

RPM INTERNATIONAL INC/DE/
Form 10-Q/A
August 14, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended August 31, 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)

02-0642224
(IRS Employer
Identification No.)

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

44258

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(Address of principal executive offices)

(Zip Code)

(330) 273-5090

(Registrant's telephone number including area code)

Not Applicable

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

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

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

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 October 2, 2012

132,290,362 Shares of RPM International Inc. Common Stock were outstanding.

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EXPLANATORY NOTE

RPM International Inc. (the Company) is filing this amended Quarterly Report on Form 10-Q/A because we determined that the consolidated financial statements contained in the Form 10-Q for the quarterly period ended August 31, 2012 and filed October 4, 2012 (Original Form 10-Q) should no longer be relied upon due to an error in the timing of the disclosure and accrual of certain loss reserves. These loss reserves were associated with our settlement of the previously disclosed General Services Administration (GSA) and Department of Justice (DOJ) investigation into compliance issues related to GSA contracts at our Tremco Roofing Division (also referred to herein as our Building Solutions Group Roofing Division) (the GSA matter). As a result of the error, the estimated loss contingency for the first quarter of fiscal 2013 was understated by \$11.4 million, producing an overstatement of net income of \$7.2 million for the three months ended August 31, 2012. At the same time, our estimated loss contingency was understated by \$16.9 million for the second quarter of fiscal 2013, and overstated by \$28.3 million for the third quarter of fiscal 2013. As such, we are also restating our financial statements for the three and six month periods ending November 30, 2012, and the three month period ended February 28, 2013 to address the error. After the restatement of the first and second quarters of fiscal 2013, the resulting charge in the third quarter of fiscal 2013 of \$40.5 million was due to the application of a multiplier negotiated between the DOJ and the Company. The error did not impact the results for the nine months ended February 28, 2013 or the fiscal year ended May 31, 2013. The error was identified as a result of an investigation by the Audit Committee of the Company's Board of Directors (the Audit Committee), with the assistance of independent advisors, into the timing of our third quarter of fiscal 2013 disclosure and accrual related to the GSA matter. The Audit Committee determined that the accounting errors described above did not result from intentional misconduct. The GSA matter is also the subject of a formal investigation by the Securities and Exchange Commission (the SEC). The Company is cooperating with the SEC in its ongoing investigation.

The Audit Committee of the Company's Board of Directors approved a restatement of the Company's financial statements for the three month period ended August 31, 2012, by filing an amendment to the Original Form 10-Q. The error, including the specific line item on each of the Company's financial statements that were restated, is described in greater detail in Note A1 contained in this Form 10-Q/A.

The Company believes the restatement reflects a material weakness in the Company's internal control over financial reporting and that its disclosure controls and procedures were not effective as of August 31, 2012 and November 30, 2012. The Company's controls did not operate as designed to prevent material misstatements, due to unique factors that were only associated with the GSA matter. The Company has concluded that the unique factors related to the GSA matter contributed to a break-down in communications, resulting in the material weakness. Based on developments that occurred during the third quarter of fiscal 2013 and the resulting disclosure of and accrual for the GSA matter, the material weakness no longer exists as of February 28, 2013.

This report on Form 10-Q/A restates the Original Form 10-Q. The following sections of the Original Form 10-Q have been restated:

- 1) Item 1 of Part I, Financial Statements,
- 2) Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations,
- 3) Item 4 of Part I, Controls and Procedures, and
- 4) Item 6 of Part II, Exhibits.

Specifically, the following sections within Item 1 of Part I have been restated or added:

- 1) Consolidated Balance Sheets,
- 2) Consolidated Statements of Income,
- 3) Consolidated Statements of Comprehensive Income,
- 4) Consolidated Statements of Cash Flows,
- 5) Note A1. Restatement,
- 6) Note 9. Contingencies and Other Accrued Losses,
- 7) Note 12. Income Taxes,
- 8) Note 14. Earnings Per Share,
- 9) Note 15. Segment Information, and
- 10) Note 17. Equity

The Company has also restated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and the financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES*

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

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

	August 31, 2012 (Unaudited) (Restated)	May 31, 2012
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 257,382	\$ 315,968
Trade accounts receivable (less allowances of \$26,874 and \$26,507, respectively)	760,300	745,541
Inventories	525,323	489,978
Deferred income taxes	24,253	18,752
Prepaid expenses and other current assets	158,393	167,080
Total current assets	1,725,651	1,737,319
Property, Plant and Equipment, at Cost		
Allowance for depreciation and amortization	(648,961)	(632,133)
Property, plant and equipment, net	445,704	418,832
Other Assets		
Goodwill	954,969	849,346
Other intangible assets, net of amortization	380,624	345,620
Other	169,030	210,696
Total other assets	1,504,623	1,405,662
Total Assets	\$ 3,675,978	\$ 3,561,813
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts payable	\$ 347,245	\$ 391,467
Current portion of long-term debt	3,097	2,584
Accrued compensation and benefits	106,463	157,298
Accrued loss reserves	29,468	28,880
Other accrued liabilities	195,743	144,911
Total current liabilities	682,016	725,140
Long-Term Liabilities		
Long-term debt, less current maturities	1,199,513	1,112,952
Other long-term liabilities	386,236	381,619
Deferred income taxes	45,861	28,119
Total long-term liabilities	1,631,610	1,522,690

Stockholders Equity		
Preferred stock, par value \$0.01; authorized 50,000 shares; none issued		
Common stock, par value \$0.01; authorized 300,000 shares; issued 136,231 and outstanding 132,013 as of August 2012; issued 135,741 and outstanding 131,555 as of May 2012	1,320	1,316
Paid-in capital	748,912	742,895
Treasury stock, at cost	(69,740)	(69,480)
Accumulated other comprehensive income (loss)	(146,701)	(177,893)
Retained earnings	685,201	686,818
Total RPM International Inc. stockholders equity	1,218,992	1,183,656
Noncontrolling interest	143,360	130,327
Total Equity	1,362,352	1,313,983
Total Liabilities and Stockholders Equity	\$ 3,675,978	\$ 3,561,813

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

Table of ContentsRPM INTERNATIONAL INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended August 31,	
	2012 (Restated)	2011
Net Sales	\$ 1,046,714	\$ 985,918
Cost of Sales	612,834	576,292
Gross Profit	433,880	409,626
Selling, General and Administrative Expenses	310,940	273,943
Estimated Loss Contingency	11,418	
Interest Expense	18,430	17,806
Investment (Income), Net	(6,974)	(24)
Other Expense (Income), Net	39,422	(803)
Income Before Income Taxes	60,644	118,704
Provision for Income Taxes	30,025	35,364
Net Income	30,619	83,340
Less: Net Income Attributable to Noncontrolling Interests	3,954	6,529
Net Income Attributable to RPM International Inc. Stockholders	\$ 26,665	\$ 76,811
Average Number of Shares of Common Stock Outstanding:		
Basic	128,805	128,094
Diluted	129,570	128,626
Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders		
Basic	\$ 0.20	\$ 0.59
Diluted	\$ 0.20	\$ 0.59
Cash Dividends Declared per Share of Common Stock	\$ 0.215	\$ 0.210

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

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

	Three Months Ended August 31,	
	2012 (Restated)	2011
Net Income	\$ 30,619	\$ 83,340
Other Comprehensive Income, Net of Tax:		
Foreign Currency Translation Adjustments	39,230	(9,104)
Pension and Other Postretirement Benefit Liability Adjustments	1,206	2,218
Unrealized Gain (Loss) on Securities	(352)	(3,253)
Unrealized Gain on Derivatives	187	(1,079)
Total Comprehensive Income	70,890	72,122
Less: Comprehensive Income Attributable to Noncontrolling Interests	13,033	7,194
Comprehensive Income Attributable to RPM International Inc. Stockholders	\$ 57,857	\$ 64,928

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

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

(Unaudited)

(In thousands)

	Three Months Ended August 31,	
	2012 (Restated)	2011
Cash Flows From Operating Activities:		
Net income	\$ 30,619	\$ 83,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,330	13,009
Amortization	6,735	5,110
Impairment on investment in Kemrock	40,273	
Estimated loss contingency	11,418	
Deferred income taxes	(2,296)	(1,374)
Stock-based compensation expense	3,873	3,125
Other	(442)	(83)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease (increase) in receivables	7,162	(4,211)
(Increase) in inventory	(24,650)	(27,113)
Decrease (increase) in prepaid expenses and other current and long-term assets	554	(6,370)
(Decrease) in accounts payable	(54,226)	(27,069)
(Decrease) in accrued compensation and benefits	(56,362)	(45,873)
(Decrease) in accrued loss reserves	(118)	(2,622)
Increase in other accrued liabilities	53,198	14,818
Other	(11,334)	2,789
Cash From Operating Activities	17,734	7,476
Cash Flows From Investing Activities:		
Capital expenditures	(12,702)	(4,913)
Acquisition of businesses, net of cash acquired	(141,203)	(35,914)
Purchase of marketable securities	(55,744)	(11,315)
Proceeds from sales of marketable securities	49,320	13,821
Other	17,255	915
Cash (Used For) Investing Activities	(143,074)	(37,406)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	147,547	7,391
Reductions of long-term and short-term debt	(63,193)	(10,824)
Cash dividends	(28,281)	(27,424)
Repurchase of stock	(260)	(204)
Exercise of stock options	803	1,205
Cash From (Used For) Financing Activities	56,616	(29,856)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	10,138	(1,870)

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Net Change in Cash and Cash Equivalents	(58,586)	(61,656)
Cash and Cash Equivalents at Beginning of Period	315,968	435,011
Cash and Cash Equivalents at End of Period	\$ 257,382	\$ 373,355

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

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****August 31, 2012****(Unaudited)****NOTE A1 RESTATEMENT**

The Company determined that the estimated loss contingency for the first quarter of fiscal 2013 was understated by \$11.4 million, producing an overstatement of net income of \$7.2 million for the three month period ended August 31, 2012. The error was identified as a result of an investigation by the Audit Committee, with the assistance of independent advisors, into the timing of our third quarter of fiscal 2013 disclosure and accrual associated with the settlement of the previously disclosed GSA matter.

The Company's Consolidated Balance Sheets; Consolidated Statements of Income; Consolidated Statements of Comprehensive Income; Consolidated Statements of Cash Flows; Note 9. Contingencies and Other Accrued Losses; Note 12. Income Taxes; Note 14. Earnings Per Share; Note 15. Segment Information; and Note 17. Equity; included in this Form 10-Q/A have been restated to correct for the misstatements described above.

The following are previously reported and restated balances of affected line items in the Consolidated Balance Sheets as of August 31, 2012 (Unaudited), Consolidated Statements of Income and Consolidated Statements of Comprehensive Income for the three months ended August 31, 2012 (Unaudited), and the Consolidated Statements of Cash Flows for the three months ended August 31, 2012 (Unaudited).

	As of August 31, 2012		
	As Reported	Adjustment	Restated
Consolidated Balance Sheet			
Deferred income taxes	\$ 20,083	\$ 4,170	\$ 24,253
Other accrued liabilities	184,325	11,418	195,743
Retained earnings	692,449	(7,248)	685,201
Total RPM International Inc. stockholders' equity	1,226,240	(7,248)	1,218,992
Total equity	1,369,600	(7,248)	1,362,352

	Three Months Ended August 31, 2012		
	As Reported	Adjustment	Restated
Consolidated Statements of Income			
Estimated Loss Contingency	\$	\$ 11,418	\$ 11,418
Income before income taxes	72,062	(11,418)	60,644
Provision for income taxes	34,195	(4,170)	30,025
Net income	37,867	(7,248)	30,619
Net income attributable to RPM International Inc. Stockholders	33,913	(7,248)	26,665
Earnings Per Share - Basic	0.26	(0.06)	0.20
Earnings Per Share - Diluted	0.26	(0.06)	0.20
Consolidated Statements of Comprehensive Income			
Net income	37,867	(7,248)	30,619
Total Comprehensive Income	78,138	(7,248)	70,890

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Comprehensive Income Attributable to RPM International Inc. Stockholders	65,105	(7,248)	57,857
Consolidated Statement of Cash Flows			
Net income	37,867	(7,248)	30,619
Estimated loss contingency		11,418	11,418
Deferred income taxes	1,874	(4,170)	(2,296)
Cash From Operating Activities	17,734		17,734

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 month periods ended August 31, 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 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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Indian economy and financial markets 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 116.6 rupees per share as of August 31, 2012. The majority of the decline in the market value of Kemrock shares occurred during the month of August. As a result of these factors, we determined that it was appropriate to record an impairment loss of approximately \$32.1 million 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 August 31, 2012, Kemrock had repaid approximately \$5.0 million of the \$15.0 million loan. We anticipate that we will receive approximately half of this amount 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. The loss is classified in selling, general and administrative expense in our Consolidated Statements of Income.

Lastly, at August 31, 2012, we recorded a loss of approximately \$8.2 million 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 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.

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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 August 31, 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:

	August 31, 2012	May 31, 2012
	(In thousands)	
Raw material and supplies	\$ 182,352	\$ 160,869
Finished goods	342,971	329,109
Total Inventory	\$ 525,323	\$ 489,978

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The following tables summarize marketable securities held at August 31, 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>				
August 31, 2012				
Equity securities:				
Stocks foreign	\$ 1,321	\$ 234	\$ (1)	\$ 1,554
Stocks domestic	26,657	1,877	(922)	27,612
Mutual funds foreign	19,053	1,167	(5)	20,215
Mutual funds domestic	39,685	165	(40)	39,810
Total equity securities	86,716	3,443	(968)	89,191
Fixed maturity:				
U.S. treasury and other government	20,641	484	(17)	21,108
Kemrock convertible bonds	14,273			14,273
Corporate bonds	1,832	268		2,100
Foreign bonds	38	3		41
Mortgage-backed securities	180	65	(1)	244
Total fixed maturity securities	36,964	820	(18)	37,766
Total	\$ 123,680	\$ 4,263	\$ (986)	\$ 126,957

	Available-For-Sale Securities			Fair Value (Net Carrying Amount)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(In thousands)</i>				
May 31, 2012				
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:				

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U.S. treasury and other government	19,347	530	(12)	19,865
Kemrock convertible bonds	13,670			13,670
Corporate 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 \$39.1 million and \$87.9 million at August 31, 2012, respectively, and \$30.5 million and \$89.6 million at May 31, 2012, respectively, are 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 depositary

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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. We reclassified approximately \$73.6 million and \$76.0 million out of other current assets into long-term assets as of August 31, 2012 and May 31, 2012, respectively, in order to reflect the timeframe over which these assets are intended to be used.

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 \$5.0 million and \$0.4 million, respectively, for the quarter ended August 31, 2012. Gross gains and losses realized on sales of investments were \$1.9 million and \$2.8 million, respectively, for the quarter ended August 31, 2011. During the first quarter of fiscal 2013 and 2012, we recognized losses of \$0.1 million and \$0.4 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.

Summarized below are the securities we held at August 31, 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:

	August 31, 2012		May 31, 2012	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(In thousands)</i>				
Total investments with unrealized losses	\$ 24,325	\$ (986)	\$ 43,772	\$ (3,078)
Unrealized losses with a loss position for less than 12 months	22,723	(441)	42,114	(2,596)
Unrealized losses with a loss position for more than 12 months	1,602	(545)	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 August 31, 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 August 31, 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 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.

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The net carrying values of debt securities at August 31, 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>	Amortized Cost	Fair Value
Due:		
Less than one year	\$ 913	\$ 914
One year through five years	29,643	29,935
Six years through ten years	4,557	4,776
After ten years	1,851	2,141
	\$ 36,964	\$ 37,766

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.

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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 August 31, 2012
U.S. Treasury and other government	\$	\$ 21,108	\$	\$ 21,108
Foreign bonds		41		41
Mortgage-backed securities		244		244
Corporate bonds		2,100		2,100
Stocks foreign	1,554			1,554
Stocks domestic	27,612			27,612
Mutual funds foreign		20,215		20,215
Mutual funds domestic		39,810		39,810
Cross-currency swap		(4,503)		(4,503)
Conversion option, Kemrock 5.5% bonds			847	847
Investment in Kemrock convertible debt		14,273		14,273
Total	\$ 29,166	\$ 93,288	\$ 847	\$ 123,301

<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
Total	\$ 27,205	\$ 89,409	\$ 9,031	\$ 125,645

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

Our cross-currency swap is a liability that has a fair value of \$4.5 million at August 31, 2012, that was originally designed to fix our interest and principal payments in euros for the life of our unsecured 6.70% senior notes due

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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 quarter ended August 31, 2012, we recognized a loss of approximately \$8.2 million 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 116.6 rupees per share at August 31, 2012. The majority of the decline in the market value of Kemrock shares occurred during the Month of August. 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 August 31, 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 August 31, 2012 and May 31, 2012 are as follows:

	At August 31, 2012	
<i>(In thousands)</i>	Carrying Value	Fair Value
Cash and cash equivalents	\$ 257,382	\$ 257,382
Marketable equity securities	89,191	89,191
Marketable debt securities	37,766	37,766
Long-term debt, including current portion	1,202,610	1,484,689

	At May 31, 2012	
<i>(In thousands)</i>	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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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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 August 31, 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.

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

<i>(In thousands)</i>	Quarter Ended	
	August 31,	
	2012	2011
Beginning Balance	\$ 14,751	\$ 17,196
Deductions (1)	(3,905)	(4,072)
Provision charged to SG&A expense	3,681	3,841
Ending Balance	\$ 14,527	\$ 16,965

(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.

During our fiscal year ended May 31, 2013, we recorded an adjustment to our current product liability reserves to remove the impact of claims that we determined will not likely be paid out over the next 12 months, which should have been included in the long-term product liability reserves as of May 31, 2012. As a result, long-term accrued product liability reserves (a component of other long-term liabilities on our Consolidated Balance Sheets) were increased by \$26.6 million and \$25.8 million, and current accrued product liability reserves (a component of accrued loss reserves on our Consolidated Balance Sheets) were decreased by an equal amount, in order to reflect this reclassification as of August 31, 2012 and May 31, 2012, respectively.

During the first quarter of fiscal 2013, we recorded an \$11.4 million accrual associated the GSA matter. The substantial majority of the accrual relates to the sale of products and services from 2004 to 2008. Our Tremco Roofing Division is in ongoing discussions with the DOJ and the GSA aimed at resolving the investigation. We are cooperating with the investigation, which involves compliance with certain pricing terms and conditions of GSA contracts under which our Tremco Roofing Division sold products and services to the federal government. The accrual recorded during the first quarter for this contingency represents our best estimate of the amount of probable loss that may result from this matter. In assessing our probable loss, we have considered the potentially disputed amounts under the relevant contracts, together with our understanding of policies for resolving such matters. It is reasonably possible that the actual amount of our loss may vary materially from the amount of the accrual, and given the state of the investigation, the Company is unable to estimate the range of loss. The ultimate loss related to this investigation may be subject to a multiplier that is determined by the DOJ, based on their consideration of the facts and circumstances related to this matter. This multiplier can range from one to three times the amount due to the government. The accrual for this contingency is classified in other accrued liabilities in our Consolidated Balance Sheets and the loss is classified as estimated loss contingency in our Consolidated Statements of Income as of and for the period ended August 31, 2012.

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

<i>(In thousands)</i>	Quarter Ended August 31,	
	2012	2011
Interest (income)	\$ (2,295)	\$ (1,117)
(Gain) loss on sale of marketable securities	(4,584)	914
Other-than-temporary impairment on securities	113	406
Dividend (income)	(208)	(227)
Investment (income) expense, net	\$ (6,974)	\$ (24)

NOTE 11 OTHER EXPENSE (INCOME), NET

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

Year Ended May 31, <i>(In thousands)</i>	Quarter Ended August 31,	
	2012	2011
Royalty (income), net	\$ (294)	\$ (324)
Loss on Kemrock conversion option	8,183	
Loss (income) related to unconsolidated equity affiliates	31,533	(479)
Other expense (income), net	\$ 39,422	\$ (803)

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 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.

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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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As discussed in Note 2, the Indian economy and financial markets 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 116.6 rupees per share as of August 31, 2012. The majority of the decline in the market value of Kemrock shares occurred during the month of August. As a result of these factors, we determined that it was appropriate to record an impairment loss of approximately \$32.1 million 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 a carrying value of \$10.0 million and \$42.2 million at August 31, 2012 and May 31, 2012, respectively.

NOTE 12 INCOME TAXES

The effective income tax rate was 49.5% for the three months ended August 31, 2012 compared to an effective income tax rate of 29.8% for the three months ended August 31, 2011.

For the three months ended August 31, 2012 and, to a lesser extent for three months ended August 31, 2011, the effective tax rate differed from the federal statutory rate principally due to lower effective tax rates of certain of our foreign subsidiaries, including a reduction in the United Kingdom income tax rate, and lower valuation allowances on foreign tax credit carryforwards. Furthermore, for the three months ended August 31, 2011 decreases in the effective income tax rate resulted from net adjustments to reserves for contingencies, including interest thereon. These decreases in taxes were partially offset by increases in tax as a result of the impact of non-deductible business operating expenses, state and local income taxes, and the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits are offset by adjustments to valuation allowances associated with losses incurred by those foreign businesses. Additionally for the three months ended August 31, 2012, the effective tax rate increased as a result of valuation allowances related to losses associated with our investments in Kemrock.

As of August 31, 2012, we had unrecognized tax benefits of approximately \$3.3 million, of which approximately \$2.4 million would impact the effective tax rate, if recognized. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. At August 31, 2012 the accrual for interest and penalties was \$1.5 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 do not anticipate any 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 August 31, 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. Although it is possible that certain tax examinations, including the IRS examination of fiscal years 2009 and 2010, could be resolved during the next 12 months, the timing and outcomes are uncertain.

As of August 31, 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 August 31, 2012 for those deferred tax assets until sufficient positive evidence (for example,

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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.

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 quarters month periods ended August 31, 2012 and 2011:

Pension Benefits	U.S. Plans Quarter Ended August 31,		Non-U.S. Plans Quarter Ended August 31,	
	2012	2011	2012	2011
	<i>(In thousands)</i>			
Service cost	\$ 6,488	\$ 4,977	\$ 1,050	\$ 965
Interest cost	4,060	3,827	1,769	2,040
Expected return on plan assets	(4,358)	(4,354)	(1,846)	(2,036)
Amortization of:				
Prior service cost	87	88	2	3
Net actuarial losses recognized	4,222	2,127	692	560
Net Periodic Benefit Cost	\$ 10,499	\$ 6,665	\$ 1,667	\$ 1,532

Postretirement Benefits	U.S. Plans Quarter Ended August 31,		Non-U.S. Plans Quarter Ended August 31,	
	2012	2011	2012	2011
	<i>(In thousands)</i>			
Service cost	\$ 88	\$ 104	\$ 288	\$ 192
Interest cost	88	104	289	250
Amortization of:				
Prior service cost	(22)	(22)		
Net actuarial (gains) losses recognized	4	(14)	114	18
Net Periodic Benefit Cost	\$ 70	\$ 68	\$ 691	\$ 460

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 August 31, 2012, we do not anticipate any changes to those planned contribution levels.

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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 months ended August 31, 2012 and 2011:

(In thousands, except per share amounts)	Three Months Ended August 31,	
	2012 (Restated)	2011
Numerator for earnings per share:		
Net income attributable to RPM International Inc. stockholders	\$ 26,665	\$ 76,811
Less: Allocation of earnings and dividends to participating securities	(479)	(1,530)
Net income available to common shareholders basic	26,186	75,281
Add: Undistributed earnings reallocated to unvested shareholders		4
Net income available to common shareholders diluted	\$ 26,186	\$ 75,285
Denominator for basic and diluted earnings per share:		
Basic weighted average common shares	128,805	128,094
Average diluted options	765	532
Total shares for diluted earnings per share	129,570	128,626
Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders:		
Basic	\$ 0.20	\$ 0.59
Diluted (1)	\$ 0.20	\$ 0.59

- (1) For the quarters ended August 31, 2012 and 2011, approximately 2,954,000 and 2,750,000 shares of stock, respectively, granted under stock-based compensation plans were excluded from the calculation of diluted earnings per share, 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.

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

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

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

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

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	
	August 31,	August 31,
	2012	2011
	<i>(In thousands)</i>	
	(Restated)	
Net Sales		
Industrial Segment	\$ 703,335	\$ 667,016
Consumer Segment	343,379	318,902
Consolidated	\$ 1,046,714	\$ 985,918
Income (Loss) Before Income Taxes		
Industrial Segment	\$ 62,886	\$ 91,546
Consumer Segment	58,788	51,512
Corporate/Other	(61,030)	(24,354)
Consolidated	\$ 60,644	\$ 118,704
	August 31,	May 31,
	2012	2012
Identifiable Assets		
Industrial Segment	\$ 2,359,243	\$ 2,195,702
Consumer Segment	1,216,807	1,184,609

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Corporate/Other	99,928	181,502
Consolidated	\$ 3,675,978	\$ 3,561,813

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 August 31, 2012, we did not repurchase any shares of our common stock under this program.

Table of Contents**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 quarters ended August 31, 2012 and 2011:

<i>(In thousands)</i>	Total RPM International Inc. Equity (Restated)	Noncontrolling Interest	Total Equity (Restated)
Total equity at May 31, 2012	\$ 1,183,656	\$ 130,327	\$ 1,313,983
Net income	26,665	3,954	30,619
Other Comprehensive Income:			
Foreign currency translation adjustments	28,664	10,566	39,230
Pension and other postretirement benefit liability adjustments, net of tax	1,534	(328)	1,206
Unrealized gain (loss) on securities, net of tax	825	(1,177)	(352)
Unrealized gain on derivatives, net of tax	169	18	187
Total Other Comprehensive Income, net of tax	31,192	9,079	40,271
Comprehensive Income	57,857	13,033	70,890
Dividends paid	(28,281)		(28,281)
Other	1,284		1,284
Stock option exercises, net	603		603
Stock based compensation expense	588		588
Restricted awards, net	3,285		3,285
Total Equity at August 31, 2012	\$ 1,218,992	\$ 143,360	\$ 1,362,352

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at May 31, 2011	\$ 1,263,164	\$ 124,204	\$ 1,387,368
Net income	76,811	6,529	83,340
Other Comprehensive Income:			
Foreign currency translation adjustments	(9,433)	329	(9,104)
Pension and other postretirement benefit liability adjustments, net of tax	2,041	177	2,218
Unrealized gain (loss) on securities, net of tax	(3,643)	390	(3,253)
Unrealized gain on derivatives, net of tax	(848)	(231)	(1,079)
Total Other Comprehensive Income, net of tax	(11,883)	665	(11,218)
Comprehensive Income	64,928	7,194	72,122

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Dividends paid	(27,424)		(27,424)
Other noncontrolling interest activity	(390)		(390)
Shares repurchased	(206)		(206)
Stock option exercises, net	1,206		1,206
Stock based compensation expense	3,125		3,125
Restricted awards, net	(64)		(64)
Total Equity at August 31, 2011	\$ 1,304,339	\$ 131,398	\$ 1,435,737

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18 SUBSEQUENT EVENTS

Subsequent to the end of the current fiscal quarter, we completed two 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 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.

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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; uncertain tax positions; 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

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U.S. dollar weakens, foreign exchange translation gains result, which favorably impact accumulated other comprehensive income (loss). 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).

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

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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, amortizable 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.

Measuring a potential impairment of amortizable 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; market participant assumptions; 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.

Additionally, we test all indefinite-lived intangible assets for impairment at least annually during our fiscal fourth quarter. Our fiscal 2012 annual impairment tests of each of our indefinite-lived intangible assets did not result in any impairment loss.

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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 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 probable 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. To the extent there is a reasonable possibility that potential losses could exceed the amounts already accrued, we believe that the amount of any such additional loss would be immaterial to our results of operations, liquidity and consolidated financial position. We evaluate our accruals at the end of each quarter, or sometimes more frequently, based on available facts, and may revise our estimates in the future based on any new information becoming available.

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.

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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 and past experience, but are primarily made up of 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

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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>				
Discount Rate				
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
Expected Return on Plan Assets				
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
Compensation Increase				
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>				
Discount Rate				
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
Healthcare Cost Trend Rate				
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.

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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 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 two operating segments – DAP Group and Rust-Oleum Group. Products within this reportable segment include specialty, hobby and professional paints; caulks; adhesives; silicone sealants and wood stains.

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

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

	Quarter Ended	
	August 31, 2012	August 31, 2011
	<i>(In thousands)</i>	
	<i>(Restated)</i>	
Net Sales		
Industrial Segment	\$ 703,335	\$ 667,016
Consumer Segment	343,379	318,902
Consolidated	\$ 1,046,714	\$ 985,918
Income (Loss) Before Income Taxes (a)		
Industrial Segment		
Income Before Income Taxes (a)	\$ 62,886	\$ 91,546
Interest (Expense), Net (b)	(2,608)	(917)
EBIT (c)	\$ 65,494	\$ 92,463
Consumer Segment		
Income Before Income Taxes (a)	\$ 58,788	\$ 51,512
Interest (Expense), Net (b)		36
EBIT (c)	\$ 58,788	\$ 51,476
Corporate/Other		
(Expense) Before Income Taxes (a)	\$ (61,030)	\$ (24,354)
Interest (Expense), Net (b)	(8,848)	(16,901)
EBIT (c)	\$ (52,182)	\$ (7,453)
Consolidated		
Income (Loss) Before Income Taxes (a)	\$ 60,644	\$ 118,704
Interest (Expense), Net (b)	(11,456)	(17,782)
EBIT (c)	\$ 72,100	\$ 136,486

- (a) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by Generally Accepted Accounting Principles (GAAP) in the United States, to EBIT.
- (b) Interest (expense), net includes the combination of interest (expense) and investment income/(expense), net.
- (c) 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

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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.

Table of Contents**RESULTS OF OPERATIONS*****Three Months Ended August 31, 2012***

Net Sales On a consolidated basis, net sales of \$1.05 billion for the quarter ended August 31, 2012 improved 6.2%, or \$60.8 million, over net sales of \$985.9 million during the comparable prior year period. The organic growth in sales amounted to 0.2%, or \$1.5 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 2.4%, or \$23.8 million, the impact of unfavorable foreign exchange of approximately 4.2% of the prior year period net sales, or \$41.6 million, and favorable pricing approximating 2.0% or \$19.3 million. These favorable pricing initiatives, including those across both of our reportable segments, were instituted primarily during prior periods in order to offset the escalating raw material costs. Six small acquisitions executed over the past 12 months provided 6.0% of net sales growth over the comparable prior year period, or \$59.3 million.

Industrial segment net sales, which comprised approximately 67% of consolidated net sales for the quarter ended August 31, 2012, totaled \$703.3 million, an increase of 5.4% from \$667.0 million during the comparable prior year period. The increase in the industrial segment's net sales includes volume growth of 1.0%, favorable pricing of approximately 1.8% of the prior period net sales and the impact of unfavorable foreign exchange of 5.5%. Five small acquisitions contributed 8.1% of this segment's current period growth in net sales versus net sales for the prior year first quarter result.

Consumer segment net sales, which comprised approximately 33% of consolidated net sales for the quarter ended August 31, 2012, totaled \$343.4 million, an increase of 7.7% from \$318.9 million during the same period a year ago. The improvement in this segment resulted from organic growth in sales of 6.1%, including growth in unit volume sales approximating 5.3% of the prior year first 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 1.6% of the prior year net sales. One small product line acquisition executed over the last year had a favorable impact of approximately 1.6% on this segment's net sales during the first quarter of fiscal 2013 versus the comparable prior year period.

Gross Profit Margin Our consolidated gross profit margin remained flat at 41.5% of net sales for each of the first quarters of fiscal 2013 and 2012, despite our 2.4% growth in organic sales volume for the quarter ended August 31, 2012 versus the comparable prior year period. Offsetting the growth in organic sales volume for the current quarter was primarily the impact of unfavorable foreign exchange and raw material costs, which were only slightly higher during the first quarter of fiscal 2013 versus the comparable prior year period. Additionally, the current quarter gross profit margin was negatively impacted by approximately 40 basis points as a result of one-time charges taken by the roofing division of RPM's Building Solutions Group. The charges were taken for revised cost estimates in conjunction with unprofitable contracts outside of North America.

Selling, General and Administrative Expenses (SG&A) Our consolidated SG&A increased to 29.7% of net sales for the quarter ended August 31, 2012 compared with 27.8% of net sales for the quarter ended August 31, 2011. The 190 basis point increase in SG&A as a percent of net sales versus the prior year includes the impact of the \$5.0 million bad debt write down recorded in relation to our \$10.0 million outstanding loan to Kemrock. Other items impacting SG&A were increased compensation-related expenses, pension and postretirement benefits expense and distribution expense. During the first quarter of fiscal 2012, we recorded a gain relating to the receipt of an insurance settlement, which did not recur during the current fiscal year. Warranty expense for the quarter ended August 31, 2012 declined slightly from the amount recorded during the comparable prior year period. We anticipate that warranty expense will likely continue to slowly decline over the next few years.

Our industrial segment SG&A was approximately \$23.7 million higher during the first quarter 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 the current quarter. Additionally, the industrial segment's roofing division recorded a \$10.6 million loss during the current quarter

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related to a loss contract outside North America and exit costs related to this contract. Lastly, the industrial segment results for the first quarter of fiscal 2013 also reflect the impact of higher employee compensation and pension and postretirement benefit expense, higher legal and distribution expense versus the comparable prior year period.

Our consumer segment SG&A was approximately \$4.1 million higher during the first quarter of fiscal 2013 versus the comparable prior year period, but improved as a percentage of net sales in the first quarter of fiscal 2013 as compared with the same period a year ago, primarily reflecting the favorable margin impact of the 6.1% growth in organic sales during the first quarter of fiscal 2013 versus the comparable prior year period. Slightly offsetting the favorable impact of organic sales growth was the combination of higher advertising and legal expense during the first quarter of fiscal 2013 versus the comparable prior year period.

SG&A expenses in our corporate/other category increased by \$9.3 million during the first quarter of fiscal 2013 to \$16.7 million from \$7.4 million during the comparable prior year period. During the prior year period, there was the favorable impact from an insurance settlement that did not recur in the first quarter of fiscal 2013. The increase in SG&A expense also reflects the combination of higher employee compensation and pension and postretirement benefit expenses and higher acquisition-related expense.

We recorded total net periodic pension and postretirement benefit costs of \$12.9 million and \$8.7 million for the quarters ended August 31, 2012 and 2011, respectively. This increase in pension expense of \$4.2 million was primarily the result of \$2.3 million of additional net actuarial losses incurred during the first quarter of fiscal 2013 versus the comparable prior year period and a \$1.7 million increase in service and interest cost during the first quarter 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 \$0.2 million for the quarter ended August 31, 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. See Note 12, Pension and Postretirement Health Care Benefits, for additional information regarding these benefits.

Estimated Loss Contingency During the first quarter of fiscal 2013, we recorded an \$11.4 million accrual associated with the GSA matter. The substantial majority of the accrual relates to the sale of products and services from 2004 to 2008. Our Tremco Roofing Division is in ongoing discussions with the U.S. Department of Justice (the DOJ) and the GSA aimed at resolving the investigation. We are cooperating with the investigation, which involves compliance with certain pricing terms and conditions of GSA contracts under which our Tremco Roofing Division sold products and services to the federal government. The accrual recorded during the first quarter for this contingency represents our best estimate of the amount of probable loss that may result from this matter. In assessing our probable loss, we have considered the potentially disputed amounts under the relevant contracts, together with our understanding of policies for resolving such matters. It is reasonably possible that the actual amount of our loss may vary materially from the amount of the accrual, and given the state of the investigation, the Company is unable to estimate the range of loss. The ultimate loss related to this investigation may be subject to a multiplier that is determined by the DOJ, based on the consideration of the facts and circumstances related to this matter. This multiplier can range from one to three times the amount due to the government.

Interest Expense Interest expense was \$18.4 million for the quarter ended August 31, 2012 versus \$17.8 million for the quarter ended August 31, 2011. Higher average borrowings, related to recent acquisitions, increased interest expense during the first quarter of fiscal 2013 by approximately \$2.1 million versus the comparable prior year period. Lower average borrowings year-over-year decreased interest expense by approximately \$1.5 million.

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Investment Expense (Income), Net Net investment income was \$7.0 million higher during the first quarter of fiscal 2013 versus the same period last year. Dividend and interest income totaled \$2.5 million during the first quarter of fiscal 2013 versus \$1.3 million during the same period a year ago. Net realized gains on the sales of investments resulted in a net gain of \$4.6 million for the quarter ended August 31, 2012 versus a net loss of \$0.9 million for the quarter ended August 31, 2011. Impairments recognized on securities that management has determined are other-than-temporary declines in value approximated \$0.1 million for the quarter ended August 31, 2012, versus \$0.4 million for the quarter ended August 31, 2011.

Other Expense (Income), Net Other expense for the quarter ended August 31, 2012 of \$39.4 million compares with other income of \$0.8 million during the comparable prior year period. The majority of other expense for the current quarter, approximately \$35.6 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 Indian economy and financial markets 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 impairment loss on our investment during the current quarter.

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 \$0.3 million represents royalty income for each of quarters presented. Also included is our equity in earnings of unconsolidated affiliates totaling approximately \$0.5 million for each of the quarters presented. Also reflected in the first quarter of fiscal 2013 is the loss recorded by our industrial segment in relation to our investment in Kemrock, which approximated \$4.7 million.

Income Before Income Taxes (IBT) Our consolidated pretax income for the first quarter of fiscal 2013 of \$60.6 million compares with pretax income of \$118.7 million for the quarter ended August 31, 2011, which results in a pretax profit margin on net sales of 5.8% and 12.0% for the first quarter of fiscal 2013 and 2012, respectively.

Our industrial segment had IBT of \$62.9 million, for a profit margin on net sales of 8.9% for the quarter ended August 31, 2012, versus IBT of \$91.5 million, for a profit margin on net sales of 13.7%, for the quarter ended August 31, 2011. The decline in IBT as a percent of sales for the industrial segment resulted primarily from an \$11.4 million accrual associated with the GSA matter as well as the recognition of this segment's loss on its investments in Kemrock during the current fiscal quarter. Our consumer segment IBT increased to \$58.8 million, or 17.1% of net sales for the quarter ended August 31, 2012, from the comparable prior year period result of \$51.5 million, or 16.2% of net sales. This was driven primarily by the organic growth in sales for the consumer segment of approximately 6.1% in the first quarter of fiscal 2013 from the comparable prior year period.

Income Tax Rate The effective income tax rate was 49.5% for the three months ended August 31, 2012 compared to an effective income tax rate of 29.8% for the three months ended August 31, 2011.

For the three months ended August 31, 2012 and, to a lesser extent for three months ended August 31, 2011, the effective tax rate differed from the federal statutory rate principally due to lower effective tax rates of certain of our foreign subsidiaries, including a reduction in the United Kingdom income tax rate, and lower valuation allowances on foreign tax credit carryforwards. Furthermore, for the three months ended August 31, 2011, decreases in the effective income tax rate resulted from net adjustments to reserves for contingencies, including interest thereon. These decreases in taxes were partially offset by increases in tax as a result of the impact of non-deductible business operating expenses, state and local income taxes, and the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits are offset by adjustments to valuation allowances associated with losses incurred by those foreign businesses. Additionally for the three months ended August 31, 2012, the effective tax rate increased as a result of valuation allowances related to losses associated with our various investments in Kemrock.

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As of August 31, 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 August 31, 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 \$30.6 million for the quarter ended August 31, 2012 compares to net income of \$83.3 million for the quarter ended August 31, 2011. This results in a net margin on sales of 2.9% and 8.5% for the quarters ended August 31, 2012 and 2011, respectively. While organic sales volume grew by 2.4% during the first quarter of fiscal 2013 versus net sales for the first quarter of fiscal 2012, there were higher employee compensation, distribution and acquisition-related expenses during the first quarter of fiscal 2013 versus the comparable prior year period. We recorded an \$11.4 million accrual (\$7.2 million after-tax) associated with the GSA matter, as well as losses on our various investments in Kemrock, which totaled \$42.5 million after-tax. During the quarter ended August 31, 2012, we had net income from noncontrolling interests of \$4.0 million versus \$6.5 million during the comparable prior year period. Net income attributable to RPM International Inc. stockholders was \$26.7 million for the quarter ended August 31, 2012, versus \$76.8 million for the quarter ended August 31, 2011, for a margin on net sales of 2.5% and 7.8% for the quarter ended August 31, 2012 and 2011, respectively.

Diluted earnings per share of common stock for the quarter ended August 31, 2012 of \$0.20 compares with \$0.59 for the quarter ended August 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Operating activities provided cash flow of \$17.7 million for the quarter ended August 31, 2012 compared with \$7.5 million during the prior fiscal year period, resulting in a net increase in cash of \$10.2 million during the first quarter of fiscal 2013 versus fiscal 2012.

The net change in cash from operations includes the change in net income, which decreased by \$52.7 million during the first quarter of fiscal 2013 versus the same period during fiscal 2012. Reflected in net income for the quarter ended August 31, 2012 are \$58.1 million of one-time charges. The non-cash charges include an after-tax charge of \$7.2 million resulting from our estimated accrual for a loss contingency; an after-tax charge of \$42.5 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 \$53.1 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 \$10.6 million during the current fiscal year period versus the prior fiscal year period.

The decrease in accounts receivable since May 31, 2012 represents cash provided of \$7.2 million versus the \$4.2 million of cash used by accounts receivable during the first quarter of fiscal 2012, or approximately \$11.4 million more cash provided year-over-year. This resulted from the timing of sales and collections on accounts receivable. Days sales outstanding at August 31, 2012 decreased slightly to 62.1 days from 62.6 days sales outstanding at August 31, 2011.

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Inventory balances used \$24.7 million of cash during the first quarter of fiscal 2013, compared with a use of cash of \$27.1 million during the first quarter of fiscal 2012, or \$2.4 million less cash used year-over-year. Days of inventory outstanding at August 31, 2012 decreased slightly to 77.1 days from 77.4 days of inventory outstanding at August 31, 2011.

The current quarter change in accounts payable used \$27.2 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 \$10.5 million more cash during the first quarter 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, including those for other short-term and long-term items and changes in accrued loss reserves, provided \$40.9 million more cash during the first quarter of fiscal 2013 versus the first quarter of the prior fiscal year, due to changes in the timing of such payments. Lastly, the current period change in cash from operating activities other, relates partly to the unfavorable impact of foreign exchange as the U.S. dollar was stronger against other major currencies at the end of the current fiscal year versus a year ago.

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 \$12.7 million during the first quarter of fiscal 2013 compare with depreciation of \$13.3 million. Although our capital spending levels do not currently exceed depreciation expense, we expect that during the remainder of fiscal 2013 that our capital spending levels will begin to exceed depreciation expense. We believe our current production capacity is 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 \$22.2 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 August 31, 2012, the fair value of our investments in marketable securities totaled \$127.0 million, of which investments with a fair value of \$24.3 million were in an unrealized loss position. Included in the \$127.0 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 global depositary 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. 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 August 31, 2012 and May 31, 2012 were \$1.0 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

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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 August 31, 2012, approximately 92% 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 \$870.8 million at August 31, 2012. Our debt-to-capital ratio was 49.5% at August 31, 2012, compared with 48.5% at May 31, 2012.

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.

Table of Contents***Revolving Credit Agreement***

On January 5, 2011, we established a \$400.0 million senior unsecured multi-currency revolving credit facility with a group of banks (the Revolving Credit Facility). As discussed below, this credit facility was subsequently terminated on June 29, 2012 and replaced with a new revolving credit facility. The Revolving Credit Facility provided a \$35.0 million sub-limit for swing loans (relatively short-term borrowings used for working capital purposes) and a \$100.0 million sub-limit for the issuance of letters of credit. We had the option to increase the Revolving Credit Facility by an aggregate principal amount not to exceed \$100.0 million. The purpose of this Revolving Credit Facility was to refinance our prior credit facility, and any borrowings from this Revolving Credit Facility could have been used for working capital, capital expenditures and general corporate purposes. The Revolving Credit Facility would have matured on January 5, 2015, four years from its closing date. The Revolving Credit Facility required 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 could 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 under the Revolving Credit Facility was 3.50 to 1.

On June 29, 2012, we terminated our Revolving Credit Facility and entered into an unsecured syndicated revolving credit facility (the New Credit Facility) with a group of banks. The New 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 New Credit Facility may be expanded upon our request, subject to certain conditions, to \$800.0 million. The New Credit Facility is available to refinance existing indebtedness, to finance working capital and capital expenditure needs, and for general corporate purposes.

The New 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 August 31, 2012, we were in compliance with all covenants contained in our New Credit Facility, including the leverage and interest coverage ratio covenants. At that date, our leverage ratio was 49.6%, while our interest coverage ratio was 6.79 to 1.

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

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 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.

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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 New Credit Facility.

Our failure to comply with the covenants described above and other covenants contained in the New 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 New 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 New 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 August 31, 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	2016-17	After 2017
			<i>(In thousands)</i>		
Long-term debt obligations	\$ 1,202,610	\$ 3,097	\$ 202,415	\$ 287,690	\$ 709,408
Capital lease obligations					