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

On May 27, 2011 we issued and sold an additional \$150.0 million aggregate principal amount of the *Notes*. The offering was priced at 108.09% of the \$150.0 million principal amount of *Notes*, together with accrued interest to, but excluding the closing date, and at that price the *Notes* have a yield to maturity of 4.934%. The net proceeds of \$162.1 million were used for general corporate purposes, including working capital and potential acquisitions of complementary businesses or other assets.

#### ***Revolving Credit Agreement***

On June 29, 2012, we entered into an unsecured syndicated revolving credit facility (the *Credit Facility*) with a group of banks. The *Credit Facility* expires on June 29, 2017 and provides for a five-year \$600.0 million revolving credit facility, which includes sublimits for the issuance of \$50.0 million in swingline loans, which are comparatively short-term loans used for working capital purposes, and letters of credit. The aggregate maximum principal amount of the commitments under the *Credit Facility* may be expanded upon our request, subject to certain conditions, to \$800.0 million. The *Credit Facility* is available to refinance existing indebtedness, to finance working capital and capital expenditure needs, and for general corporate purposes.

The *Credit Facility* requires us to comply with various customary affirmative and negative covenants, including a leverage covenant and interest coverage ratio. Under the terms of the leverage covenant, we may not permit our consolidated indebtedness as of any fiscal quarter end to exceed 60% of the sum of such indebtedness and our consolidated shareholders' equity on such date. The minimum required consolidated interest coverage ratio for EBITDA to interest expense is 3.50 to 1. The interest coverage ratio is calculated at the end of each fiscal quarter for the four fiscal quarters then ended.

As of November 30, 2012, 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 53.4%, while our interest coverage ratio was 6.88 to 1.

Our access to funds under our Credit Facility is dependent on the ability of the financial institutions that are parties to the Credit Facility to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. Moreover, the obligations of the financial institutions under our 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.

***Accounts Receivable Securitization Program***

On May 31, 2011, we entered into Amendment No. 5 to our Receivables Purchase Agreement, dated April 7, 2009. Amendment No. 5 extends the term of our accounts receivable securitization program ( the AR Program ) to May 30, 2014, subject to possible earlier termination upon the occurrence of certain events. Pricing continues to be based on the Alternate Base Rate, a LIBOR market index rate or LIBOR for a specified tranche period plus a margin of 1.0%. This margin will increase to 1.25% if we do not maintain our public debt rating of at least BB+/Ba1/BB+ from any two of Standard & Poor's, Moody's or Fitch. In addition, a monthly unused fee is payable to the purchasers. Amendment No. 5 also modified or eliminated certain of the financial covenants under the AR Program. Under the terms of the amended AR Program, we may not permit our consolidated indebtedness calculated on the last day of each fiscal quarter to exceed 60% of the sum of such indebtedness and our consolidated shareholders' equity on such date. The interest coverage ratio covenant continues to require that we not permit the ratio, calculated at the end of each fiscal quarter for the four fiscal quarters then ended, of EBITDA to interest expense for such period to be less than 3.5 to 1. Finally, the fixed charge coverage ratio covenant under the pre-amended AR Program has been deleted. The financial tests that remain in the AR Program are substantially identical to the financial covenants contained in our Credit Facility.

Our failure to comply with the covenants described above and other covenants contained in the Credit Facility could 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.

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

The following table summarizes our financial obligations and their expected maturities at November 30, 2012 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	Payments Due In			
		2013	2014-15 <i>(In thousands)</i>	2016-17	After 2017
Long-term debt obligations	\$ 1,415,169	\$ 2,068	\$ 238,091	\$ 165,829	\$ 1,009,181
Capital lease obligations	1,960	605	1,159	196	
Operating lease obligations	163,665	39,017	54,350	32,821	37,477
Other long-term liabilities (1):					
Interest payments on long-term debt obligations	432,073	75,117	131,830	108,325	116,801
Contributions to pension and postretirement plans (2)	359,800	34,000	89,000	91,500	145,300
<b>Total</b>	<b>\$ 2,372,667</b>	<b>\$ 150,807</b>	<b>\$ 514,430</b>	<b>\$ 398,671</b>	<b>\$ 1,308,759</b>

- (1) Excluded from other long-term liabilities are our gross long-term liabilities for unrecognized tax benefits, which totaled \$12.4 million at November 30, 2012. Currently, we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities related to these liabilities.
- (2) These amounts represent our estimated cash contributions to be made in the periods indicated for our pension and postretirement plans, assuming no actuarial gains or losses, assumption changes or plan changes occur in any period. The projection results assume the required minimum contribution will be contributed.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet financings, other than the minimum operating lease commitments included in the above Contractual Obligations table. We 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. At the end of fiscal 2010, we deconsolidated our wholly owned subsidiary, SPHC, and its subsidiaries, from our balance sheet and eliminated the results of SPHC's operations from our operations beginning on May 31, 2010. We account for our investment in SPHC, which had no value at November 30, 2012 and May 31, 2012, under the cost method (refer to Note 3 to the Consolidated Financial Statements).

### OTHER MATTERS

#### Environmental Matters

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

### FORWARD-LOOKING STATEMENTS

The foregoing discussion includes forward-looking statements relating to our business. These forward-looking statements, or other statements made by us, are made based on our expectations and beliefs concerning future events impacting us and are subject to uncertainties and factors (including those specified below), which are

difficult to predict and, in many instances, are beyond our control. As a result, our actual results could differ materially from those expressed in or implied by any such forward-looking statements. These uncertainties and factors include (a) global markets and general economic conditions, including uncertainties surrounding the volatility in financial markets, the availability of capital and the effect of changes in interest rates, and the viability of banks and other financial institutions; (b) the prices, supply and capacity of raw materials, including assorted pigments, resins, solvents, and other natural gas- and oil-based materials; packaging, including plastic containers; and transportation services, including fuel surcharges; (c) continued growth in demand for our products; (d) legal, environmental and litigation risks inherent in our construction and chemicals businesses and risks related to the adequacy of our insurance coverage for such matters; (e) the effect of changes in interest rates; (f) the effect of fluctuations in currency exchange rates upon our foreign operations; (g) the effect of non-currency risks of investing in and conducting operations in foreign countries, including those relating to domestic and international political, social, economic and regulatory factors; (h) risks and uncertainties associated with our ongoing acquisition and divestiture activities; (i) risks related to the adequacy of our contingent liability reserves; (j) risks and uncertainties associated with the SPHC bankruptcy proceedings; and (k) other risks detailed in our filings with the Securities and Exchange Commission, including the risk factors set forth in our Annual Report on Form 10-K for the year ended May 31, 2012, 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, 2012.

### **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 November 30, 2012 (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 November 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS*****Asbestos Litigation and the Bankruptcy Filings by SPHC and Bondex***

For information regarding asbestos litigation involving SPHC and Bondex, see Note 3 to the Consolidated Financial Statements. On May 31, 2010, Bondex and its parent, SPHC, filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware to reorganize under Chapter 11 of the Bankruptcy Code.

***Environmental Proceedings***

As previously reported, several of our subsidiaries are, from time to time, identified as a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation and Liability Act and similar state environmental statutes. In some cases, our subsidiaries are participating in the cost of certain clean-up efforts or other remedial actions. Our share of such costs, however, has not been material and we believe that these environmental proceedings will not have a material adverse effect on our consolidated financial condition or results of operations. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Other Matters, in Part I of this Quarterly Report on Form 10-Q.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2012.

**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 second quarter of fiscal 2013:

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)
September 1, 2012 through September 30, 2012		\$		
October 1, 2012 through October 31, 2012	9,991	\$ 26.81		
November 1, 2012 through November 30, 2012	21,057	\$ 26.92		
Total Second Quarter	31,048	\$ 26.88		

- (1) All of the shares of common stock reported as purchased are attributable to shares of common stock that were disposed of back to us in satisfaction of tax obligations related to the vesting of restricted stock which was granted under RPM International Inc.'s Amended and Restated 2004 Omnibus Equity and Incentive Plan, the 2003 Restricted Plan for Directors and the 2007 Restricted Stock Plan.
- (2) Refer to Note 16 of the Notes to Consolidated Financial Statements for further information regarding our stock repurchase program.

**ITEM 6. EXHIBITS**

Exhibit	
Number	Description
4.1	Officer's Certificate and Authentication Order dated October 23, 2012 for the 3.450% Notes due 2022 (which includes the form of Note) issued pursuant to the Indenture dated as of February 14, 2008, between the Company and The Bank of New York Mellon Trust Company, N.A., which is incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 23, 2012 (File No. 00-14187)
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)
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

(x) Filed herewith.

\* Management contract or compensatory plan or arrangement.

**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.**

By: /s/ Frank C. Sullivan  
Frank C. Sullivan  
Chairman and Chief Executive Officer

By: /s/ Russell L. Gordon  
Russell L. Gordon  
Vice President and  
Chief Financial Officer

Dated: January 8, 2013