

# Building on Our Heritage

2004 ANNUAL REPORT



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## RPM and the history of 168

RPM International Inc. (NYSE: RPM) is a holding company with subsidiaries that are world leaders in specialty coatings and sealants serving both industrial and consumer

markets. This description, however, tells only part of the story. Equally important to understanding our company is a philosophy that we know simply as "the value of 168."

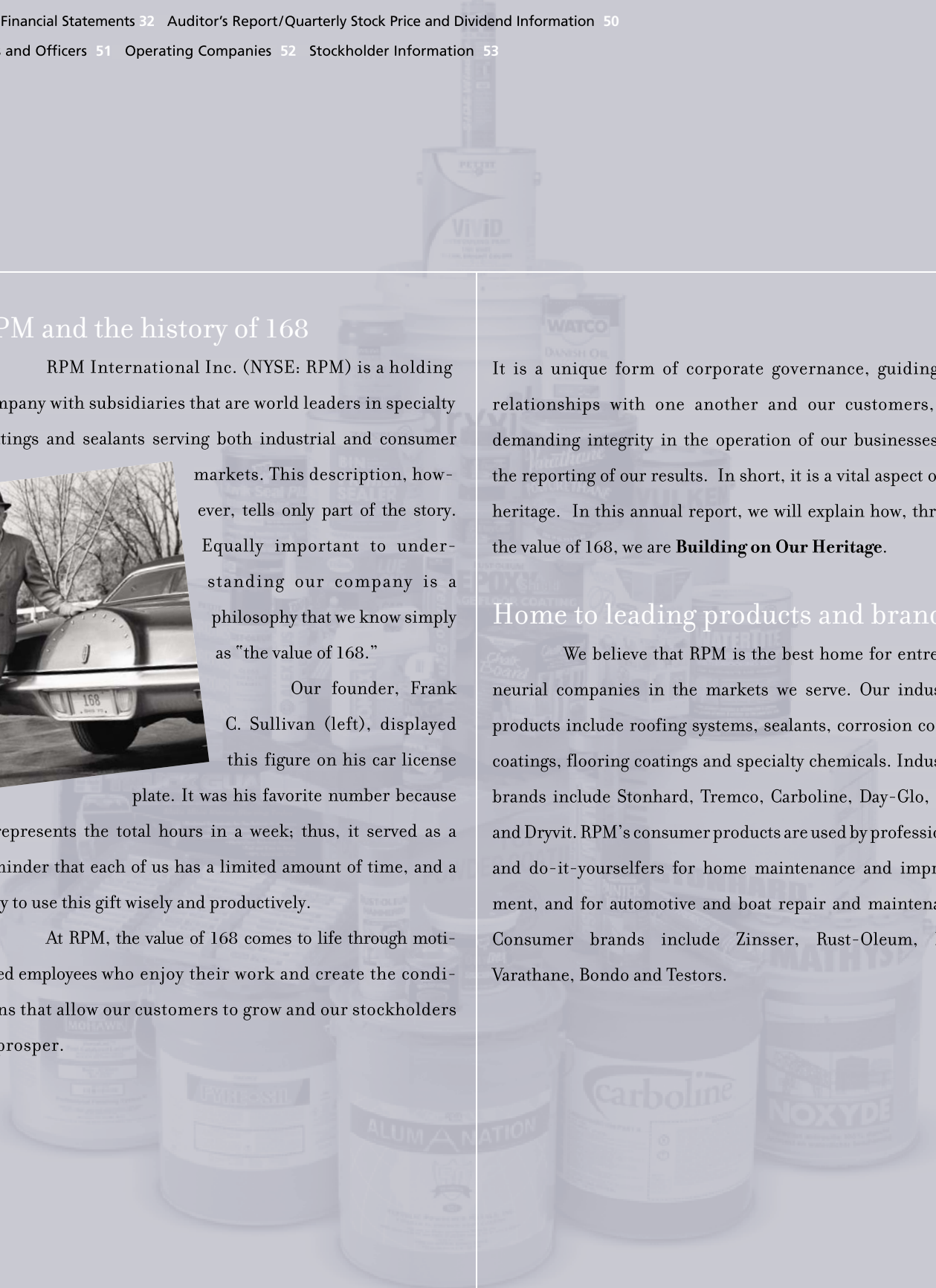
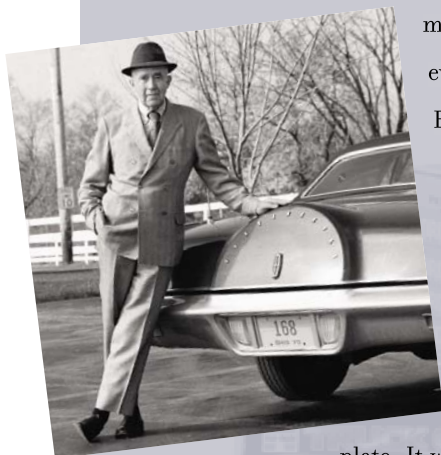
Our founder, Frank C. Sullivan (left), displayed this figure on his car license plate. It was his favorite number because it represents the total hours in a week; thus, it served as a reminder that each of us has a limited amount of time, and a duty to use this gift wisely and productively.

At RPM, the value of 168 comes to life through motivated employees who enjoy their work and create the conditions that allow our customers to grow and our stockholders to prosper.

It is a unique form of corporate governance, guiding our relationships with one another and our customers, and demanding integrity in the operation of our businesses and the reporting of our results. In short, it is a vital aspect of our heritage. In this annual report, we will explain how, through the value of 168, we are **Building on Our Heritage**.

## Home to leading products and brands

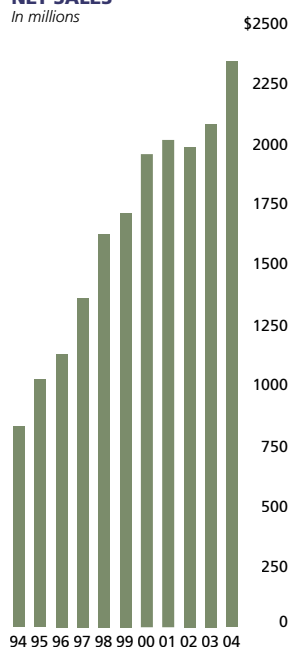
We believe that RPM is the best home for entrepreneurial companies in the markets we serve. Our industrial products include roofing systems, sealants, corrosion control coatings, flooring coatings and specialty chemicals. Industrial brands include Stonhard, Tremco, Carboline, Day-Glo, Euco and Dryvit. RPM's consumer products are used by professionals and do-it-yourselfers for home maintenance and improvement, and for automotive and boat repair and maintenance. Consumer brands include Zinsser, Rust-Oleum, DAP, Varathane, Bondo and Testors.



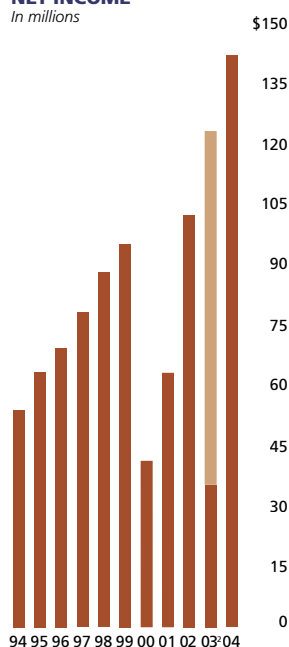
# FINANCIAL highlights

Year Ended May 31	2004	2003 <sup>1</sup>	2002
<i>(In millions, except per share and percent data)</i>			
Net sales	\$ 2,341.6	\$2,083.5	\$1,986.1
Asbestos charge		\$ 140.0	
Income before taxes	\$ 217.6	\$ 47.9	\$ 154.1
Net income	\$ 141.9	\$ 35.3	\$ 101.6
Return on sales	6.1%	1.7%	5.1%
Return on stockholders' equity	15.3%	4.1%	13.6%
Diluted earnings per share	\$ 1.22	\$ 0.30	\$ 0.97
Cash dividends per share	\$ 0.550	\$ 0.515	\$ 0.500

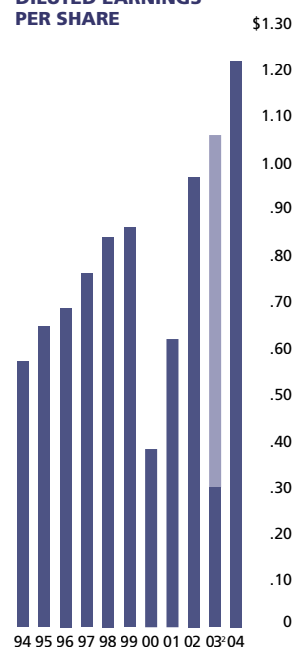
**NET SALES**  
*In millions*



**NET INCOME**  
*In millions*



**DILUTED EARNINGS PER SHARE**



(1) Excluding the impact of the \$140.0 million pre-tax (\$88 million after-tax) asbestos charge, income before taxes would have been \$187.9 million; net income, \$122.8 million; return on sales, 5.9%; return on stockholders' equity, 13.5%; and diluted earnings per share, \$1.06. The asbestos charge impacted diluted earnings per share by \$0.76. See Note H of the Consolidated Financial Statements for discussion. Management believes that the inclusion of this non-GAAP financial data provides investors with additional insights into pertinent performance measures of the business, and that it should be viewed as supplemental data, rather than as substitutes or alternatives to GAAP measures of performance.

(2) Shaded areas reflect the positive impact on the financial data of the exclusion of the asbestos charge. See (1) above.



# at a glance

## INDUSTRIAL SEGMENT

### Leading Brands



### Major Product Lines

- Roofing Systems
- Flooring Systems
- Exterior Finishes
- Corrosion Control Coatings
- Fluorescent Pigments
- Industrial Gratings
- Industrial Sealants

### Market Leadership\*

■ **Tremco**: No. 1 in the North American high-end institutional roofing market and No. 2 in the North American sealants market

■ **Stonhard**: No. 1 global supplier of industrial, high-performance polymer flooring systems

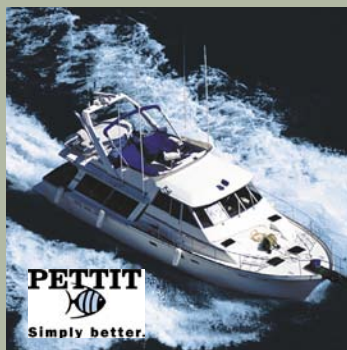
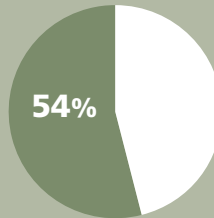
■ **Carboline**: No. 1 U.S. supplier and a leading global supplier of industrial, high-performance corrosion control coatings

■ **Day-Glo**: No. 1 globally in the market for fluorescent colorants

■ **Dryvit**: No. 1 North American supplier of exterior insulating finishing systems

\*Rankings based on market share

Percent of Net Sales

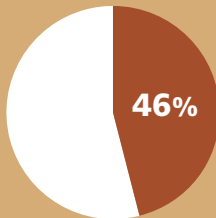


## CONSUMER SEGMENT

### Major Product Lines

- Primer-Sealers
- Specialty Coatings
- Caulks & Sealants
- Hobby & Craft
- Wood Stains & Finishes

Percent of  
Net Sales



### Market Leadership\*

■ **Rust-Oleum:** No. 1 brand recognition and market share position in the U.S. and Canada in the rust-preventative, decorative, specialty and professional segments of the small-project paint category

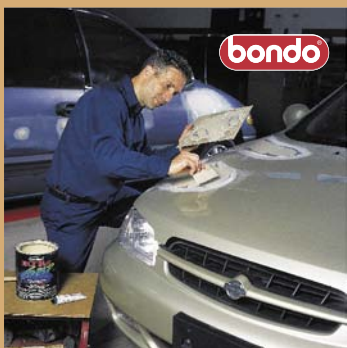
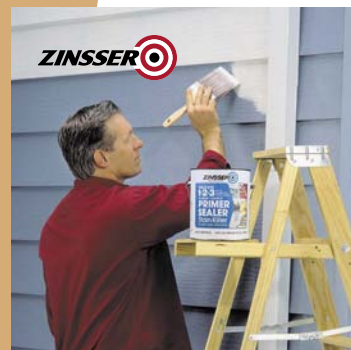
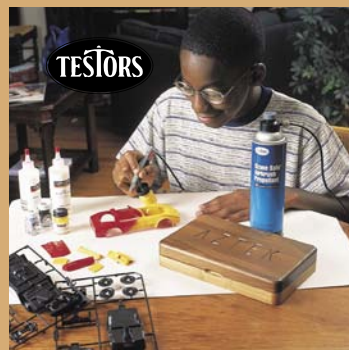
■ **DAP:** No. 1 brand recognition and market share position in North America for home improvement latex caulks and sealants and patch and repair products

■ **Varathane:** No. 1 position in the Canadian clear wood finishes market, with strong and growing brand positioning in the U.S. market

■ **Zinsser:** A leader in brand recognition and market share position in the U.S. market for specialty primers and sealers and wallcovering sundries

\*Rankings based on market share

### Leading Brands



# TO THE stockholders, customers AND associates of RPM

An old fable tells of a traveler who was strolling down a road when he came upon a man carrying a basket full of rocks. "What are you doing?" the traveler asked. "I have no idea," the worker replied. "They told me to start hauling, so I did – some life I have!"

The traveler walked a few more yards and came upon another man carrying a basket of rocks. "What are you doing?" he asked again. "I'm getting paid to drag these rocks up the mountain," the laborer said.

Further on, a third man toting a basket of rocks came into view. "What are you doing?" the traveler asked yet again. The response: "My fellow workers and I are building a cathedral and, when we are finished, it will be the most spectacular cathedral in the world."

**R**PM is not a monolith, but a mosaic – of superior products, services, technologies, companies and, of course, people. Just as a cathedral is erected stone by stone, so these individual elements have combined over the decades to produce year upon year of record growth.

Our cathedral began with the roof coating Alumanation, the first product of the company my grandfather founded in 1947. In the years since, the RPM portfolio of products has grown larger and stronger as we have expanded our businesses and market share through strategic acquisitions and continued product innovation.

As RPM has grown, we have created a team that now numbers 8,100 men and women of integrity, who see value and purpose in the work they do. Thanks to the drive, focus and innovation of these "cathedral builders," we are well positioned to grow by **Building on Our Heritage**.

## BUILDING THE CATHEDRAL

We marked another year of strong financial performance and notable operational accomplishments in fiscal 2004, our 57<sup>th</sup> consecutive record year of growth.

We achieved revenue growth of 12 percent, to a record \$2.3 billion. Roughly 7 percent of this growth was internal, exceeding our 5 percent target. Acquisitions contributed another 3 percent and favorable foreign exchange rates accounted for the remainder.

Earnings and diluted earnings per share more than tripled to a record \$142 million and \$1.22, respectively. Adjusted for last year's asbestos charge, both earnings and diluted earnings per share increased 15 percent, primarily on the strength of sound strategic planning and solid execution, bolstered by a rebounding economy.

We set out to increase our operating margins in fiscal 2004, and we succeeded despite rising raw material costs, largely because we drove productivity improvements in our manufacturing plants and leveraged our purchasing power in the marketplace.





Frank C. Sullivan, President and Chief Executive Officer, in front of RPM headquarters in Medina, Ohio

In a now-familiar sign of our strong cash generation, we raised our dividend for the 30<sup>th</sup> consecutive year. Raising our dividend annually is a long-term commitment, and companies like RPM are now more respected than ever by investors who value the dependability and compounding return that a consistently growing dividend payment represents.

With proceeds from an offering of \$200 million in senior notes, we strengthened our debt structure. Anticipating an eventual rise in interest rates, we have converted from 70 percent floating-rate to 75 percent fixed-rate debt in the course of a year, thus further protecting our balance sheet.

I am especially proud that fiscal 2004 was our third consecutive year of very strong growth. In fact, over the last three years, sales, earnings and earnings per share have grown at a compounded annual rate of 5 percent, 19 percent and 14 percent, respectively.

This performance advances us another step toward the financial goals we laid out in our five-year strategic plan known as Vision 2007. These goals include reaching annual revenues of \$3.35 billion and net income of \$200 million.

### **UNLOCKING THE VALUE OF 168**

To keep RPM poised for growth, we employ a time-tested growth strategy of acquisitions and new product development, which we then leverage through an aggressive and

ongoing cost containment program that includes purchasing, benefits administration, information technology and a disciplined planning process that keeps our businesses focused on the bottom line.

Beyond these programs and processes, the RPM companies share characteristics that are key to unlocking the value of our enduring operating philosophy, which we call “the value of 168” and describe on the inside front cover of this report. Among these attributes:

- An entrepreneurial spirit gives operating company managers the authority to run their businesses and make decisions free of interference from headquarters. Functioning this way, we combine the strength of a multi-billion dollar business with the agility of smaller operating units that are closer and more responsive to the customer.

- All our companies have top-caliber people, in particular talented sales forces, which are as indispensable as our brand names to RPM’s long-term success.

- A focus on practical solutions guides us as we address customer problems. Our success in this area has made us experts in product innovation and, in turn, has fostered exceptional marketing and distribution capabilities.

Perhaps nothing defines RPM better than our passion for growth. We never surrender to the view that growth is not

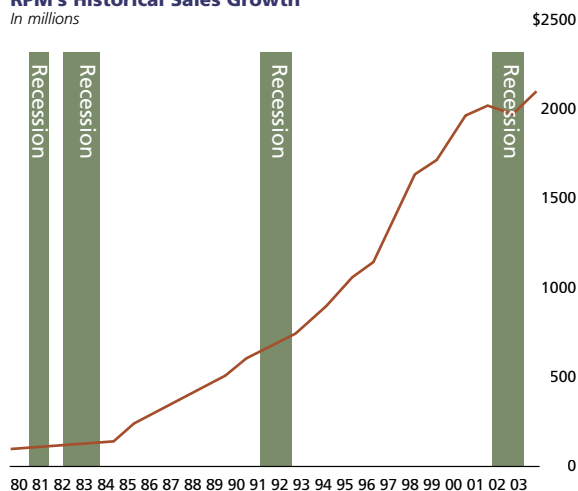
From left to right: Day-Glo's (acquired 1991) fluorescent pigments and Modern Masters' (acquired 2000) metallic paint collection bring color to the Kodak Theatre in Hollywood, California; Compact Technology's (acquired 2004) elastic silicone products seal windows and building structures; Kop-Coat's (acquired 1990) new Vivid antifouling coating protects the Margaritavich, a boat designed by singer Jimmy Buffett, in a customized color.



## Perhaps nothing defines RPM better than our passion for growth.

possible; rather, we focus on how the RPM companies can grow, even in the face of mature markets, intense competitive pressure or high raw material costs. As a result, in every year of RPM's existence, we have generated record results in sales or earnings – and usually both – under every economic condition imaginable.

**RPM's Historical Sales Growth**  
In millions



Source: NBER; the US Dept of Commerce, Survey of Current Business, October 1994, Table C51

### A GROWTH COMPANY

While we are proud of our recent results and our enviable track record of financial performance, we know that we have much building yet to do as each year brings us new growth opportunities around the world.

Among our acquisitions during the year were two free-standing businesses, in Belgium and Germany, that are accretive to earnings and will provide RPM with leading shares in niche markets and positive cash flow. These additions to the RPM family will serve as important beachheads as we look to establish a \$500 million presence in Europe by 2007, a key component of our Vision 2007 growth plan. With its concentration of family-owned businesses, Europe is proving receptive to our entrepreneurial operating philosophy.

We are also enjoying sustained internal growth as we continue to introduce new products to our core markets and tap new markets with our proven brand names.

Like any company, we face challenges, chief among them our asbestos liability. We believe a solution can be found that is fair to companies such as RPM and, most important, to people who are legitimately ill from asbestos-related diseases. Such a solution is critically needed, and we believe it is attainable.

We will continue to provide you with updates on this issue in our reports to the Securities and Exchange Commission. For further details, I encourage you to read Note H to our financial statements in this annual report.

The challenges we face will not change who we are, how we operate or what we can accomplish. We are a growth



company, and that simple fact stands as the foundation of a bright future for our employees, customers and stockholders.

We are very pleased with our accelerating performance in fiscal 2004, and expect to be able to produce high single-digit growth in revenues and 10 percent to 12 percent growth in earnings for 2005, generating another year of record growth and margin improvement from our operations.

#### WITH APPRECIATION

I would be remiss without acknowledging the 14 years of service of E. Bradley Jones, who recently retired from our Board of Directors. With his thoughtful advice and years of experience, Brad played a vital role in our growth and governance, having served on our board while RPM's revenues grew from \$500 million to more than \$2.3 billion. On behalf of his fellow directors, the RPM employees and our stockholders, whom Brad served so well, we say thank you.

Succeeding Brad will be William B. Summers, Jr., a knowledgeable, experienced business leader with a deep understanding of the financial and capital markets. Bill's strong sense of ethics and oversight will only deepen RPM's long-standing commitment to good corporate governance. I know that he will be a tireless advocate for our stockholders.

I also salute RPM's employees throughout the world, from Hong Kong to Poland to Dubai to Medina, Ohio. Pursuing their craft with diligence and honesty, our cathedral builders uphold the value of 168 in everything they do.

Likewise, I want to acknowledge our dedicated board and you, my fellow stockholders. Your support motivates us, and unites us in our resolve to keep building on our heritage of growth and success so that your investment in RPM will continue to be rewarding.

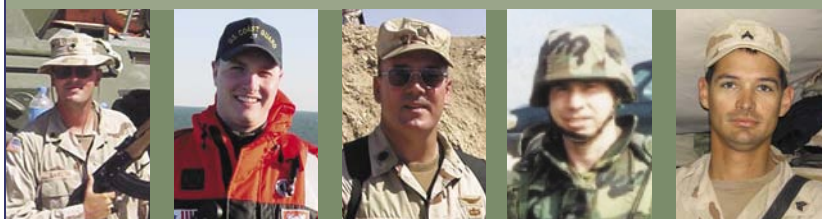


Frank C. Sullivan  
President and Chief Executive Officer

August 30, 2004

## For Those Who Serve The Cause of Freedom

WE ARE PROUD TO RECOGNIZE the courage and personal sacrifice of members of the RPM family who have answered the call to military duty. Representative of this group are (left to right) Spc. Brandon Barton, U.S. Army; Petty Officer 1<sup>st</sup> Class Lee Bowers, U.S. Coast Guard; Lt. Col. Allen Griffith II, U.S. Army Reserves; Petty Officer 1<sup>st</sup> Class Brent Reaves, U.S. Navy Reserves; and Sgt. Ron Ribordy, South Dakota Army National Guard.



Because we consider it our responsibility to stand behind these employees and their families, RPM recently announced a new Military Reserve Leave Policy that enhances the benefits all of our operating companies offer their people. This policy goes well beyond requirements mandated by federal law.

In addition to guaranteeing basic rights such as re-employment and accrual of pension credits during time served, RPM ensures that full-time employees are not penalized financially during specified amounts of time spent in the military reserves or on active duty. Full-time employees can maintain health care coverage for themselves and their eligible dependents and they can continue to make contributions to their 401(k) funds.

We at RPM would like to express our gratitude to all the brave men and women who are defending freedom throughout the world. We are honored to count our colleagues among these heroes. Our leave policy is but one small installment on a debt that none of us can ever fully repay.



At the heart of RPM's growth strategy is our acquisition program, which has accounted for roughly half of our historic growth. Having completed more than 100 acquisitions in the last 40 years, RPM is recognized as an industry consolidator.

Within the last two years, our acquisition strategy has driven the completion of 12 such transactions, allowing us to enter new markets, integrate new product lines and grow our European base.

#### ENTERING NEW MARKETS

RPM has become a leading manufacturer of water-proofing products for new residential construction in North America, thanks to the addition of what is now known as Tremco Barrier Solutions. This growing \$38 million business offers proprietary, spray-applied membranes and systems under such well-known brand names as TUFF-N-DRI and WATCHDOG WATERPROOFING.

#### EXPANDING INTO EUROPE

Fulfilling a goal to expand our European presence, RPM Europe S.A. made two modest but important acquisitions in fiscal 2004: Ecoloc N.V./Lock-Tile Belgium N.V., a commercial and industrial tile flooring manufacturer, and Compakta/Pactan, a German-based producer of specialty silicone-based adhesives, joint fillers and sealers.

These transactions underscore the deployment of the traditional RPM value proposition into new regions. Applying

the same strategy that has proved so effective in North America, we retained the experienced management teams of our European companies to run the businesses as part of RPM.

#### LEVERAGING OUR STRENGTHS

The business investments we made during our restructuring have allowed us to expand beyond our traditional approach of acquiring entrepreneurial, stand-alone businesses to add promising product lines and innovative technologies. One example is the 2003 acquisition of the Phenoseal brand by our DAP Products consumer business.

Phenoseal vinyl adhesive caulk, a high-performance specialty product with a reputation for quality, is a regional brand with market penetration in the northeast United States. Leveraging our management resources and infrastructure, we are well on our way to integrating this acquisition and making it a national brand within the DAP family.

We will continue to build RPM by acquiring companies and product lines that bring new technologies and open new markets to our existing companies. At RPM, we know how to make acquisitions work for our employees, customers and stockholders.







Dryvit's (acquired 1995) EIFS technology lends a timeless appeal to the Gaylord Palms Resort & Convention Center in Kissimmee, Florida.

# it starts with smart acquisitions



## A Consolidator's Checklist

When evaluating acquisition opportunities, such as Tremco Barrier Solutions (left, acquired 2003), RPM seeks:

- Leading brands in large markets or the leader in smaller niche markets
- Strong management teams willing to stay and run the business
- Deals that are high margin, accretive to earnings and positive to cash flow

Our merger and acquisition strategy is based on a three-pronged approach:

- Entrepreneurial, stand-alone niche businesses
- Synergistic product lines integrated into our existing businesses
- Strategic positions in new markets



# it continues with innovation



The Kalamazoo, Michigan, AirZoo (Air and Space Museum) is among a growing number of public spaces that feature Stonblend RTZ, a synthetic terrazzo flooring from Stonhard (acquired 1993).



## A Culture That Inspires Creativity

New products like Chalk-It spray-on chalk (left), the first consumer offering from Day-Glo (acquired 1991), are critical to sustaining RPM's market-leading positions. To spark innovation, we foster an entrepreneurial environment where new ideas are welcomed and encouraged. This climate is characterized by:

- Independence to make decisions at the operating company level
- Willingness to accept risk
- Recognition that new products generally need three years to succeed
- Persistent focus on customers' problems and solutions
- Firm expectation that each year will bring continuing growth

**T**hrough RPM's acquisition program, we have grown the company by adding widely recognized brands with leading market share. Equally important to our consistent, long-term growth is our talent for innovation, which has fueled the expansion of our product lines and enabled us to continuously introduce value-added, customer-oriented solutions.

#### EXTENDING A GREAT BRAND

Day-Glo Color, the foremost producer of industrial pigments and colorants, leveraged its technical expertise and a brand name that ranks as a household word to introduce its first consumer product, Chalk-It spray-on chalk, in 2004. This unique product is non-toxic, and easily washes off surfaces. The development of the Chalk-It product resulted from Day-Glo employees' intense marketplace focus, leadership in product innovation and eagerness to explore new growth areas.



#### SHOWING RESILIENCE

The flexibility to adapt to changing market conditions is a hallmark of RPM companies. Thus, when the industrial market for high-performance flooring weakened as customers cut back on capital spending, Stonhard created a resilient synthetic terrazzo flooring for commercial applications. Seamless, noise absorbing and less expensive than stone terrazzo, Stonblend RTZ is becoming a staple in locations such as supermarkets, airports and hospitals.

#### CHANGING THE GAME

Bondo's Truck Guard Ultra bedliner is a spray-applied polyurea pickup bedliner that new-truck dealerships can apply after sale, rather than referring the buyer to a spray-on franchise. The technology represents an advance over plastic bedliners, which can trap water and build a static charge through friction with metal. The approach rewrites the script for the \$500 million North American spray-on market by ensuring dealers a revenue and profit stream that they once had to forgo.

#### RAISING THE STANDARD

Drawing on its expertise and understanding of customer needs, Zinsser developed WaterTite basement paint to address professional painters' concerns about mildew and adherence. By investing in product development and maintaining close relationships with customers, Zinsser brought to market a product that signifies a leap forward in performance, appearance and ease of application.

Continuing success with new product development is critical to achieving our long-term growth goals.

RPM's rigorous acquisition criteria ensure the addition of superior businesses and product lines to our balanced portfolio of leading brands. By leveraging the resources of these businesses across the RPM family – through synergy and cooperation, and by sharing assets, insights and ideas – we are able to bring both immediate cost benefits and unique market expansion opportunities to our companies.



Examples range from Carboline and Tremco's collaboration on the Nelson Mandela Bridge in South Africa to Fibergrate and Dryvit's aesthetically pleasing solution to cell phone tower interference. In each case, partnerships like these yield benefits for customers and for RPM's exceptional brands.

#### LEVERAGING A WORLD-CLASS TECHNOLOGY

RPM's Wood Finishes Group traditionally serves industrial customers, producing stains and finishes for North America's most prestigious wood furniture manufacturers. With help from the group's strong technology and expertise, as well as Varathane's trusted brand name, Rust-Oleum introduced a premium, oil-based wood stain line for consumers in 2004. This new product line is an example of RPM's ability to put leading-edge industrial technology in consumers' hands.

#### A WORLD OF OPPORTUNITIES

Many of our companies are cooperating in the pursuit of growth in new markets. For example, the Carboline Company, with its manufacturing base in Dubai, has long had a presence in the Middle East. With its strong customer base and distribution network, Carboline has now become a growth catalyst in this

region for a number of its sister companies, including Stonhard, Fibergrate and Tremco Sealants. Not only has Carboline opened new doors for these companies; it has saved them each millions of dollars and years of development had they pursued an independent market expansion strategy.

#### FUELING FUTURE GROWTH

Underpinning this highly interactive and collaborative work environment are a number of cooperative initiatives, none more notable than our Purchasing Action Group, which coordinates our major raw material purchases on a global basis. Given our \$2 billion base of business, we are able to dramatically reduce material costs for our companies. Doing so not only enables us to drive strong results to the bottom line; it frees capital for future growth investments.

By collaborating and complementing one another's strengths, the RPM companies are realizing synergies within the organization and sustaining a heritage of practical, customer-focused solutions. They also are stimulating the growth that allows us to deliver for our employees, customers and stockholders. We believe we have just begun to harvest the opportunities.

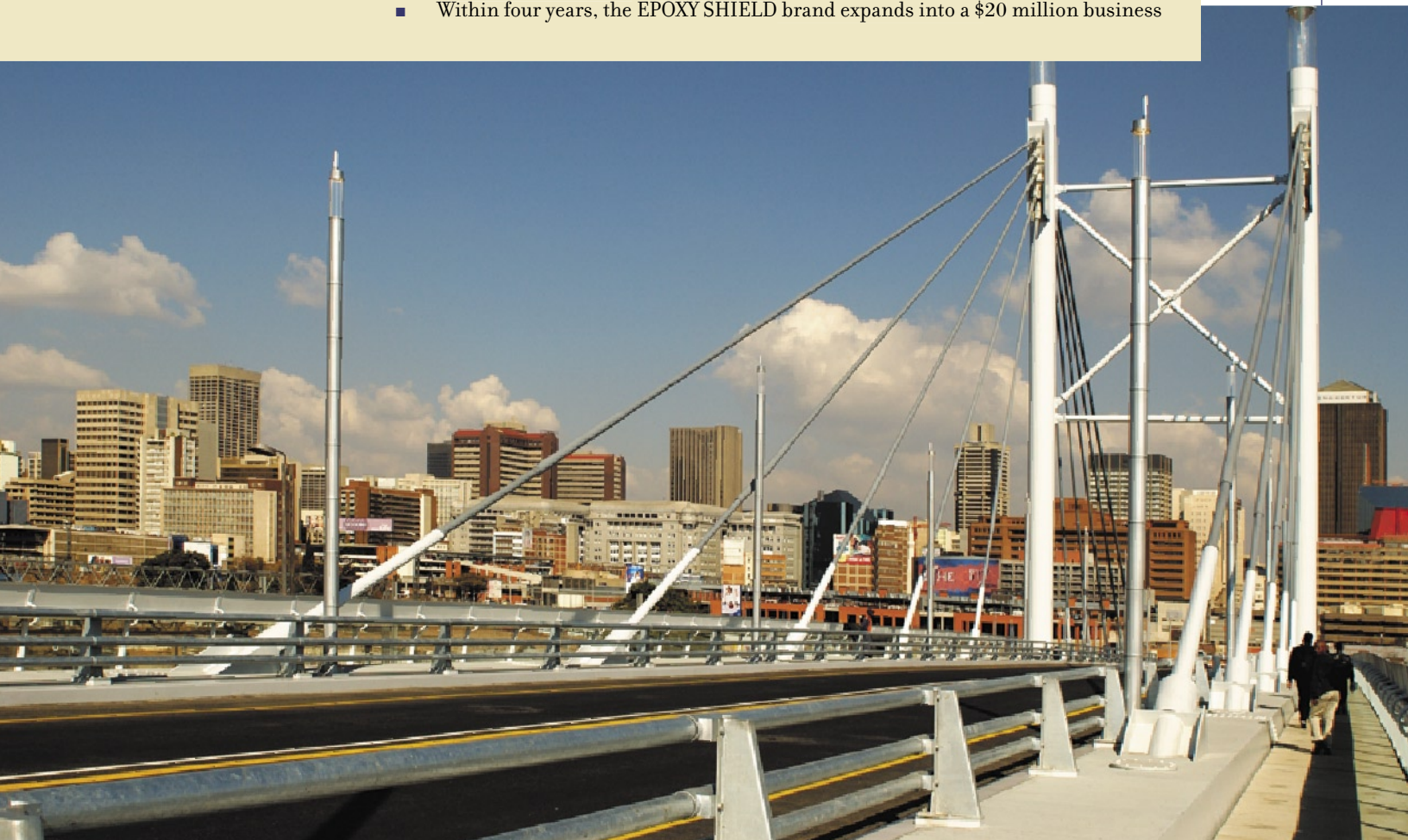


# then, we bring it all together

## RPM Steps In, a Product Line Takes Off

A promising acquisition can fuel internal growth. When RPM or one of its operating companies acquires a singular product or technology, then applies the resources of a multi-billion dollar company, explosive growth can result:

- In 2000, Rust-Oleum/RPM acquires EPOXY SHIELD (formerly EPOXI-TECH) water-based garage floor coating for do-it-yourselfers (left)
- This \$2 million product line shows strong potential, but lacks the size and scope to serve RPM's large customer base
- To grow the EPOXY SHIELD brand, Rust-Oleum leverages a wide range of internal resources: technology, marketing, product packaging, distribution
- Within four years, the EPOXY SHIELD brand expands into a \$20 million business



Carboline (acquired 1985) coatings protect the structural steel of the Nelson Mandela Bridge in Johannesburg, South Africa, and Tremco (acquired 1997) products cover its deck.

## SELECTED FINANCIAL DATA

(In thousands, except per share and percent data)

All financial data based on fiscal years ended May 31

	2004	2003	2002 <sup>1</sup>
<b>RESULTS FROM OPERATIONS</b>			
Net sales	\$2,341,572	\$2,083,489	\$1,986,126
Income before income taxes	217,616	47,853	154,124
Net income	141,886	35,327	101,554
<b>PERFORMANCE MEASURES</b>			
Return on sales %	6.1	1.7	5.1
Return on stockholders' equity %	15.3	4.1	13.6
<b>PER SHARE DATA</b>			
Basic earnings per share	\$1.23	\$0.31	\$0.97
Diluted earnings per share	1.22	0.30	0.97
Cash dividends per share	0.5500	0.5150	0.5000
Stockholders' equity per share	8.42	7.61	8.22
<b>BALANCE SHEET HIGHLIGHTS</b>			
Stockholders' equity	975,292	877,008	858,106
Retained earnings	464,026	385,791	409,603
Working capital	517,124	500,444	479,041
Total assets	2,353,119	2,247,211	2,078,844
Long-term debt	718,929	724,846	707,921
<b>OTHER DATA</b>			
Depreciation and amortization	63,277	58,674	56,859
Average shares outstanding	115,777	115,294	104,418

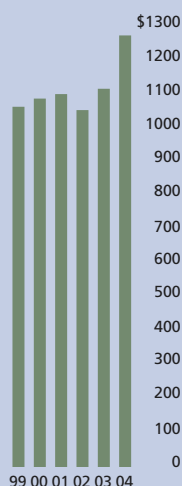
<sup>1</sup> Reflects adoption of SFAS No. 142 regarding Goodwill (see Note A [10] to the Consolidated Financial Statements).

Acquisitions made by the Company during the periods presented may impact comparability from year to year (see Note A [3] to Consolidated Financial Statements).

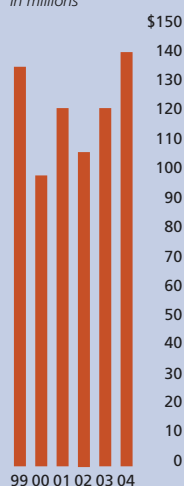
See Notes to Consolidated Financial Statements

## SEGMENT CHARTS — Industrial

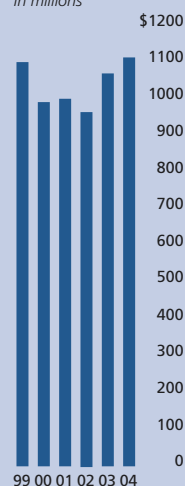
**NET SALES**  
In millions



**EARNINGS BEFORE INTEREST & TAXES<sup>1</sup>**  
In millions



**IDENTIFIABLE ASSETS**  
In millions

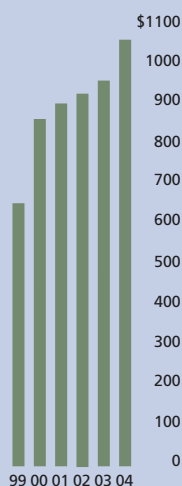


<sup>1</sup> Earnings Before Interest & Taxes for business segments is reconciled to Income Before Income Taxes on page 17, for each of the three years ended May 31, 2004.

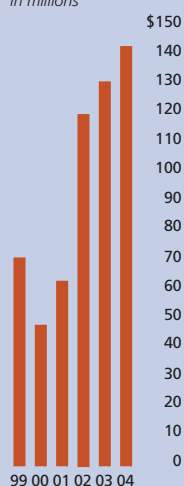
2001	2000	1999	1998	1997	1996	1995	1994
\$2,007,762	\$1,962,410	\$1,720,628	\$1,623,326	\$1,356,588	\$1,136,396	\$1,030,736	\$825,292
101,487	71,761	159,597	149,556	135,728	119,886	108,492	89,207
62,961	40,992	94,546	87,837	78,315	68,929	62,616	53,753
3.1	2.1	5.5	5.4	5.8	6.1	6.1	6.5
9.8	5.9	14.4	16.6	16.7	17.3	18.8	19.2
\$0.62	\$0.38	\$0.87	\$0.89	\$0.81	\$0.72	\$0.68	\$0.59
0.62	0.38	0.86	0.84	0.76	0.69	0.65	0.57
0.4975	0.4850	0.4645	0.4400	0.4080	0.3776	0.3520	0.3264
6.26	6.02	6.83	5.75	5.07	4.68	3.83	3.49
639,710	645,724	742,876	566,337	493,398	445,915	350,469	316,444
360,458	348,102	359,011	314,911	270,465	231,896	199,527	169,687
443,652	408,890	402,870	387,284	478,535	275,722	271,635	231,684
2,078,490	2,099,203	1,737,236	1,685,917	1,633,228	1,155,076	965,523	665,966
955,399	959,330	582,109	716,989	784,439	447,654	407,041	233,969
81,494	79,150	62,135	57,009	51,145	42,562	37,123	26,050
102,202	107,221	108,731	98,527	97,285	95,208	91,571	90,726

## SEGMENT CHARTS — Consumer

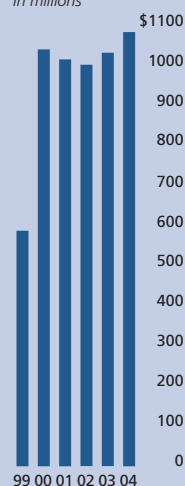
**NET SALES**  
*In millions*



**EARNINGS BEFORE INTEREST & TAXES<sup>1</sup>**  
*In millions*



**IDENTIFIABLE ASSETS**  
*In millions*





# management's discussion

## AND ANALYSIS

of Results of Operations and Financial Condition

### SEGMENT INFORMATION

We operate a portfolio of businesses 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 into two operating segments – industrial and consumer – based on the nature of business activities; products and services; the structure of management; and the structure of information as presented to our Board of Directors. Within each segment, individual operating companies or groups of companies generally address common markets, utilize similar technologies, and can share manufacturing or distribution capabilities. We evaluate the profit performance of our segments based on income before income taxes, but also look to earnings before interest and taxes (“EBIT”) as a performance evaluation measure because interest expense is essentially related to corporate acquisitions, as opposed to segment operations.

Industrial segment products are sold throughout North America and account for most of our sales in Europe, South America, Asia, South Africa, Australia and the Middle East. The industrial product line is sold primarily to distributors, contractors and to end users, such as industrial manufacturing facilities, educational and governmental institutions, and commercial establishments. Industrial segment products reach their markets through a combination of direct sales, sales representative organizations, distributor sales, and sales of licensees and joint ventures.

Consumer segment products are sold throughout North America to mass merchandisers, home centers, hardware stores, paint stores, automotive supply stores and craft shops. Consumer segment products are sold to retailers through a combination of direct sales, sales representative organizations and distributor sales.

In addition to the two operating segments, there are certain business activities, referred to as corporate/other, that do not constitute an operating segment, including 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 operating segment. Related assets consist primarily of investments, prepaid expenses, deferred pension assets, and headquarters’ property and equipment. These corporate and other assets and expenses reconcile operating segment data to total consolidated net sales, income before income taxes, identifiable assets, capital expenditures, and depreciation and amortization.

The following table reflects the results of our operating 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 businesses. For further information pertaining to our segments, refer to Note I, “Segment Information,” to our Consolidated Financial Statements.

## SEGMENT INFORMATION

(In thousands)

Year Ended May 31	2004	2003	2002
<b>Net Sales</b>			
Industrial	\$1,272,781	\$1,117,877	\$1,053,632
Consumer	1,068,791	965,612	932,494
Corporate/Other			
<b>Consolidated</b>	<b>\$2,341,572</b>	<b>\$2,083,489</b>	<b>\$1,986,126</b>
<b>Income Before Income Taxes<sup>(a)</sup></b>			
Industrial			
Income Before Income Taxes <sup>(a)</sup>	\$ 140,706	\$ 122,568	\$ 106,703
Interest (Expense), Net	192	253	(330)
EBIT <sup>(b)</sup>	\$ 140,514	\$ 122,315	\$ 107,033
Consumer			
Income Before Income Taxes <sup>(a)</sup>	\$ 142,852	\$ 131,100	\$ 117,717
Interest (Expense), Net	104	(284)	(513)
EBIT <sup>(b)</sup>	\$ 142,748	\$ 131,384	\$ 118,230
Corporate/Other			
Income Before Income Taxes <sup>(a)</sup>	\$ (65,942)	\$ (205,815) <sup>(c)</sup>	\$ (70,296)
Interest (Expense), Net	(29,241)	(26,681)	(39,621)
EBIT <sup>(b)</sup>	\$ (36,701)	\$ (179,134)	\$ (30,675)
<b>Consolidated</b>			
Income Before Income Taxes <sup>(a)</sup>	\$ 217,616	\$ 47,853	\$ 154,124
Interest (Expense), Net	(28,945)	(26,712)	(40,464)
EBIT <sup>(b)</sup>	\$ 246,561	\$ 74,565	\$ 194,588

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

(b) EBIT is defined as earnings before interest and taxes. We believe that EBIT provides one of the best comparative measures of pure operating performance, and it is a widely accepted financial indicator used by certain investors and analysts to analyze and compare companies. EBIT is not intended to represent cash flows for the period, nor is it presented as an alternative to operating income or as an indicator of operating performance. EBIT should not be considered in isolation, but with GAAP, and it is not indicative of operating income or cash flow from operations as determined by those principles. Our method of computation may or may not be comparable to other similarly titled measures of other companies. EBIT may not be indicative of our historical operating results, nor is it meant to be predictive of potential future results.

(c) The asbestos charge, reflected in Corporate/Other, relates to our Bondex International, Inc. subsidiary.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Consolidated Financial Statements include the accounts of RPM International Inc. and its majority-owned subsidiaries. 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 allowances for doubtful accounts; inventories; allowances for recoverable taxes; useful lives of property, plant and equipment; goodwill; environmental and other

contingent liabilities; income tax valuation allowances; pension plans; and the fair value of financial instruments. We base our estimates on historical experience and other assumptions, which we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of our assets and liabilities. Actual results may differ from these estimates under different assumptions and conditions.

We have identified below the accounting policies that are 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.

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

Our reporting currency is the U.S. dollar. However, the functional currency of all of our foreign subsidiaries is their local 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 fairly 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). Translation adjustments will be included in net earnings in the event of a sale or liquidation of any of our underlying foreign investments, or in the event that we distribute the accumulated earnings of consolidated foreign subsidiaries. If we determined that the functional currency of any of our foreign subsidiaries should be the U.S. dollar, our financial statements would be affected. Should this occur, we would adjust our reporting to appropriately account for such change(s).

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 are treated as analogous to equity for accounting purposes. Therefore, foreign exchange gains or losses on these intercompany loans are recorded in other comprehensive income (loss). If we were to determine that the functional currency of any of our subsidiaries should be the U.S. dollar, we would no longer record foreign exchange gains or losses on such intercompany loans.

### Goodwill

We apply the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," which addresses the initial recognition and measurement of goodwill and intangible assets acquired in a business combination. We also apply the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill be tested on an annual basis, or more frequently as impairment indicators arise. We have elected to perform the required impairment tests, which involve the use of estimates related to the fair market values of the business operations with which goodwill is associated, at the end of our first quarter. Calculating the fair market value of the reporting units requires significant estimates and assumptions by management. We estimate the fair value of our reporting units by applying third-party market value indicators to the respective reporting unit's annual projected earnings before interest, taxes, depreciation and amortization. In applying this methodology, we rely on a number of factors, including future business plans, actual operating results and market data. In the event that our calculations indicate that goodwill is impaired, a fair value estimate of each tangible and intangible asset would be established. This process would require the application of discounted cash flows expected to be generated by each asset in addition to independent asset appraisals, as appropriate. Cash flow estimates are based on our historical experience and our internal business plans, and appropriate discount rates are applied. Losses, if any, resulting from goodwill impairment tests would be reflected in operating income in our income statement.

### 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 value may not be recoverable. Factors considered important, which might trigger an impairment evaluation, include the following:

- significant under-performance relative to historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets;
- significant changes in the strategy for our overall business; and
- significant negative industry or economic trends.



Measuring a potential impairment of non-goodwill intangibles and other long-lived assets requires various estimates and assumptions, including determining which cash flows are directly related to the asset being evaluated, the useful life over which those cash flows will occur, their amount and the asset's residual value, if any. If we determine that the carrying value of these assets may not be recoverable based upon the existence of one or more of the above-described indicators, any impairment would be measured based on projected net cash flows expected from the asset(s), including eventual disposition. The determination of impairment loss would be based on the best information available, including internal discounted cash flows, quoted market prices when available and independent appraisals as appropriate to determine fair value. Cash flow estimates would be based on our historical experience and our internal business plans, with appropriate discount rates applied. We have not incurred any such impairment loss to date.

### Contingencies

We are party to claims and lawsuits arising in the normal course of business, including the various asbestos-related suits discussed in Note H to our Consolidated Financial Statements. 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. The provisions are based on historical experience and legal advice, are reviewed quarterly and are adjusted according to developments. Estimating probable losses requires analysis of multiple forecasted factors that often depend on judgments about potential actions by third parties such as regulators. Changes in the amount of the provisions affect our consolidated statements of income. Due to the inherent uncertainties in the loss reserve estimation process, we are unable to estimate an additional range of loss in excess of our accruals.

Our environmental-related accruals are similarly established and/or adjusted as information becomes available upon which costs can be reasonably estimated. Here again, 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 and, therefore, we have been unable to fully evaluate the ultimate cost for those sites. As a result, reserves have not been taken for certain of these sites and costs may ultimately exceed existing reserves for other sites. We have received

indemnities for potential environmental issues from purchasers of certain of our properties and businesses and from sellers of properties or businesses we have acquired. We have also 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 reserved, which may have a material adverse effect on our financial condition, results of operations or cash flows.

## RESULTS OF OPERATIONS

### Fiscal 2004 Compared with Fiscal 2003

**Net Sales** Net sales on a consolidated basis for the year ended May 31, 2004 of \$2.342 billion increased 12.4%, or approximately \$258 million, over last year's net sales of \$2.083 billion. This growth is attributed primarily to a solid increase in organic sales of 6.7%, or \$139 million, plus acquisitions of 11 product lines, which contributed 3.3%, or \$69 million, to sales growth. Favorable foreign exchange rates provided an additional 2.4%, or \$50 million, of increased sales over last year, the majority of which related to the Canadian dollar for \$21 million and the euro for \$23 million.

Industrial segment net sales for 2004 amounted to 54.4% of consolidated net sales, growing 13.9%, or \$155 million, to \$1.273 billion from last year's \$1.118 billion. This segment's net sales growth comes from organic sales growth of 5.7%, or \$63 million; another 3.1%, or \$35 million, from net favorable foreign exchange differences; and seven product line acquisitions, which added the remaining \$57 million, or 5.1%, to industrial sales over last year. The demand for most of our industrial product lines has increased as the economy in general, and the industrial sector in particular, have improved. We continue to secure new business and grow market share in many of our industrial segment operations.

Consumer segment net sales amounted to 45.6% of consolidated net sales, growing 10.7%, or \$103 million, to \$1.069 billion from last year's \$966 million. Growth in organic sales amounted to 7.8%, or \$75 million, while another 1.6%, or \$15 million, of sales growth came from favorable foreign exchange differences. This solid organic growth is the result of fairly steady retail demand by the consumer throughout the year, coupled with continuous product development among our businesses. Also contributing to growth in this segment year over year was the addition of four product line acquisitions, which added the remaining 1.3%, or \$13 million, of sales growth.

**Gross Profit Margin** Consolidated gross profit margin of 45.5% of sales for 2004 compares with 45.6% for 2003. This slight decline in margin was caused by higher raw material and packaging costs, which negatively impacted 2004 gross margin by 0.8% of sales, or 80 basis points ("bps"). Adding approximately 70 bps to the gross margin was the combination of certain procurement benefits from the weaker dollar, mainly against the Canadian dollar, and productivity gains. We also realized certain supplier rebates and generally higher margins from our acquisitions over the past 24 months, which offset our lower-margin roofing services sales.

The industrial segment gross profit margin held steady at 45.7% of sales in both years, despite higher raw material and packaging costs, which negatively impacted 2004 gross margin by 30 bps. The procurement benefits from the weaker dollar, generally higher margins from acquisitions and productivity gains, which added some 80 bps, more than offset the impact of lower-margin roofing services sales.

The consumer segment gross profit margin declined slightly, to 45.2% of net sales in 2004 from 45.4% last year. Higher raw material and packaging costs negatively influenced 2004 gross margins by 140 bps. Cost benefits from productivity gains, supplier rebates and the procurement benefits from the weaker dollar combined to nearly offset the raw material and packaging cost issues.

**Selling, General and Administrative ("SG&A") Expenses** Consolidated SG&A expense levels for 2004 improved to 35.0% of net sales from 35.3% a year ago. Primary additions to the SG&A percentage year over year were marketing and related investments to support continued growth, including this year's establishment of our European development office; higher pension costs (refer to Note F); and higher insurance, legal and other costs related to corporate governance. The primary reductions to the SG&A percentage were the benefits of lower cost-structure acquisitions during the past 24 months and our fast-growing roofing services sales, along with the leverage from the growth in organic sales against fixed costs. These combined reductions reduced the 2004 SG&A percentage from 2003 by approximately 140 bps.

Industrial segment SG&A expense at 34.7% of net sales during 2004 compares with 34.8% in 2003. This reduction in percent of sales reflects the growth in roofing services sales that require much lower SG&A support. Excluding those sales, SG&A expenses would have been 36.9% and 36.3% of net sales in 2004 and 2003, respectively. Primary additions to the SG&A percentage year over year were higher legal costs

principally associated with Dryvit EIFS (refer to Note H), marketing and related investments to support continued growth and higher pension cost, which combined to add 120 bps to cost levels. Half of these increases were covered by leverage from the growth in organic sales against fixed costs in this category.

Consumer segment SG&A expense at 31.9% of net sales during 2004 compares with 31.8% in 2003. Primary additions to the SG&A percentage year over year were marketing and related investments to support continued growth and higher pension and legal costs totaling just over 100 bps. These increases were essentially neutralized by volume leverage from organic sales against the fixed cost portion of SG&A.

Corporate/other costs decreased in 2004 to \$36.7 million from \$39.1 million last year. Product liability costs of \$5.7 million were accrued for in 2003, associated with our asbestos exposure, versus none this year, as a result of the asbestos charge taken in 2003, estimated to cover approximately three years' worth of related costs at that time (refer to Note H). Offsetting this expense reduction were higher insurance and other costs totaling \$3.9 million, related primarily to corporate governance issues affecting essentially all U.S. publicly held companies and including Sarbanes-Oxley compliance.

We recorded total net periodic pension cost of \$15.9 million and \$9.9 million for the years ended May 31, 2004 and 2003, respectively. Additionally, net periodic postretirement health care benefits for 2004 and 2003 amounted to \$1.2 million and \$1.1 million, respectively. The \$6.0 million increase in net periodic pension cost was largely attributable to increased net actuarial losses recognized, which negatively impacted year-over-year expense by approximately \$2.5 million. The remaining difference relates primarily to increased pension service and interest cost of \$1.5 million and \$1.9 million, respectively. A change of 0.25% in the discount rate or expected return on plan assets assumption would result in \$0.9 million and \$0.4 million higher pension expense, respectively. The assumptions and estimates used to determine the discount rate and expected return on plan assets are more fully described in Note F, "Pension Plans," and Note G, "Postretirement Health Care Benefits," to our Consolidated Financial Statements. We expect that pension expense will fluctuate on a year-to-year basis depending upon the performance of plan assets, but such changes are not expected to be material as a percent of income before income taxes.

**Asbestos Charge** As previously disclosed, certain of our wholly owned subsidiaries, principally Bondex, along with many other U.S. companies, are and have been involved in asbestos-related suits filed primarily in state courts during the past two decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products. The rate at which plaintiffs filed asbestos-related suits against Bondex increased in the fourth quarter of 2002 and the first two quarters of 2003, influenced by the bankruptcy filings of numerous other defendants in asbestos-related litigation. Based on the significant increase in asbestos claims activity which, in many cases, disproportionately increased Bondex's exposure in joint and several liability law states, our third-party insurance was depleted during the first fiscal quarter of 2004, as previously reported. Prior to this sudden precipitous increase in loss rates, the combination of book loss reserves and insurance coverage was expected to cover our asbestos liabilities for the foreseeable future. We are contesting various of our third-party insurers' claims of exhaustion. We are unable at the present time to predict the timing or ultimate outcome of this litigation. Consequently, we are unable to predict whether, or to what extent, any additional insurance may be available to cover a portion of our asbestos liabilities. We have not included any potential benefits from this litigation either in our financial statements or in calculating the \$140.0 million reserve, which was established in the fourth quarter of fiscal 2003. Our wholly owned captive insurance companies have not provided any insurance or reinsurance coverage of any asbestos-related claims.

During the last seven months of 2003, new state liability laws were enacted in three states (Ohio, Mississippi and Texas) where more than 80% of the claims against Bondex were pending. The changes generally provide for liability to be determined on a "proportional cause" basis, thereby limiting Bondex's responsibility to only its share of the alleged asbestos exposure. At the end of fiscal 2003, the ultimate impacts of these initial state law changes were difficult to predict given the limited time following enactment. The full influence of these initial state law changes on legal settlement values was not expected to be significantly visible until the latter part of fiscal 2004. Claims in the three subject states at year-end 2004 represent approximately 70% of aggregate claims. During the third and fourth quarters of 2004, two of the three previously mentioned states that adopted "proportional cause" liability in 2003 passed additional legislation impacting asbestos liability lawsuits. Among the recent

changes are enhanced medical criteria and product identification to be presented by plaintiffs in litigation. While there have been some changes in the type of claims filed in certain of these states, the ultimate influence these law changes may have on future claims activity and settlement values remains uncertain.

During the fourth quarter of 2003, Bondex retained a nationally recognized consulting firm to evaluate whether it would be possible to estimate the cost of disposing of pending claims and to assist in determining whether the costs to us of future asbestos-related claims were measurable. Bondex provided the consultants with all relevant data regarding asbestos-related claims filed against Bondex through May 31, 2003. Management, with the consultants' input, concluded that it was not possible to currently estimate the full range of the cost of resolving future asbestos-related claims against Bondex because of various uncertainties associated with those potential future claims.

At May 31, 2003, we could not estimate the liability that could result from all future claims. We established a reserve for those pending cases that had progressed to a stage where the cost to dispose of these cases could reasonably be estimated. The estimated range of potential loss covering measurable known asbestos claims and a provision for future claims that were estimable at May 31, 2003 was \$140.0 million to \$145.0 million. Accordingly, we established a reserve equal to the lower end of this range of potential loss by taking an asbestos charge to our fiscal 2003 operations of \$140.0 million. We believed then, and continue to believe, that this reserve will be sufficient to cover our asbestos-related cash flow requirements over the estimated three-year life of the reserve. The \$140.0 million charge also includes \$15.0 million in total projected defense costs over the estimated three-year life of the reserve. Additionally, Bondex's share of costs (net of then-available third-party insurance) for asbestos-related product liability claims was \$6.7 million and \$2.8 million for the years ended May 31, 2003 and 2002, respectively. In fiscal 2004, Bondex's asbestos-related cash payments, net of insurance contributions, amounted to \$54.0 million and were charged against the balance sheet reserve established in 2003. Had this amount been instead recorded as a charge to operations in the current year, diluted earnings per share would have been \$0.93 per share, or \$0.29 per share less than our reported earnings per share of \$1.22.



Future facts, events and legislation, both state and/or federal, may alter our estimates of both pending and future claims. We cannot estimate possible liabilities in excess of those accrued because we cannot predict the number of additional claims that may be filed in the future, the grounds for such claims, the damages that may be demanded, the probable outcome, or the impact of recent state law changes and pending federal legislation on prospective asbestos claims. Subject to the foregoing variables, including the timing and impact of such variables, our asbestos reserve should be sufficient to cover asbestos-related cash flow requirements through fiscal 2006. It is, however, reasonably possible that our actual costs for claims could differ from current estimates, but, based upon information presently available, such future costs are not expected to have a material effect on our competitive or financial position or our ongoing operations. However, our existing reserve will not likely be adequate to cover the costs of future claims beyond the three-year period contemplated by the reserve. Accordingly, it is probable that an additional charge will be required in some future period as those unforeseeable claims (as of the time the reserve was established) become measurable. Any such future charge, when taken, could therefore have a material impact on our results in such period.

In conjunction with outside advisors, we will continue to study our asbestos-related exposure, and regularly evaluate the adequacy of the reserve we have established and the related cash flow implications in light of actual claims experience, the impact of state law changes and the evolving nature of federal legislative efforts to address asbestos litigation. We will continue to explore all feasible alternatives available to resolve our asbestos-related exposure in a manner consistent with the best interests of our Stockholders (also refer to Note H).

**Net Interest Expense** Net interest expense increased by \$2.2 million in 2004. Our floating to fixed-rate debt refinancings (refer to "Liquidity and Capital Resources" section) during the past 24 months effectively raised our interest rates year over year, averaging 4.2% compared with 3.8% during 2003, costing an additional \$2.8 million in interest expense this year. Interest costs associated with recent acquisitions added \$1.6 million of interest expense this year. Net interest expense was reduced by greater investment income, of approximately \$0.9 million during 2004, while

debt repayments, averaging approximately \$34 million during the year, saved \$1.3 million in interest cost.

Since our issuances of 2.75% Senior Convertible Notes in May 2003 and 6.25% Senior Notes in December 2003 (refer to "Liquidity and Capital Resources" section), the variable rate portion of our total debt structure is down to approximately 20-25%.

**Income Before Income Taxes ("IBT")** Consolidated IBT in 2004 of \$217.6 million compares with \$47.9 million during fiscal 2003, with \$140.0 million of this difference representing the asbestos liability charge taken in 2003. Excluding the charge, 2004 IBT would have been ahead of 2003 pro forma IBT of \$187.9 million by \$29.7 million, or 15.8%.

Industrial segment IBT grew \$18.1 million, or 14.8%, on 13.9% sales growth, to 11.1% of net sales compared with 11.0% of sales during fiscal 2003. Consumer segment IBT grew \$11.8 million, or 9.0%, on 10.7% sales growth to 13.4% of net sales compared with 13.6% of net sales during fiscal 2003. This combined operating IBT improvement totaling \$29.9 million, an 11.8% increase on 12.4% sales growth, is generally the result of the growth in sales volume, including accretive acquisitions over the past 24 months, in addition to productivity gains, offset by the 80 basis points impact of higher raw material and packaging costs during 2004.

For a reconciliation of IBT to earnings before interest and taxes, see the Segment Information table located on page 17 of this Annual Report.

**Income Tax Rate** The effective income tax rate this year of 34.8% compares with 26.2% a year ago. Excluding the impact of the asbestos-related charge, the 2003 pro forma tax rate would have approximated 34.6%, and the increase in the 2004 rate is the result of slight changes in our geographic mix of earnings.

**Net Income** Net income of \$141.9 million for 2004 increased \$106.6 million over last year's \$35.3 million, and 2004 diluted earnings per common share of \$1.22 increased \$0.92 per share compared with last year's \$0.30 per share. Excluding the 2003 asbestos charge for comparability, 2004 net income grew \$19.1 million, or 15.5%, from last year's pro forma \$122.8 million, and diluted earnings per common share increased by \$0.16 per share, or 15.1%, to \$1.22 from pro forma \$1.06 a year ago. Margin on sales of 6.1% in 2004 improved from pro forma 5.9% in 2003.

## **Fiscal 2003 Compared with Fiscal 2002**

**Net Sales** 2003 net sales grew \$97.4 million, or 5%, over 2002. This growth is attributed to the increase in organic demand, which contributed 3%, or \$59.2 million, plus the addition of eight smaller acquisitions, which contributed 1%, or approximately \$19 million, and principally-favorable foreign exchange rate changes, which contributed the remaining 1%, or approximately \$19 million, to sales growth.

Industrial segment sales amounted to 54% of the total, and were ahead year over year by 6%, 5% of which was organic growth and included favorable foreign exchange differences. Five smaller acquisitions accounted for the balance of the sales growth. The organic sales growth resulted primarily from the increased demand for lower-margin maintenance and installation products and services associated primarily with roofing and flooring throughout the year. Aside from growth in these services, commercial construction was down and the industrial manufacturing sectors of the economy generally remained weak throughout the year, continuing the postponement by a number of customers of higher-cost maintenance and replacement projects that call for many industrial products. It remains our belief that this business has not been lost to any competitor, but became pent-up demand for those products and services. Furthermore, the fact that our industrial segment was able to grow organically under a still-weak economic environment strongly suggests, and it is our firm belief, that we expanded our market share during 2003.

Consumer segment sales amounted to 46% of the total and were ahead 4% year over year, 3% from organic growth, and included favorable foreign exchange differences, primarily in the euro versus the U.S. dollar. Three smaller acquisitions provided the balance of the sales increase. Consumer demand was solid during the first half of 2003 but slowed considerably during the second half of 2003 from a combination of weather factors and inventory reduction efforts at several key accounts, which caused changes in order pattern quantities and frequency. The consumer retail takeaway, otherwise, remained fairly steady and somewhat healthy throughout 2003.

**Gross Profit Margin** The 2003 gross profit margin of 45.6% compares with 45.6% during 2002, or flat year over year. Gross profit increased year over year by \$42.9 million. Positive contributors to this growth included an increase of approximately \$31.0 million from the growth in organic sales volume, and an additional approximately \$10.4 million (50 bps) increased contribution from lower raw material

costs and other cost reductions. Acquisitions and favorable foreign exchange differences accounted for approximately \$16.0 million in additional positive variance in gross profit. Offsetting these positive factors was an increase in certain lower-margin sales, which had approximately \$15.0 million (50 bps) negative impact on total gross profit. The industrial segment gross margins declined year over year to 45.8% from 46.3%. The benefits from improved sales levels and a number of lower raw material costs in this segment were more than offset by a change in sales mix created by the strong sales of lower-margin services during 2003, related primarily to roofing and flooring. The consumer segment gross margin improved year over year to 45.4% from 44.8%. This improvement is the result of positive leverage from the higher sales volume, slightly favorable raw material costs and continued conversion cost-saving initiatives.

Manufacturing efficiencies from expanded Class "A" manufacturing initiatives are being realized in both operating segments, and these efforts continue. Raw material cost pressures were building during the second half of 2003.

**Selling, General and Administrative ("SG&A") Expenses** Consolidated SG&A expenses improved to 35.3% of net sales in 2003 from 35.8% during 2002, attributable largely to significant growth in lower-margin services sales in the industrial segment that require relatively much lower SG&A support cost, along with ongoing cost reduction and containment efforts throughout both operating segments.

The industrial segment SG&A was 34.8% of net sales in 2003 compared with 36.2% during 2002. The growth in sales volume, particularly service sales, contributed about half of this improvement. Cost reduction initiatives and cost containment efforts in both periods made up the difference.

The consumer segment SG&A improved to 31.8% of net sales from 32.1% during 2002. This net improvement is a result of the higher sales volume leverage and continuous cost reduction and containment efforts, partly offset by certain increased selling and promotional spending among our primary consumer product lines.

Corporate/other costs amounted to \$39.1 million in 2003 compared with \$30.7 million during 2002. This change reflects increased product liability costs of \$5.1 million and a change in export sales tax legislation that went into effect in 2003. While this latter change caused \$4.0 million of the increase in corporate/other costs during 2003, consolidated SG&A was not affected by this tax law change because this increase in corporate/other expense was offset by

corresponding reductions of expense in the industrial and consumer operating segments in the amounts of \$2.4 million and \$1.6 million, respectively.

We recorded total net periodic pension cost of \$9.9 million and \$6.9 million for the years ended May 31, 2003 and 2002, respectively. This increased pension expense of \$3.0 million was largely attributable to a net reduction in the expected return on plan assets combined with increased net actuarial losses recognized, which negatively impacted year-over-year expense by approximately \$2.4 million. The remaining difference relates primarily to increased pension service cost. We expect that pension expense will fluctuate on a year-to-year basis depending upon the performance of plan assets, but such changes are not expected to be material as a percent of income before income taxes.

**Asbestos Charge** As described above and in Note H to the Consolidated Financial Statements, certain of our wholly owned subsidiaries, principally Bondex, along with many other U.S. companies, are and have been involved in asbestos-related suits filed primarily in state courts during the past two decades. During the fiscal year ended May 31, 2003, we recorded an asbestos charge of \$140.0 million for measurable known claims, and a provision for future claims that were estimable as of May 31, 2003. We believed then and continue to believe that the asbestos reserve would be sufficient to cover asbestos-related cash flow requirements over the estimated three-year life of the reserve. The \$140.0 million charge also includes \$15.0 million in total projected defense costs over the estimated three-year life of the reserve. Additionally, Bondex's share of costs (net of then-available third-party insurance) for asbestos-related product liability claims was \$6.7 million, \$2.8 million and \$2.3 million for the years ended May 31, 2003, 2002 and 2001, respectively.

**Net Interest Expense** Net interest expense declined \$13.8 million during 2003 as a result of much lower average debt levels and lower interest rates. Interest rates on the variable portion of outstanding borrowings, averaging approximately 70% of total debt, averaged a much lower 3.8% compared with 4.5% during 2002, amounting to savings of \$4.8 million in 2003. Total debt levels averaged \$202.0 million lower throughout 2003, accounting for \$10.0 million of interest cost saved year over year. After our issuance of 2.75% Senior Convertible Notes in May 2003, the variable rate portion of our total debt structure was down to 51%. During fiscal 2002, there were marketable securities gains of approximately \$1.0 million that were not realized again during 2003.

**Income Before Income Taxes ("IBT")** Consolidated IBT in 2003 of \$47.9 million compares with \$154.1 million during 2002, with \$140.0 million of this difference representing the asbestos liability charge. Excluding the charge, 2003 pro forma IBT would have been \$187.9 million, or ahead \$33.8 million, or 22%, over 2002. That represents a margin improvement on the 5.0% sales increase, to 9.0% of net sales from pro forma 7.8% during 2002, the result of the higher sales volume coupled with cost reductions and containments.

Industrial segment IBT grew \$15.9 million, or 15%, on 6% sales growth, to 11% of net sales compared with 10% of net sales during 2002. Consumer segment IBT grew \$13.4 million, or 11%, on 4% sales growth to 14% of net sales compared with 13% of net sales during 2002. These operating IBT improvements totaling \$29.3 million generally are the result of the growth in sales volume, certain lower raw material costs year over year, and ongoing cost reductions and containments across both operating segments.

For a reconciliation of IBT to earnings before interest and taxes, see the Segment Information table contained on page 17 to this Annual Report.

**Income Tax Rate** The effective income tax rate provision in 2003 of 26.2% compares with 34.1% for 2002. The lower rate in 2003 is the result of the weight of the full tax benefit (37.5%) of the \$140.0 million asbestos liability charge, and will not be a recurring rate. Excluding the charge, our pro forma tax rate in 2003 would have been 34.6%, up 0.5% from 2002. As a result of earnings growth, the one-time tax rate benefit from the June 1, 2001 adoption of SFAS No. 142 becomes less and less significant, and this trend is expected to continue.

**Net Income** 2003 net income of \$35.3 million compares with \$101.6 million during 2002 and reflects the \$88.0 million after-tax cost of the 2003 asbestos liability charge. Excluding this charge, 2003 pro forma net income would have been \$122.8 million, ahead 20.9%, or \$21.2 million, from 2002. The return on sales would have been pro forma 5.9% compared with 5.1% for 2002. During March 2002, we sold 11.5 million common shares through a follow-on public equity offering, and this transaction had a dilutive effect of \$0.01 per share on 2003 reported diluted earnings per share. Excluding the impact of the asbestos charge on earnings, the 11.5 million shares sold in March 2002 would have had a \$0.07 per share dilutive effect on 2003 pro forma diluted earnings per share of \$1.06.



## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Operating activities generated positive cash flow of \$153.0 million during fiscal 2004 compared with \$160.6 million generated during the same period a year ago, or a net decrease of \$7.6 million. The decline is attributed to the after-tax asbestos-related payments during the year of \$33.7 million, which exceeded the cash flow benefits from the improved operating performance. Excluding the impact of these asbestos costs, cash flow from operations was \$186.7 million, up 16.3% from the prior year. During 2003, net income was affected by a \$140 million (\$88 million after tax) charge for asbestos-related liabilities, which had no effect on cash flow. Fiscal 2004 net income of \$141.9 million represents a \$19.1 million increase over the prior year's pro forma net income of \$122.8 million, after adjusting out the effect of the asbestos charge. In other areas, cash flow from operations was positively impacted by additional depreciation and amortization of \$4.6 million versus the prior year. Trade accounts receivable required additional cash flow of \$1.0 million year over year associated with the increase in sales versus the prior year, but was offset by a favorable improvement of two days sales outstanding since May 31, 2003. Inventories required an additional \$33.2 million of operating cash year over year as a result of the increased sales volume and the associated inventory necessary to support these levels, while our days outstanding in inventory also improved by one day since May 31, 2003, to offset a portion of this cash usage. An increase in accounts payable provided \$21.4 million in cash year over year, largely as a result of the increased inventory levels described above. Management continues to focus on improving accounts receivable collection and managing inventory levels to lower levels through strengthened information technology systems and continuous improvements in operating techniques, such as Class "A" manufacturing.

Prepaid expenses and other assets were a source of cash of \$35.1 million year over year, mainly as a result of collecting receivables due from insurance companies that were set up during 2003. Accrued loss reserves were a use of cash of \$17.4 million year over year as a result of paying out claims against loss reserves that were increased in the prior year. The increase in loss reserves during 2003 was primarily the result of recording additional product liability provisions. The majority of this increase was offset by the insurance receivable described above. All other remaining balance sheet changes related to cash flows had a net positive

impact of \$1.7 million, mostly due to year-over-year increases in accruals related to interest, deferred income, and compensation and benefit-related liabilities.

Changes in long-term and short-term asbestos-related reserves, net of taxes, were approximately \$37.9 million year over year. As disclosed in our "Critical Accounting Policies and Estimates" and our discussion on asbestos litigation (also refer to Note H), the significant increase in asbestos claims activity and costs relating to our Bondex subsidiary caused our related third-party insurance to be depleted during the first fiscal quarter of 2004. Accordingly, we are now funding costs previously covered by insurance with cash from operations. We anticipate that cash flows from operations and other sources will continue to be sufficient to meet all asbestos-related obligations on a short-term and long-term basis.

Cash provided from operations remains our primary source of financing internal growth, with limited use of short-term debt.

### Investing Activities

Capital expenditures, other than for ordinary repairs and replacements, are made to accommodate our continued growth through improved production and distribution efficiencies and capacity, and to enhance administration. Capital expenditures in 2004 of \$51.3 million compare with depreciation expense of \$47.8 million. Capital spending is expected to continue to approximate our depreciation levels for the next several years as additional capacity is brought on-line to support our continued growth. With the additional minor plant expansion, we believe there will be adequate production capacity to meet our needs for the next several years at normal growth rates.

During 2004, there were investments totaling \$37.7 million, net of cash acquired (refer to Note A [3]), for four acquisitions of product lines and one minority interest acquisition.

Our captive insurance companies invest in marketable securities in the ordinary course of conducting their operations, and this activity will continue (refer to Note A [7]). Differences in these activities between years are attributable to the timing and performance of their investments.

### Financing Activities

On June 6, 2002, we entered into a \$125 million accounts receivable securitization transaction with several banks through May 24, 2005, which is subject to continuation by an annual renewal by the banks. The securitized accounts receivable are owned in their entirety by RPM Funding Corporation, a wholly owned and consolidated

special-purpose entity (“SPE”), and are not available to satisfy claims of our creditors until the participating banks’ obligations have been paid in full. This securitization is being accomplished by having certain subsidiaries sell various of their accounts receivable to the SPE, and by having the SPE then transfer those receivables to a conduit administered by the banks. This securitization does not constitute a form of off-balance sheet financing, and is fully reflected in our financial statements. The amounts available under this program are subject to changes in the credit ratings of our customers, customer concentration levels and certain characteristics of the underlying accounts receivable. This transaction increased our liquidity and reduced our financing costs by replacing up to \$125 million of existing borrowing at lower interest rates. As of May 31, 2004, there were no outstanding balances under this program.

On February 12, 2003, we announced the authorization of a share repurchase program, allowing the repurchase of up to 10 million shares of RPM common stock over a period of 12 months. We repurchased 100,000 RPM common shares at an average price of \$11.67 per share under the program. As of May 31, 2004, this program was no longer active.

In May 2003, we issued \$297 million face value at maturity unsecured 2.75% Senior Convertible Notes (“2.75% Notes”) due May 13, 2033 as a means of refinancing. We generated net proceeds of \$146 million from the sale of the 2.75% Notes. The 2.75% Notes are convertible into 8,034,355 shares of our common stock at a price of \$18.68 per share, subject to adjustments, during any fiscal quarter for which the closing price of our common stock is greater than \$22.41 per share for a defined duration of time. The 2.75% Notes are also convertible during any period in which our credit rating is below a specified level, or if specified corporate transactions have occurred. The 2.75% Notes are redeemable by the holder for the issuance price plus accrued original issue discount in May 2008, 2013, 2018, 2023,

2028 and 2033. Interest on the 2.75% Notes is payable at a rate of 2.75% beginning November 13, 2003 until May 13, 2008, depending upon the market price of the Notes. After that date, cash interest will only accrete and will not be paid prior to maturity, subject to certain contingencies.

Also in May 2003, we established a \$200 million non-rated commercial paper (“CP”) program under which borrowings are unsecured for terms of 270 days or less. This CP program currently allows for lower interest cost than that available under the Company’s \$500 million revolving credit facility. The \$500 million credit facility is available to back up our CP program to the extent it is not drawn upon. As of May 31, 2004, there was \$60.5 million outstanding under this CP program.

In December 2003, we issued and sold \$200 million of 6.25% Senior Notes due 2013 as a means of refinancing. The notes were offered to qualified institutional buyers under Rule 144A and to persons outside the United States under Regulation S. The entire net proceeds of \$197 million from this offering were used to repay in full the \$128 million of then-outstanding borrowings under our \$500 million revolving credit facility and \$69 million of the then-outstanding \$72 million balance under our asset securitization program. On July 13, 2004, we completed an exchange offer pursuant to which holders exchanged the initial notes for notes registered under the Securities Act of 1933.

Our available liquidity beyond our cash balance at May 31, 2004 stood at \$605.6 million (refer to Note B). Our debt-to-capital ratio was 42% at May 31, 2004, down from 45% at May 31, 2003.

We have entered into contracts with various third parties in the normal course of business that will require future payments. The following table summarizes our financial obligations and their expected maturities at May 31, 2004 and the effect such obligations are expected to have on our liquidity and cash flow in the periods indicated.

### Contractual Obligations

(In thousands)	Total Contractual Payment Stream	Payments Due In			
		2005	2006-07	2008-09	After 2009
Long-term debt obligations	\$719,920	\$ 991	\$238,809	\$280,100	\$200,020
Operating lease obligations	71,379	20,002	26,297	10,769	14,311
Other long-term liabilities*	144,200	11,300	16,000	27,100	89,800
<b>Total</b>	<b>\$935,499</b>	<b>\$32,293</b>	<b>\$281,106</b>	<b>\$317,969</b>	<b>\$304,131</b>

\*These amounts represent our estimated cash contributions to be made in the periods indicated for our pension and postretirement plans in the U.S. and Canada, assuming no actuarial gains or losses, assumption changes or plan changes occur in any period. Projections for our other non-U.S. plans are not currently determinable. See Note F, “Pension Plans,” and Note G, “Postretirement Health Care Benefits,” for additional information relating to our plans’ investment strategies, plan assumptions and expected contributions.

The condition of the U.S. dollar fluctuated throughout the year, and was moderately weaker against other major currencies where we conducted operations at fiscal year end over the previous year end, causing favorable change in the accumulated other comprehensive loss (refer to Note A [4 & 5]) component of stockholders' equity of \$9.7 million this year versus \$39.9 million last year. This change was in addition to positive changes of \$1.1 million and \$2.5 million related to adjustments required for minimum pension liabilities and unrealized gain (loss) on securities, respectively.

We maintain excellent relations with our banks and other financial institutions to provide continual access to financing for future growth opportunities.

#### **Off-Balance Sheet Financings**

We do not have any off-balance sheet financings, other than the minimum leasing commitments described in Note E. 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.

### **QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from changes in interest rates and foreign currency exchange rates because we fund our operations through long- and short-term borrowings and denominate our business transactions in a variety of foreign currencies. A summary of our primary market risk exposures follows.

#### **Interest Rate Risk**

Our primary interest rate risk exposure results from our floating rate debt, including various revolving and other lines of credit (refer to Note B). At May 31, 2004, approximately 23% of our debt was subject to floating interest rates. If interest rates were to increase 100 basis points (1%) from May 31, 2004 and assuming no changes in debt from the May 31, 2004 levels, the additional annual interest expense would amount to approximately \$1.6 million on a pre-tax basis. We currently do not hedge our exposure to floating interest rate risk.

#### **Foreign Currency Risk**

Our foreign sales and results of operations are subject to the impact of foreign currency fluctuations (refer to Note A [4]). As most of our foreign operations are in countries with fairly stable currencies, such as Belgium, Canada and the United Kingdom, this effect has not generally been material. In addition, foreign debt is denominated in the respective foreign currency, thereby eliminating any related translation impact on earnings.

If the U.S. dollar continues to weaken, our foreign results of operations will be positively impacted, but the effect is not expected to be material. A 10% change in foreign currency exchange rates would not have resulted in a material impact to net income for the year ended May 31, 2004. We do not currently hedge against the risk of exchange rate fluctuations.

### **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) that 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) general economic conditions; (b) the price and supply of raw materials, particularly titanium dioxide, certain resins, aerosols and solvents; (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 reserves and 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 inherent in our contingent liability reserves, including asbestos-related claims, and other risks detailed in our other reports and statements filed with the Securities and Exchange Commission, including the risk factors set forth in our prospectus included as part of our Registration Statement on Form S-4 (file No. 333-114259).



## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

May 31	2004	2003
<b>Assets</b>		
<b>Current Assets</b>		
Cash and short-term investments (Note A)	\$ 38,561	\$ 50,725
Trade accounts receivable (less allowances of \$18,147 in 2004 and \$17,297 in 2003)	484,847	439,623
Inventories (Note A)	289,359	253,204
Deferred income taxes (Notes A and C)	51,164	51,285
Prepaid expenses and other current assets (Note A)	130,686	133,257
<b>Total current assets</b>	<b>994,617</b>	<b>928,094</b>
<b>Property, Plant and Equipment, at Cost (Note A)</b>		
Land	24,687	23,401
Buildings and leasehold improvements	231,140	221,954
Machinery and equipment	511,245	468,654
	767,072	714,009
Less allowance for depreciation and amortization	386,017	343,220
<b>Property, plant and equipment, net</b>	<b>381,055</b>	<b>370,789</b>
<b>Other Assets</b>		
Goodwill (Note A)	648,243	631,253
Other intangible assets, net of amortization (Note A)	282,372	282,949
Other	46,832	34,126
<b>Total other assets</b>	<b>977,447</b>	<b>948,328</b>
<b>Total Assets</b>	<b>\$2,353,119</b>	<b>\$2,247,211</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 205,092	\$ 171,956
Current portion of long-term debt (Note B)	991	1,282
Accrued compensation and benefits	88,670	77,577
Accrued loss reserves (Note H)	56,699	64,230
Asbestos-related liabilities (Note H)	47,500	41,583
Other accrued liabilities	72,222	59,759
Income taxes payable (Notes A and C)	6,319	11,263
<b>Total current liabilities</b>	<b>477,493</b>	<b>427,650</b>
<b>Long-Term Liabilities</b>		
Long-term debt, less current maturities (Note B)	718,929	724,846
Asbestos-related liabilities (Note H)	43,107	103,000
Other long-term liabilities	59,910	59,951
Deferred income taxes (Notes A and C)	78,388	54,756
<b>Total long-term liabilities</b>	<b>900,334</b>	<b>942,553</b>
<b>Total liabilities</b>	<b>1,377,827</b>	<b>1,370,203</b>
<b>Stockholders' Equity</b>		
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 116,122 as of May 2004; issued 115,596 and outstanding 115,496 as of May 2003 (Note D)	1,161	1,156
Paid-in capital	513,986	508,397
Treasury stock, at cost (Note D)		(1,167)
Accumulated other comprehensive loss (Note A)	(3,881)	(17,169)
Retained earnings	464,026	385,791
<b>Total stockholders' equity</b>	<b>975,292</b>	<b>877,008</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$2,353,119</b>	<b>\$2,247,211</b>

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

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

Year Ended May 31	2004	2003	2002
<b>Net Sales</b>	<b>\$2,341,572</b>	<b>\$2,083,489</b>	<b>\$1,986,126</b>
Cost of Sales	1,276,372	1,134,207	1,079,774
Gross Profit	1,065,200	949,282	906,352
Selling, General and Administrative Expenses	818,639	734,717	711,764
Asbestos Charge (Note H)		140,000	
Interest Expense, Net (Note A)	28,945	26,712	40,464
Income Before Income Taxes	217,616	47,853	154,124
Provision for Income Taxes (Note C)	75,730	12,526	52,570
<b>Net Income</b>	<b>\$ 141,886</b>	<b>\$ 35,327</b>	<b>\$ 101,554</b>
Average Number of Shares of Common Stock Outstanding (Note D)			
Basic	115,777	115,294	104,418
Diluted	116,710	115,986	105,131
Earnings per Common Share			
Basic	\$ 1.23	\$ 0.31	\$ 0.97
Diluted	\$ 1.22	\$ 0.30	\$ 0.97
Cash Dividends per Share of Common Stock	\$ 0.550	\$ 0.515	\$ 0.500

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

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock				Accumulated Other Comprehensive Loss (Note A)	Retained Earnings	Total
	Number of Shares (Note D)	Par/ Stated Value	Paid-in Capital	Treasury Stock			
<b>Balance at May 31, 2001</b>	102,211	\$1,619	\$430,015	\$(99,308)	\$(53,074)	\$360,458	\$639,710
Comprehensive income							
Net income						101,554	101,554
Translation gain and other					2,589		2,589
Comprehensive income							104,143
Dividends paid						(52,409)	(52,409)
Sale of stock	11,500	167	155,767				155,934
Stock option exercises, net	847		92	9,412			9,504
Restricted stock awards	138		(308)	1,532			1,224
<b>Balance at May 31, 2002</b>	114,696	1,786	585,566	(88,364)	(50,485)	409,603	858,106
Comprehensive income							
Net income						35,327	35,327
Translation gain and other					33,316		33,316
Comprehensive income							68,643
Dividends paid						(59,139)	(59,139)
Treasury stock retired		(113)	(85,723)	85,836			
Repurchase of stock	(100)			(1,167)			(1,167)
Stock option exercises, net	300	2	2,015	1,269			3,286
Restricted stock awards	600	5	6,111	1,259			7,375
Par value adjustment and other		(524)	428				(96)
<b>Balance at May 31, 2003</b>	115,496	1,156	508,397	(1,167)	(17,169)	385,791	877,008
Comprehensive income							
Net income						141,886	141,886
Translation gain and other					13,288		13,288
Comprehensive income							155,174
Dividends paid						(63,651)	(63,651)
Stock option exercises, net	555	5	5,453	338			5,796
Restricted stock awards	71		136	829			965
<b>Balance at May 31, 2004</b>	116,122	\$1,161	\$513,986	\$ —	\$ (3,881)	\$464,026	\$975,292

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Year Ended May 31	2004	2003	2002
<b>Cash Flows From Operating Activities:</b>			
Net income	\$141,886	\$ 35,327	\$101,554
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	47,840	44,736	43,541
Amortization	15,437	13,938	13,318
Increase (decrease) in deferred income taxes	21,422	(46,733)	(3,930)
(Earnings) of unconsolidated affiliates	(314)	(396)	(391)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:			
(Increase) decrease due to receivables	(38,225)	(37,258)	14,048
(Increase) decrease due to inventory	(31,949)	1,262	25,929
(Increase) decrease due to prepaid expenses and other assets	7,762	(27,378)	(7,464)
Increase (decrease) due to accounts payable	30,606	9,156	8,489
Increase (decrease) due to accrued other liabilities	16,120	77	(5,062)
Increase (decrease) due to accrued loss reserves	(7,531)	9,914	(3,502)
Increase (decrease) due to asbestos-related liabilities	(53,976)	146,650	2,754
Other including exchange rate changes	3,919	11,334	2,086
Cash From Operating Activities	152,997	160,629	191,370
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(51,253)	(41,814)	(39,931)
Acquisition of businesses, net of cash acquired	(37,703)	(65,994)	(3,138)
Purchase of marketable securities	(36,955)	(15,145)	(15,693)
Proceeds from sales of marketable securities	21,410	11,376	19,495
(Investments in) and distributions from unconsolidated affiliates	(425)	974	16
Proceeds from sale of assets and businesses	3,664	202	1,553
Cash (Used For) Investing Activities	(101,262)	(110,401)	(37,698)
<b>Cash Flows From Financing Activities:</b>			
Additions to long-term and short-term debt	200,345	305,200	236,681
Reductions of long-term and short-term debt	(206,623)	(294,099)	(485,662)
Cash dividends	(63,651)	(59,139)	(52,409)
Exercise of stock options	5,796	3,286	9,504
Repurchase of stock		(1,167)	
Sale of stock			155,934
Cash (Used For) Financing Activities	(64,133)	(45,919)	(135,952)
<b>Effect of Exchange Rate Changes on Cash and Short-Term Investments</b>	234	4,244	526
<b>Net (Decrease) Increase in Cash and Short-Term Investments</b>	(12,164)	8,553	18,246
<b>Cash and Short-Term Investments at Beginning of Year</b>	50,725	42,172	23,926
<b>Cash and Short-Term Investments at End of Year</b>	\$ 38,561	\$ 50,725	\$ 42,172
<b>Supplemental Disclosures of Cash Flows Information:</b>			
Cash paid during the year for:			
Interest	\$ 25,572	\$ 28,678	\$ 50,353
Income taxes	\$ 59,252	\$ 55,479	\$ 59,774
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities:</b>			
Shares issued for restricted stock plan	\$ 965	\$ 7,375	\$ 1,224
Debt from business combinations		\$ 1,230	
Receivables from sale of assets	\$ 1,233		

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

# notes

## TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2004, 2003, 2002

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1) Consolidation and Basis of Presentation

Our financial statements consolidate all of our affiliates – companies that we control and in which we hold a majority voting interest. We account for our investments in less than majority-owned joint ventures under the equity method. Effects of transactions between related companies are eliminated.

We have reclassified certain prior-year amounts to conform to this year's presentation.

#### 2) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### 3) Business Combinations

During the year ended May 31, 2004, we completed four acquisitions of product lines and one minority interest acquisition. As of the respective dates of acquisition, we recorded the following estimated fair values of assets and liabilities assumed:

(In thousands)

Current assets	\$13,312
Property, plant and equipment	8,208
Other intangible assets	11,418
Goodwill	12,635
Liabilities assumed	(7,128)
<b>Net Assets Acquired</b>	<b>\$38,445</b>

Our Consolidated Financial Statements reflect the results of operations of these businesses as of their respective dates of acquisition.

Pro forma results of operations for the years ended May 31, 2004 and May 31, 2003 were not materially different from reported results and, consequently, are not presented.

#### 4) Foreign Currency

The functional currency of our foreign subsidiaries is their local currency. Accordingly, for the periods presented, assets and liabilities have been translated using exchange rates at year end while income and expense for the periods have been translated using a weighted average exchange rate. The resulting translation adjustments have been recorded in accumulated other comprehensive loss, a component of stockholders' equity, and will be included in net earnings only upon the sale or liquidation of the underlying foreign investment, neither of which is contemplated at this time. Transaction gains and losses have been immaterial during the past three fiscal years.

## 5) Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss (which is shown net of taxes) consists of the following components:

<i>(In thousands)</i>	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustments	Unrealized Gain (Loss) on Securities	Total
Balance at May 31, 2001	\$(53,092)	\$ (102)	\$ 120	\$(53,074)
Reclassification adjustments for (gains) losses included in net income			(120)	(120)
Other comprehensive gain (loss)	3,411	(288)	(851)	2,272
Deferred taxes		137	300	437
Balance at May 31, 2002	(49,681)	(253)	(551)	(50,485)
Reclassification adjustments for (gains) losses included in net income			(149)	(149)
Other comprehensive gain (loss)	39,872	(8,695)	(1,242)	29,935
Deferred taxes		2,757	773	3,530
Balance at May 31, 2003	(9,809)	(6,191)	(1,169)	(17,169)
Reclassification adjustments for (gains) losses included in net income			97	97
Other comprehensive gain (loss)	9,686	1,603	2,645	13,934
Deferred taxes		(467)	(276)	(743)
Balance at May 31, 2004	\$ (123)	\$(5,055)	\$ 1,297	\$ (3,881)

## 6) Cash and Short-Term Investments

For purposes of the statement of cash flows, we consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. We do not believe we are exposed to any significant credit risk on cash and short-term investments.

## 7) Marketable Securities

Marketable securities, included in other current assets, are considered available for sale and are reported at fair value, based on quoted market prices. Changes in unrealized gains and losses, net of applicable taxes, are recorded in accumulated other comprehensive loss within stockholders' equity. If we were to experience any significant other-than-temporary declines in market value from original cost, those amounts would be reflected in operating income in the period in which the loss were to occur. 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 carrying value exceeds its related market value. Marketable securities totaled \$41.4 million and \$22.1 million at May 31, 2004 and 2003, respectively.

## 8) Financial Instruments

Financial instruments recorded on the balance sheet include cash and short-term investments, accounts receivable, notes and accounts payable, and debt. The carrying amount of cash and short-term investments, accounts receivable, and notes and accounts payable approximates fair value because of their short-term maturity.

The carrying amount of our debt instruments approximates fair value based on quoted market prices, variable interest rates or borrowing rates for similar types of debt arrangements.

## 9) Inventories

Inventories are stated at the lower of cost or market, cost being determined substantially 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 material, labor and manufacturing overhead. Inventories were composed of the following major classes:

May 31	2004	2003
<i>(In thousands)</i>		
Raw material and supplies	\$ 95,378	\$ 80,517
Finished goods	193,981	172,687
<b>Total Inventory</b>	<b>\$289,359</b>	<b>\$253,204</b>

## 10) Goodwill and Other Intangible Assets

We elected to adopt the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," as of June 1, 2001, at which time we ceased the amortization of all goodwill. We also elected to perform the required annual impairment assessment in the first quarter of our fiscal year. If a loss were to result from the performance of the annual test, it would be reflected in operating income. The annual goodwill impairment assessment involves estimating the fair value of each reporting unit, which has been defined as one level below our industrial and consumer operating segments, and comparing it with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, additional steps are followed to recognize a potential impairment loss. Calculating the fair value of the reporting units requires significant estimates and assumptions by management. We estimate the fair value of our reporting units by applying third-party market value indicators to each of our reporting unit's projected earnings before interest, taxes, depreciation and amortization. In applying this methodology, we rely on a number of factors, including future business plans, actual operating results and market data. In the event that our calculations indicated that goodwill was impaired, a fair

value estimate of each tangible and intangible asset would be established. This process would require the application of discounted cash flows expected to be generated by each asset in addition to independent asset appraisals, as appropriate. Cash flow estimates are based on our historical experience and our internal business plans, and appropriate discount rates are applied. The results of our annual impairment tests for the fiscal years ended May 31, 2004 and 2003, performed during the first quarter of each respective fiscal year, did not require any adjustment to the carrying value of goodwill.

The changes in the carrying amount of goodwill, by reporting segment, for the year ended May 31, 2004, are as follows:

<i>(In thousands)</i>	Industrial Segment	Consumer Segment	Total
Balance as of May 31, 2003	\$290,797	\$340,456	\$631,253
Acquisitions	9,222	3,413	12,635
Purchase accounting adjustments*	1,344		1,344
Translation adjustments	2,380	631	3,011
Balance as of May 31, 2004	\$303,743	\$344,500	\$648,243

\*Relates primarily to other accruals.



Other intangible assets consist of the following major classes:

<i>(In thousands)</i>	Amortization Period (in Years)	Gross Carrying Amount	Accumulated Amortization	Net Other Intangible Assets
As of May 31, 2004				
Amortized intangible assets				
Formulae	10 to 33	\$175,694	\$57,749	\$117,945
Customer-related intangibles	7 to 33	67,202	16,119	51,083
Trademarks/names	5 to 40	6,637	2,887	3,750
Other	3 to 30	24,994	11,464	13,530
Total Amortized Intangibles		274,527	88,219	186,308
Unamortized intangible assets				
Trade names		96,064		96,064
<b>Total Other Intangible Assets</b>		<b>\$370,591</b>	<b>\$88,219</b>	<b>\$282,372</b>
As of May 31, 2003				
Amortized intangible assets				
Formulae	10 to 33	\$173,102	\$49,849	\$123,253
Customer-related intangibles	7 to 33	65,317	13,097	52,220
Trademarks/names	5 to 40	5,544	1,779	3,765
Other	3 to 30	23,583	10,419	13,164
Total Amortized Intangibles		267,546	75,144	192,402
Unamortized intangible assets				
Trade names		90,547		90,547
<b>Total Other Intangible Assets</b>		<b>\$358,093</b>	<b>\$75,144</b>	<b>\$282,949</b>

The aggregate other intangible asset amortization expense for the fiscal years ended May 31, 2004, 2003 and 2002 was \$12.8 million, \$11.9 million and \$11.3 million, respectively. For each of the next five fiscal years through May 31, 2009, the estimated annual intangible asset amortization expense will approximate \$13.0 million.

## 11) Depreciation

Depreciation is computed primarily using the straight-line method over the following ranges of useful lives:

Land improvements	5 to 42 years
Buildings and improvements	5 to 50 years
Machinery and equipment	3 to 20 years

## 12) 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.

## 13) Shipping Costs

Shipping costs paid to third-party shippers for transporting products to customers are included in selling, general and administrative expenses. For the years ended May 31, 2004, 2003 and 2002, shipping costs were \$86.0 million, \$78.9 million and \$77.9 million, respectively.

## 14) Advertising Costs

Advertising costs are charged to operations when incurred and are included in selling, general and administrative expenses. For the years ended May 31, 2004, 2003 and 2002, advertising costs were \$71.1 million, \$58.7 million and \$53.4 million, respectively.

## 15) Research and Development

Research and development costs are charged to operations when incurred and are included in selling, general and administrative expenses. The amounts charged for the years ended May 31, 2004, 2003 and 2002 were \$26.2 million, \$23.8 million and \$20.9 million, respectively. The customer-sponsored portion of such expenditures was not significant.

## 16) Stock-Based Compensation

At May 31, 2004, we had two stock-based compensation plans accounted for under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as more fully described in Note D. In applying the intrinsic value method of accounting for stock-based compensation, we record expense in an amount equal to the excess of the market price of the underlying shares of RPM International Inc. stock at the date of grant over the exercise price of the stock-related award. In general, the market price of stock options at the grant date has not exceeded the exercise price and, therefore, no expense has been recorded for any of the periods presented. Pro forma information regarding the impact of all stock-based compensation on net income and earnings per share is required by SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." The following table summarizes our pro forma operating results as if compensation cost for stock options granted had been determined in accordance with the fair-value method prescribed by SFAS No. 123.

Year Ended May 31	2004	2003	2002
<i>(In thousands, except per share amounts)</i>			
Net income, as reported	\$141,886	\$35,327	\$101,554
Add: Stock-based employee compensation expense from restricted stock plans included in reported net income, net of related tax effects	825	1,339	806
Deduct: Total stock-based employee compensation determined under fair value-based method for all awards, net of related tax effects	(3,969)	(4,517)	(2,949)
<b>Pro Forma Net Income</b>	<b>\$138,742</b>	<b>\$32,149</b>	<b>\$ 99,411</b>
<b>Earnings per Share:</b>			
Basic, as Reported	\$1.23	\$0.31	\$0.97
Diluted, as Reported	\$1.22	\$0.30	\$0.97
Basic, Pro Forma	\$1.20	\$0.28	\$0.95
Diluted, Pro Forma	\$1.19	\$0.28	\$0.95

The fair value of stock options granted is estimated as of the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2004	2003	2002
Risk-free interest rate	3.7%	3.3%	4.4%
Expected life of option	7yrs	7yrs	7yrs
Expected dividend yield	3.5%	3.5%	3.0%
Expected volatility rate	35.9%	37.3%	34.2%

## 17) Interest Expense, Net

Interest expense is shown net of investment income, which consists of interest, dividends and capital gains (losses). Investment income for the years ended May 31, 2004, 2003 and 2002 was \$2.3 million, \$1.4 million and \$2.1 million, respectively.

## 18) Income Taxes

We file a consolidated federal income tax return that includes the results of RPM International Inc. and our wholly owned domestic subsidiaries. The tax effects of transactions are recognized in the year in which they enter into the determination of net income, regardless of when they are recognized for tax purposes. As a result, income tax expense differs from actual taxes payable. We do not intend to distribute the accumulated earnings of our consolidated foreign subsidiaries totaling approximately \$130.0 million at May 31, 2004, and, therefore, no provision has been made for the taxes that would result if such earnings were remitted to us.

## 19) Other Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statement No. 87, 88 and 106," which was effective as of December 15, 2003. This new SFAS No. 132 expands the disclosure requirements previously included in the pronouncement, including a requirement to disclose the actual and target allocation percentages for broad asset categories, expected employer contributions during the next fiscal year, the accumulated benefit obligation, significant assumptions applied in determining plan obligations and measurement date(s) used. In accordance with the transition provisions of SFAS No. 132 (revised 2003), Note F, "Pension Plans," and Note G,

"Postretirement Health Care Benefits," have been expanded to include the new disclosures required for the current reporting period.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for costs associated

with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred, and is effective for exit or disposal activities that are initiated after December 31, 2002. Our adoption of the provisions of SFAS No. 146 did not have a material impact on our results of operations, cash flows or financial position.

## NOTE B – BORROWINGS

A description of long-term debt follows:

May 31	2004	2003
<i>(In thousands)</i>		
Revolving credit agreement for \$500,000 with a syndicate of banks through July 14, 2005. Interest is tied to LIBOR.		\$113,000
Accounts Receivable Securitization Program for \$125,000 with two banks, through May 24, 2005, subject to annual renewal.		91,000
Unsecured 6.25% senior notes due December 15, 2013.	\$200,000	
Unsecured \$297,000 face value at maturity 2.75% senior convertible notes due May 13, 2033.	150,042	150,042
Unsecured 7.00% senior notes due June 15, 2005.	150,000	150,000
Unsecured notes due March 1, 2008. Interest, which is tied to LIBOR, averaged 1.33% at May 31, 2004.	100,000	100,000
Commercial paper with a weighted average interest rate at May 31, 2004 of 1.59%. These obligations, along with other short-term borrowings, have been reclassified as long-term debt, reflecting our intent and ability, through unused credit facilities, to refinance these obligations.	60,651	51,735
Unsecured senior notes due insurance companies: 6.12% due November 15, 2004 in the amount of \$15,000; 6.61% due November 15, 2006 in the amount of \$10,000; and 7.30% due November 15, 2008 in the amount of \$30,000.	55,000	55,000
Revolving 364-day credit agreement for \$28,000 with a bank through October 12, 2004. Interest, which is tied to one of various rates, was 1.56% at May 31, 2004.	2,955	11,200
Revolving multi-currency credit agreement for \$15,000 with a bank through December 31, 2005. Interest is tied to one of various rates.		1,930
Other unsecured notes payable at various rates of interest due in installments through 2011.	1,272	2,221
	719,920	726,128
Less current portion	991	1,282
<b>Total Long-term Debt, Less Current Maturities</b>	<b>\$718,929</b>	<b>\$724,846</b>

The aggregate maturities of long-term debt for the five fiscal years subsequent to May 31, 2004 are as follows: 2005 – \$1.0 million; 2006 – \$228.7 million; 2007 – \$10.1 million; 2008 – \$250.1 million (including \$150.0 million of 2.75% Senior Convertible Notes based on the date of the noteholders' first put option); 2009 – \$30.0 million. Additionally, at May 31, 2004, we had unused lines of credit totaling \$605.6 million.

In June 2002, we established an accounts receivable securitization program with several banks for certain of our subsidiaries, providing for a wholly owned special purpose entity ("SPE") to receive investments of up to \$125.0 million. The securitized accounts receivable are owned in their entirety by RPM Funding Corporation, a wholly owned consolidated subsidiary of RPM International Inc., and are not available to satisfy claims of our creditors until the participating banks' obligations have been paid in full. This securitization is accomplished by having certain subsidiaries sell various of their accounts receivable to the SPE, and by having the SPE then transfer those receivables to a conduit administered by the banks. This transaction did not constitute a form of off-balance sheet financing, and is fully reflected in our financial statements. This transaction increases our liquidity and reduces our financing costs by

replacing up to \$125.0 million of existing borrowings at lower interest rates. The amounts available under the program are subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable. As of May 31, 2004, we had no outstanding balance under this arrangement.

In May 2003, we issued \$297.0 million face value at maturity unsecured 2.75% Senior Convertible Notes due May 13, 2033. The 2.75% Notes are convertible into 8,034,355 shares of RPM International Inc. common stock at a price of \$18.68 per share, subject to adjustment, during any fiscal quarter for which the closing price of the common stock is greater than \$22.41 per share for a defined duration of time. The Notes are also convertible during any period in which the credit rating of the Notes is below a specified level or if specified corporate transactions have occurred. The 2.75% Notes are redeemable by the holder for the issuance price plus accrued original issue discount in May 2008, 2013, 2018, 2023, 2028 and 2033. Interest on the 2.75% Notes is payable at a rate of 2.75% beginning November 13, 2003 until May 13, 2008. After that date, cash interest will not be paid prior to maturity, subject to certain contingencies.

## NOTE C – INCOME TAXES

Consolidated income before taxes consists of the following:

Year Ended May 31	2004	2003	2002
<i>(In thousands)</i>			
United States	\$182,032	\$ 19,025	\$128,883
Foreign	35,584	28,828	25,241
<b>Consolidated Income Before Taxes</b>	<b>\$217,616</b>	<b>\$ 47,853</b>	<b>\$154,124</b>
Provision for income taxes consists of the following:			
Current			
U.S. federal	\$ 30,579	\$ 36,841	\$ 42,230
State and local	7,138	8,747	5,441
Foreign	14,260	13,671	8,829
	\$ 51,977	\$ 59,259	\$ 56,500
Deferred			
U.S. federal	\$ 21,077	\$(39,616)	\$ (4,699)
State and local	3,011	(5,659)	(671)
Foreign	(335)	(1,458)	1,440
	\$ 23,753	\$(46,733)	\$ (3,930)
<b>Provision for Income Taxes</b>	<b>\$ 75,730</b>	<b>\$ 12,526</b>	<b>\$ 52,570</b>



A reconciliation between the actual income tax expense provided and the income tax expense computed by applying the statutory federal income tax rate of 35% to income before tax is as follows:

Year Ended May 31	2004	2003	2002
<i>(In thousands)</i>			
Income taxes at U.S. statutory rate	\$76,166	\$16,749	\$53,943
Difference in foreign taxes versus the U.S. statutory rate	(2,930)	(2,986)	(3,155)
State and local income taxes net of federal income tax benefit	6,597	2,007	3,101
Tax benefits from foreign sales corporation and extraterritorial income exclusion	(2,870)	(1,250)	(1,362)
Other	(1,233)	(1,994)	43
<b>Actual Tax Expense</b>	<b>\$75,730</b>	<b>\$12,526</b>	<b>\$52,570</b>
<b>Actual Tax Rate</b>	<b>34.8%</b>	<b>26.2%</b>	<b>34.1%</b>

Deferred income taxes result from temporary differences in recognition of revenue and expenses for book and tax purposes. Temporary differences and carryforwards that give rise to deferred tax assets and liabilities as of May 31, 2004 and 2003 are as follows:

<i>(In thousands)</i>	2004	2003
Deferred income tax assets related to:		
Inventories	\$ 1,692	\$ 1,679
Allowance for losses	14,538	18,146
Accrued compensation and benefits	8,402	9,864
Asbestos-related liabilities	33,978	54,219
Accrued other expenses	7,753	4,596
Other long-term liabilities	18,550	16,153
Tax loss/credit carryforwards	13,527	11,749
Other	1,802	1,047
<b>Total</b>	<b>\$ 100,242</b>	<b>\$ 117,453</b>
Deferred income tax (liabilities) related to:		
Depreciation	\$ (40,660)	\$ (36,806)
Amortization of intangibles	(86,806)	(84,118)
<b>Total</b>	<b>\$(127,466)</b>	<b>\$(120,924)</b>
<b>Deferred Income Tax Assets (Liabilities), Net</b>	<b>\$ (27,224)</b>	<b>\$ (3,471)</b>

Deferred tax detail above is included in the consolidated balance sheet as follows:

<i>(In thousands)</i>	2004	2003
Deferred income taxes – current asset	\$ 51,164	\$ 51,285
Deferred income taxes – noncurrent (liability)	(78,388)	(54,756)
<b>Total</b>	<b>\$(27,224)</b>	<b>\$ (3,471)</b>

#### NOTE D – COMMON STOCK

There are 300,000,000 shares of common stock authorized at May 31, 2004 and 2003 with a par value of \$0.01 per share. At May 31, 2004 and 2003, there were 116,122,000 and 115,496,000 shares outstanding, respectively, each of which is entitled to one vote.

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding during each year. To compute diluted earnings per share, the weighted average number of shares of common stock outstanding during each year was increased by common stock options with exercisable prices lower than the average market prices of common stock during each year and reduced by the number of shares assumed to have been purchased with proceeds from the exercised options. Our convertible notes, while potentially dilutive, are not currently considered common stock equivalents.

Effective October 10, 2003, the RPM International Inc. 2003 Restricted Stock Plan for Directors (the “2003 Plan”) was approved by our stockholders. The Plan was established primarily for the purpose of recruiting and retaining directors, and to align the interests of directors with the interests of our stockholders. Only directors who are not employees of RPM International Inc. are eligible to participate. Under the 2003 Plan, up to 500,000 shares of RPM International Inc. common stock may be awarded. For the year ended May 31, 2004, 21,600 shares were granted, with 478,400 shares available for future grant. Unamortized deferred compensation expense relating to restricted stock grants for directors of \$0.2 million at May 31, 2004 is being amortized over a three-year vesting period.

We have shares outstanding under two restricted stock plans for employees. Under the terms of the plans, up to 2,563,000 shares may be awarded to certain employees, generally subject to forfeiture until the completion of five or 10 years of service. For the year ended May 31, 2004, 49,500 shares were awarded under these plans. At May 31, 2004, 42,000 vested shares remained in these plans (26,000 at May 31, 2003). Unamortized deferred compensation expense of \$4.7 million at May 31, 2004, relating to restricted stock grants for employees, is being amortized over the 10-year vesting period.

Total deferred compensation expense for the years ended May 31, 2004, 2003 and 2002 was \$1.3 million, \$2.1 million and \$1.2 million, respectively.

Our Shareholder Rights Plan provides existing stockholders the right to purchase stock of RPM International

Inc. at a discount in certain circumstances, as defined by the Plan. The rights are not exercisable at May 31, 2004 and expire in May 2009.

We have options outstanding under two stock option plans, the 1989 Stock Option Plan and the 1996 Key Employees Stock Option Plan, the latter of which provides for the granting of options for up to 9,000,000 shares. Stock options are granted to employees and directors at an exercise price equal to the fair market value of RPM International Inc. stock at the date of grant. These options are generally exercisable cumulatively, in equal annual installments commencing one year from the grant date, and have expiration dates ranging from October 2004 to October 2013. At May 31, 2004, 648,000 shares (1,902,000 at May 31, 2003) were available for future grant.

The following table summarizes option activity under the Plans during the last three fiscal years:

	2004		2003		2002	
	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Exercise Price	Number of Shares Under Option
Shares Under Option						
<i>(In thousands, except per share amounts)</i>						
Outstanding, beginning of year (Prices ranging from \$8.69 to \$16.70)	\$12.86	6,937	\$12.57	6,223	\$12.39	7,017
Options granted	14.10	1,254	14.08	1,191	11.83	496
Options canceled/expired (Prices ranging from \$8.81 to \$16.35)	12.98	(206)	13.98	(153)	11.17	(390)
Options exercised (Prices ranging from \$8.69 to \$16.35)	10.73	(582)	11.33	(324)	11.54	(900)
<b>Outstanding, end of year (Prices ranging from \$8.69 to \$16.70)</b>	<b>\$13.23</b>	<b>7,403</b>	<b>\$12.86</b>	<b>6,937</b>	<b>\$12.58</b>	<b>6,223</b>
<b>Exercisable, end of year (Prices ranging from \$8.69 to \$16.70)</b>	<b>\$13.15</b>	<b>4,775</b>	<b>\$13.19</b>	<b>4,477</b>	<b>\$13.50</b>	<b>3,987</b>

Options Outstanding at May 31, 2004			Options Exercisable at May 31, 2004		
<i>(Shares in thousands)</i>					
Exercise Price Range	Shares	Wtd. Avg. Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 8.00 to \$ 9.99	1,455	6.3	\$ 9.35	1,186	\$ 9.38
\$10.00 to \$11.99	240	7.2	\$10.28	114	\$10.31
\$12.00 to \$14.99	3,781	7.0	\$13.79	1,553	\$13.40
\$15.00 to \$16.75	1,927	3.7	\$15.44	1,922	\$15.43
	<u>7,403</u>	6.0	<u>\$13.23</u>	<u>4,775</u>	<u>\$13.15</u>

We apply APB Opinion No. 25 and related interpretations in accounting for our employee stock options. Under APB Opinion No. 25, because the exercise price of our employee stock options is not less than the market price of the shares at the date of grant, no compensation expense is recognized in the financial statements. See Note A, "Summary of Significant Accounting Policies," for the pro forma disclosures of net income and earnings per share required under SFAS No. 123.

**NOTE E – LEASES**

We lease certain property, plant and equipment under long-term lease agreements, some of which provide for increased rental payments based upon increases in the cost-of-living index. The following table illustrates our future minimum lease commitments under all non-cancelable lease agreements, for each of the next five years and in the aggregate, as of May 31, 2004:

May 31

(In thousands)

2005	\$20,002
2006	14,790
2007	11,507
2008	6,085
2009	4,684
Thereafter	14,311
<b>Total Minimum Lease Commitments</b>	<b>\$71,379</b>

Total rental expense for all operating leases amounted to \$27.1 million in 2004, \$24.3 million in 2003 and \$23.1 million in 2002. Capitalized leases were immaterial for the three years ended May 31, 2004.

**NOTE F – PENSION PLANS**

We sponsor several pension plans for our employees, including our principal plan (the "Retirement Plan"), which is a non-contributory defined benefit pension plan covering substantially all domestic non-union employees. Pension benefits are provided for certain domestic union employees through separate plans. Employees of our foreign subsidiaries receive pension coverage, to the extent deemed appropriate, through plans that are governed by local statutory requirements. The measurement date used to determine pension benefit measurements for both the U.S. and non-U.S. plans was February 29, 2004.

The Retirement Plan provides benefits that are based upon years of service and average compensation, with accrued benefits vesting after five years. Benefits for union employees are generally based upon years of service, or years of service and average compensation. Our funding policy is to contribute an amount on an annual basis that can be deducted for federal income tax purposes, using a different actuarial cost method and different assumptions from those used for financial reporting. For the fiscal year ending May 31, 2005, we expect to contribute approximately \$10.0 million to the Retirement Plan in the U.S., in addition to the approximate \$1.7 million that we expect to contribute to our foreign plans.

Net periodic pension cost (income) consisted of the following for the three years ended May 31, 2004:

(In thousands)	U.S. Plans			Non-U.S. Plans		
	2004	2003	2002	2004	2003	2002
Service cost	\$9,879	\$8,904	\$8,310	\$1,695	\$1,168	\$1,073
Interest cost	7,228	6,634	6,706	3,612	2,344	2,305
Expected return on plan assets	(7,385)	(7,769)	(8,589)	(3,188)	(2,748)	(3,118)
Amortization of:						
Prior service cost	294	197	188			
Net gain on adoption of SFAS No. 87	(23)	(85)	(85)			
Net actuarial (gains) losses recognized	2,542	952	(11)	1,237	324	87
Curtailment/settlement (gains) losses		11				
<b>Net Pension Cost</b>	<b>\$12,535</b>	<b>\$8,844</b>	<b>\$6,519</b>	<b>\$3,356</b>	<b>\$1,088</b>	<b>\$ 347</b>

The changes in benefit obligations and plan assets, as well as the funded status of our pension plans at May 31, 2004 and 2003, were as follows:

	U.S. Plans		Non-U.S. Plans	
(In thousands)	2004	2003	2004	2003
Benefit obligation at beginning of year	\$ 112,271	\$ 96,217	\$ 59,588	\$ 35,244
Service cost	9,879	8,904	1,695	1,168
Interest cost	7,228	6,634	3,612	2,344
Benefits paid	(10,696)	(6,738)	(2,304)	(1,403)
Participant contributions			585	415
Acquisitions and new plans			755	12,062
Actuarial (gains) losses	9,984	6,001	3,477	5,471
Currency exchange rate changes			10,125	4,287
Curtailment/settlement (gains) losses		(194)		
Plan amendments		1,447		
<b>Benefit Obligation at End of Year</b>	<b>\$ 128,666</b>	<b>\$ 112,271</b>	<b>\$ 77,533</b>	<b>\$ 59,588</b>
Fair value of plan assets at beginning of year	\$ 88,669	\$ 85,345	\$ 41,674	\$ 33,477
Actual return on plan assets	28,800	(11,687)	6,328	(3,579)
Employer contributions	3,147	21,749	2,895	419
Acquisitions and new plans				9,604
Participant contributions			585	415
Benefits paid	(10,696)	(6,738)	(2,304)	(1,485)
Currency exchange rate changes			7,199	2,823
<b>Fair Value of Plan Assets at End of Year</b>	<b>\$ 109,920</b>	<b>\$ 88,669</b>	<b>\$ 56,377</b>	<b>\$ 41,674</b>
(Deficit) of plan assets versus benefit obligations at end of year	\$ (18,746)	\$ (23,602)	\$(21,156)	\$(17,914)
Contributions after measurement date	2,533	44	472	116
Unrecognized actuarial (gains) losses	33,907	47,881	24,298	24,523
Unrecognized prior service cost	2,840	3,135		
Unrecognized net transitional asset	(5)	(28)		
<b>Net Amount Recognized</b>	<b>\$ 20,529</b>	<b>\$ 27,430</b>	<b>\$ 3,614</b>	<b>\$ 6,725</b>
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	\$ 21,107	\$ 27,957	\$ 7,350	\$ 6,691
Accrued benefit liability	(663)	(1,036)	(11,451)	(8,441)
Accumulated other comprehensive loss	85	473	7,715	8,475
Intangible asset		36		
<b>Net Amount Recognized</b>	<b>\$ 20,529</b>	<b>\$ 27,430</b>	<b>\$ 3,614</b>	<b>\$ 6,725</b>
<b>Accumulated Benefit Obligation</b>	<b>\$ 100,323</b>	<b>\$ 86,164</b>	<b>\$ 67,238</b>	<b>\$ 54,071</b>



The following tables summarize the relationship between our plans' benefit obligations and assets.

U.S. Plans				
	2004		2003	
	Benefit Obligation	Plan Assets	Benefit Obligation	Plan Assets
<i>(In thousands)</i>				
Plans with projected benefit obligation in excess of plan assets	\$124,704	\$104,891	\$109,609	\$85,008
Plans with accumulated benefit obligation in excess of plan assets	\$ 667		\$ 1,670	\$ 612
Plans with assets in excess of projected benefit obligations	\$ 3,962	\$ 5,029	\$ 2,662	\$ 3,661
Plans with assets in excess of accumulated benefit obligations	\$ 99,665	\$109,920	\$ 84,494	\$88,057

Non-U.S. Plans				
	2004		2003	
	Benefit Obligation	Plan Assets	Benefit Obligation	Plan Assets
<i>(In thousands)</i>				
Plans with projected benefit obligation in excess of plan assets	\$77,533	\$56,377	\$47,525	\$32,070
Plans with accumulated benefit obligation in excess of plan assets	\$43,705	\$32,403	\$22,837	\$14,279
Plans with assets in excess of accumulated benefit obligations	\$23,533	\$23,973	\$17,771	\$17,790

To develop the expected long-term rate of return on pension plan assets assumption, we consider the current and expected target asset allocations of the pension portfolio, as well as historical returns and future expectations for returns on various categories of plan assets. The following weighted average assumptions were used to determine our year-end benefit obligations and net periodic pension cost under the plans:

	U.S. Plans			Non-U.S. Plans		
	2004	2003	2002	2004	2003	2002
Year-End Benefit Obligations						
Discount rate	6.00%	6.70%	7.25%	5.65%	6.43%	6.63%
Rate of compensation increase	3.50%	4.00%	4.00%	3.48%	3.95%	4.00%

	U.S. Plans			Non-U.S. Plans		
	2004	2003	2002	2004	2003	2002
Net Periodic Pension Cost						
Discount rate	6.70%	7.25%	7.50%	6.43%	6.63%	6.63%
Expected return on plan assets	8.75%	9.00%	9.00%	7.25%	8.25%	8.13%
Rate of compensation increase	4.00%	4.00%	4.00%	3.95%	4.00%	4.00%

The following tables illustrate the weighted average actual and target allocation of plan assets:

U.S. Plans				Non-U.S. Plans			
	Target Allocation as of February 2004	Actual Asset Allocation			Target Allocation as of February 2004	Actual Asset Allocation	
		2004	2003			2004	2003
Equity securities	70%	70%	51%	Equity securities	49%	59%	58%
Fixed income securities	25%	21%	25%	Fixed income securities	47%	38%	40%
Cash	5%	5%	24%	Cash	1%	1%	2%
Other		4%		Property and other	3%	2%	
Total assets	100%	100%	100%	Total assets	100%	100%	100%

The primary objective for the investments of the Retirement Plan is to provide for long-term growth of capital without undue exposure to risk. This is accomplished by utilizing a strategy of equities, fixed income securities and cash equivalents in a mix that is conducive to participation in a rising market, while allowing for adequate protection in a falling market. The Plan Investment Committee oversees the investment allocation process, which includes the selection and evaluation of investment managers, the determination of investment objectives and risk guidelines, and the monitoring of actual investment performance. In order to properly manage investment risk, plan policy prohibits short selling, securities lending, financial futures, options and other specialized investments, except for certain alternative investments specifically approved by the Investment Committee. The Investment Committee reviews, on a quarterly basis, reports of actual plan investment performance provided by independent third parties, in addition to its review of the plan investment policy on an annual basis.

Outside the U.S., the investment objectives are similar, subject to local regulations. In general, investments are managed by private investment managers, reporting to our Investment Committee on a regular basis.

In addition to the defined benefit pension plans discussed above, we also sponsor employee savings plans under Section 401(k) of the Internal Revenue Code, which cover many employees in the United States. The majority of the plans provide for matching contributions based upon qualified employee contributions. Matching contributions are invested in the same manner in which the participants invest their own contributions. Matching contributions charged to income were \$7.8 million, \$6.1 million and \$5.2 million for the years ended May 31, 2004, 2003 and 2002, respectively.

#### NOTE G – POSTRETIREMENT HEALTH CARE BENEFITS

We sponsor several unfunded health care benefit plans for certain of our retired employees. Eligibility for these benefits is based upon minimum age and service requirements. The following table illustrates the effect on operations of these plans for the three years ended May 31, 2004:

(In thousands)	2004	2003	2002
Service cost –			
Benefits earned during this period	\$ 216	\$ 177	\$ 131
Interest cost on the accumulated obligation	1,030	974	945
Amortization of unrecognized (gains)		(47)	(51)
<b>Net Periodic Postretirement Expense</b>	<b>\$1,246</b>	<b>\$1,104</b>	<b>\$1,025</b>

The changes in the benefit obligations of the plans at May 31, 2004 and 2003 were as follows:

<i>(In thousands)</i>	2004	2003
Accumulated postretirement benefit obligation at beginning of year	\$14,854	\$13,482
Service cost	216	177
Interest cost	1,030	974
Benefit payments	(1,037)	(933)
Actuarial (gains) losses	2,666	839
Currency exchange rate changes	551	315
Accumulated postretirement benefit obligation at end of year	18,280	14,854
Unrecognized actuarial gains (losses)	(2,612)	86
<b>Accrued Postretirement Health Care Benefits</b>	<b>\$15,668</b>	<b>\$14,940</b>

A measurement date of May 31, 2004 was used to determine postretirement benefit measurements outlined above.

A 6.0% general discount rate was used in determining the accumulated postretirement benefit obligation as of May 31, 2004 (6.7% for 2003). A general discount rate of 6.7% was used to determine the net periodic postretirement expense for the year ended May 31, 2004 (7.25% for 2003). Also used in determining the year-end accumulated postretirement benefit obligation was a 10.0% increase in the cost of covered health care benefits for fiscal 2004 (9.0% for 2003). This trend rate in all cases is assumed to decrease to 5.0% after several years and remain at that level thereafter, except for various union plans, which will cap at alternate benefit levels. A health care cost trend rate of 9.0% was used in measuring the net periodic postretirement expense for the year ended May 31, 2004 (8.0% for 2003). Increasing the health care costs trend rate by 1.0% would have increased the accumulated postretirement benefit obligation as of May 31, 2004 by \$2.4 million and the net postretirement expense by \$0.2 million. Decreasing the health care costs trend rate by 1.0% would have decreased the accumulated postretirement benefit obligation as of May 31, 2004 by \$2.0 million and the net postretirement expense by \$0.2 million.

The Medicare Prescription Drug, Improvement and Modernization Act (the "Act") was enacted on December 8, 2003. The Act introduces a prescription drug benefit under Medicare Part D, in addition to a federal subsidy to sponsors of postretirement benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare Part D. In accordance with FASB Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," we have elected to defer recognition of the Act. Therefore, the effects of this Act have not been reflected in the accumulated postretirement benefit obligation or net periodic postretirement benefit cost.

Upon clarification of accounting for the Act, we may be required to change previously reported information. Also upon clarification, we may choose to amend our postretirement medical plan to reflect the benefits of the Act.

#### NOTE H – CONTINGENCIES AND LOSS RESERVES

Accrued loss reserves and asbestos-related liabilities consist of the following:

May 31	2004	2003
<i>(In thousands)</i>		
Accrued product liability reserves	\$ 47,402	\$ 53,207
Accrued warranty reserves	5,670	6,328
Accrued environmental reserves	3,627	4,695
Accrued loss reserves – current	56,699	64,230
Asbestos-related liabilities – current	47,500	41,583
<b>Total Reserves – Current</b>	<b>\$104,199</b>	<b>\$105,813</b>
Accrued warranty reserves – noncurrent	\$ 5,579	\$ 7,781
Asbestos-related liabilities – noncurrent	43,107	103,000
<b>Total Reserves – Noncurrent</b>	<b>\$ 48,686</b>	<b>\$110,781</b>

We provide, through our wholly owned insurance subsidiaries, certain insurance coverage, primarily product liability, to our other subsidiaries. Excess coverage is provided by outside carriers. The reserves reflected above provide for these potential losses as well as other uninsured claims. In fiscal 2003, product liability reserves increased to \$53.2 million, or by approximately \$16.5 million, as a result of a preliminary determination of liability under

a proposed class action lawsuit settlement covering Dryvit's exterior insulated finish systems product line. The liability was substantially covered by excess coverage from outside insurance carriers, and offsetting receivables were recorded at that time. Portions of those receivables have already been funded in cash at the end of fiscal 2004, with the remainder reflected as short- and long-term receivables. The increase in the accrual in 2003 relating to the class action lawsuit had no impact on our statement of operations as a result of the outside insurance funding. This accrual increase is expected to be a one-time event, caused by the class action lawsuit. Accrual movement has returned to historic patterns in fiscal 2004.

Certain of our wholly owned subsidiaries, principally Bondex International, Inc. (Bondex), along with many other U.S. companies, are and have been involved in a large number of asbestos-related suits filed primarily in state courts during the past two decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products. The alleged claims relate primarily to products that Bondex sold through 1977. In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred resulted from exposure to Bondex products.

The rate at which plaintiffs filed asbestos-related suits against Bondex increased in the fourth quarter of 2002 and the first two quarters of 2003, influenced by the bankruptcy filings of numerous other defendants in asbestos-related litigation. Based on the significant increase in asbestos claims activity, which in many cases disproportionately increased Bondex's exposure in joint and several liability law states, our third-party insurance was depleted within the first fiscal quarter of 2004, as previously reported. Our third-party insurers historically had been responsible, under various cost-sharing arrangements, for the payment of approximately 90% of the indemnity and defense costs associated with our asbestos litigation. Prior to this sudden precipitous increase in loss rates, the combination of book loss reserves and insurance coverage was expected to adequately cover asbestos liabilities for the foreseeable future. We have reserved our rights with respect to various of our third-party insurers' claims of exhaustion, and in late calendar 2002 commenced reviewing our known insurance policies to determine whether other insurance limits may be available to cover our asbestos liabilities. As a result of this examination and as previously disclosed, certain of our

subsidiaries filed a complaint for declaratory judgment, breach of contract and bad faith against various third-party insurers, challenging their assertion that their policies covering asbestos-related claims have been exhausted. Since the July 3, 2003 filing in Ohio, this action was combined with a related case and, pursuant to a December 9, 2003 case management order, the parties are to complete discovery by April 30, 2005. The court order provides other deadlines for various stages of the case, including dispositive motions, and the court has established a trial date of March 6, 2006. It is possible that these dates may be modified as the case progresses. We are unable at the present time to predict the timing or ultimate outcome of this litigation. Consequently, we are unable to predict whether, or to what extent, any additional insurance may be available to cover a portion of our asbestos liabilities. We have not included any potential benefits from this litigation either in our financial statements or in calculating the \$140.0 million reserve, which was established in the fourth quarter of fiscal 2003. Our wholly owned captive insurance companies have not provided any insurance or re-insurance coverage of any asbestos-related claims.

During the last seven months of 2003, new state liability laws were enacted in three states (Ohio, Mississippi and Texas) where more than 80% of the claims against Bondex were pending. Effective dates for the last two of the law changes were April 8, 2003 and July 1, 2003. The changes generally provided for liability to be determined on a "proportional cause" basis, thereby limiting Bondex's responsibility to only its share of the alleged asbestos exposure. At the end of 2003, the ultimate impact of these initial state law changes was difficult to predict given the limited time following enactment. The full influence of these initial state law changes on legal settlement values was not expected to be significantly visible until the latter part of fiscal 2004. Claims in the three subject states at year-end 2004 represent approximately 70% of aggregate claims. During the third and fourth quarters of 2004, two of the three previously mentioned states that adopted "proportional cause" liability in 2003 passed additional legislation impacting asbestos liability lawsuits. Among the recent changes are enhanced medical criteria and product identification to be presented by plaintiffs in litigation. While there have been some changes in the type of claims filed in



certain of these states, the ultimate influence these law changes may have on future claims activity and settlement values remains uncertain.

At the end of 2002 and through the third quarter of 2003, Bondex had concluded it was not possible to estimate its cost of disposing of asbestos-related claims that might be filed against Bondex in the future due to a number of reasons, including its lack of sufficient comparable loss history from which to assess either the number or value of future asbestos-related claims. During the fourth quarter of 2003, Bondex retained a nationally recognized consulting firm with broad experience in estimating resolution costs associated with mass tort litigation, including asbestos, to assist it in analyzing its loss history data, to evaluate whether it would be possible to estimate the cost of disposing of pending claims in light of both past and recent loss history, and to assist in determining whether future asbestos-related claims reasonably expected to be filed against Bondex were measurable, given recent changes in various state laws.

Bondex provided the consultants with all relevant data regarding asbestos-related claims filed against Bondex through May 31, 2003. Management, with the consultants' input, concluded that it was not possible to currently estimate the full range of the cost of resolving future asbestos-related claims against Bondex because of various uncertainties associated with those potential future claims. These uncertainties, which hindered the consultant's and Bondex's ability to project future claim volumes and resolution costs, included the following:

- The bankruptcies of other companies facing large asbestos liability were a likely contributing cause of a sharp increase in filings against many defendants, including Bondex.
- The recent state law changes in states wherein the vast majority of our claims are pending and have been historically filed are expected to materially affect future losses and future claim filing activity and resolution costs.
- The currently proposed federal legislative initiative aimed at establishment of a federal asbestos trust fund has influenced and changed the demand behavior of plaintiffs from that of historic levels, creating further uncertainty in the estimation process.

At May 31, 2003, we could not estimate the liability that would result from all future claims. We established a reserve for those pending cases that had progressed to a

stage where the cost to dispose of these cases could reasonably be estimated. The estimation of even pending cases was and is always difficult due to the dynamic nature of asbestos litigation. The estimated range of potential loss covering measurable known asbestos claims and a provision for future claims that were estimable at May 31, 2003 was \$140.0 million to \$145.0 million. Accordingly, we established a reserve equal to the lower end of this range of potential loss by taking an asbestos charge to 2003 operations of \$140.0 million. We believed then and continue to believe that the asbestos reserve would be sufficient to cover asbestos-related cash flow requirements over the estimated three-year life of the reserve. The \$140.0 million charge also includes \$15.0 million in total projected defense costs over the estimated three-year life of the reserve. Additionally, Bondex's share of costs (net of then-available third-party insurance) for asbestos-related product liability was \$6.7 million and \$2.8 million for the years ended May 31, 2003 and 2002, respectively.

We recognize that future facts, events and legislation, both state and/or federal, may alter our estimates of both pending and future claims. We cannot estimate possible liabilities in excess of those accrued because we cannot predict the number of additional claims that may be filed in the future, the grounds for such claims, the damages that may be demanded, the probable outcome, or the impact of the last 16 months of state law changes and pending federal legislation on prospective asbestos claims. Subject to the foregoing variables, including the timing and impact of such variables, our asbestos reserve should be sufficient to cover asbestos-related cash flow requirements through fiscal 2006. It is, however, reasonably possible that our actual costs for claims could differ from current estimates, but, based upon information presently available, such future costs are not expected to have a material effect on our competitive or financial position or our ongoing operations. However, our existing reserve will not likely be adequate to cover the costs of future claims beyond the three-year period contemplated by the reserve. Accordingly, it is probable that an additional charge will be required in some future period as those unforeseeable claims (as of the time the reserve was established) become measurable. Any such future charge, when taken, could therefore have a material impact on our results in such period.

In conjunction with outside advisors, we will continue to study our asbestos-related exposure and regularly evaluate the adequacy of this reserve and the related cash flow implications in light of actual claims experience, the impact of state law changes and the evolving nature of federal legislative efforts to address asbestos litigation. We will

continue to explore all feasible alternatives available to resolve our asbestos-related exposure in a manner consistent with the best interests of our Stockholders.

The following table illustrates the movement of current and long-term asbestos-related liabilities for the three years ended May 31, 2004:

<i>(In thousands)</i>	Balance at Beginning of Period	Additions Charged to Selling, General and Administrative	Deductions (Primarily Claims Paid)	Balance at End of Period
Year ended May 31, 2004	\$144,583		\$53,976	\$ 90,607
Year ended May 31, 2003	3,377	\$146,650	5,444	144,583
Year ended May 31, 2002	3,117	2,754	2,494	3,377

In addition, like others in similar businesses, we 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 do not take into consideration any possible recoveries of future insurance proceeds or claims against third parties. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience.

Due to the uncertainty inherent in the loss reserve estimation process, we are unable to estimate an additional range of loss in excess of our accruals. It is at least reasonably possible that actual costs will differ from estimates, but, based upon information presently available, such future costs are not expected to have a material adverse effect on our competitive or financial position or our ongoing results of operations. However, such costs could be material to results of operations in a future period.

#### **NOTE I – SEGMENT INFORMATION**

We operate a portfolio of businesses 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 into two operating segments – industrial and consumer – based on the nature of business activities, products and services; the structure of management; and the structure of information as presented to our Board of Directors. Within each segment, individual

operating companies or groups of companies generally address common markets, utilize similar technologies, and can share manufacturing or distribution capabilities.

In addition to two operating segments, there are certain business activities, referred to as corporate/other, that do not constitute an operating segment, including 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 operating segment. Related assets consist primarily of investments, prepaid expenses, deferred pension assets, and headquarters property and equipment. These corporate and other assets and expenses reconcile operating segment data to total consolidated net sales, income before income taxes, identifiable assets, capital expenditures, and depreciation and amortization.

The nine largest consumer segment customers represented approximately 25%, 24% and 24% of our consolidated net sales and approximately 55%, 53% and 50% of consumer segment net sales for 2004, 2003 and 2002, respectively. Sales to The Home Depot represented 12%, 12% and 11% of our consolidated net sales and 26%, 25% and 24% of consumer segment net sales for 2004, 2003 and 2002, respectively.

We reflect income from our joint ventures on the equity method, and receive royalties from our licensees. Total income from royalties and joint ventures amounted to approximately 2% or less of income before income taxes for each of the periods presented, and is therefore included

as an offset to selling, general and administrative expenses. Export sales amounted to less than 10% of net sales for each of the three years presented.

The following table reflects the results of our operating 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 businesses.

Year Ended May 31	2004	2003	2002
<i>(In thousands)</i>			
<b>Segment Information</b>			
Net Sales			
Industrial	\$1,272,781	\$1,117,877	\$1,053,632
Consumer	1,068,791	965,612	932,494
Corporate/Other			
<b>Total</b>	<b>\$2,341,572</b>	<b>\$2,083,489</b>	<b>\$1,986,126</b>
Income Before Income Taxes			
Industrial	\$ 140,706	\$ 122,568	\$ 106,703
Consumer	142,852	131,100	117,717
Corporate/Other	(65,942)	(205,815)	(70,296)
<b>Total</b>	<b>\$ 217,616</b>	<b>\$ 47,853</b>	<b>\$ 154,124</b>
Identifiable Assets			
Industrial	\$1,111,978	\$1,067,916	\$ 962,742
Consumer	1,087,239	1,038,350	1,000,928
Corporate/Other	153,902	140,945	115,174
<b>Total</b>	<b>\$2,353,119</b>	<b>\$2,247,211</b>	<b>\$2,078,844</b>

Capital Expenditures			
Industrial	\$ 26,043	\$ 18,741	\$ 17,743
Consumer	23,303	22,095	20,559
Corporate/Other	1,907	978	1,629
<b>Total</b>	<b>\$ 51,253</b>	<b>\$ 41,814</b>	<b>\$ 39,931</b>

Depreciation and Amortization			
Industrial	\$ 30,764	\$ 27,537	\$ 26,883
Consumer	29,503	29,216	28,605
Corporate/Other	3,010	1,921	1,371
<b>Total</b>	<b>\$ 63,277</b>	<b>\$ 58,674</b>	<b>\$ 56,859</b>

#### Geographic Information

Net Sales (based on shipping location)			
United States	\$1,873,257	\$1,683,435	\$1,615,159
Foreign			
Canada	175,493	147,063	135,694
Europe	207,557	175,657	158,328
Other Foreign	85,265	77,334	76,945
Total Foreign	468,315	400,054	370,967
<b>Total</b>	<b>\$2,341,572</b>	<b>\$2,083,489</b>	<b>\$1,986,126</b>

Assets Employed			
United States	\$1,887,414	\$1,831,666	\$1,706,128
Foreign			
Canada	154,815	151,771	147,568
Europe	242,063	197,654	160,426
Other Foreign	68,827	66,120	64,722
Total Foreign	465,705	415,545	372,716
<b>Total</b>	<b>\$2,353,119</b>	<b>\$2,247,211</b>	<b>\$2,078,844</b>

#### NOTE J – QUARTERLY INFORMATION (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended May 31, 2004 and 2003:

For Quarter Ended				
<i>(In thousands, except per share amounts)</i>	August 31	November 30	February 29	May 31
<b>2004</b>				
Net Sales	\$590,091	\$589,834	\$480,769	\$680,878
Gross Profit	\$276,111	\$265,868	\$210,594	\$312,627
Net Income	\$ 47,672	\$ 35,223	\$ 6,018	\$ 52,973
<b>Basic Earnings per Share</b>	<b>\$ 0.41</b>	<b>\$ 0.30</b>	<b>\$ 0.05</b>	<b>\$ 0.46</b>
<b>Diluted Earnings per Share</b>	<b>\$ 0.41</b>	<b>\$ 0.30</b>	<b>\$ 0.05</b>	<b>\$ 0.45</b>
<b>Dividends per Share</b>	<b>\$0.130</b>	<b>\$0.140</b>	<b>\$0.140</b>	<b>\$0.140</b>

For Quarter Ended				
<i>(In thousands, except per share amounts)</i>	August 31	November 30	February 28	May 31
<b>2003</b>				
Net Sales	\$542,413	\$517,968	\$433,562	\$589,546
Gross Profit	\$258,111	\$232,771	\$185,380	\$273,020
Net Income (Loss)	\$ 44,173	\$ 29,640	\$ 4,883	\$ (43,369)
<b>Basic and Diluted Earnings (Loss) per Share</b>	<b>\$ 0.38</b>	<b>\$ 0.26</b>	<b>\$ 0.04</b>	<b>\$ (0.38)</b>
<b>Dividends per Share</b>	<b>\$0.125</b>	<b>\$0.130</b>	<b>\$0.130</b>	<b>\$0.130</b>

Quarterly earnings per share may not total to the yearly earnings per share due to the weighted average number of shares outstanding in each quarter.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### TO THE BOARD OF DIRECTORS AND STOCKHOLDERS

#### RPM International Inc. and Subsidiaries

#### Medina, Ohio

We have audited the accompanying consolidated balance sheets of RPM International Inc. and Subsidiaries as of May 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended May 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RPM International Inc. and Subsidiaries at May 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2004, in conformity with U.S. generally accepted accounting principles.

*Ciulla, Smith & Dale, LLP*

Cleveland, Ohio

July 2, 2004

## QUARTERLY STOCK PRICE AND DIVIDEND INFORMATION

RPM International Inc. shares of common stock are traded on the New York Stock Exchange under the symbol RPM. The high and low sales prices for the shares of common stock, and the cash dividends paid on the common stock, for each quarter of the two most recent fiscal years are set forth in the table below.

#### Range of Sales Prices and Dividends Paid

Fiscal 2004	High	Low	Dividends paid per share
First Quarter	\$14.20	\$12.28	\$0.130
Second Quarter	\$15.28	\$12.90	\$0.140
Third Quarter	\$17.24	\$14.93	\$0.140
Fourth Quarter	\$17.00	\$13.29	\$0.140
Fiscal 2003	High	Low	Dividends paid per share
First Quarter	\$16.59	\$11.58	\$0.125
Second Quarter	\$16.01	\$12.90	\$0.130
Third Quarter	\$15.90	\$ 9.29	\$0.130
Fourth Quarter	\$12.50	\$ 9.10	\$0.130

Source: *The Wall Street Journal*

Cash dividends are payable quarterly, upon authorization of the Board of Directors. Regular payment dates are approximately the last day of July, October, January and April.

The number of holders of record of RPM common stock as of August 2, 2004 was approximately 36,770.

# board of directors



Left to right:  
 Bruce A. Carbonari  
 Albert B. Ratner  
 William A. Papenbrock  
 Edward B. Brandon  
 Joseph P. Viviano  
 Dr. Jerry Sue Thornton  
 Frank C. Sullivan  
 Thomas C. Sullivan  
 Donald K. Miller  
 James A. Karman  
 E. Bradley Jones  
 Dr. Max D. Amstutz

**Dr. Max D. Amstutz** (2) Elected 1995;  
 Chairman, Finter Bank Zurich, Switzerland

**Edward B. Brandon** (1), (3\*) Elected 1989;  
 retired Chairman and Chief Executive Officer,  
 National City Corporation, Cleveland, Ohio (a  
 financial holding company)

**Bruce A. Carbonari** (4) Elected 2002;  
 President and Chief Executive Officer, Fortune  
 Brands Home and Hardware (a consumer prod-  
 ucts company specializing in kitchen, bath and  
 related products)

**E. Bradley Jones** Elected 1990, retired July  
 2004; retired Chairman and Chief Executive  
 Officer, Republic Steel Corporation, LTV Steel  
 Company, Cleveland, Ohio, and Group Vice  
 President, LTV Corporation, Dallas, Texas

**James A. Karman** (1) Elected 1963; retired  
 Vice Chairman, RPM International Inc.

**Donald K. Miller** (2\*) Elected 1972; Chairman,  
 Axiom International Investor LLC, Greenwich,  
 Connecticut (an international equity asset  
 management firm)

**William A. Papenbrock** (4) Elected 1972;  
 retired Partner and past Vice Chairman of the  
 Executive Committee, Calfee, Halter & Griswold  
 LLP, Cleveland, Ohio (attorneys at law)

**Albert B. Ratner** (1), (3) Elected 1996;  
 Co-Chairman of the Board of Forest City  
 Enterprises, Inc., Cleveland, Ohio (a diversified  
 real estate development corporation)

**Frank C. Sullivan** (1\*) Elected 1995; President  
 and Chief Executive Officer

**Thomas C. Sullivan** (1) Elected 1963;  
 Chairman of the Board, retired Chief Executive  
 Officer, RPM International Inc.

**William B. Summers, Jr.** (2) Appointed  
 July 2004 (not shown); Chairman, McDonald  
 Investments Inc., Cleveland, Ohio (an investment  
 banking and securities firm and a subsidiary  
 of KeyCorp)

**Dr. Jerry Sue Thornton** (1), (3) Elected 1999;  
 President of Cuyahoga Community College

**Joseph P. Viviano** (4\*) Elected 2001; retired  
 Vice Chairman, Hershey Foods Corporation,  
 Hershey, Pennsylvania

- (1) Executive Committee
- (2) Audit Committee
- (3) Compensation Committee
- (4) Governance & Nominating Committee
- \* Chairman to the Committee

## officers

**Frank C. Sullivan**  
 President and Chief Executive Officer

**P. Kelly Tompkins**  
 Senior Vice President, General Counsel and Secretary

**Ronald A. Rice**  
 Senior Vice President – Administration and Assistant Secretary

**Dennis F. Finn**  
 Vice President – Environmental and Regulatory Affairs

**Glenn R. Hasman**  
 Vice President – Finance and Communication

**Paul G. P. Hoogenboom**  
 Vice President – Operations and Chief Information Officer

**Stephen J. Knoop**  
 Vice President – Corporate Development

**Robert L. Matejka**  
 Vice President – Chief Financial Officer and Controller

**Keith R. Smiley**  
 Vice President, Treasurer and Assistant Secretary



# operating companies

## INDUSTRIAL SEGMENT

**Agpro (N.Z.) Limited**  
Auckland, New Zealand  
[www.agpro.co.nz](http://www.agpro.co.nz)

**Alteco Technik GmbH**  
Twistringen, Germany  
[www.alteco-technik.de](http://www.alteco-technik.de)

**APSA S. p. A.**  
Milan, Italy

**Carboline Company**  
St. Louis, Missouri  
[www.carboline.com](http://www.carboline.com)

**Chemical Specialties Mfg. Corp.**  
Baltimore, Maryland  
[www.chemspecworld.com](http://www.chemspecworld.com)

**Compact Technology GmbH**  
Traunreut, Germany  
[www.compacttech.com](http://www.compacttech.com)

**Day-Glo Color Corp.**  
Cleveland, Ohio  
[www.dayglo.com](http://www.dayglo.com)

**Dryvit Systems, Inc.**  
West Warwick, Rhode Island  
[www.dryvit.com](http://www.dryvit.com)

**Ecoloc N.V.**  
Brecht, Belgium  
[www.lock-tile.com](http://www.lock-tile.com)

**The Euclid Chemical Company**  
Cleveland, Ohio  
[www.euclidchemical.com](http://www.euclidchemical.com)

**Fibergrate Composite Structures Incorporated**  
Dallas, Texas  
[www.fibergrate.com](http://www.fibergrate.com)

**Kop-Coat, Inc.**  
Pittsburgh, Pennsylvania  
[www.kop-coat.com](http://www.kop-coat.com)

**Nullifire Limited**  
Coventry, United Kingdom  
[www.nullifire.com](http://www.nullifire.com)

**Radiant Color N.V.**  
Houthalen, Belgium  
[www.radiantcolor.be](http://www.radiantcolor.be)

**Republic Powdered Metals, Inc.**  
Medina, Ohio  
[www.rpmrepublic.com](http://www.rpmrepublic.com)

**RPM/Belgium N.V.**  
Tielt, Belgium  
[www.rpm-belgium.be](http://www.rpm-belgium.be)

**Stonhard**  
Div. of StonCor Group, Inc.  
Maple Shade, New Jersey  
[www.stoncor.com](http://www.stoncor.com)  
[www.stonhard.com](http://www.stonhard.com)

**TCL, Inc.**  
Ellaville, Georgia  
[www.tcipowder.com](http://www.tcipowder.com)

**Tremco Barrier Solutions, Inc.**  
Reynoldsburg, Ohio  
[www.guaranteeddrybasements.com](http://www.guaranteeddrybasements.com)

**Tremco Incorporated**  
Beachwood, Ohio  
[www.tremcoinc.com](http://www.tremcoinc.com)

**Weatherproofing Technologies, Inc.**  
Beachwood, Ohio  
[www.tremcoroofing.com](http://www.tremcoroofing.com)

## CONSUMER SEGMENT

**Bondo Corporation**  
Atlanta, Georgia  
[www.bondo.com](http://www.bondo.com)

**Chemical Coatings, Inc.**  
Hickory, North Carolina

**DAP Canada**  
Div. of RPM Canada  
Scarborough, Ontario  
[www.dap.com](http://www.dap.com)

**DAP Products Inc.**  
Baltimore, Maryland  
[www.dap.com](http://www.dap.com)

**Guardian Products, Inc.**  
Ceres, California  
[www.guardianproducts.com](http://www.guardianproducts.com)

**Mantrose-Hauser Co., Inc.**  
Westport, Connecticut  
[www.mbzgroup.com](http://www.mbzgroup.com)

**Martin Mathys N.V.**  
Zelem, Belgium  
[www.mathys.be](http://www.mathys.be)

**Modern Masters Inc.**  
North Hollywood, California  
[www.modernmastersinc.com](http://www.modernmastersinc.com)

**New Parks**  
Div. of Zinsser Co., Inc.  
Fall River, Massachusetts  
[www.newparks.com](http://www.newparks.com)

**RPM Wood Finishes Group, Inc.**  
Hickory, North Carolina  
[www.mohawk-finishing.com](http://www.mohawk-finishing.com)  
[www.hbehlen.com](http://www.hbehlen.com)  
[www.starfinishing.com](http://www.starfinishing.com)

**Rust-Oleum Argentina S.A.**  
Buenos Aires, Argentina  
[www.rustoleum.com/international.asp](http://www.rustoleum.com/international.asp)

**Rust-Oleum Consumer Brands Canada**  
Div. of RPM Canada  
Toronto, Canada

**Rust-Oleum Corporation**  
Vernon Hills, Illinois  
[www.rust-oleum.com](http://www.rust-oleum.com)

**Rust-Oleum Japan Corporation**  
Yokohama, Japan  
[www.roj.co.jp](http://www.roj.co.jp)

**Rust-Oleum Netherlands B.V.**  
Roosendaal, Netherlands  
[www.rust-oleum.nl](http://www.rust-oleum.nl)

**The Testor Corporation**  
Rockford, Illinois  
[www.testors.com](http://www.testors.com)

**Thibaut Inc.**  
Newark, New Jersey  
[www.thibautdesign.com](http://www.thibautdesign.com)

**Westfield Coatings Corp.**  
Westfield, Massachusetts

**Wolman Wood Products**  
Div. of Zinsser Co., Inc.  
Somerset, New Jersey  
[www.wolman.com](http://www.wolman.com)

**Zinsser Co., Inc.**  
Somerset, New Jersey  
[www.zinsser.com](http://www.zinsser.com)

## PLANT LOCATIONS

Argentina	Mexico
Belgium	The Netherlands
Brazil	New Zealand
Canada	Poland
China	South Africa
Colombia	United Arab Emirates
Germany	United Kingdom
Italy	United States

## TRADEMARKS USED IN THIS ANNUAL REPORT

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Wolman® is a registered trademark of Arch Wood Protection, Inc. used under license by subsidiary corporations of RPM International Inc.

# stockholder information

## **WORLD HEADQUARTERS**

RPM International Inc.  
2628 Pearl Road  
P.O. Box 777  
Medina, OH 44258  
Telephone: 330-273-5090 or 800-776-4488  
Fax: 330-225-8743  
Web site: [www.rpminc.com](http://www.rpminc.com)  
E-mail: [info@rpminc.com](mailto:info@rpminc.com)

## **ANNUAL MEETING**

Stockholders are invited to attend RPM's Annual Meeting, which will be held at the Holiday Inn Select, 15471 Royalton Road, Strongsville, Ohio, at 2 p.m. Friday, October 8, 2004. Directions can be found on the RPM web site.

## **FORM 10-K AND OTHER FINANCIAL INFORMATION**

Investors may obtain, at no charge, a copy of the RPM Annual Report to the Securities and Exchange Commission on Form 10-K, a corporate video and other investor information by writing to Kathie M. Rogers, Manager of Investor Relations, at RPM International Inc.

The Form 10-K, other public financial reports and news releases may also be obtained electronically through our web site, [www.rpminc.com](http://www.rpminc.com), under "Investor Information."

## **STOCK TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT**

National City Bank maintains RPM's stockholder records and is responsible for disbursing dividend checks. Questions concerning your account, change of address, transfer of ownership, lost certificates, safekeeping of stock certificates, dividend payments and other related items should be directed to:

National City Bank, Department 5352  
Corporate Trust Operations  
P.O. Box 92301  
Cleveland, OH 44193-0900  
Telephone: 800-988-5238 or 800-622-6757  
Fax: 216-257-8508  
E-mail: [shareholder.inquiries@nationalcity.com](mailto:shareholder.inquiries@nationalcity.com)  
[www.nationalcitystocktransfer.com](http://www.nationalcitystocktransfer.com)

## **DIRECT DEPOSIT OF DIVIDENDS**

Stockholders of record may have their dividends deposited directly into their checking or savings account through the Direct Deposit Program at no charge. For information regarding this service, please contact National City Bank at the address shown above.

## **INTERNET ACCOUNT ACCESS**

Stockholders of record may access their accounts via the Internet to review account holdings and transaction history through National City Bank's StockAccess<sup>SM</sup> at [www.ncstockaccess.com](http://www.ncstockaccess.com). Stockholders can download frequently used forms as well from this web site. For log-in assistance, stockholders should contact National City Bank at 800-622-6757 or 800-988-5238.

## **INSTITUTIONAL INVESTOR AND SECURITY ANALYST INQUIRIES**

Security analysts and investment professionals with questions regarding RPM should contact Glenn R. Hasman, Vice President of Finance and Communications, at 330-273-8820 or at [ghasman@rpminc.com](mailto:ghasman@rpminc.com).

## **DIVIDEND PAYMENTS**

Common stock cash dividends are payable quarterly, upon authorization of the Board of Directors. Regular payment dates are typically the 31st of July, October and January and the 30th of April. RPM has increased the cash dividend payments to its stockholders for 30 consecutive years.

## **DIVIDEND REINVESTMENT PLAN**

RPM maintains a Dividend Reinvestment Plan whereby cash dividends, and a maximum of an additional \$5,000 per month, may be invested in RPM shares at no commission cost. Approximately 88 percent of the stockholders of record participate in the RPM Dividend Reinvestment Plan. Details of the Plan are available by contacting RPM, Shareholder Services, at 800-776-4488.

Questions concerning existing Dividend Reinvestment accounts should be directed to:

National City Bank, Department 5352  
Corporate Trust Operations  
P.O. Box 94946  
Cleveland, OH 44101-4946  
Telephone: 800-988-5238 or 800-622-6757  
Fax: 216-257-8367  
E-mail: [shareholder.inquiries@nationalcity.com](mailto:shareholder.inquiries@nationalcity.com)

## **INDEPENDENT ACCOUNTANTS**

Ciulla, Smith & Dale, LLP, Cleveland, Ohio

## **COUNSEL**

Calfee, Halter & Griswold LLP, Cleveland, Ohio

## **STOCK EXCHANGE LISTING**

**RPM** RPM International Inc. is listed on the New York Stock  
**LISTED**  
**NYSE** Exchange (ticker symbol "RPM").



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[www.rpm-inc.com](http://www.rpm-inc.com)

