

RPM INTERNATIONAL INC/DE/

Form 10-Q

April 08, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

- ☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 29, 2008,
- or**
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

02-0642224

(IRS Employer Identification No.)

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

(Address of principal executive offices)

44258

(Zip Code)

Registrant's telephone number including area code

(330) 273-5090

Not Applicable

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

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

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

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

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

As of April 7, 2008
121,929,478 Shares of RPM International Inc. Common Stock were outstanding.

RPM INTERNATIONAL INC. AND SUBSIDIARIES*

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

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****RPM INTERNATIONAL INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	February 29, 2008 (Unaudited) (In thousands, except per share amounts)	May 31, 2007
ASSETS		
Current Assets		
Cash and short-term investments	\$ 390,962	\$ 159,016
Trade accounts receivable (less allowances of \$21,154 and \$19,167, respectively)	554,943	744,259
Inventories	485,302	437,759
Deferred income taxes	41,084	39,276
Prepaid expenses and other current assets	206,206	189,939
Total current assets	1,678,497	1,570,249
Property, Plant and Equipment, at Cost	993,290	963,200
Allowance for depreciation and amortization	(534,364)	(489,904)
Property, plant and equipment, net	458,926	473,296
Other Assets		
Goodwill	854,980	830,177
Other intangible assets, net of amortization	347,330	353,420
Other	94,119	106,007
Total other assets	1,296,429	1,289,604
Total Assets	\$ 3,433,852	\$ 3,333,149
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 280,195	\$ 385,003
Current portion of long-term debt	101,579	101,641
Accrued compensation and benefits	120,055	132,555
Accrued loss reserves	72,731	73,178
Asbestos-related liabilities	57,500	53,000
Other accrued liabilities	112,333	119,363

Total current liabilities	744,393	864,740
Long-Term Liabilities		
Long-term debt, less current maturities	1,031,740	886,416
Asbestos-related liabilities	229,173	301,268
Other long-term liabilities	165,621	175,958
Deferred income taxes	36,095	17,897
Total long-term liabilities	1,462,629	1,381,539
Stockholders' Equity		
Preferred stock, par value \$0.01; authorized 50,000 shares; none issued		
Common stock, par value \$0.01 authorized 300,000 shares; issued and outstanding 121,819 as of February 2008; issued and outstanding 120,906 as of May 2007	1,218	1,209
Paid-in capital	600,126	584,845
Treasury stock, at cost	(5,940)	
Accumulated other comprehensive income	92,903	25,140
Retained earnings	538,523	475,676
Total stockholders' equity	1,226,830	1,086,870
Total Liabilities and Stockholders' Equity	\$ 3,433,852	\$ 3,333,149

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

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

	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
	(Unaudited)			
	(In thousands, except per share amounts)			
Net Sales	\$ 731,773	\$ 679,494	\$ 2,567,820	\$ 2,333,041
Cost of Sales	440,528	416,009	1,524,935	1,398,412
Gross Profit	291,245	263,485	1,042,885	934,629
Selling, General and Administrative Expenses	266,160	240,964	811,913	728,264
Asbestos-Related Settlement (Income)				(15,000)
Interest Expense, Net	9,462	11,146	34,287	35,664
Income Before Income Taxes	15,623	11,375	196,685	185,701
Provision for Income Taxes	3,473	1,323	61,412	61,367
Net Income	\$ 12,150	\$ 10,052	\$ 135,273	\$ 124,334
Average Number of Shares of Common Stock Outstanding:				
Basic	120,091	118,430	120,077	117,817
Diluted	130,223	120,967	130,408	128,371
Basic earnings per share of common stock	\$ 0.10	\$ 0.08	\$ 1.13	\$ 1.06
Diluted earnings per share of common stock	\$ 0.10	\$ 0.08	\$ 1.06	\$ 0.99
Cash dividends declared per share of common stock	\$ 0.190	\$ 0.175	\$ 0.555	\$ 0.510

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

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

	Nine Months Ended	
	February 29, 2008	February 28, 2007
	(Unaudited)	
	(In thousands)	
Cash Flows From Operating Activities:		
Net income	\$ 135,273	\$ 124,334
Depreciation and amortization	62,402	59,046
Items not affecting cash and other	26,173	(4,975)
Changes in operating working capital	(18,656)	(13,575)
Changes in asbestos-related liabilities, net of tax	(43,412)	(30,991)
	161,780	133,839
Cash Flows From Investing Activities:		
Capital expenditures	(29,825)	(34,111)
Acquisition of businesses, net of cash acquired	(13,995)	(75,018)
Purchases of marketable securities	(74,696)	(69,539)
Proceeds from the sale of marketable securities	66,422	52,026
Proceeds from the sale of assets	44,800	
Other	(1,472)	1,158
	(8,766)	(125,484)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	130,288	308,375
Reductions of long-term and short-term debt	(2,715)	(252,833)
Cash dividends	(67,467)	(60,949)
Exercise of stock options, including tax benefit	6,086	23,933
Repurchase of stock	(5,940)	
	60,252	18,526
Effect of Exchange Rate Changes on Cash and Short-Term Investments	18,680	2,200
Increase in Cash and Short-Term Investments	231,946	29,081
Cash and Short-Term Investments at Beginning of Period	159,016	108,616
Cash and Short-Term Investments at End of Period	\$ 390,962	\$ 137,697

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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FEBRUARY 29, 2008
(Unaudited)**

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles (GAAP) in the U.S. for complete financial statements. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three and nine month periods ended February 29, 2008 and February 28, 2007. For further information, refer to the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended May 31, 2007.

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

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

NOTE B NEW ACCOUNTING STANDARDS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48, which clarifies the accounting for uncertainty, if any, in income taxes as recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, represents a significant change in the accounting and reporting of income taxes.

FIN 48 prescribes the accounting for uncertainty in income taxes by providing guidance on the recognition threshold and measurement of a position taken in a tax return or a position expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The effective date of FIN 48 is for fiscal years beginning after December 15, 2006. We adopted this interpretation as of June 1, 2007. See Note I.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for our fiscal year ending May 31, 2009. We are currently evaluating the impact, if any, the adoption of this statement will have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 provides companies with the option to measure, at fair value, certain financial instruments and other items that are not currently required to be measured at fair value. Entities choosing the fair value option would be required to recognize subsequent changes in the fair value of those instruments and other items directly in earnings. This standard also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for our fiscal year ending May 31, 2009. We are

currently evaluating the impact that the adoption of this statement will have on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS No. 141(R) and SFAS No. 160 are required to be adopted simultaneously and are

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effective for our fiscal year ending May 31, 2010. Under SFAS No. 141(R), upon initially obtaining control of another entity or business, an acquirer will recognize 100% of the fair values of assets acquired, including goodwill, and liabilities assumed, with limited exceptions, even if the acquirer has not acquired 100% of the target. Also, under SFAS No. 141(R), transaction costs will no longer be considered part of the fair value of an acquisition, and will be expensed as incurred. SFAS No. 160 requires entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. We are currently evaluating the impact that the adoption of these statements will have on our financial statements.

NOTE C INVENTORIES

Inventories were composed of the following major classes:

	February 29, 2008	May 31, 2007
	(In thousands)	
Raw material and supplies	\$ 146,485	\$ 138,541
Finished goods	338,817	299,218
Total Inventory	\$ 485,302	\$ 437,759

NOTE D COMPREHENSIVE INCOME

The following table illustrates the components of total comprehensive income for each of the three and nine month periods ended February 29, 2008 and February 28, 2007:

	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
	(In thousands)			
Net income	\$ 12,150	\$ 10,052	\$ 135,273	\$ 124,334
Other Comprehensive Income:				
Foreign currency translation adjustments	9,705	(5,675)	47,082	(945)
Pension and other postretirement benefit liability adjustments, net of tax	1,637	246	1,637	365
Unrealized gain (loss) on securities, net of tax	(7,457)	(2,670)	2,203	4,079
Derivatives income, net of tax	(440)	2,766	5,181	7,038
Total Comprehensive Income	\$ 15,595	\$ 4,719	\$ 191,376	\$ 134,871

NOTE E ACQUISITIONS AND DIVESTITURES

On September 25, 2007, one of our subsidiaries, the StonCor Group, acquired Star Maling Group, a leading manufacturer and marketer of specialty coatings for industrial and offshore/marine applications in Scandinavia. The acquired entity had annual sales of approximately \$30.0 million for the fiscal year ended December 31, 2006, and consists of three divisions, Star Maling, Carboline Marine and Carboline Norge.

On November 9, 2007, we completed the sale of our Bondo subsidiary, formerly one of our consumer segment product lines, to an outside third party. Sale proceeds of \$45.0 million generated a one-time, pre-tax net gain of \$1.7 million, which has been included in selling, general and administrative (SG&A) expense for fiscal 2008. The reported amount of the gain is net of approximately \$4.2 million of transaction-related costs, including \$1.5 million for involuntary employee terminations and related costs, approximately \$1.6 million in

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