

RPM INTERNATIONAL INC/DE/
Form 10-Q
April 03, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended February 28, 2014,

or

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

For the transition period from to .

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

incorporation or organization)

P.O. BOX 777;

2628 PEARL ROAD;

MEDINA, OHIO
(Address of principal executive offices)

02-0642224
(IRS Employer

Identification No.)

44258
(Zip Code)

(330) 273-5090

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(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 April 1, 2014

133,247,375 Shares of RPM International Inc. Common Stock were outstanding.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES*

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

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

	February 28, 2014 <i>(Unaudited)</i>	May 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 216,001	\$ 343,554
Trade accounts receivable (less allowances of \$29,988 and \$28,904, respectively)	705,153	787,517
Inventories	634,583	548,680
Deferred income taxes	38,310	36,565
Prepaid expenses and other current assets	157,351	169,956
Total current assets	1,751,398	1,886,272
Property, Plant and Equipment, at Cost	1,162,961	1,128,123
Allowance for depreciation and amortization	(656,169)	(635,760)
Property, plant and equipment, net	506,792	492,363
Other Assets		
Goodwill	1,142,186	1,113,831
Other intangible assets, net of amortization	464,486	459,613
Other	168,943	163,447
Total other assets	1,775,615	1,736,891
Total Assets	\$ 4,033,805	\$ 4,115,526
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	\$ 336,692	\$ 478,185
Current portion of long-term debt	5,957	4,521
Accrued compensation and benefits	130,583	154,844
Accrued loss reserves	21,784	27,591
Other accrued liabilities	192,327	262,889
Total current liabilities	687,343	928,030
Long-Term Liabilities		
Long-term debt, less current maturities	1,382,478	1,369,176
Other long-term liabilities	430,697	417,160
Deferred income taxes	48,372	46,227
Total long-term liabilities	1,861,547	1,832,563

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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 137,937 and outstanding 133,250 as of February 2014; issued 136,913 and outstanding 132,596 as of May 2013		
	1,332	1,326
Paid-in capital	794,568	763,505
Treasury stock, at cost	(82,178)	(72,494)
Accumulated other comprehensive (loss)	(165,409)	(159,253)
Retained earnings	756,891	667,774
Total RPM International Inc. stockholders equity	1,305,204	1,200,858
Noncontrolling interest	179,711	154,075
Total Equity	1,484,915	1,354,933
Total Liabilities and Stockholders Equity	\$ 4,033,805	\$ 4,115,526

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 per share amounts)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Net Sales	\$ 863,410	\$ 843,736	\$ 3,099,571	\$ 2,907,876
Cost of Sales	505,384	500,172	1,784,528	1,705,431
Gross Profit	358,026	343,564	1,315,043	1,202,445
Selling, General and Administrative Expenses	322,205	318,638	1,000,712	955,339
Loss Contingency		68,846		68,846
Interest Expense	19,740	20,506	61,274	58,804
Investment (Income), Net	(7,751)	(6,317)	(13,650)	(14,655)
Other (Income) Expense, Net	(1,353)	4,714	(3,278)	53,830
Income (Loss) Before Income Taxes	25,185	(62,823)	269,985	80,281
Provision (Benefit) for Income Taxes	8,274	(20,631)	77,771	38,519
Net Income (Loss)	16,911	(42,192)	192,214	41,762
Less: Net Income Attributable to Noncontrolling Interests	690	164	9,333	8,537
Net Income (Loss) Attributable to RPM International Inc. Stockholders	\$ 16,221	\$ (42,356)	\$ 182,881	\$ 33,225
Average Number of Shares of Common Stock Outstanding:				
Basic	129,453	129,013	129,407	128,900
Diluted	129,453	129,013	131,569	129,722
Earnings (Loss) per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic	\$ 0.12	\$ (0.33)	\$ 1.38	\$ 0.25
Diluted	\$ 0.12	\$ (0.33)	\$ 1.37	\$ 0.25
Cash Dividends Declared per Share of Common Stock	\$ 0.240	\$ 0.225	\$ 0.705	\$ 0.665

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 (LOSS)****(Unaudited)****(In thousands)**

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Net Income (Loss)	\$ 16,911	\$ (42,192)	\$ 192,214	\$ 41,762
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(12,146)	(19,938)	(1,355)	17,256
Pension and other postretirement benefit liability adjustments (net of tax of \$1,993; \$2,819; \$4,751 and \$5,498, respectively)	3,826	5,278	8,961	9,862
Unrealized gain (loss) on securities (net of tax of \$(998); \$220; \$961 and \$1,527, respectively)	(2,314)	(712)	2,648	1,012
Unrealized gain (loss) on derivatives (net of tax benefit of \$(159); \$157; \$(437) and \$(11), respectively)	(484)	328	(1,369)	(229)
Total other comprehensive (loss) income	(11,118)	(15,044)	8,885	27,901
Total Comprehensive Income (Loss)	5,793	(57,236)	201,099	69,663
Less: Comprehensive Income Attributable to Noncontrolling Interests	7,241	1,173	24,375	20,436
Comprehensive (Loss) Income Attributable to RPM International Inc. Stockholders	\$ (1,448)	\$ (58,409)	\$ 176,724	\$ 49,227

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)**

	Nine Months Ended February 28,	
	2014	2013
Cash Flows From Operating Activities:		
Net income	\$ 192,214	\$ 41,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	43,706	41,858
Amortization	23,616	22,535
Impairment on investment in Kemrock		51,092
Loss contingency		68,846
Deferred income taxes	(1,422)	4,461
Stock-based compensation expense	15,541	12,354
Other	(2,143)	(10,120)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	86,480	144,749
(Increase) in inventory	(82,572)	(69,705)
Decrease in prepaid expenses and other current and long-term assets	3,885	14,356
(Decrease) in accounts payable	(145,393)	(88,350)
(Decrease) in accrued compensation and benefits	(23,935)	(42,897)
(Decrease) increase in accrued loss reserves	(5,804)	4,379
Increase (decrease) in other accrued liabilities	6,576	(5,136)
(Decrease) in contingent payment	(63,014)	
Other	(21,832)	(19,322)
Cash Provided By Operating Activities	25,903	170,862
Cash Flows From Investing Activities:		
Capital expenditures	(54,277)	(45,651)
Acquisition of businesses, net of cash acquired	(39,248)	(396,951)
Purchase of marketable securities	(37,909)	(82,054)
Proceeds from sales of marketable securities	45,306	88,572
Other	6,178	1,338
Cash (Used For) Investing Activities	(79,950)	(434,746)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	262,211	318,994
Reductions of long-term and short-term debt	(231,137)	(45,247)
Cash dividends	(93,763)	(87,832)
Repurchase of stock	(9,685)	(2,329)
Other	(233)	3,750
Cash (Used For) Provided By Financing Activities	(72,607)	187,336
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(899)	7,684

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Net Change in Cash and Cash Equivalents	(127,553)	(68,864)
Cash and Cash Equivalents at Beginning of Period	343,554	315,968
Cash and Cash Equivalents at End of Period	\$ 216,001	\$ 247,104

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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2014

(Unaudited)

NOTE 1 CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by Generally Accepted Accounting Principles in the U.S. (GAAP) for complete financial statements. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three and nine-month periods ended February 28, 2014 and 2013. 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, 2013.

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.

Beginning with our fiscal year ended May 31, 2007, we began purchasing shares of Kemrock Industries and Exports Limited (Kemrock) common stock. By May 31, 2011, we had acquired a total of approximately 3.2 million shares of Kemrock common stock, for an accumulated cost of approximately \$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 increased our ownership in Kemrock to over 20% of Kemrock's outstanding shares of common stock and changed our accounting for this investment 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 was classified as a note receivable and was 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

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

approximately \$7.2 million. The GDRs were included in our investment in Kemrock, which had a carrying value at the end of fiscal 2012 of \$42.2 million, and were 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. Our investment in Kemrock's convertible bonds was accounted for as an available-for-sale security and was classified in other long-term assets in our Consolidated Balance Sheet. The convertible feature embedded in the convertible bonds is accounted for as a derivative under the guidance in ASC 815, Derivatives and Hedging.

At the time of our investment in Kemrock's convertible bonds, Kemrock was in the midst of major capital expansion for new projects and upcoming technologies, and there were no indications of any adverse business, economic, competitive, or market factors. However, on August 8, 2012, the price of Kemrock's common stock plunged below our carrying value, declining by approximately 40% from its May 31, 2012 per share price of 531.0 rupees. We later learned that the dramatic drop in Kemrock's stock price was related to Kemrock's announcement of declining sales and income, a liquidity problem at Kemrock that stemmed from its explosive growth, combined with the overall tightening of lending practices of banks and credit markets in India. At that time, we also learned that Kemrock was in the process of renegotiating its credit agreements with its banks. Compounding these difficulties for Kemrock was the deterioration in the exchange rate of the Indian rupee against the U.S. dollar and euro, which had a negative impact on Kemrock's gross profit margin and cash flow as Kemrock procures the majority of its raw material supplies outside of India, but sells its products in Indian rupees. The market value of shares of Kemrock common stock continued to decline significantly, and dropped from 531.0 rupees per share as of May 31, 2012 to 56.70 rupees per share as of November 30, 2012; the majority of which began to occur during the month of August 2012. By the end of our fiscal year ended May 31, 2013, the market value of shares of Kemrock common stock had continued its decline to 43.85 rupees per share.

We account for our equity method investment in Kemrock under ASC 323, Investments—Equity Method and Joint Ventures. As outlined in ASC 323-10-35-32, a decline in the quoted market price below the carrying amount, when combined with other evidence of a loss in value, may be indicative of a loss in value that is other than temporary. Acting upon the premise that a write-down may be required, we considered all available evidence to evaluate the realizable value of our equity investment, including the decline in the market price of shares of Kemrock stock, the financial condition and near term prospects of Kemrock, and the overall economic situation in India. As a result of these factors, we determined that it was appropriate to record an impairment loss during the three and six month periods ended November 30, 2012 of approximately \$10.1 million and \$42.2 million, respectively, on our equity method investment. Additionally, we recorded a loss of \$5.0 million during the first quarter of fiscal 2012 for the amount deemed uncollectible on our then-outstanding \$10.0 million loan to Kemrock. As the value of the embedded conversion derivative is directly correlated to the market value of Kemrock stock, we wrote-down the embedded conversion feature derivative and recorded an approximate \$0.8 million and \$9.0 million charge to earnings during the three and six month periods ended November 30, 2012, respectively. The investment losses were classified in other (income) expense, net and the loss recorded on the loan was included in selling, general and administrative expense in our Consolidated Statements of Income. By the end of our fiscal year ended May 31, 2013, we wrote-down our entire equity-method investment in Kemrock for \$42.2 million, the full value of the embedded conversion feature for \$9.0 million and the full value of our convertible debt investment for \$13.7 million.

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 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 therefore

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deconsolidated SPHC and its subsidiaries from our balance sheet as of May 31, 2010, and 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 fiscal 2012, one of the appeal bonds was satisfied, and during fiscal 2013, the remaining appeal bond was satisfied. 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.

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

As a result of the combined analyses of each of the components of our net investment in SPHC, we recorded a net loss of approximately \$7.9 million, which was reflected in Other Expense, Net, during the fourth fiscal quarter of the year ended May 31, 2010. No changes have been made to these amounts through February 28, 2014.

NOTE 4 NEW ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB further amended the disclosure requirements for comprehensive income. The update requires companies to disclose items reclassified out of accumulated other comprehensive income and into net income in a single location either in the notes to the consolidated financial statements or parenthetically on the face of the Statements of Operations. The change is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, and is to be applied prospectively. Our adoption of these provisions on June 1, 2013 did not affect our consolidated results of operations, financial condition or liquidity as it is disclosure-related only.

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

<i>(In thousands)</i>	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Interest (income)	\$ (1,780)	\$ (2,179)	\$ (4,924)	\$ (6,039)
(Gain) on sale of marketable securities	(4,646)	(2,926)	(7,070)	(7,518)
Other-than-temporary impairment on securities		44	161	608
Dividend (income)	(1,325)	(1,256)	(1,817)	(1,706)
Investment (income), net	\$ (7,751)	\$ (6,317)	\$ (13,650)	\$ (14,655)

NOTE 6 OTHER (INCOME) EXPENSE, NET

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

<i>(In thousands)</i>	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Royalty (income), net	\$ (433)	\$ (848)	\$ (824)	\$ (1,574)
Loss on Brazil operational repositioning		6,087		6,087
Loss on Kemrock conversion option				9,030
(Income) loss related to unconsolidated equity affiliates	(920)	(525)	(2,454)	40,287
Other (income) expense, net	\$ (1,353)	\$ 4,714	\$ (3,278)	\$ 53,830

NOTE 7 PENSION PLANS

We offer defined benefit pension plans, defined contribution pension plans, as well as several unfunded health care benefit plans primarily for certain of our retired employees. The following tables provide the retirement-related benefit plans impact on income before income taxes for the three and nine month periods ended February 28, 2014:

U.S. Plans	Non-U.S. Plans
Three Months Ended	Three Months Ended

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Pension Benefits <i>(In thousands)</i>	February 28,		February 28,	
	2014	2013	2014	2013
Service cost	\$ 6,764	\$ 6,488	\$ 1,109	\$ 1,050
Interest cost	4,510	4,060	1,799	1,769
Expected return on plan assets	(5,190)	(4,358)	(2,096)	(1,846)
Amortization of:				
Prior service cost	84	87	1	2
Net actuarial losses recognized	3,305	4,222	624	692
Net Periodic Benefit Cost	\$ 9,473	\$ 10,499	\$ 1,437	\$ 1,667

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

	U.S. Plans Three Months Ended February 28,		Non-U.S. Plans Three Months Ended February 28,	
	2014	2013	2014	2013
Postretirement Benefits				
<i>(In thousands)</i>				
Service cost	\$	\$	\$ 327	\$ 288
Interest cost			317	289
Amortization of:				
Prior service (credit)	(22)	(22)		
Net actuarial (gains) losses recognized	(29)	4	134	114
Net Periodic Benefit Cost	\$ 30	\$ 70	\$ 778	\$ 691

	U.S. Plans Nine Months Ended February 28,		Non-U.S. Plans Nine Months Ended February 28,	
	2014	2013	2014	2013
Pension Benefits				
<i>(In thousands)</i>				
Service cost	\$ 20,292	\$ 19,464	\$ 3,327	\$ 3,150
Interest cost	13,530	12,180	5,398	5,307
Expected return on plan assets	(15,571)	(13,074)	(6,287)	(5,538)
Amortization of:				
Prior service cost	251	261	3	6
Net actuarial losses recognized	9,916	12,666	1,871	2,076
Net Periodic Benefit Cost	\$ 28,418	\$ 31,497	\$ 4,312	\$ 5,001

	U.S. Plans Nine Months Ended February 28,		Non-U.S. Plans Nine Months Ended February 28,	
	2014	2013	2014	2013
Postretirement Benefits				
<i>(In thousands)</i>				
Service cost	\$	\$	\$ 981	\$ 864
Interest cost			951	867
Amortization of:				
Prior service (credit)	(66)	(66)		
Net actuarial (gains) losses recognized	(87)	12	401	342
Net Periodic Benefit Cost	\$ 90	\$ 210	\$ 2,333	\$ 2,073

We previously disclosed in our financial statements for the fiscal year ended May 31, 2013 that we expected to contribute approximately \$27.4 million to our retirement plans in the U.S. and approximately \$7.4 million to plans outside the U.S. during the current fiscal year. As of February 28, 2014, this has not changed.

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

NOTE 8 INCOME TAXES

The effective income tax expense rate was 32.9% for the three months ended February 28, 2014 compared to an effective income tax benefit rate of 32.8% for the three months ended February 28, 2013. The effective income

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tax expense rate was 28.8% for the nine months ended February 28, 2014 compared to an effective income tax expense rate of 48.0% for the same period a year ago.

For the three and nine months ended February 28, 2014 and 2013, the effective tax rates reflect variances from the 35% federal statutory rate primarily due to lower effective tax rates of certain of our foreign subsidiaries, the favorable impact of certain foreign operations on our U.S. taxes, the research and development tax credit, the benefit from the domestic manufacturing deduction and for the three months ended February 28, 2014, due to reductions to our reserves for income tax contingencies, including interest thereon. These favorable variances from the statutory tax rate were offset by the net impact of valuation allowances associated with certain foreign net operating losses and foreign tax credit carryforwards, state and local income taxes, and non-deductible business operating expenses.

Additionally, for the nine month period ended February 28, 2014, the effective tax rate includes a discrete benefit related to the recognition of a foreign deferred income tax asset resulting from the merger of certain foreign subsidiaries. This benefit was partially offset by the impact of the enactment of a Canadian tax law change, Canada Bill C-48, Technical Tax Amendments Act, 2012 (Bill C-48), which was effective as of June 26, 2013.

Furthermore, for the three and nine month periods ended February 28, 2013, the effective tax rate differed from the federal statutory rate as a result of income tax benefits related to our strategic decision to reposition certain Brazilian business operations, the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits associated with net operating losses incurred by those foreign businesses are not recognized, the tax effect of projected non-deductible costs associated with the DOJ and GSA accrual and due to net increases to our reserves for income tax contingencies, including interest thereon. Additionally, for the nine months ended February 28, 2013 the effective tax rate differed from the federal statutory rate as a result of increases in valuation allowances related to losses associated with our investments in Kemrock.

As of February 28, 2014, we had unrecognized tax benefits of approximately \$13.8 million, of which approximately \$12.9 million would impact the effective tax rate, if recognized. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. At February 28, 2014 the accrual for interest and penalties was \$5.1 million. These amounts increased from the prior year balances primarily due to additions for prior year positions related to the retroactive impact of Bill C-48. 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. During the year ended May 31, 2013 we settled U.S. federal examinations of fiscal years 2009 and 2010. During the first quarter of fiscal 2014 we settled a U.S. federal examination of fiscal year 2011. We have been notified by the Internal Revenue Service that they may perform a limited scope examination of fiscal years 2012 and 2013. 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 2007 through 2013.

We are currently under examination, or have been notified of an upcoming tax examination, for various Non-U.S. and U.S. jurisdictions. Although it is possible that certain tax examinations could be resolved during the next 12 months, the timing and outcomes are uncertain.

As of February 28, 2014, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, we intend to maintain the tax valuation allowances recorded at February 28, 2014 for those deferred tax assets until sufficient positive evidence (for

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

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, capital loss carryforwards, unrealized losses on securities, certain foreign net operating losses and net foreign deferred tax assets.

NOTE 9 EARNINGS PER SHARE

The following table sets forth the reconciliation of the numerator and denominator of basic and diluted earnings per share, as calculated using the two-class method, for the three and nine month periods ended February 28, 2014 and the nine month period ended February 28, 2013. For the three month period ended February 28, 2013, the treasury stock method was utilized for the purpose of computing basic and diluted earnings per share, as the result under the two-class method would have been anti-dilutive.

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
<i>(In thousands, except per share amounts)</i>				
Numerator for earnings per share:				
Net income (loss) attributable to RPM International Inc. stockholders	\$ 16,221	\$ (42,356)	\$ 182,881	\$ 33,225
Less: Allocation of earnings and dividends to participating securities	(299)		(3,897)	(510)
Net income (loss) available to common shareholders basic	15,922	(42,356)	178,984	32,715
Add: Undistributed earnings reallocated to unvested shareholders			15	(8)
Add: Income effect of contingently issuable shares			1,202	
Net income (loss) available to common shareholders diluted	\$ 15,922	\$ (42,356)	\$ 180,201	\$ 32,707
Denominator for basic and diluted earnings per share:				
Basic weighted average common shares	129,453	129,013	129,407	128,900
Average diluted options			999	822
Net issuable common share equivalents				
Additional shares issuable assuming conversion of convertible securities			1,163	
Total shares for diluted earnings per share (1), (2)	129,453	129,013	131,569	129,722
Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic Earnings (Loss) Per Share of Common Stock	\$ 0.12	\$ (0.33)	\$ 1.38	\$ 0.25
Diluted Earnings (Loss) Per Share of Common Stock	\$ 0.12	\$ (0.33)	\$ 1.37	\$ 0.25

(1) For the quarter ended February 28, 2014, basic weighted-average shares outstanding and basic net income available to common shareholders are used in calculating diluted earnings per share under the two-class method, as that method resulted in the most dilutive

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earnings per share.

- (2) For the quarter ended February 28, 2013, basic weighted-average shares outstanding are used in calculating diluted earnings per share under the treasury stock method, as the result under the two-class method would have been anti-dilutive.
- (3) For the nine month periods ended February 28, 2014 and 2013, approximately 3,019,000 shares and 3,063,000 shares of stock, respectively, granted under stock-based compensation plans were excluded from the calculation of diluted EPS for those periods, as the effect would have been anti-dilutive.

Table of Contents**RPM INTERNATIONAL INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 INVENTORIES**

Inventories were composed of the following major classes:

<i>(In thousands)</i>	February 28, 2014	May 31, 2013
Raw material and supplies	\$ 206,024	\$ 185,590
Finished goods	428,559	363,090
Total Inventory	\$ 634,583	\$ 548,680

NOTE 11 RESTRUCTURING

We record restructuring charges associated with management-approved restructuring plans to either reorganize one or more of our business segments, or to remove duplicative headcount and infrastructure associated with our businesses. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation costs. Restructuring charges are recorded based upon planned employee termination dates and site closure and consolidation plans. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. We record the short-term portion of our restructuring liability in Other accrued liabilities and the long-term portion, if any, in Other long-term liabilities in our Consolidated Balance Sheets.

Fiscal 2013 Plans

In May 2013, we approved a restructuring plan for one of our consumer operating segments designed to eliminate duplicative processes and overhead and to exit certain processes and product lines. This restructuring plan allows management to refocus its attention on faster growing brands within the consumer operating segment. In connection with this plan, we recorded aggregate charges of approximately \$15.6 million during the year ended May 31, 2013, of which approximately \$8.2 million relates to the elimination of 133 positions and approximately \$7.4 million results from the shutdown of 2 manufacturing facilities. These actions have been completed, and related severance payments will be made generally through the end of fiscal 2014. In addition, there were approximately \$3.9 million of inventory markdowns, which were reflected in Cost of Sales in our Consolidated Statements of Income during the year ended May 31, 2013.

Additionally, one of our industrial operating businesses adopted a restructuring plan designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and stockholders. We estimate that this plan will eliminate approximately 34 positions and severance payments will be made generally through the end of fiscal 2014. In connection with the plan, we recorded aggregate charges of approximately \$4.5 million during the year ended May 31, 2013, all of which relates to workforce reductions.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

<i>(In thousands)</i>	Long-Lived Asset Charges	Employee Severance	Site Preparation and Equipment Relocation	Total
Balance at May 31, 2013	\$ 4,729	\$ 12,656	\$ 397	\$ 17,782
Charge to expense		128		128
Cash payments		(1,416)		(1,416)
Noncash and foreign exchange impacts	123	165	10	298
Balance at August 31, 2013	4,852	11,533	407	16,792
Charge to expense				
Cash payments		(7,121)		(7,121)
Noncash and foreign exchange impacts	136	185	12	333
Balance at November 30, 2013	4,988	4,597	419	10,004
Charge to expense		(371)		(371)
Cash payments		(1,116)	(39)	(1,155)
Noncash and foreign exchange impacts	77	19	6	102
Balance at February 28, 2014	\$ 5,065	\$ 3,129	\$ 386	\$ 8,580

NOTE 12 MARKETABLE SECURITIES

The following tables summarize marketable securities held at February 28, 2014 and May 31, 2013 by asset type:

<i>(In thousands)</i>	Amortized Cost	Available-For-Sale Securities		Fair Value (Net Carrying Amount)
		Gross Unrealized Gains	Gross Unrealized Losses	
February 28, 2014				
Equity securities:				
Stocks foreign	\$ 984	\$ 533	\$ (32)	\$ 1,485
Stocks domestic	30,929	8,307	(244)	38,992
Mutual funds foreign	6,329	1,798	(8)	8,119
Mutual funds domestic	42,570	1,800	(1,166)	43,204
Total equity securities	80,812	12,438	(1,450)	91,800

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Fixed maturity:				
U.S. treasury and other government	18,424	142	(318)	18,248
Corporate bonds	1,683	200		1,883
Foreign bonds	37	3		40
Mortgage-backed securities	87	56		143
Total fixed maturity securities	20,231	401	(318)	20,314
Total	\$ 101,043	\$ 12,839	\$ (1,768)	\$ 112,114

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<i>(In thousands)</i>	Available-For-Sale Securities			Fair Value (Net Carrying Amount)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
May 31, 2013				
Equity securities:				
Stocks foreign	\$ 1,090	\$ 244	\$	\$ 1,334
Stocks domestic	24,492	5,265	(392)	29,365
Mutual funds foreign	18,328	1,901	(7)	20,222
Mutual funds domestic	39,184	679	(492)	39,371
Total equity securities	83,094	8,089	(891)	90,292
Fixed maturity:				
U.S. treasury and other government	20,528	247	(139)	20,636
Corporate bonds	1,724	244		1,968
Foreign bonds	37	4		41
Mortgage-backed securities	100	60	(4)	156
Total fixed maturity securities	22,389	555	(143)	22,801
Total	\$ 105,483	\$ 8,644	\$ (1,034)	\$ 113,093

Marketable securities, included in other current and long-term assets totaling \$41.1 million and \$71.0 million at February 28, 2014, respectively, and included in other current and long-term assets totaling \$49.1 million and \$64.0 million at May 31, 2013, respectively, are composed of available-for-sale securities and are reported at fair value. We carry a portion of our marketable securities portfolio in long-term assets since they are generally held for the settlement of our general and product liability insurance claims processed through our wholly owned captive insurance subsidiaries.

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 realized on sales of investments were \$4.7 million for the quarter ended February 28, 2014. Gross gains and losses realized on sales of investments were \$3.1 million and \$0.2 million, respectively, for the quarter ended February 28, 2013. During the three months ended February 28, 2014 and 2013, there were no securities deemed to have other-than-temporary impairments. These amounts are included in investment expense (income), net in the Consolidated Statements of Income.

Gross gains realized on sales of investments were \$7.1 million for the nine months ended February 28, 2014. Gross gains and losses realized on sales of investments were \$8.1 million and \$0.6 million, respectively, for the nine months ended February 28, 2013. During the first nine months of fiscal 2014 and 2013, we recognized losses of approximately \$0.2 million and \$0.6 million, respectively, for securities deemed to have

other-than-temporary impairments.

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Summarized below are the securities we held at February 28, 2014 and May 31, 2013 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:

	February 28, 2014		May 31, 2013	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(In thousands)</i>				
Total investments with unrealized losses	\$ 38,078	\$ (1,768)	\$ 36,582	\$ (1,034)
Unrealized losses with a loss position for less than 12 months	23,025	(1,071)	36,327	(956)
Unrealized losses with a loss position for more than 12 months	15,053	(697)	255	(78)

We have reviewed all of the securities included in the table above and have concluded that we have the ability and intent to hold these investments until their cost can be recovered, based upon the severity and duration of the decline. Therefore, we did not recognize any other-than-temporary impairment losses on these investments. Unrealized losses at February 28, 2014 were generally related to the lower levels of volatility in valuations over the last several months for a portion of our portfolio of investments in marketable securities. The unrealized losses generally relate to investments whose fair values at February 28, 2014 were less than 15% below their original cost or have been in a loss position for less than six consecutive months. From time to time, we may experience significant volatility in general economic and market conditions. 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.

The net carrying values of debt securities at February 28, 2014, 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	\$ 2,560	\$ 2,553
One year through five years	11,690	11,720
Six years through ten years	4,568	4,483
After ten years	1,413	1,558
	\$ 20,231	\$ 20,314

NOTE 13 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 collectability and past experience,

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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.

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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.

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 February 28, 2014
U.S. Treasury and other government	\$	\$ 18,248	\$	\$ 18,248
Foreign bonds		40		40
Mortgage-backed securities		143		143
Corporate bonds		1,883		1,883
Stocks foreign	1,485			1,485
Stocks domestic	38,992			38,992
Mutual funds foreign		8,119		8,119
Mutual funds domestic		43,204		43,204
Foreign currency forward contract		3,816		3,816
Cross-currency swap		(21,099)		(21,099)
Contingent consideration			(80,906)	(80,906)
Total	\$ 40,477	\$ 54,354	\$ (80,906)	\$ 13,925

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

<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, 2013
U.S. Treasury and other government	\$	\$ 20,636	\$	\$ 20,636
Foreign bonds		41		41
Mortgage-backed securities		156		156
Corporate bonds		1,968		1,968
Stocks foreign	1,334			1,334
Stocks domestic	29,365			29,365
Mutual funds foreign		20,222		20,222
Mutual funds domestic		39,371		39,371
Foreign currency forward contract		(4,751)		(4,751)
Cross-currency swap		(10,048)		(10,048)
Contingent consideration			(64,500)	(64,500)
Total	\$ 30,699	\$ 67,595	\$ (64,500)	\$ 33,794

Our marketable securities are composed of mainly available-for-sale securities, and are valued using a market approach. 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 \$21.1 million at February 28, 2014, that was originally designed to fix our interest and principal payments in euros for the life of our unsecured 6.70% senior notes due November 1, 2015, which resulted in an effective euro fixed-rate borrowing of 5.31%. The basis for determining the rates for this swap included three legs at the inception of the agreement: the 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 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.

At February 28, 2014, we had a foreign currency forward contract with a fair value of approximately \$3.8 million, which is classified in other current assets in our Consolidated Balance Sheets. At May 31, 2013, we had a foreign currency forward contract with a fair value of approximately \$4.8 million, which is classified in other accrued liabilities in our Consolidated Balance Sheets. Our foreign currency forward contract, which has not been designated as a hedge, was designed to reduce our exposure to the changes in the cash flows of intercompany foreign-currency-denominated loans related to changes in foreign currency exchange rates by fixing the functional currency cash flows. The foreign exchange rates included in the forward contract are based upon observable market data, but are not quoted market prices, and therefore, the forward currency forward contract is considered a Level 2 liability on the fair value hierarchy.

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The contingent consideration represents the estimated fair value of the additional variable cash consideration payable in connection with recent acquisitions that is contingent upon the achievement of certain performance milestones. We estimated the fair value using expected future cash flows over the period in which the obligation is expected to be settled, and applied a discount rate that appropriately captures a market participant's view of the risk associated with the obligation.

The carrying value of our current financial instruments, which include cash and cash equivalents, marketable securities, trade accounts receivable, accounts payable and short-term debt approximates fair value because of the short-term maturity of these financial instruments. At February 28, 2014 and May 31, 2013, the fair value of our long-term debt was estimated using active market quotes, based on our current incremental borrowing rates for similar types of borrowing arrangements, which are considered to be Level 2 inputs. Based on the analysis performed, the fair value and the carrying value of our financial instruments and long-term debt as of February 28, 2014 and May 31, 2013 are as follows:

	At February 28, 2014	
<i>(In thousands)</i>	Carrying Value	Fair Value
Cash and cash equivalents	\$ 216,001	\$ 216,001
Marketable equity securities	91,800	91,800
Marketable debt securities	20,314	20,314
Long-term debt, including current portion	1,388,435	1,531,086

	At May 31, 2013	
<i>(In thousands)</i>	Carrying Value	Fair Value
Cash and cash equivalents	\$ 343,554	\$ 343,554
Marketable equity securities	90,292	90,292
Marketable debt securities	22,801	22,801
Long-term debt, including current portion	1,373,697	1,501,850

NOTE 14 REORGANIZATION PROCEEDINGS OF CERTAIN SUBSIDIARIES

General Prior to May 31, 2010, Bondex and SPHC were defendants in various asbestos-related bodily injury lawsuits filed in various state courts. These cases generally sought unspecified damages for asbestos-related diseases based on alleged exposures to asbestos-containing products.

On May 31, 2010, Bondex and its parent, SPHC, filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) to reorganize under Chapter 11 of the U.S. Bankruptcy Code. SPHC and Bondex took this action in an effort to permanently and comprehensively resolve all pending and future asbestos-related liability claims associated with Bondex and SPHC. As a result of the filing, all litigation related to Bondex and SPHC asbestos personal injury claims has been stayed, with the exception of the cases referenced in Note 3 with respect to which the stay was lifted. The objective of the bankruptcy proceedings is to enable the filing entities to establish a section 524(g) trust accompanied by a court order that will direct all existing and future SPHC-related and Bondex-related claims to such trust, which will then compensate asbestos claimants based upon factors set forth in an approved plan of reorganization. Since the date of the filing, and in accordance with GAAP, the financial results of SPHC and Bondex have been deconsolidated from our financial results.

At a hearing held on November 13, 2013, the Bankruptcy Court granted the motion of the Official Committee of Asbestos Personal Injury Claimants and the Future Claimants Representative (collectively, the ACC/FCR) for

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

standing to pursue SPHC estate claims against us, certain of our current and former directors and executive officers, and third party advisors. As previously disclosed, we anticipated that the ACC/FCR might be permitted to pursue claims on behalf of the SPHC and Bondex estates against us. We believe that the alleged SPHC estate claims are without merit and, if such claims are made, intend to contest them vigorously.

Both SPHC and Bondex (collectively, the Debtors), and the ACC/FCR have filed proposed plans of reorganization with the Bankruptcy Court. The Debtors' proposed plan, which we support, would establish an asbestos trust to compensate legitimate asbestos claimants of the Debtors. The asbestos trust would be funded by two notes (one issued by SPHC and us as co-obligors, the other issued by Bondex and us as co-obligors). The notes would provide for an initial payment of \$125 million to the trust. Additional payments under the notes would be determined by the final outcome (whether by court order or settlement) of the pending litigation of the estimated value of the Debtors' asbestos claims and the anticipated litigation of the SPHC estate claims against us and other parties and possibly Bondex estate claims against us and other parties. The note payments would be made in cash or shares of our common stock. Upon consummation of the plan, SPHC and Bondex would continue to be our wholly owned direct and indirect subsidiaries, respectively, and have no further liability with respect to asbestos claims. We and our affiliates would likewise have no liability for such claims under the proposed plan, except as may be determined in the litigation of the SPHC and Bondex estate claims described above.

The proposed ACC/FCR plan, which is opposed by the Debtors and us, is an SPHC-only plan. It likewise provides for the creation of an asbestos trust, but only for SPHC asbestos claims. Pursuant to the ACC/FCR plan, our equity interest in SPHC would be cancelled, and 100% of the new stock in SPHC would be issued to the asbestos trust. Although the ACC/FCR plan would permanently protect SPHC against current and future asbestos claims, it would provide no protection to us and our affiliates and would contemplate that we would again be subject to suit in the tort system by current and future asbestos claimants of SPHC and Bondex. In addition, the plan would provide that the asbestos trust could sue us and our affiliates with respect to any claims that SPHC holds against us and our affiliates.

The Bankruptcy Court initially scheduled a hearing with respect to the disclosure statements for the two plans for December 17, 2013, but that hearing has since been adjourned indefinitely. At or subsequent to a hearing with respect to the disclosure statements, the Bankruptcy Court may take a variety of actions, including ordering one or both of the plans to be submitted to creditors for a vote, or determining not to authorize the submission of either of the plans to a vote. A vote of the creditors is an interim step toward the ultimate confirmation of a plan, which would remain subject to further proceedings before the Bankruptcy Court and the United States District Court for the District of Delaware (the District Court), and potential appeals of actions taken by those courts. The Debtors contend that the ACC/FCR plan is not confirmable, and the ACC/FCR have made similar contentions with respect to the Debtors' plan.

At this time, we have no basis to make a determination as to whether either of the proposed plans of reorganization will be confirmed or otherwise move forward, or as to when, or whether, a consensual resolution of the bankruptcy proceedings will be reached, or as to the terms and conditions that may be set forth in any plan of reorganization that may ultimately be confirmed by the Bankruptcy Court and the District Court, whether by agreement or otherwise.

As previously disclosed, the Bankruptcy Court issued an opinion in May 2013 estimating the current and future asbestos claims associated with Bondex and SPHC at approximately \$1.17 billion, which represented one step in the legal process in helping to determine the amount of potential funding for a 524(g) asbestos trust. The Debtors firmly believe that the opinion substantially overstates the amount of their liability and is not supported by the facts or the law, and we and the Debtors have appealed the ruling. Those appeals have been consolidated by the

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

District Court and, on February 7, 2014, were certified by the District Court for direct review by the United States Court of Appeals for the Third Circuit (the Third Circuit). The ACC/FCR have opposed the Third Circuit's acceptance of the certification, and a decision has not yet been made by the Third Circuit as to whether it will accept the certification. The ACC/FCR have also filed a motion with the District Court to dismiss the appeal on the ground that the estimation decision was not a final, appealable order. Briefing of the appeal, and the motion to dismiss the appeal, at the District Court level has been stayed pending the Third Circuit's determination as to whether it will accept certification.

Prior to the bankruptcy filing, the filing entities had litigated and, on many occasions, settled asbestos-related products liability claims brought against them. The debtors paid \$92.6 million during the year ended May 31, 2010, prior to the bankruptcy filing, in connection with the litigation and settlement of asbestos claims, \$42.6 million of which consisted of defense costs. With the exception of the appeal bonds 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. Such estimates by their 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 potential judgments or jury verdicts, as a result of the strategy of Bondex and SPHC to take selective cases to verdict; (viii) the lack of specific information in many cases concerning exposure to products for which Bondex, SPHC, or another of our subsidiaries is allegedly responsible, and the claimants' alleged diseases resulting from such exposure; (ix) potential changes in applicable federal and/or state tort liability law; and (x) the potential impact of various proposed structured settlement transactions. All these factors may have a material effect upon future asbestos-related liability estimates.

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

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

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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

As noted above, however, the Bankruptcy Court has now estimated the present and future asbestos-related liabilities of Bondex and SPHC at \$1.17 billion, and that determination is the subject of pending appeals.

NOTE 15 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. Product liability reserves are established based upon actuarial calculations of potential liability using industry experience, actual historical experience and actuarial assumptions developed for similar types of product liability claims, including development factors and lag times. We believe that we have adequate accruals both for incurred losses and potential losses that (1) have a reasonable possibility of occurring and (2) are material 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.

We also offer warranty programs at several of our industrial businesses and have established a product warranty liability. We review this liability for adequacy on a quarterly basis and adjust it as necessary. The primary factors that could affect this liability may include changes in the historical system performance rate as well as the costs of replacement. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted, as required, to reflect actual experience. It is probable that we will incur future losses related to warranty claims we have received but that have not been fully investigated and related to claims not yet received. While our warranty liability represents our best estimate at February 28, 2014, 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.

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

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:

	Three Months Ended		Nine Months Ended	
	February 28,		February 28,	
	2014	2013	2014	2013
<i>(In thousands)</i>				
Beginning Balance	\$ 8,579	\$ 15,138	\$ 9,330	\$ 14,751
Deductions (1)	(4,584)	(4,908)	(16,559)	(12,895)
Provision charged to SG&A expense	3,761	3,407	14,985	11,781
Ending Balance	\$ 7,756	\$ 13,637	\$ 7,756	\$ 13,637

(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.

As previously disclosed, we recorded a \$65.1 million accrual during the year ended May 31, 2013 associated with settlement discussions with the U.S. Department of Justice (the DOJ) and the U.S. General Services Administration (the GSA) Office of Inspector General aimed at resolving an existing investigation. Since first receiving a broad request for documents from the GSA in March 2011, we cooperated with that investigation, which involved our compliance with certain pricing terms and conditions of our GSA Multiple Award Schedule contracts under which the roofing division of our Building Solutions Group sold products and services to the federal government. A substantial majority of the transactions as to which potential compliance issues were raised took place during the period from 2002 to 2008. In August 2013, we entered into a final agreement with the DOJ and the GSA Office of Inspector General regarding this matter. During the nine months ended February 28, 2014, we paid the GSA Office of Inspector General \$61.9 million and made other payments for miscellaneous legal expenses for approximately \$1.1 million. We expect to pay approximately \$2.1 million more in legal fees and other related costs arising out of this investigation. The accrual for this contingency represents our assessment 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. The actual amount of our loss under the terms of any settlement may vary from the amount of the accrual. The accrual for this contingency is classified in other accrued liabilities in our Consolidated Balance Sheets.

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

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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

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

repurchase program at any time. During the three months ended February 28, 2014, we did not repurchase any shares of our common stock under this program.

NOTE 17 EQUITY

The following tables illustrate the components of total equity and comprehensive income for the three months ended February 28, 2014 and 2013:

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at November 30, 2013	\$ 1,322,222	\$ 171,638	\$ 1,493,860
Net income	16,221	690	16,911
Other Comprehensive Income:			
Foreign currency translation adjustments	(18,446)	6,300	(12,146)
Pension and other postretirement benefit liability adjustments, net of tax	3,469	357	3,826
Unrealized (loss) on securities, net of tax	(2,312)	(2)	(2,314)
Unrealized gain on derivatives, net of tax	(380)	(104)	(484)
Total Other Comprehensive Income, net of tax	(17,669)	6,551	(11,118)
Comprehensive Income	(1,448)	7,241	5,793
Dividends paid	(31,967)		(31,967)
Other noncontrolling interest activity	(832)	832	
Shares repurchased	(28)		(28)
Stock option exercises, net	(1,640)		(1,640)
Stock based compensation expense	682		682
Restricted awards, net	5,237		5,237
Convertible bond, equity component, net of tax	13,470		13,470
Deferred financing costs, convertible bond	(492)		(492)
Total Equity at February 28, 2014	\$ 1,305,204	\$ 179,711	\$ 1,484,915

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at November 30, 2012	\$ 1,242,952	\$ 149,590	\$ 1,392,542
Net (loss) income	(42,356)	164	(42,192)
Other Comprehensive (Loss) Income:			
Foreign currency translation adjustments	(19,401)	(537)	(19,938)
Pension and other postretirement benefit liability adjustments, net of tax	4,736	542	5,278

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Unrealized (loss) gain on securities, net of tax	(1,626)	914	(712)
Unrealized gain on derivatives, net of tax	238	90	328
Total Other Comprehensive (Loss) Income, net of tax	(16,053)	1,009	(15,044)
Comprehensive Income	(58,409)	1,173	(57,236)
Dividends paid	(29,778)		(29,778)
Other noncontrolling interest activity	(152)		(152)
Shares repurchased	(1,235)		(1,235)
Stock option exercises, net	1,384		1,384
Stock based compensation expense	583		583
Restricted awards, net	3,637		3,637
Total Equity at February 28, 2013	\$ 1,158,982	\$ 150,763	\$ 1,309,745

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

The following table illustrates the components of total equity and comprehensive income for the nine months ended February 28, 2014 and 2013:

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at May 31, 2013	\$ 1,200,858	\$ 154,075	\$ 1,354,933
Net income	182,881	9,333	192,214
Other Comprehensive Income:			
Foreign currency translation adjustments	(16,108)	14,753	(1,355)
Pension and other postretirement benefit liability adjustments, net of tax	8,430	531	8,961
Unrealized gain on securities, net of tax	2,597	51	2,648
Unrealized (loss) on derivatives, net of tax	(1,076)	(293)	(1,369)
Total Other Comprehensive (Loss) Income, net of tax	(6,157)	15,042	8,885
Comprehensive Income	176,724	24,375	201,099
Dividends paid	(93,763)		(93,763)
Other noncontrolling interest activity	(1,261)	1,261	
Shares repurchased	(6,895)		(6,895)
Stock option exercises, net	1,022		1,022
Stock based compensation expense	2,164		2,164
Restricted awards, net	13,377		13,377
Convertible bond, equity component, net of tax	13,470		13,470
Deferred financing costs, convertible bond	(492)		(492)
Total Equity at February 28, 2014	\$ 1,305,204	\$ 179,711	\$ 1,484,915

<i>(In thousands)</i>	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at May 31, 2012	\$ 1,183,656	\$ 130,327	\$ 1,313,983
Net income	33,225	8,537	41,762
Other Comprehensive Income:			
Foreign currency translation adjustments	5,604	11,652	17,256
Pension and other postretirement benefit liability adjustments, net of tax	9,512	350	9,862
Unrealized gain (loss) on securities, net of tax	1,064	(52)	1,012
Unrealized (loss) on derivatives, net of tax	(178)	(51)	(229)
Total Other Comprehensive Income, net of tax	16,002	11,899	27,901

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Comprehensive Income	49,227	20,436	69,663
Dividends paid	(87,832)		(87,832)
Other noncontrolling interest activity	157		157
Shares repurchased	(2,329)		(2,329)
Stock option exercises, net	3,749		3,749
Stock based compensation expense	1,794		1,794
Restricted awards, net	10,560		10,560
Total Equity at February 28, 2013	\$ 1,158,982	\$ 150,763	\$ 1,309,745

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18 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 seven 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 seven 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 segments underlying businesses.

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

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

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

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

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

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

	Three Months Ended		Nine Months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
<i>(In thousands)</i>				
Net Sales				
Industrial Segment	\$ 560,537	\$ 532,336	\$ 2,000,476	\$ 1,926,747
Consumer Segment	302,873	311,400	1,099,095	981,129
Consolidated	\$ 863,410	\$ 843,736	\$ 3,099,571	\$ 2,907,876
Income (Loss) Before Income Taxes				
Industrial Segment	\$ 20,284	\$ (68,643)	\$ 199,259	\$ 81,156
Consumer Segment	30,794	34,720	165,231	132,069
Corporate/Other	(25,893)	(28,900)	(94,505)	(132,944)
Consolidated	\$ 25,185	\$ (62,823)	\$ 269,985	\$ 80,281
Identifiable Assets				
Industrial Segment	\$ 2,245,673	\$ 2,461,163		
Consumer Segment	1,653,254	1,584,336		
Corporate/Other	134,878	70,027		
Consolidated	\$ 4,033,805	\$ 4,115,526		

NOTE 19 \$205 MILLION CONVERTIBLE NOTE OFFERING

During the current quarter, we sold \$205 million of our 2.25% Convertible Senior Notes (the Convertible Notes) due December 15, 2020. In accordance with the agreement, we will pay interest at a fixed rate of 2.25% on the Convertible Notes semi-annually in arrears on June 15th and December 15th of each year, beginning on June 15, 2014. The Convertible Notes will mature on December 15, 2020. The net proceeds, totaling approximately \$200.1 million, were used to repay \$200.0 million in principal amount of unsecured senior notes due December 15, 2013, which had an interest rate of 6.25%.

The Convertible Notes will be our senior unsecured obligations and will rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the notes; equal in right of payment to any of our unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

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Upon issuance of the Convertible Notes, we bifurcated the \$205 million principal balance of the Convertible Notes into a liability component of \$184.3 million, which was recorded as long-term debt, and an equity component of \$20.7 million, which was recorded as additional paid-in-capital. The liability component was recognized at the present value of its associated cash flows using an 3.92% straight-debt rate, which represents our interest rate for similar debt instruments at the date of issuance without a conversion feature, and is being accreted to interest expense over the term of the Convertible Notes. At February 28, 2014, the unamortized debt

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Continued)

discount of the Convertible Notes was \$20.1 million, which is being accreted to interest expense using the effective interest method over the term of the Convertible Notes.

The notes will be convertible under certain circumstances and during certain periods at an initial conversion rate of 18.8905 shares of RPM's common stock per \$1,000 principal amount of notes (representing an initial conversion price of approximately \$52.94 per share of common stock), subject to adjustment in certain circumstances. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event in certain circumstances.

We may not redeem the notes prior to December 20, 2017. We may redeem for cash all or any portion of the notes, at our option, on or after December 20, 2017 if the last reported sale price of our common stock has been at least 125% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, *plus* accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the notes. If we undergo a fundamental change, holders may require us to repurchase for cash all or any portion of their notes at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, *plus* accrued and unpaid interest to, but excluding, the fundamental change repurchase date. Upon conversion, the notes may be settled, at our election, in cash, shares of RPM's common stock, or any combination thereof.

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

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

Revenue Recognition

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

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

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

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

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

As appropriate, we use permanently invested intercompany loans as a source of capital to reduce exposure to foreign currency fluctuations at our foreign subsidiaries. These loans, on a consolidated basis, are treated as being analogous to equity for accounting purposes. Therefore, foreign exchange gains or losses on these intercompany loans are recorded in accumulated other comprehensive income (loss).

Goodwill

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

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

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

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

an adverse action or assessment by a regulator;

unanticipated competition;

a loss of key personnel; and

a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of.

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

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

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

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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 2013 did not result in any indicators of impairment. Should the future earnings and cash flows at our reporting units decline and/or discount rates increase, future impairment charges to goodwill and other intangible assets may be required.

Other Long-Lived Assets

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

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

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

significant changes in the strategy for our overall business; and

significant negative industry or economic trends.

Additionally, we test all indefinite-lived intangible assets for impairment at least annually during our fiscal fourth quarter. In the fourth quarter of our fiscal year ended May 31, 2013, we adopted new FASB guidance that simplifies how an entity tests indefinite-lived intangible assets 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 an indefinite-lived intangible asset is less than its carrying amount.

Measuring a potential impairment of non-goodwill intangibles and other long-lived assets requires the use of various estimates and assumptions, including the determination of which cash flows are directly related to the assets being evaluated, the respective useful lives over which those cash flows will occur and potential residual values, if any. If we determine that the carrying values of these assets may not be recoverable based upon the existence of one or more of the above-described indicators or other factors, any impairment amounts would be measured based on the projected net cash flows expected from these assets, including any net cash flows related to eventual disposition activities. The determination of any impairment losses would be based on the best information available, including internal estimates of discounted cash flows; quoted market prices, when available; and independent appraisals, as appropriate, to determine fair values. Cash flow estimates would be based on our historical experience and our internal business plans, with appropriate discount rates applied. Our fiscal 2013 annual impairment tests of each of our indefinite-lived intangible assets did not result in any impairment loss.

Income Taxes

Our provision for income taxes is calculated using the liability method, which requires the recognition of deferred income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the

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carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in valuation allowances. We provide valuation allowances against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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

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

Contingencies

We are party to various claims and lawsuits arising in the normal course of business. Although we cannot precisely predict the amount of any liability that may ultimately arise with respect to any of these matters, we record provisions when we consider the liability probable and reasonably estimable. Our provisions are based on historical experience and legal advice, reviewed quarterly and adjusted according to developments. In general, our accruals, including our accruals for environmental, warranty, and tax liabilities, discussed further below, represent the best estimate of a range of possible losses. Estimating probable losses requires the analysis of multiple forecasted factors that often depend on judgments about potential actions by third parties, such as regulators, courts, and state and federal legislatures. Changes in the amounts of our loss provisions, which can be material, affect our Consolidated Statements of Income. We believe that we have adequate accruals both for incurred losses and potential losses that (1) have a reasonable possibility of occurring and (2) are material 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.

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

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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 collectability 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 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.

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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, 2013 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:

<i>(In millions)</i>	U.S.		International	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount Rate				
Increase (decrease) in expense in FY 2013	\$ (5.3)	\$ 6.4	\$ (1.9)	\$ 2.6
Increase (decrease) in obligation as of May 31, 2013	\$ (44.4)	\$ 54.8	\$ (31.7)	\$ 33.6
Expected Return on Plan Assets				
Increase (decrease) in expense in FY 2013	\$ (2.1)	\$ 2.1	\$ (1.4)	\$ 1.4
Increase (decrease) in obligation as of May 31, 2013	N/A	N/A	N/A	N/A
Compensation Increase				
Increase (decrease) in expense in FY 2013	\$ 4.1	\$ (3.6)	\$ 1.5	\$ (0.9)
Increase (decrease) in obligation as of May 31, 2013	\$ 17.4	\$ (15.6)	\$ 6.0	\$ (5.4)

Based upon May 31, 2013 information, the following table reflects the impact of a 1% change in the key assumptions applied to our various postretirement health care plans:

<i>(In millions)</i>	U.S.		International	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount Rate				
Increase (decrease) in expense in FY 2013	\$	\$	\$ (0.5)	\$ 0.6
Increase (decrease) in obligation as of May 31, 2013	\$ (0.7)	\$ 0.8	\$ (5.3)	\$ 6.8
Healthcare Cost Trend Rate				
Increase (decrease) in expense in FY 2013	\$	\$	\$ 0.6	\$ (0.5)
Increase (decrease) in obligation as of May 31, 2013	\$ 0.3	\$ (0.3)	\$ 9.1	\$ (3.8)

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 seven 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 seven operating segments are each managed by an operating segment manager who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment's underlying businesses. We evaluate the profit performance of our segments primarily based on income before income taxes, but also look to earnings (loss) before interest and taxes (EBIT) as a performance evaluation measure because interest expense is essentially related to corporate acquisitions, as opposed to segment operations.

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

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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 primarily to mass merchants, home improvement centers, hardware stores, paint stores, craft shops, cosmetic companies and to other smaller customers through distributors. This reportable segment comprises three operating segments DAP Group, RPM2-Consumer Group and Rust-Oleum Group. Products within this reportable segment include specialty, hobby and professional paints; nail care enamels; caulks; adhesives; silicone sealants and wood stains.

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

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

	Three Months Ended		Nine Months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
<i>(In thousands)</i>				
Net Sales				
Industrial Segment	\$ 560,537	\$ 532,336	\$ 2,000,476	\$ 1,926,747
Consumer Segment	302,873	311,400	1,099,095	981,129
Consolidated	\$ 863,410	\$ 843,736	\$ 3,099,571	\$ 2,907,876
Income (Loss) Before Income Taxes (a)				
Industrial Segment				
Income (Loss) Before Income Taxes (a)	\$ 20,284	\$ (68,643)	\$ 199,259	\$ 81,156
Interest (Expense), Net (b)	(2,413)	(2,360)	(7,475)	(7,594)
EBIT (c)	\$ 22,697	\$ (66,283)	\$ 206,734	\$ 88,750
Consumer Segment				
Income Before Income Taxes (a)	\$ 30,794	\$ 34,720	\$ 165,231	\$ 132,069
Interest (Expense), Net (b)	25	(15)	90	(34)
EBIT (c)	\$ 30,769	\$ 34,735	\$ 165,141	\$ 132,103
Corporate/Other				
(Expense) Before Income Taxes (a)	\$ (25,893)	\$ (28,900)	\$ (94,505)	\$ (132,944)
Interest (Expense), Net (b)	(9,601)	(11,814)	(40,239)	(36,521)
EBIT (c)	\$ (16,292)	\$ (17,086)	\$ (54,266)	\$ (96,423)
Consolidated				
Income (Loss) Before Income Taxes (a)	\$ 25,185	\$ (62,823)	\$ 269,985	\$ 80,281
Interest (Expense), Net (b)	(11,989)	(14,189)	(47,624)	(44,149)
EBIT (c)	\$ 37,174	\$ (48,634)	\$ 317,609	\$ 124,430

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- (a) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by generally accepted accounting principles (GAAP) in the U.S., to EBIT.
- (b) 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 inclusion of this measure in offering memoranda in conjunction with any debt underwriting or bank financing. EBIT may not be indicative of our historical operating results, nor is it meant to be predictive of potential future results.

RESULTS OF OPERATIONS***Three Months Ended February 28, 2014***

Net Sales Consolidated net sales increased 2.3% to \$863.4 million for the quarter ended February 28, 2014 due to organic growth of 1.9%, including an unfavorable foreign exchange impact of 1.9%, and acquisition growth of 0.4%. Industrial segment net sales for the current quarter were up 5.3% to \$560.5 million due to organic growth of 4.9%, including an unfavorable foreign exchange impact of 2.5%, and acquisition growth of 0.4%. Contributing to the growth in net sales in the industrial segment was improved performance by most of its European businesses during the current quarter. The consumer segment generated net sales of \$302.9 million, or a decline of 2.7% in net sales during the current quarter versus the same period a year ago, due to decline in organic sales of 3.1%, including an unfavorable foreign exchange impact of 0.8%, offset slightly by the growth contributed from acquisitions of 0.4%. Adverse weather conditions across most of North America during the quarter contributed to our consumer segment's decline in net sales versus last year's third quarter. However, we began to see this trend reverse toward the end of the quarter and anticipate that demand will continue to trend upward during our fourth fiscal quarter.

Gross Profit Margin Our consolidated gross profit margin improved to 41.5% of net sales for the third quarter of fiscal 2014 versus a consolidated gross profit margin of 40.7% for the comparable period a year ago, reflecting the impact of restructuring activities initiated during fiscal 2013, supply chain initiatives and growth from recent acquisitions, all of which have contributed to the recovery of gross profit margin lost in prior year periods due to material price inflation.

Selling, General and Administrative Expenses (SG&A) Our consolidated SG&A expense increased by \$3.6 million during the current period versus the last year, but improved to 37.3% of net sales for the current quarter compared with 37.7% of net sales during the same period a year ago, reflecting the 2.3% growth in net sales during the current quarter. The current quarter SG&A expense reflects an increase in research and development expense, professional services and higher distribution and freight expense, partially offset by lower severance expense, bad debt and legal settlement expense. Warranty expense for the quarter ended February 28, 2014 increased from the amount recorded during the comparable prior year period, and it is typical that warranty expense will fluctuate from period to period.

Our industrial segment SG&A was approximately \$0.3 million lower during the third quarter of fiscal 2014 versus the comparable prior year period, and lower as a percentage of net sales, reflecting the favorable impact of

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lower bad debt expense, severance expense, transactional foreign exchange losses and legal settlement expense, offset partially by higher warranty and distribution expense versus the comparable prior year period.

Our consumer segment SG&A was approximately \$4.6 million higher during the third quarter of fiscal 2014 versus the comparable prior year period, and higher as a percentage of net sales in the third quarter of fiscal 2014 as compared with the same period a year ago. SG&A expense for this segment reflects higher distribution expense and professional services expense during the current quarter of fiscal 2014 versus the comparable prior year period, partially offset by lower bad debt expense and advertising expense.

SG&A expenses in our corporate/other category decreased by \$0.7 million during the current quarter of fiscal 2014 to \$16.3 million from \$17.0 million during the comparable prior year period. The decrease in SG&A expense primarily reflects the impact of lower employee benefits expense offset partially by higher transactional foreign exchange losses and professional services expense during the current quarter versus the same period a year ago.

We recorded total net periodic pension and postretirement benefit costs of \$11.7 million and \$12.9 million for the third quarter of fiscal 2014 and 2013, respectively. The \$1.2 million decrease in pension expense was primarily the result of \$1.0 million of additional net actuarial gains recorded during the third quarter of fiscal 2014 versus the comparable prior year period and a favorable impact of \$1.1 million due to larger returns on higher plan asset levels. Higher service and interest cost of \$0.9 million during the third quarter of fiscal 2014 versus the comparable prior year period slightly offset those gains. 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 7, Pension Plans, for additional information regarding these benefits.

Loss Contingency As previously disclosed, we recorded a \$68.8 million accrual during the quarter ended February 28, 2013 associated with settlement discussions with the DOJ and the GSA Office of Inspector General aimed at resolving an existing investigation. The \$68.8 million accrual was subsequently reduced to \$65.1 million during the fourth quarter ended May 31, 2013. Since first receiving a broad request for documents from the GSA in March 2011, we have cooperated, and continue to cooperate, with that investigation, which involves our compliance with certain pricing terms and conditions of our GSA Multiple Award Schedule contracts under which the roofing division of our Building Solutions Group sold products and services to the federal government. A substantial majority of the transactions as to which potential compliance issues were raised took place during the period from 2002 to 2008. In August 2013, we entered into a final agreement with the DOJ and the GSA Office of Inspector General regarding this matter. During the nine months ended February 28, 2014, we paid the GSA Office of Inspector General \$61.9 million and made other payments for miscellaneous legal expenses for approximately \$1.1 million. We expect to pay approximately \$2.1 million more in legal fees and other related costs arising out of this investigation.

Interest Expense Interest expense was \$19.7 million for the third quarter of fiscal 2014 versus \$20.5 million for the same period a year ago. Higher average borrowings, related to recent acquisitions, increased interest expense during this year's third quarter by approximately \$0.2 million versus the same period a year ago. Excluding acquisition-related borrowings, lower average borrowings year-over-year decreased interest expense by approximately \$0.3 million. Lower interest rates, which averaged 5.07% overall for the third quarter of fiscal 2014 compared with 5.30% for the same period of fiscal 2013, decreased interest expense by approximately \$0.7 million during the current quarter versus the same period last year.

Investment (Income), Net Net investment income of \$7.7 million during the third quarter of fiscal 2014 compares to net investment income of \$6.3 million during the same period last year. Dividend and interest income totaled \$3.1 million for the quarter ended February 28, 2014 and \$3.4 million for the quarter ended February 28, 2013. Net realized gains on the sales of investments totaled \$4.6 million during the third quarter of fiscal 2014, while those gains were \$2.9 million during the same period a year ago. There were no impairments recognized on securities that management has determined are other-than-temporary declines in value during either period.

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Other Expense (Income), Net Other income of \$1.4 million for the third quarter of fiscal 2014 compared with other expense of \$4.7 million for the same period a year ago. During the third quarter of fiscal 2013, we repositioned certain of our industrial segment operations in Brazil, which resulted in a substantial liquidation of our Brazilian subsidiaries and a net loss of approximately \$6.1 million.

Other items reflected in this balance include net royalty income of \$0.5 million and \$0.9 million for the third quarter of fiscal 2014 and fiscal 2013, respectively. Lastly, included in this balance is our equity in earnings of unconsolidated affiliates totaling approximately \$0.9 million and \$0.5 million for the third quarter of fiscal 2014 and 2013, respectively.

Income Before Income Taxes (IBT) Our consolidated pretax income for the third quarter of fiscal 2014 of \$25.2 million compares with a pretax loss of \$62.8 million for the third quarter of fiscal 2013.

Our industrial segment had pretax income of \$20.3 million, or 3.6% of net sales, for the quarter ended February 28, 2014, versus a pretax loss of \$68.6 million, or a negative 12.9% of net sales, for the same period a year ago. The pretax loss in the industrial segment for the prior year period resulted primarily from an adjustment for a \$68.8 million accrual associated with an investigation of the RPM Building Solutions Group roofing contracts with the GSA. During the prior year period, the industrial segment also had foreign exchange losses incurred on cross-currency transactions and a loss incurred on the substantial liquidation of our repositioning of certain operations in Brazil. Our consumer segment IBT decreased to \$30.8 million, or 10.2% of net sales for the third quarter of fiscal 2014, from the comparable prior year period result of \$34.7 million, or 11.2% of net sales. This was driven primarily by the decline in organic net sales for the consumer segment in the third quarter of fiscal 2014 from the comparable prior year period, stemming primarily from adverse weather conditions across most of North America during the current year quarter.

Income Tax Rate The effective income tax expense rate was 32.9% for the three months ended February 28, 2014 compared to an effective income tax benefit rate of 32.8% for the three months ended February 28, 2013.

For the three months ended February 28, 2014 and 2013, the effective tax rates reflect variances from the 35% federal statutory rate primarily due to lower effective tax rates of certain of our foreign subsidiaries, the favorable impact of certain foreign operations on our U.S. taxes, the research and development tax credit, the benefit from the domestic manufacturing deduction and for the three months ended February 28, 2014, due to reductions to our reserves for income tax contingencies, including interest thereon. These favorable variances from the statutory tax rate were offset by the net impact of valuation allowances associated with certain foreign net operating losses and foreign tax credit carryforwards, state and local income taxes, and non-deductible business operating expenses.

Furthermore, for the three month period ended February 28, 2013, the effective tax rate differed from the federal statutory rate as a result of income tax benefits related to the company's strategic decision to reposition certain Brazilian business operations partially offset by the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits associated with net operating losses incurred by those foreign businesses are not recognized and by the tax effect of projected non-deductible costs associated with the DOJ and GSA accrual and due to net increases to our reserves for income tax contingencies, including interest thereon

As of February 28, 2014, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, we intend to maintain the tax valuation allowances recorded at February 28, 2014 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 carry forwards, capital loss carryforwards, unrealized losses on securities, certain foreign net operating losses and net foreign deferred tax assets.

Net Income Net income of \$16.9 million for the quarter ended February 28, 2014 compares to a net loss of \$42.2 million for the comparable prior year period, which results in a net margin on sales of 2.0% and a negative net

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margin on sales of 5.0%, respectively, for the third quarter of fiscal 2014 and 2013. Excluding the impact of the prior year losses associated with the DOJ and GSA and from the repositioning of certain operations in Brazil, the prior period adjusted net income of \$8.8 million represented an adjusted net margin on sales of 1.0%. The current period growth in net income reflects the organic growth in sales of 1.9% during the current quarter versus the comparable prior year period, coupled with accretive acquisitions. During the quarter ended February 28, 2014, we had net income from noncontrolling interests of \$0.7 million versus \$0.2 million during the comparable prior year period. Net income attributable to RPM International Inc. stockholders for the third quarter of fiscal 2014 was \$16.2 million, which compared to a net loss of \$42.4 million and adjusted net income of \$8.7 million for the comparable prior year period.

Diluted earnings per share of common stock for the quarter ended February 28, 2014 of \$0.12 compares with diluted loss per share of common stock of \$0.33 for the quarter ended February 28, 2013.

Nine Months Ended February 28, 2014

Net Sales Consolidated net sales increased 6.6% to \$3.10 billion for the nine months ended February 28, 2014 due to organic growth of 3.9%, including unfavorable foreign exchange of 0.9%, and acquisition growth of 2.7%. Industrial segment net sales for the first nine months of fiscal 2014 were up 3.8% to \$2.0 billion due to organic growth of 3.2%, including an unfavorable foreign exchange impact of 1.1%, and acquisition growth of 0.6%. The consumer segment generated net sales of \$1.1 billion, or 12.0% net sales growth during this year's first nine months versus the same period a year ago, due to organic growth of 5.2%, including an unfavorable foreign exchange impact of 0.6%, and acquisition growth of 6.8%.

Gross Profit Margin Our consolidated gross profit margin improved to 42.4% of net sales for the first nine months of fiscal 2014 versus a consolidated gross profit margin of 41.4% for the comparable period a year ago, reflecting a combination of items, including the impact of restructuring activities initiated during fiscal 2013, supply chain initiatives and accretive acquisitions completed during the last 12 months. Also reflected in the gross profit margin improvement is a favorable mix of sales and pricing initiatives instituted primarily during prior periods in order to offset unfavorable swings in foreign exchange. The prior year period was negatively impacted by one-time charges taken by the industrial segment's roofing division for revised cost estimates in conjunction with unprofitable contracts outside of North America.

SG&A Our consolidated SG&A decreased to 32.3% of net sales for the first nine months of fiscal 2014 compared with 32.8% of net sales for the same period a year ago. During the prior year period, our industrial segment recorded \$5.0 million of bad debt expense related to its \$10.0 million loan to Kemrock, and \$5.6 million in roofing exit costs related to a loss contract outside North America. The current period improvement in SG&A as a percent of net sales also reflects lower bad debt and legal settlement expense, as well as lower acquisition-related expenses, offset by higher employee compensation-related expense, including commissions on higher sales, as well as higher distribution expense and higher transactional foreign exchange expense. Warranty expense for the nine months ended February 28, 2014 also increased from the amount recorded during the comparable prior year period, and it is typical that warranty expense will fluctuate from period to period.

Our industrial segment SG&A was approximately \$12.5 million higher during the first nine months of fiscal 2014 versus the comparable prior year period, but slightly lower as a percentage of net sales, reflecting this segment's current period growth in organic sales of 3.2%. Results for the prior year period reflect the impact of the \$5.0 million bad debt write down on our loan to Kemrock and the \$10.6 million loss related to a loss contract outside North America and exit costs related to that contract as previously discussed. Industrial segment results for the first nine months of fiscal 2014 reflect the impact of higher employee compensation and benefit expense, higher research and development expense, higher distribution expense, warranty expense and higher transactional foreign exchange expense, partially offset by lower legal settlement and bad debt expense versus the comparable prior year period.

Our consumer segment SG&A was approximately \$28.7 million higher during the first nine months of fiscal 2014 versus the comparable prior year period, but flat as a percentage of net sales during the first nine months of

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fiscal 2014 as compared with the same period a year ago. This reflects the leveraging of this segment's 12.0% growth in net sales over the prior year period despite higher compensation-related expense, along with higher distribution expense and intangibles amortization expense during this year's first nine months versus the same period a year ago.

SG&A expenses in our corporate/other category increased by \$4.2 million during the first nine months of fiscal 2014 to \$54.3 million from \$50.1 million during the comparable prior year period. The increase in SG&A expense reflects the combination of higher compensation expense, professional services expense and higher transactional foreign exchange expense.

We recorded total net periodic pension and postretirement benefit costs of \$35.1 million and \$38.8 million for the first nine months of fiscal 2014 and 2013, respectively. The \$3.6 million decrease in pension expense was primarily the result of \$3.0 million of additional net actuarial gains recorded during the first nine months of fiscal 2014 versus the comparable prior year period and a favorable impact of \$3.3 million due to larger returns on higher plan asset levels. Higher service and interest cost of \$2.7 million during the first nine months of fiscal 2014 versus the comparable prior year period slightly offset those gains. 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.

Loss Contingency As described in Note 15 to the consolidated financial statements, as well as in Management's Discussion and Analysis of Financial Condition and Results of Operations presented for the three month period ended February 28, 2014, and in "Other Matters," section of MD&A in this filing, we recorded a \$68.8 million accrual during the quarter ended February 28, 2013 associated with settlement discussions with the DOJ and the GSA Office of Inspector General aimed at resolving an existing investigation. Please refer to the sections of this filing mentioned above for further information.

Interest Expense Interest expense was \$61.3 million for the first nine months of fiscal 2014 versus \$58.8 million for the same period a year ago. Higher average borrowings, related to recent acquisitions, increased interest expense during this year's first nine months by approximately \$2.2 million versus the same period a year ago. Excluding acquisition-related borrowings, higher average borrowings year-over-year increased interest expense by approximately \$0.6 million. Lower interest rates, which averaged 5.12% overall for the first nine months of fiscal 2014 compared with 5.27% for the same period of fiscal 2013, decreased interest expense by approximately \$0.3 million during the current nine-month period versus the same period last year.

Investment Expense (Income), Net Net investment income of \$13.7 million during this year's first nine months compares to net investment income of \$14.7 million for the same period a year ago. Dividend and interest income totaled \$6.8 million during this year's first nine months versus \$7.8 million of income during the same period last year. Net realized gains on the sales of investments resulted in a net gain of \$7.0 million for this year's first nine months versus a net gain of \$7.5 million for the same period during fiscal 2013. Impairments recognized on securities that management has determined are other-than-temporary declines in value approximated \$0.1 million for the first nine months of fiscal 2014, versus impairments of \$0.6 million for the same period a year ago.

Other (Income), Net Other income of \$3.3 million for the first nine months of fiscal 2014 compared with other expense of \$53.8 million for the same period a year ago. The prior period result reflects \$51.1 million of impairment losses stemming from our various investments in Kemrock. As previously disclosed, as the economy and financial markets in India declined a year ago, we wrote down a portion of our equity investment in Kemrock and also the value of the conversion option feature of our investment in Kemrock's convertible bonds. More detailed information is included in Note 2. During the prior year period, we repositioned certain industrial segment operations in Brazil, which resulted in a substantial liquidation of certain of our Brazilian subsidiaries and a net loss of \$6.1 million.

Other items reflected in this balance include net royalty income of approximately \$0.9 million and \$1.6 million for the first nine months of fiscal 2014 and fiscal 2013, respectively. Lastly, included in this balance is our equity

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in earnings of unconsolidated affiliates totaling approximately \$2.4 million and \$1.8 million for the first nine months of fiscal 2014 and 2013, respectively.

IBT Our consolidated pretax income for this year's first nine months of \$270.0 million compares with pretax income of \$80.3 million for the same period last year, resulting in a pretax profit margin on net sales of 8.7% for the current period versus a pretax profit margin on net sales of 2.8% a year ago. As discussed above, the prior period results reflect the impact of the impairment losses relating to our various investments in Kemrock, approximating \$56.1 million, combined with the approximately \$11.0 million in losses on contracts outside of North America in our roofing division and related exit costs and the \$6.1 million loss relating to the repositioning of certain operations in Brazil. Lastly, the prior year period reflects the impact of the adjustment for a \$68.8 million accrual associated with the GSA investigation.

Our industrial segment had IBT of \$199.3 million, for a profit margin on net sales of 10.0% for this year's first nine months, versus IBT of \$81.2 million, for a profit margin on net sales of 4.2%, for the same period last year. Our consumer segment IBT increased to \$165.2 million, or 15.0% of net sales for the period, from last year's first nine months' IBT of \$132.1 million, or 13.5% of net sales. The increase in IBT as a percent of sales for the consumer segment resulted primarily from the leverage of the impact of this segment's 12.0% growth in net sales, including the impact of accretive acquisitions during the current period versus the same period a year ago.

Income Tax Rate The effective income tax expense rate was 28.8% for the nine months ended February 28, 2014 compared to an effective income tax expense rate of 48.0% for same period a year ago.

For the nine months ended February 28, 2014 and 2013, the effective tax rates reflect variances from the 35% federal statutory rate primarily due to lower effective tax rates of certain of our foreign subsidiaries, the favorable impact of certain foreign operations on our U.S. taxes, the research and development tax credit, the benefit from the domestic manufacturing deduction and for the three months ended February 28, 2014, due to net reductions to our reserves for income tax contingencies, including interest thereon. These favorable variances from the statutory tax rate were offset by the net impact of valuation allowances associated with certain foreign net operating losses and foreign tax credit carryforwards, state and local income taxes, and non-deductible business operating expenses.

Additionally, for the nine month periods ended February 28, 2013, the effective tax rate differed from the federal statutory rate as a result of income tax benefits related to our strategic decision to reposition certain Brazilian business operations, the impact on our effective tax rate in certain foreign jurisdictions where income tax benefits associated with net operating losses incurred by those foreign businesses are not recognized, the tax effect of projected non-deductible costs associated with the DOJ and GSA accrual, the impact of net increases to our reserves for income tax contingencies, including interest thereon and as a result of increases in valuation allowances related to losses associated with our investments in Kemrock.

Additionally, for the nine month period ended February 28, 2014, the effective tax rate includes a discrete benefit related to the recognition of a foreign deferred income tax asset resulting from the merger of certain foreign subsidiaries. This benefit was partially offset by the impact of the enactment of a Canadian tax law change, Canada Bill C-48, Technical Tax Amendments Act, 2012 (Bill C-48), which was effective as of June 26, 2013.

As described in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the three month period ended February 28, 2014, there is uncertainty as to whether we will be able to recognize certain deferred tax assets. Refer to the section captioned "Three Months Ended February 28, 2014 - Income Tax Rate," for further information.

Net Income Net income of \$192.2 million for the first nine months of fiscal 2014 compares to net income of \$41.8 million for the same period last year, reflecting the prior period one-time charges previously discussed. Excluding those prior period charges, adjusted net income during the prior year period approximated \$156.1 million. Net income as a percentage of net sales of 6.2% for the current year period compares with an adjusted net margin on sales of 5.3% for the comparable prior year period. Net income for the current year period reflects the leverage of the organic growth in net sales of 3.9% versus net sales for the same period last year, as well as accretive acquisitions. During the nine months ended February 28, 2014, we had net income from noncontrolling

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interests of \$9.3 million versus \$8.6 million during the same period a year ago. Net income attributable to RPM International Inc. stockholders was \$182.9 million for the nine months ended February 28, 2014, versus \$33.2 million for the same period a year ago.

Diluted earnings per share of common stock for the first nine months of fiscal 2014 of \$1.37 compares with \$0.25 for the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Approximately \$25.9 million of cash was provided by operating activities during the first nine months of fiscal 2014 compared with \$170.9 million during the same period during fiscal 2013, resulting in \$145.0 million less cash provided during the current period versus the same period a year ago.

The net change in cash from operations includes the change in net income, which increased by \$150.5 million during the first nine months of fiscal 2014 versus the same period a year ago. Reflected in net income for the prior year nine month period are \$112.7 million of one-time charges. The non-cash charges included an after-tax charge of \$52.6 million resulting from our estimated accrual for a loss contingency; an after-tax charge of \$53.3 million in write downs associated with our various investments in Kemrock; and an after-tax charge of approximately \$8.4 million associated with a combination of revised cost estimates in conjunction with loss contracts in our industrial segment's roofing division and exit costs related to those contracts. Other items impacting the net change in cash from operations included items adjusting net income for non-cash expenses and income, which decreased cash flows by approximately \$111.7 million more during the current period versus the same period last year. Changes in working capital accounts and all other accruals, along with a payment on a contingency, decreased cash flows by \$120.7 million and \$63.0 million, respectively, during the first nine months of fiscal 2014 versus the same period last year.

The decrease in accounts receivable during the first nine months of fiscal 2014 provided cash of \$86.5 million versus the \$144.7 million of cash generated by accounts receivable during the same period last year, or approximately \$58.2 million less cash provided year-over-year. This resulted from the geographical mix of sales and from the timing of sales and collections on accounts receivable. Days sales outstanding at February 28, 2014 increased to 70.0 days from 64.9 days sales outstanding at February 28, 2013.

Inventory balances used \$82.6 million of cash during the first nine months of fiscal 2014, compared with the use of \$69.7 million in cash during the same period last year, or \$12.9 million more cash used year-over-year. Adverse weather conditions across most of North America during the third quarter of fiscal 2014 resulted in lower than expected organic sales and higher levels of inventory. Days of inventory outstanding at February 28, 2014 increased to 113.0 days from 105.4 days of inventory outstanding at February 28, 2013.

The current year-to-date change in accounts payable used \$57.0 million more cash during the first nine months of fiscal 2014 compared to the same period last year, resulting from a change in the timing of certain payments. Accrued compensation and benefits used approximately \$19.0 million less cash during the first nine months of fiscal 2014 versus the same period last year, as there were higher bonus accruals established during the current period related to better operating performance versus last year's first nine months. Other accruals and prepaids, including those for other short-term and long-term items and changes, provided \$1.2 million more cash during the first nine months of fiscal 2014 versus the same period a year ago, due to changes in the timing of such payments.

Cash provided from operations, along with the use of available credit lines, as required, remain our primary sources of liquidity.

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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 \$54.3 million during the first nine months of fiscal 2014 compare with depreciation of \$43.7 million. We believe our current production capacity, along with moderate plant modifications or additions will be adequate to meet our immediate needs based on anticipated growth rates. 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 throughout fiscal 2014.

Our captive insurance companies invest their excess cash in marketable securities in the ordinary course of conducting their operations, and this activity will continue. Differences in the amounts related to these activities on a year-over-year basis are primarily attributable to differences in the timing and performance of their investments balanced against amounts required to satisfy claims. At February 28, 2014, the fair value of our investments in marketable securities totaled \$112.1 million, of which investments with a fair value of \$38.1 million were in an unrealized loss position. At May 31, 2013, the fair value of our investments in marketable securities totaled \$113.1 million, of which investments with a fair value of \$36.6 million were in an unrealized loss position. 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. Total pretax unrealized losses recorded in accumulated other comprehensive income at February 28, 2014 and May 31, 2013 were \$1.8 million and \$1.0 million, respectively.

We regularly review our marketable securities in unrealized loss positions in order to determine whether or not we have the ability and intent to hold these investments. That determination is based upon the severity and duration of the decline, in addition to our evaluation of the cash flow requirements of our businesses. Unrealized losses at February 28, 2014 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 February 28, 2014 were less than 15% below their original cost or that have been in a loss position for less than six consecutive months. From time to time, we may experience significant volatility in general economic and market conditions. 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 February 28, 2014, approximately \$175.0 million of our consolidated cash and cash equivalents were held at various foreign subsidiaries. At this time, we believe it is possible that we could repatriate approximately \$50.0 million of undistributed foreign earnings in the foreseeable future. Accordingly, the estimated tax impact of this potential repatriation has been reflected in our current results. These earnings have been previously subject to U.S. taxation and as such, the estimated net tax impact of such remittance is estimated to be minimal.

Other than as noted above, 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. As such, 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 U.S. and foreign taxes. However, a portion of these remaining foreign earnings have also been previously 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. Furthermore, any repatriation could be subject to government or other local restrictions or limitations such as local minimum capital reserve requirements or exchange controls, etc.

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As previously stated, we intend to permanently reinvest the certain 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 local 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 Specialty Products Holding Corp. (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 \$927.2 million at February 28, 2014. Our debt-to-capital ratio was 51.6% at February 28, 2014, compared with 53.4% at May 31, 2013.

2.25% Convertible Senior Notes due 2020

On December 9, 2013, we issued \$205 million of 2.25% convertible senior notes due 2020 (the Convertible Notes). In accordance with the agreement, we will pay interest on the Convertible Notes semi-annually on June 15th and December 15th of each year, beginning on June 15, 2014. Net proceeds of approximately \$200.1 million from the sale were used to refinance \$200 million in principal amount of unsecured senior notes due December 15, 2013, which bear interest at 6.25%.

The Convertible Notes will be convertible under certain circumstances and during certain periods at an initial conversion rate of 18.8905 shares of RPM common stock per \$1,000 principal amount of notes (representing an initial conversion price of approximately \$52.94 per share of common stock), subject to adjustment in certain circumstances. The initial conversion price represents a conversion premium of approximately 37% over the last reported sale price of RPM common stock of \$38.64 on December 3, 2013. Prior to June 15, 2020, the Convertible Notes may be converted only upon specified events, and, thereafter, at any time. Upon conversion, the Convertible Notes may be settled, at RPM's election, in cash, shares of RPM's common stock, or a combination of cash and shares of RPM's common stock.

6.25% Notes due 2013

On December 15, 2013, our \$200 million 6.25% senior notes matured. During the current quarter, we refinanced this debt with proceeds received from our issuance of \$205 million of Convertible Notes.

3.45% Notes due 2022

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

Revolving Credit Agreement

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

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

As of February 28, 2014, we were in compliance with all covenants contained in our Credit Facility, including the leverage and interest coverage ratio covenants. At that date, our leverage ratio was 51.7%, while our interest coverage ratio was 7.21 to 1.

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

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 February 28, 2014 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			
		2015	2016-17	2018-19	After 2019
<i>(In thousands)</i>					
Long-term debt obligations	\$ 1,388,435	\$ 5,957	\$ 151,558	\$ 287,539	\$ 943,381
Capital lease obligations	1,312	637	663	12	
Operating lease obligations	190,465	46,527	63,973	32,847	47,118
Other long-term liabilities(1):					
Interest payments on long-term debt obligations	375,862	67,899	126,674	109,425	71,864
Contributions to pension and postretirement plans (2)	333,700	35,900	95,800	89,800	112,200
Total	\$ 2,289,774	\$ 156,920	\$ 438,668	\$ 519,623	\$ 1,174,563

- (1) Excluded from other long-term liabilities are our gross long-term liabilities for unrecognized tax benefits, which totaled \$20.0 million at February 28, 2014. Currently, we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities related to these liabilities.
- (2) These amounts represent our estimated cash contributions to be made in the periods indicated for our pension and postretirement plans, assuming no actuarial gains or losses, assumption changes or plan changes occur in any period. The projection results assume the required minimum contribution will be contributed.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet financings, other than the minimum operating lease commitments included in the above Contractual Obligations table. We have no subsidiaries that are not included in our financial statements, nor do we have any interests in, or relationships with, any special purpose entities that are not reflected in our financial statements. At the end of fiscal 2010, we deconsolidated our wholly owned subsidiary, SPHC, and its subsidiaries, from our balance sheet and eliminated the results of SPHC's operations from our operations beginning on May 31, 2010. We account for our investment in SPHC, which had no value at February 28, 2014 and May 31, 2013, under the cost method (refer to Note 3 to the Consolidated Financial Statements).

OTHER MATTERS

Environmental Matters

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

GSA Investigation

As previously disclosed, we recorded a \$68.8 million accrual during the quarter ended February 28, 2013 associated with settlement discussions with the DOJ and the GSA Office of Inspector General aimed at resolving an existing investigation. The \$68.8 million accrual was subsequently reduced to \$65.1 million during the fourth quarter ended May 31, 2013. In August 2013, we entered into a final agreement with the DOJ and the GSA Office of Inspector General regarding this matter. During the quarter ended August 31, 2013, we paid the GSA Office of Inspector General \$61.9 million, and we have since made other payments for miscellaneous legal expenses of approximately \$1.1 million. We expect to pay approximately \$2.1 million more in legal fees and other related costs arising out of this investigation. See Note 15 to the Consolidated Financial Statements for more information.

FORWARD-LOOKING STATEMENTS

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

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Form 10-K for the year ended May 31, 2013, as the same may be updated from time to time. We do not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the filing date of this document.

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

We are exposed to market risk from changes in raw materials costs, interest rates and foreign exchange rates since we fund our operations through long- and short-term borrowings and conduct our business in a variety of foreign currencies. There were no material potential changes in our exposure to these market risks since May 31, 2013.

ITEM 4. *CONTROLS AND PROCEDURES*

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of February 28, 2014 (the Evaluation Date), have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) CHANGES IN INTERNAL CONTROL.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended February 28, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

Environmental Proceedings

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2013.

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

(c) The following table presents information about repurchases of common stock we made during the third quarter of fiscal 2014:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (2)
December 1, 2013 through December 31, 2013	655	\$ 41.51		
January 1, 2014 through January 31, 2014	13,180	\$ 42.05		
February 1, 2014 through February 28, 2014	30,556	\$ 40.14		
Total Third Quarter	44,391	\$ 40.73		

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

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Exhibit	
Number	Description
4.1	First Supplemental Indenture, dated December 9, 2013, for the 2.25% Convertible Senior Notes due 2020 (which includes form of Note), to the Indenture dated as of February 14, 2008, between the Company and The Bank of New York Mellon Trust Company, N.A., which is incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 11, 2013 (File No. 1-14187).
31.1	Rule 13a-14(a) Certification of the Company's Chief Executive Officer.(x)
31.2	Rule 13a-14(a) Certification of the Company's Chief Financial Officer.(x)
32.1	Section 1350 Certification of the Company's Chief Executive Officer.(x)
32.2	Section 1350 Certification of the Company's Chief Financial Officer.(x)
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

(x) Filed herewith.

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SIGNATURES

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

RPM International Inc.

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

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

Dated: April 3, 2014