

TO OUR STOCKHOLDERS:

We are pleased to report record sales for the fiscal 2006 first quarter, ended August 31, 2005. Net income and earnings per share declined compared with the fiscal 2005 first quarter due to continued asbestos liability costs. Excluding these costs, we achieved record earnings and earnings per share as well.

Our first-quarter performance reflects the ongoing strategic investment in our products and services, resulting in industry leading internal growth. The quality, strength and reputation of our brands enable us to continue to earn the trust of our customers and to gain market share. We are augmenting this growth through new products and services as well as acquisitions here in North America and abroad.

First-Quarter Sales and Earnings

Record net sales were \$747.4 million for the fiscal 2006 first quarter, a 13.0% increase over last year's first quarter. Year-over-year sales growth came from organic growth, +10.8%, favorable foreign currency translation, +0.8%, and acquisitions, +1.4%.

Beginning with the second quarter of fiscal 2005, we have taken a charge each quarter to adjust our asbestos liability reserves for estimated legal defense and settlement values associated with known claims at quarter end. Therefore, reported net income was \$50.0 million compared with net income of \$54.5 million in the fiscal 2005 first quarter, and reported diluted earnings per share were \$0.40 compared with \$0.44 per share earned in the fiscal 2005 first quarter. Excluding the asbestos charge taken during 2006, adjusted net income of \$59.3 million this first quarter increased 8.9% compared with last year, while adjusted diluted earnings per share of \$0.47 were 6.8% above fiscal 2005 first quarter diluted earnings of \$0.44 per share.

During the 2005 third fiscal quarter, we retrospectively adopted the provisions of Emerging Issues Task Force Issue 04-8, The Effects of Contingently Convertible Debt on Diluted Earnings Per Share ("EITF 04-8"), which reduces diluted earnings per share, but not net income. The retrospective application of EITF 04-8 reduced first-quarter 2005 diluted earnings by \$0.03 per share.

Consolidated earnings before interest and taxes (EBIT) of \$86.3 million in the 2006 first quarter compare with last year's \$92.4 million. Excluding the asbestos charge, adjusted EBIT comparatively increased 9.5% year over year to \$101.3 million. This result is despite significantly higher raw material costs, and reflects the strength of organic sales growth, as well as ongoing pricing initiatives and programs to improve productivity.

Our industrial segment exhibited considerable sales strength, increasing 17.9% to \$430.8 million. This year-over-year sales growth was +14.4% organic, +1.1% foreign exchange translation and +2.4% from acquisitions. Industrial segment EBIT increased 16.0% to \$65.1 million.

Consumer segment sales grew 6.9% to \$316.5 million. This year-over-year sales growth was +6.2% organic, +0.5% foreign exchange translation and the balance from an acquisition. Consumer segment EBIT of \$46.3 million was unchanged from a year ago, reflecting the impact of continuing higher material costs.

Reconciliations of EBIT and adjusted net income to comparable Generally Accepted Accounting Principles (GAAP) measures, an explanation of how RPM uses EBIT in managing its businesses and a reconciliation of reported results to results excluding the impact of the asbestos charge are provided in the supplemental data accompanying this report.

illbruck Sealant Systems

As previously reported, RPM's Tremco completed the acquisition of illbruck Sealant Systems on August 31, 2005, for a purchase price of \$138 million. illbruck, headquartered in Leverkusen, Germany, is a leading pan-European manufacturer of high-performance sealants and installation systems for pre-fabricated construction elements and for window and door applications. With sales of approximately \$190 million, illbruck brings RPM's combined sales throughout Europe to approximately \$440 million.

Our Tremco organization is excited by the prospects for this integration and the cross-marketing opportunities that illbruck will provide. While the earnings impact from illbruck is likely to be neutral for this fiscal year, we anticipate initial contribution of three to five cents per share beginning in fiscal 2007.

Asbestos Charge

After-tax asbestos-related payments during the 2006 first quarter were \$10.5 million versus last year's \$11.9 million. Before taxes, total asbestos-related payments of \$16.5 million (\$12.0 million indemnity) compare with \$19.0 million (\$14.3 million indemnity) last year.

RPM evaluates the adequacy of its asbestos liability reserves each quarter and adjusts these reserves when appropriate. Accordingly, we elected to take an additional \$15.0 million pre-tax asbestos charge in the 2006 first quarter. This first-quarter charge brought our balance sheet reserves for asbestos liability to \$99.7 million at August 31, 2005. We believe this level sufficiently supports a conservatively estimated valuation of existing claims in light of RPM's more aggressive defense strategy, which entails

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RPM International Inc. First Quarter Report

August 31, 2005

Record First Quarter Sales and Earnings before Additional Asbestos Charge

- Record Sales + 13%
- Earnings + 8.9%
- Earnings Per Share + 6.8%

Cash Dividend Increased for 32nd Year

RPM
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The Value of 168 is a statement of the corporate philosophy of RPM. This figure, often cited by our founder, Frank C. Sullivan, literally represents the number of hours in a week. On a deeper level, it serves to remind us of his belief that we are born with two great gifts: life and the time to do something with it.

The Value of 168 signifies RPM's enduring commitment to our fellow employees, customers and stockholders. This commitment springs from an ethos woven into our culture. It is evident in the stimulus of a work environment characterized by empowerment, accountability, opportunity and respect. The care that goes into building and sustaining long-term relationships with those we serve. The refusal to compromise on quality. The integrity that ensures results the right way.

The Value of 168 is the essence of RPM.

higher legal costs but ultimately has resulted in lower resolution costs. We reaffirm our commitment to this strategy for managing this exposure, and believe our outlook is in line with current reserve assumptions.

Cash Flow, Financial Position

Cash flow from operations of \$33.0 million compares with fiscal 2005 first-quarter cash flow from operations of \$41.4 million and reflects principally the timing of payments of accounts payable year-over-year. Capital expenditures of \$8.5 million during the 2006 quarter compare with depreciation of \$13.0 million. Total debt of \$870.3 million reflects the additional indebtedness related to recent acquisitions, including illbruck, less the retired \$150 million 7% bonds which matured June 15, 2005. RPM's net debt-to-capital ratio stands at 42% compared with 38% at our May 31, 2005 fiscal year end, and 40% at August 31, 2004.

Annual Meeting Highlights / Albert Ratner Retirement

We were pleased to welcome over 800 shareholders to the RPM Annual Stockholders' Meeting held on Friday, October 7. We reviewed the highlights of our fiscal year ended May 31, 2005, and the results of our 2006 first quarter. At the meeting, we announced that stockholders re-elected the following Class III directors to a three-year term expiring in 2008: Dr. Max D. Amstutz; William B. Summers, Jr., Dr. Jerry Sue Thornton and newly elected Charles A. Ratner.

We further announced that Albert B. Ratner has retired from our board of directors, effective at the expiration of his term, October 7, 2005. He will be succeeded by Charles A. Ratner, president and CEO of Forest City Enterprises. Albert Ratner deserves the appreciation of all our stockholders for the lasting contributions he has made to RPM during the decade of service he provided as a director. I, personally, appreciate the keen intellect, tremendous insight and passion he brought to his role as an RPM director.

Cash Dividend Increased for 32nd Year

At the Annual Meeting, RPM announced that its board of directors declared a quarterly cash dividend of \$0.16 per common share, a 7 percent increase over the previous \$0.15 per common share. This action marks RPM's 32nd consecutive year of cash dividend increases, placing RPM in an elite category of fewer than 80 U.S.-listed companies that have increased dividends for 30 or more consecutive years. The dividend will be payable October 31, 2005, to stockholders of record as of October 21, 2005. At a share price of \$18.00, RPM's new dividend yield would be 3.6 percent.

New Officers Elected

At the Annual Shareholders' Meeting, we also announced the promotions of Lonny R. DiRusso to vice president – information technology and Matthew T. Ratajczak to vice president – global taxes.

Lonny DiRusso has been director of information technology (IT) since shortly after joining RPM as management information systems manager in 1996. With 20 years of experience in information technology and computer programming, he is responsible for RPM's corporate information systems, global network, and corporatewide IT capital spending.

Matt Ratajczak joined RPM as director of taxes in July 2004, with responsibility for all areas of worldwide tax compliance as well as for developing the strategic direction and management of RPM's domestic and international tax issues.

Business Outlook

Our second quarter will be particularly challenging as a result of the impact of the hurricanes in the Gulf states region. Temporary disruptions to the operations of many of our consumer segment customers and some of our industrial companies' manufacturing and distribution will negatively impact sales growth. Additionally, we may experience price spikes in certain raw material categories. For the balance of the year, however, a number of RPM consumer and industrial products are likely to play an important part in the significant restoration and rebuilding process throughout the Gulf states region. In general, our underlying business trends remain strong and point to another year of record sales and earnings growth, adjusted for the impact of ongoing asbestos related costs.

We greatly appreciate the dedication and commitment of RPM employees worldwide, and the continued support and confidence of our stockholders.

Sincerely yours,



Frank C. Sullivan
President and Chief Executive Office

October 31, 2005

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED) IN THOUSANDS, EXCEPT PER SHARE DATA

	AS REPORTED		ADJUSTED (a)	
	Three Months Ended		Three Months Ended	
	August 31,		August 31,	
	2005	2004	2005	2004
Net Sales	\$ 747,352	\$ 661,513	\$ 747,352	\$ 661,513
Cost of sales	431,233	366,626	431,233	366,626
Gross profit	316,119	294,887	316,119	294,887
Selling, general & administrative expenses	214,860	202,442	214,860	202,442
Asbestos charge	15,000			
Interest expense, net	8,575	7,970	8,575	7,970
Income before income taxes	77,684	84,475	92,684	84,475
Provision for income taxes	27,723	29,989	33,366	29,989
Net Income	<u>\$ 49,961</u>	<u>\$ 54,486</u>	<u>\$ 59,318</u>	<u>\$ 54,486</u>
Basic earnings per share of common stock	<u>\$ 0.43</u>	<u>\$ 0.47</u>	<u>\$ 0.51</u>	<u>\$ 0.47</u>
Diluted earnings per share of common stock (b)	<u>\$ 0.40</u>	<u>\$ 0.44</u>	<u>\$ 0.47</u>	<u>\$ 0.44</u>
Average shares of common stock outstanding - basic	116,542	116,163	116,542	116,163
Average shares of common stock outstanding - diluted (b)	127,262	125,113	127,262	125,113

(a) Adjusted figures presented remove the impact of the additional asbestos charge taken during the first quarter of fiscal 2006.

(b) Amounts for all periods presented include the effect of our contingently issuable shares, as required by EITF Issue No. 04-8.

SUPPLEMENTAL SEGMENT INFORMATION

(UNAUDITED) IN THOUSANDS

	AS REPORTED		ADJUSTED (a)	
	Three Months Ended		Three Months Ended	
	August 31,		August 31,	
	2005	2004	2005	2004
Net Sales:				
Industrial Segment	\$ 430,839	\$ 365,508	\$ 430,839	\$ 365,508
Consumer Segment	316,513	296,005	316,513	296,005
Total	<u>\$ 747,352</u>	<u>\$ 661,513</u>	<u>\$ 747,352</u>	<u>\$ 661,513</u>
Income Before Income Taxes (b):				
Industrial Segment				
Income Before Income Taxes (b)	\$ 65,079	\$ 56,136	\$ 65,079	\$ 56,136
Interest (Expense), Net	(31)	11	(31)	11
EBIT (c)	<u>\$ 65,110</u>	<u>\$ 56,125</u>	<u>\$ 65,110</u>	<u>\$ 56,125</u>
Consumer Segment				
Income Before Income Taxes (b)	\$ 46,436	\$ 46,355	\$ 46,436	\$ 46,355
Interest (Expense), Net	132	49	132	49
EBIT (c)	<u>\$ 46,304</u>	<u>\$ 46,306</u>	<u>\$ 46,304</u>	<u>\$ 46,306</u>
Corporate/Other				
(Loss) Before Income Taxes (b)	\$ (33,831)	\$ (18,016)	\$ (18,831)	\$ (18,016)
Interest (Expense), Net	(8,676)	(8,030)	(8,676)	(8,030)
EBIT (c)	<u>\$ (25,155)</u>	<u>\$ (9,986)</u>	<u>\$ (10,155)</u>	<u>\$ (9,986)</u>
Consolidated				
Income Before Income Taxes (b)	\$ 77,684	\$ 84,475	\$ 92,684	\$ 84,475
Interest (Expense), Net	(8,575)	(7,970)	(8,575)	(7,970)
EBIT (c)	<u>\$ 86,259</u>	<u>\$ 92,445</u>	<u>\$ 101,259</u>	<u>\$ 92,445</u>

(a) Adjusted figures presented remove the impact of the additional asbestos charge taken during the first quarter of fiscal 2006.

(b) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by Generally Accepted Accounting Principles (GAAP) in the United States, to EBIT.

(c) EBIT is defined as earnings 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.

CONSOLIDATED BALANCE SHEETS

IN THOUSANDS

	August 31, 2005 (Unaudited)	August 31, 2004 (Unaudited)	May 31, 2005
Assets			
Current Assets			
Cash and short-term investments	\$ 78,056	\$ 52,413	\$ 184,140
Trade accounts receivable	576,632	487,109	571,649
Allowance for doubtful accounts	(19,957)	(18,497)	(18,565)
Net trade accounts receivable	556,675	468,612	553,084
Inventories	363,396	295,938	334,404
Deferred income taxes	40,006	42,698	40,876
Prepaid expenses and other current assets	173,601	148,495	158,991
Total current assets	1,211,734	1,008,156	1,271,495
Property, Plant and Equipment, at Cost	838,474	768,992	775,564
Allowance for depreciation and amortization	(402,065)	(392,528)	(385,586)
Property, plant and equipment, net	436,409	376,464	389,978
Other Assets			
Goodwill	728,967	650,879	663,224
Other intangible assets, net of amortization	305,676	285,044	275,744
Other	55,237	45,410	55,804
Total other assets	1,089,880	981,333	994,772
Total Assets	\$ 2,738,023	\$ 2,365,953	\$ 2,656,245
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	\$ 257,355	\$ 208,993	\$ 274,573
Current portion of long-term debt	95	233,562	97
Accrued compensation and benefits	60,092	57,304	95,667
Accrued loss reserves	63,163	53,628	65,452
Asbestos-related liabilities	55,000	47,500	55,000
Other accrued liabilities	119,867	85,671	84,550
Total current liabilities	555,572	686,658	575,339
Long-Term Liabilities			
Long-term debt, less current maturities	870,175	490,284	837,948
Asbestos-related liabilities	44,686	24,101	46,172
Other long-term liabilities	74,973	59,658	71,363
Deferred income taxes	99,687	86,961	78,914
Total long-term liabilities	1,089,521	661,004	1,034,397
Total liabilities	1,645,093	1,347,662	1,609,736
Stockholders' Equity			
Preferred stock; none issued			
Common stock			
(outstanding 117,702; 116,271; 117,554)	1,177	1,163	1,176
Paid-in capital	538,016	515,606	535,204
Treasury stock, at cost			
Accumulated other comprehensive income (loss)	21,286	(737)	10,004
Retained earnings	532,451	502,259	500,125
Total stockholders' equity	1,092,930	1,018,291	1,046,509
Total Liabilities and Stockholders' Equity	\$ 2,738,023	\$ 2,365,953	\$ 2,656,245

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED) IN THOUSANDS

	Three Months Ended August 31,	
	2005	2004
Cash Flows From Operating Activities		
Net income	\$ 49,961	\$ 54,486
Depreciation and amortization	16,759	16,275
Items not affecting cash and other	6,420	3,450
Changes in operating working capital	(39,049)	(20,957)
Changes in asbestos-related liabilities, net of tax	(1,115)	(11,879)
	<u>32,976</u>	<u>41,375</u>
Cash Flows From Investing Activities		
Capital expenditures	(8,514)	(7,413)
Acquisition of businesses, net of cash acquired	(135,780)	(9,900)
Proceeds from (purchases of) marketable securities	(3,788)	527
Proceeds from the sale of assets	-	4,500
Other	(556)	413
	<u>(148,638)</u>	<u>(11,873)</u>
Cash Flows From Financing Activities		
Additions to long-term and short-term debt	177,231	7,169
Reductions of long-term and short-term debt	(150,620)	(3,243)
Cash dividends	(17,635)	(16,253)
Exercise of stock options	1,412	1,062
	<u>10,388</u>	<u>(11,265)</u>
Effect of Exchange Rate Changes on Cash and Short-Term Investments	(810)	(383)
Increase (Decrease) in Cash and Short-Term Investments	\$ (106,084)	\$ 17,854

RPM International Inc.,

(NYSE: RPM) a holding company,

owns subsidiaries that are world leaders in specialty coatings serving both industrial and consumer markets.

RPM's industrial products include roofing systems, sealants, corrosion control coatings, flooring coatings and specialty chemicals. RPM's consumer products are used by professionals and do-it-yourselfers for home maintenance and improvement, automotive and boat repair and maintenance, and by hobbyists. Leading industrial brands include Stonhard, Tremco, illbruck, Carboline, Day-Glo, Euco and Dryvit. Consumer brands include Zinsser, Rust-Oleum, DAP, Varathane, Bondo and Testors.

For additional financial information on RPM, including our most recent SEC filings, please refer to the RPM web site at www.rpminc.com, Investor Information



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Cautionary statement for purposes of the Safe Harbor provisions of The Private Securities Litigation Reform Act of 1995: Statements in this quarterly report that are not strictly historical may be forward-looking statements which involve risks and uncertainties. Risk factors include general economic and industry conditions, effects of leverage, legal and environmental matters, technological developments, product pricing, raw material cost changes, and international operations, among others, which are set forth in the company's SEC filings.