

RPM INTERNATIONAL INC/DE/

Form 10-Q

October 10, 2008

Table of Contents

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 31, 2008,
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE

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

02-0642224

*(IRS Employer
Identification No.)*

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

(Address of principal executive offices)

44258

(Zip Code)

(330) 273-5090

(Registrant's telephone number including area code)

Not Applicable

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

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

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

Large accelerated filer Accelerated filer

Edgar Filing: RPM INTERNATIONAL INC/DE/ - Form 10-Q

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

Smaller reporting
company

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

As of October 8, 2008

128,718,863 Shares of RPM International Inc. Common Stock were outstanding.

RPM INTERNATIONAL INC. AND SUBSIDIARIES*

INDEX

	Page No.	
<u>PART I. FINANCIAL INFORMATION</u>		
<u>Item 1.</u>	<u>Financial Statements (Unaudited):</u>	
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Income</u>	4
	<u>Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4.</u>	<u>Controls and Procedures</u>	26
<u>PART II. OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	26
<u>Item 1A.</u>	<u>Risk Factors</u>	27
<u>Item 2.</u>	<u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	28
<u>Item 6.</u>	<u>Exhibits</u>	28
<u>Signatures</u>		29
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</u>		
<u>EX-32.2</u>		

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

Table of ContentsPART I. FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTSRPM INTERNATIONAL INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETS

	August 31, 2008 (Unaudited) (In thousands, except per share amounts)	May 31, 2008
<u>ASSETS</u>		
Current Assets		
Cash and short-term investments	\$ 201,368	\$ 231,251
Trade accounts receivable (less allowances of \$22,626 and \$24,554, respectively)	735,700	817,241
Inventories	509,314	476,149
Deferred income taxes	37,620	37,644
Prepaid expenses and other current assets	207,441	221,690
Total current assets	1,691,443	1,783,975
Property, Plant and Equipment, at Cost	1,045,614	1,054,719
Allowance for depreciation and amortization	(562,461)	(556,998)
Property, plant and equipment, net	483,153	497,721
Other Assets		
Goodwill	890,211	908,358
Other intangible assets, net of amortization	370,256	384,370
Other	183,102	189,143
Total other assets	1,443,569	1,481,871
Total Assets	\$ 3,618,165	\$ 3,763,567
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Current Liabilities		
Accounts payable	\$ 338,064	\$ 411,448
Current portion of long-term debt	7,041	6,934
Accrued compensation and benefits	96,151	151,493
Accrued loss reserves	72,002	71,981

Asbestos-related liabilities	65,000	65,000
Other accrued liabilities	134,846	139,505
Total current liabilities	713,104	846,361
Long-Term Liabilities		
Long-term debt, less current maturities	965,423	1,066,687
Asbestos-related liabilities	478,709	494,745
Other long-term liabilities	174,545	192,412
Deferred income taxes	24,472	26,806
Total long-term liabilities	1,643,149	1,780,650
Stockholders Equity		
Preferred stock, par value \$0.01; authorized 50,000 shares; none issued		
Common stock, par value \$0.01 authorized 300,000 shares; issued and outstanding 129,101 as of August 2008; issued and outstanding 122,189 as of May 2008	1,291	1,222
Paid-in capital	772,841	612,441
Treasury stock, at cost	(29,691)	(6,057)
Accumulated other comprehensive income	44,916	101,162
Retained earnings	472,555	427,788
Total stockholders equity	1,261,912	1,136,556
Total Liabilities and Stockholders Equity	\$ 3,618,165	\$ 3,763,567

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

Table of ContentsRPM INTERNATIONAL INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	August 31, 2008	August 31, 2007 (Unaudited)
	(In thousands, except per share amounts)	
Net Sales	\$ 985,465	\$ 930,339
Cost of Sales	581,876	546,437
Gross Profit	403,589	383,902
Selling, General and Administrative Expenses	292,690	271,035
Interest Expense, Net	10,586	12,718
Income Before Income Taxes	100,313	100,149
Provision for Income Taxes	30,796	31,881
Net Income	\$ 69,517	\$ 68,268
Average Number of Shares of Common Stock Outstanding:		
Basic	124,935	119,677
Diluted	130,188	130,026
Basic Earnings per Share of Common Stock	\$ 0.56	\$ 0.57
Diluted Earnings per Share of Common Stock	\$ 0.54	\$ 0.53
Cash Dividends Declared per Share of Common Stock	\$ 0.190	\$ 0.175

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**

	Three Months Ended	
	August 31,	
	2008	2007
	(Unaudited)	
	(In thousands)	
Cash Flows From Operating Activities:		
Net income	\$ 69,517	\$ 68,268
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	16,385	15,449
Amortization	5,824	5,429
Deferred income taxes	(2,108)	10,188
Earnings of unconsolidated affiliates	(436)	(455)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	83,267	69,032
(Increase) in inventory	(31,922)	(33,038)
(Increase) in prepaid expenses and other current and long-term assets	(1,259)	(9,157)
(Decrease) in accounts payable	(74,736)	(70,141)
(Decrease) in accrued compensation and benefits	(55,342)	(42,364)
Increase (decrease) in accrued loss reserves	21	(4,919)
Increase (decrease) in other accrued liabilities	(14,483)	16,450
Payments made for asbestos-related claims	(16,036)	(22,823)
Other	8,978	(4,950)
Cash From Operating Activities	(12,330)	(3,031)
Cash Flows From Investing Activities:		
Capital expenditures	(12,199)	(5,514)
Acquisition of businesses, net of cash acquired	(1,849)	(3,387)
Purchase of marketable securities	(29,924)	(26,129)
Proceeds from sales of marketable securities	29,110	25,667
Other	7,910	374
Cash (Used For) Investing Activities	(6,952)	(8,989)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	49,373	34,695
Reductions of long-term and short-term debt	(813)	(830)
Cash dividends	(24,751)	(21,170)
Repurchase of stock	(24,585)	(3,474)
Exercise of stock options, including tax benefit	1,086	2,419
Cash From Financing Activities	310	11,640

Effect of Exchange Rate Changes on Cash and Short-Term Investments	(10,911)	1,207
Net Change in Cash and Short-Term Investments	(29,883)	827
Cash and Short-Term Investments at Beginning of Period	231,251	159,016
Cash and Short-Term Investments at End of Period	\$ 201,368	\$ 159,843

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

Table of Contents

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2008

(Unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles (GAAP) in the U.S. for complete financial statements. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three month periods ended August 31, 2008 and 2007. For further information, refer to the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended May 31, 2008.

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

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

NOTE B NEW ACCOUNTING STANDARDS

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

SFAS No. 160 improves the relevance, comparability and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way. Additionally, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS No. 160 is effective for our fiscal year ending May 31, 2010. We are currently evaluating the impact that the adoption of this statement will have on our financial statements.

In March 2008, the FASB issued SFAS No. 161 (SFAS No. 161), Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for our third fiscal quarter ending February 28, 2009. As the provisions of SFAS No. 161 relate only to enhanced disclosures, this standard will have no impact on our financial position, results of operations or cash flows.

NOTE C ACCOUNTING STANDARDS ADOPTED

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

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

SFAS No. 157 valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect management's market assumptions. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value, as follows:

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

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

Level 3 Inputs Instruments with primarily unobservable value drivers.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at August 31, 2008
	(In thousands)			
Marketable securities	\$ 94,751	\$	\$	\$ 94,751
Derivatives, net (liability)		(18,279)		(18,279)
Total	\$ 94,751	\$ (18,279)	\$	\$ 76,472

NOTE D INVENTORIES

Inventories were composed of the following major classes:

	August 31, 2008	May 31, 2008
	(In thousands)	
Raw material and supplies	\$ 164,384	\$ 151,400
Finished goods	344,930	324,749

Total Inventory	\$	509,314	\$	476,149
------------------------	----	---------	----	---------

NOTE E COMPREHENSIVE INCOME

The following table illustrates the components of total comprehensive income for each of the three month periods ended August 31, 2008 and 2007:

	Three Months Ended	
	August 31,	
	2008	2007
	(In thousands)	
Net income	\$ 69,517	\$ 68,268
Other Comprehensive Income:		
Foreign currency translation adjustments	(48,406)	3,668
Pension and other postretirement benefit liability adjustments, net of tax	1,924	(2,308)
Unrealized gain (loss) on securities, net of tax	(10,964)	(1,142)
Derivatives income, net of tax	1,200	1,672