



RPM, Inc. **2001 Annual Report**

restructuring completed

positive earnings momentum restored

record sales continue for 54<sup>th</sup> consecutive year

dividend increased for 27<sup>th</sup> consecutive year

## About the Company

RPM, Inc. is a world leader in specialty coatings serving both industrial and consumer markets. Of its \$2.01 billion in fiscal 2001 sales, 55 percent was generated by industrial products, including roofing systems, sealants, corrosion control coatings, polymer floor coatings and specialty chemicals. Remaining sales were of consumer products used by professionals and do-it-yourselfers for home, automotive and boat maintenance and by hobbyists.

Leading businesses in RPM's Industrial Division include Tremco and Republic roofing systems, Carboline and Plasite corrosion control coatings, Stonhard, Fibergrate and Monile flooring systems, Vulkem and DYmeric sealants, Euco concrete and masonry additives, Day-Glo fluorescent pigments, Dryvit exterior insulation finishing systems, Chemspec commercial carpet cleaning products, Kop-Coat wood treatments, American Emulsions textile specialties and the Pettit, Woolsey and Z-Spar brands of marine coatings.

In its Consumer Division, RPM's leading product lines are Rust-Oleum rust-preventative and general purpose paints, DAP caulks and sealants, Zinsser primer-sealers and wallcovering preparation and removal products, Flecto interior stains and finishes, Bondex and Plastic Wood patch and repair products, Wolman deck coatings, Bondo auto restoration products and Testor hobby products.

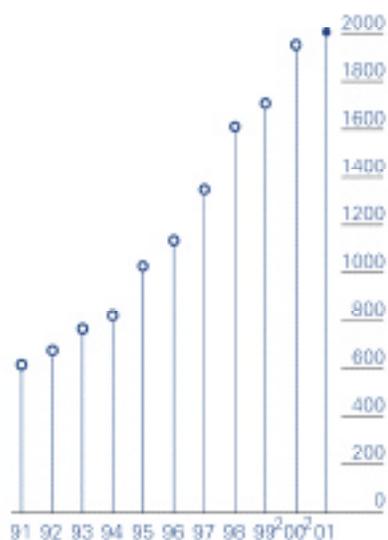
The company's common shares are traded on the New York Stock Exchange under the symbol RPM, and are owned by some 285 institutional investors and approximately 87,000 individual investors. RPM employs approximately 7,900 people, not including hundreds of independent sales and technical representatives; sells its products in more than 130 countries; and manufactures at 62 locations in 17 countries.

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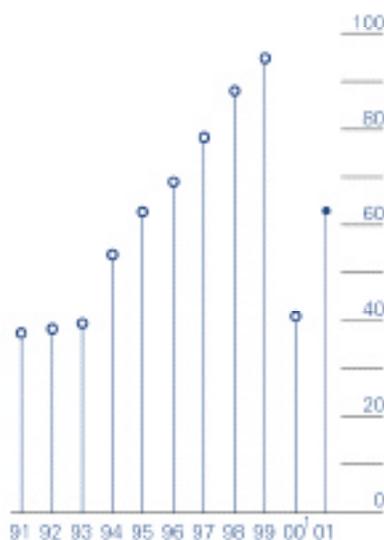
# Financial Highlights

(In millions, except per share and percent data)

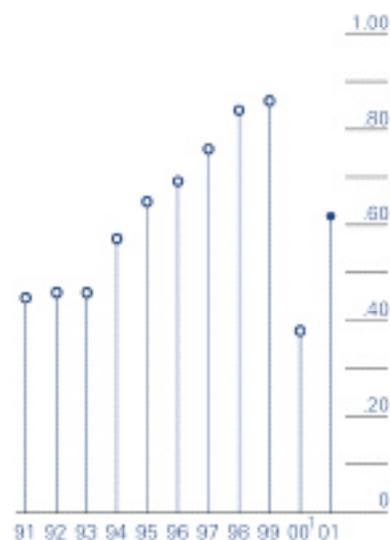
	2001	% Change	2000 <sup>1,2</sup>	% Change	1999 <sup>2</sup>
Net sales	\$2,007.8	+2%	\$1,962.4	+14%	\$1,720.6
Income before taxes	\$101.5	+41%	\$71.8	-55%	\$159.6
Net income	\$63.0	+54%	\$41.0	-57%	\$94.5
Return on sales	3.1%		2.1%		5.5%
Return on shareholders' equity	9.8%		5.9%		14.4%
Diluted earnings per share	\$0.62	+63%	\$0.38	-56%	\$0.86
Cash dividends per share	\$0.498	+3%	\$0.485	+4%	\$0.465



**Net Sales**  
(dollars in millions)



**Net Income**  
(dollars in millions)



**Diluted Earnings Per Share**  
(dollars per share)

<sup>1</sup> Includes restructuring and asset impairment charges and related costs totaling \$59.8 million, before taxes.

<sup>2</sup> Net sales for fiscal years 1999-2000 have been restated for the prescribed accounting changes adopted in the 2001 fiscal year (see Note A [16] to Consolidated Financial Statements).

# To Our Shareholders

We have thankfully concluded two very difficult years, during which RPM completed a comprehensive restructuring program. We believe we have emerged from this period as a much stronger company, capable of once again outperforming our industry in terms of both sales and earnings growth.

For the 2001 fiscal year, we reported net income of \$63.0 million, or \$0.62 per diluted share, against fiscal 2000 net income of \$41.0 million, or \$0.38 in diluted earnings per share. Fiscal 2000 results included restructuring, asset impairment and related costs of \$59.8 million pre-tax, or \$0.35 per diluted share after tax. Net sales increased 2 percent, to \$2.01 billion from \$1.96 billion reported a year ago, representing RPM's 54<sup>th</sup> consecutive year of record sales.

Fiscal 2001 results were impacted by continuing restructuring costs, much of which were associated with the Wood Finishes Group; higher interest costs due to higher interest rates and additional borrowings to support both the purchase of DAP and the now-completed share repurchase program; unfavorable foreign currency exchange rates; and overall deteriorating economic conditions.

Despite the adversity, operating earnings (prior to interest, amortization, restructuring-related and other non-operating costs) of the Industrial Division were up 9 percent on a 1 percent sales increase. The Consumer Division had a 10 percent decline in operating earnings on a 4 percent increase in sales, due in part to significant inventory adjustments by its major customers.

## Restructuring Program Completed

During the past two years, RPM's restructuring program, which included a work force reduction of approximately 10 percent and closure of 17 facilities, has consumed an extraordinary amount of management attention, both at the corporate and

operating levels. In hindsight, we attempted to do too much, too soon, and RPM's performance over the past two years suffered as a result, particularly when external conditions turned adverse as well. However, as a result of this two-year program, we are now much better positioned to regain our more traditional growth posture.

## Market Share Bolstered

Despite the difficulties encountered in fiscal 2001, virtually all of RPM's major product lines either gained or maintained market share, with the exception of the automotive aftermarket business.

## Fourth Quarter Sharply Improved

The fourth quarter ended May 31, 2001 reflected some benefits of the restructuring program, with net income increasing to \$24.3 million, or \$0.24 per diluted share, compared to \$9.6 million, or \$0.09 per diluted share, earned a year ago. Net sales during the quarter were \$548 million compared to \$549 million in the final fiscal 2000 period.

Most recent business signs are also encouraging, and we believe these fourth quarter results are indicative of RPM's performance potential going forward.

RPM's fiscal 2002 results will also be aided through a prescribed accounting standard change in treatment of goodwill amortization, which will result in approximately \$20 million in additional net income. This benefit will be ongoing.

## Debt Reduction Remains a Priority

Debt reduction continues as one of RPM's top priorities for the coming year. Aiding in debt reduction will be lower capital requirements for the next few years. As a result, capital spending will be more in line with depreciation levels.

Additionally, we expect to benefit from lower interest rates during the coming year. All of this,

along with strong earnings, will result in cash flow from operations in excess of \$150 million during the 2002 fiscal year. After allocating for dividends and capital expenditures, we expect to have \$60 million in cash to pay down debt. Proceeds from any asset sales would be used to further reduce our debt levels.

#### Dividend Increased for 27<sup>th</sup> Consecutive Year

In October 2000, RPM's Board of Directors increased the quarterly cash dividend to \$0.125 from \$0.1225 per share, marking the 27<sup>th</sup> consecutive year of cash dividend increases.

#### Joseph P. Viviano Elected to Board

We are pleased to inform you that the company's Board of Directors has elected Joseph P. Viviano, retired vice chairman and director of Hershey Foods Corporation, to fill a vacancy in Class II of RPM's Board, expiring at the company's annual meeting in 2003. During Mr. Viviano's 40-year career with Hershey Foods, he held a number of senior management positions, including president of Hershey Chocolate U.S.A. and president and chief operating officer of Hershey Foods. He currently serves on the Board of Directors of Chesapeake Corporation, Harsco Corporation, Huffy Corporation and the R.J. Reynolds Tobacco Company.

#### Executives Retire

Charles P. Brush, vice president of environmental affairs, retired May 31, 2001, following 10 years of service to RPM. Prior to joining the corporate office, Mr. Brush served as vice president of environmental and risk management at our Kop-Coat, Inc. operating company and spent nearly 30 years with the predecessor firm, Koppers Company, Inc.

Also retired during the past year was Mr. Robert D. Deitz, RPM's first director of community affairs,

a position he held since January of 1997. Before that, Mr. Deitz was president of Consolidated Coatings, a position he held for over 20 years. Consolidated Coatings, which was merged into the Tremco Group, was acquired by RPM in 1989.

Both of these individuals were great ambassadors for RPM in their respective fields and will be missed.

#### Strategic Alternatives Evaluated

We are confident that, with the restructuring program now behind us, RPM has regained its forward momentum. As we enter the new fiscal year, we are examining strategic alternatives to significantly enhance shareholder value. Our goals in this process are:

- To significantly reduce debt;
- To re-create the financial flexibility to resume growth through strategic acquisitions that complement our core competencies; and
- To restore our capacity to generate RPM's traditional levels of double-digit earnings growth.

We do appreciate the patience of our shareholders as we have worked through this process and believe that the 2002 fiscal year will see welcome improvements in RPM's operations that will enhance shareholder value. We also appreciate the continued support of our customers, suppliers and employees as we look forward to improved performance in 2002 and beyond.

Sincerely,



Thomas C. Sullivan  
*Chairman and Chief Executive Officer*



James A. Karman  
*Vice Chairman*

August 27, 2001

# Selected Financial Data

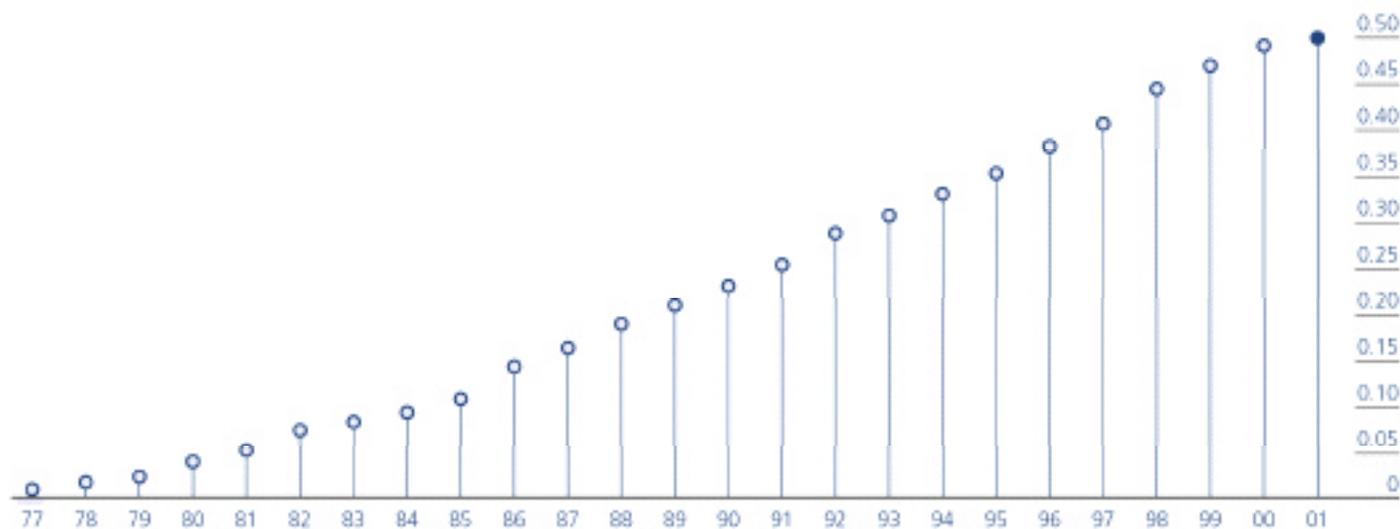
(In thousands, except per share and return data)

All financial data based on fiscal years ended May 31		2001	2000 <sup>2</sup>	1999 <sup>2</sup>
<b>Results from Operations</b>	Net sales	\$ 2,007,762	\$ 1,962,410	\$ 1,720,628
	Income before income taxes	101,487	71,761 <sup>1</sup>	159,597
	Net income	62,961	40,992 <sup>1</sup>	94,546
<b>Performance Measures</b>	Return on sales %	3.13	2.09 <sup>1</sup>	5.49
	Return on shareholders' equity %	9.8	5.9 <sup>1</sup>	14.4
<b>Per Share Data</b>	Basic earnings per share	0.62	0.38 <sup>1</sup>	0.87
	Diluted earnings per share	0.62	0.38 <sup>1</sup>	0.86
	Cash dividends per share	0.498	0.485	0.465
	Shareholders' equity per share	6.26	6.02 <sup>1</sup>	6.83
<b>Balance Sheet Highlights</b>	Shareholders' equity	639,710	645,724 <sup>1</sup>	742,876
	Retained earnings	360,458	348,102 <sup>1</sup>	359,011
	Working capital	443,652	408,890	402,870
	Total assets	2,078,490	2,099,203	1,737,236
	Long-term debt	955,399	959,330	582,109
<b>Other Data</b>	Average shares outstanding	102,202	107,221	108,731
	Depreciation and amortization	81,494	79,150	62,135

<sup>1</sup> Includes restructuring and asset impairment charges and related costs totaling \$59.8 million, before taxes.

<sup>2</sup> Net sales for fiscal years 1997-2000 have been restated for the prescribed accounting changes adopted in the 2001 fiscal year (see Note A [16] to Consolidated Financial Statements).

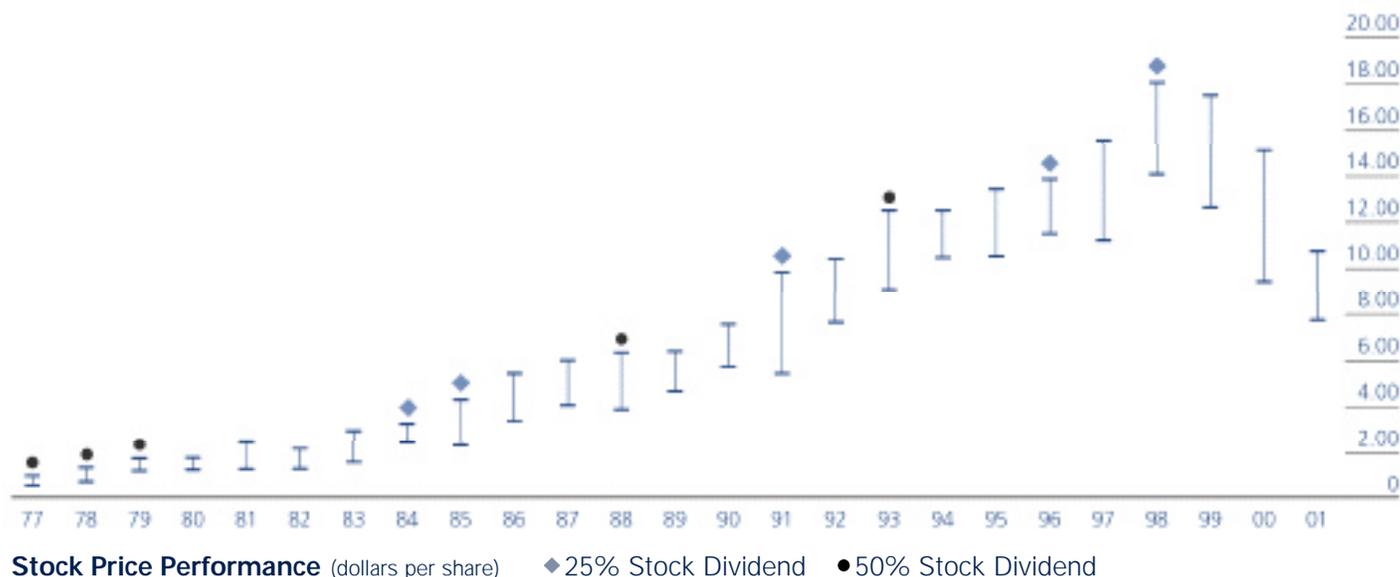
See Notes to Consolidated Financial Statements



**Cash Dividends** (dollars per share)

	1998 <sup>2</sup>	1997 <sup>2</sup>	1996	1995	1994	1993	1992	1991
\$	1,623,326	1,356,588	1,136,396	1,030,736	825,292	768,372	680,091	619,613
	149,556	135,728	119,886	108,492	89,207	66,136	61,101	54,615
	87,837	78,315	68,929	62,616	53,753	39,498	38,481	37,435
	5.41	5.77	6.07	6.07	6.51	5.14	5.66	6.04
	16.6	16.7	17.3	18.8	19.2	16.6	17.1	19.4
	0.89	0.81	0.72	0.68	0.59	0.48	0.47	0.46
	0.84	0.76	0.69	0.65	0.57	0.46	0.46	0.45
	0.440	0.408	0.378	0.352	0.326	0.303	0.284	0.255
	5.75	5.07	4.68	3.83	3.49	2.95	2.85	2.65
	566,337	493,398	445,915	350,469	316,444	243,899	233,360	215,471
	314,911	270,465	231,896	199,527	169,687	146,852	129,846	116,065
	387,284	478,535	275,722	271,635	231,684	191,872	205,419	142,581
	1,685,917	1,633,228	1,155,076	965,523	665,966	648,524	623,346	457,779
	716,989	784,439	447,654	407,041	233,969	258,712	273,871	130,800
	98,527	97,285	95,208	91,571	90,726	82,694	81,959	81,269
	57,009	51,145	42,562	37,123	26,050	22,283	20,436	15,589

Acquisitions made by the Company during the periods presented may impact comparability from year to year. Refer to Note A of Consolidated Financial Statements for years 2001, 2000 and 1999.



# Management's Discussion and Analysis

## of Results of Operations and Financial Condition

### Reportable Segment and Geographic Area Information

The Company has determined that it has 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 the Board of Directors.

Within each division, individual operating companies or groups of companies generally address common markets, utilize similar technologies, and can share manufacturing or distribution capabilities. The Company evaluates the profit performance of the two divisions based on earnings before interest and taxes since interest expense is essentially related to corporate acquisitions, as opposed to segment operations.

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

The Consumer Division's products are sold throughout North America by mass merchandisers, home centers, hardware stores, paint stores, automotive supply stores and craft shops. Major customers include Ace Hardware Stores, Cotter & Company, The Home Depot, Kmart, Lowe's Home Centers, Sherwin-Williams and Wal-Mart. Consumer Division products are sold to retailers through a combination of direct sales, sales representative organizations and distributor sales.

Sales to the seven largest customers represent approximately 19%, 16% and 12% of consolidated net sales for the years ended May 31, 2001, 2000 and

1999, respectively. These sales are predominantly within the Consumer Division and comprise approximately 41%, 37% and 32% of the division's sales for the respective periods.

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 the Company's captive insurance company, 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, earnings before interest and taxes, identifiable assets, capital expenditures, and depreciation and amortization, as follows on page 7.

Sales for the years ended May 31, 2001, 2000 and 1999 do not include sales of Company products by joint ventures and licensees, amounting to approximately \$37,000,000, \$35,000,000, and \$72,000,000, respectively. The Company reflects income from joint ventures on the equity method and receives royalties from its licensees. Export sales were less than 10% of net sales for each of the three years presented.

## Segment and Geographic Information

### Segment Information

(In thousands)

Year Ended May 31,	2001	2000 <sup>1,2</sup>	1999 <sup>2</sup>
Net sales			
Industrial Division	\$1,100,682	\$1,092,976	\$1,062,785
Consumer Division	907,080	869,434	657,843
Corporate/Other			
<b>Total</b>	<b>\$2,007,762</b>	<b>\$1,962,410</b>	<b>\$1,720,628</b>
Earnings before interest and taxes			
Industrial Division	\$ 122,034	\$ 98,980	\$ 135,632
Consumer Division	62,662	47,907	71,294
Corporate/Other	(18,006)	(23,333)	(14,548)
<b>Total</b>	<b>\$ 166,690</b>	<b>\$ 123,554</b>	<b>\$ 192,378</b>
Identifiable assets			
Industrial Division	\$1,002,209	\$ 993,239	\$1,102,531
Consumer Division	1,016,067	1,041,896	586,846
Corporate/Other	60,214	64,068	47,859
<b>Total</b>	<b>\$2,078,490</b>	<b>\$2,099,203</b>	<b>\$1,737,236</b>
Capital expenditures			
Industrial Division	\$ 30,123	\$ 34,331	\$ 35,779
Consumer Division	23,629	27,929	26,648
Corporate/Other	366	925	979
<b>Total</b>	<b>\$ 54,118</b>	<b>\$ 63,185</b>	<b>\$ 63,406</b>
Depreciation and amortization			
Industrial Division	\$ 38,579	\$ 38,519	\$ 32,668
Consumer Division	41,627	39,862	28,387
Corporate/Other	1,288	769	1,080
<b>Total</b>	<b>\$ 81,494</b>	<b>\$ 79,150</b>	<b>\$ 62,135</b>

### Geographic Information

(In thousands)

Year Ended May 31,	2001	2000 <sup>2</sup>	1999 <sup>2</sup>
Net sales (based on shipping locations)			
United States	\$1,614,112	\$1,572,919	\$1,362,722
Foreign			
Canada	140,009	135,641	115,201
Europe	164,517	172,662	171,825
Other Foreign	89,124	81,188	70,880
Total Foreign	393,650	389,491	357,906
<b>Total</b>	<b>\$2,007,762</b>	<b>\$1,962,410</b>	<b>\$1,720,628</b>
Assets employed			
United States	\$1,732,238	\$1,740,882	\$1,445,599
Foreign			
Canada	128,159	130,064	88,965
Europe	144,619	155,330	144,636
Other Foreign	73,474	72,927	58,036
Total Foreign	346,252	358,321	291,637
<b>Total</b>	<b>\$2,078,490</b>	<b>\$2,099,203</b>	<b>\$1,737,236</b>

<sup>1</sup> Includes restructuring and asset impairment charges and related costs totaling \$59.8 million, before taxes.

<sup>2</sup> Net sales for fiscal years 1999-2000 have been restated for the prescribed accounting changes adopted in the 2001 fiscal year (see Note A [16] to Consolidated Financial Statements).

## Results of Operations

### **Fiscal 2001 Compared to Fiscal 2000**

Fiscal 2001 net sales were ahead of fiscal 2000 by \$45 million, or 2%, resulting in the 54<sup>th</sup> consecutive year of business growth for RPM.

On August 3, 1999, RPM acquired DAP Products Inc. and DAP Canada Corp. (collectively "DAP"). DAP, with annual sales of approximately \$220 million, is a leading manufacturer and marketer of caulks and sealants, spackling and glazing compounds, contact cements, and other specialty adhesives. Brand names DAP, Alex Plus and Kwik Seal are well known throughout the U.S. and Canada.

On a consolidated basis, the extra two months of DAP sales this year, reported within the Consumer Division, offset the loss of sales from Industrial Division product lines divested during fiscal 2000. On a segment basis, comparable base sales, including small product line additions, grew by 4% in the Industrial Division, while base sales in the Consumer Division were flat year-over-year. The Industrial growth of 4% reflects a combination of greater unit volume [2-3%] and higher pricing [1-2%] to counter increased raw material and packaging costs during the year. In addition, foreign exchange differences had a negative impact on primarily Industrial sales between years, suppressing sales by approximately \$20 million, or 1%.

The general slowdown in the economy impacted sales in both divisions during the past year, causing spending in areas such as protective maintenance, which our products and services provide, to be deferred. The severe cold this past winter extended much further south than usual, and Europe was hit hard as well, causing sales to those regions to be much weaker than usual during our fiscal third quarter, the seasonally slowest time of the year. Furthermore, several of the Consumer Division's major accounts were aggressively de-stocking their inventories this past year, especially impacting sales to those accounts

during the months of December and March. It is management's view that this de-stocking activity is now largely completed and that sales to these accounts will normalize, all other factors being equal, as we progress through 2002.

Gross profit margin this year of 43.8% matches closely with last year's 44%. The Industrial Division margin improved to 46.4% from 45.7%, from the divested product lines during fiscal 2000, which carried lower margins and, to a lesser extent, the leveraged benefits from higher sales volume. Timely pricing initiatives in this division successfully offset rising material costs, principally oil-related, during the year, and these material costs now appear to have stabilized. The Consumer Division gross margin, in contrast, dipped to 40.7% from 41.8%, reflecting principally this division's less timely ability to gain price relief during periods of rising material costs, typically having servicing agreements with their accounts that renew annually. As these agreements are being renewed, pricing relief is generally being successfully negotiated. There were also two more months of lower-margin DAP this year than last in this division, as well as premium costs incurred to outsource certain products in order to seamlessly service customers during brief periods of insufficient capacity during information systems conversions. During 2000, this division had incurred \$7 million in inventory discontinuation costs associated with the comprehensive restructuring program initiated in August 1999.

Selling, general and administrative ("SG&A") expenses amounted to 35.5% of sales this year, compared with 35% last year. The Industrial Division expenses increased to 35.3% from 34.7% a year ago, mainly as the divested product lines during fiscal 2000 had carried relatively much lower SG&A expenses, plus additional, related costs of approximately \$3 million were incurred this year toward completion of the restructuring program. The Consumer Division expenses increased to 33.8% from

33.4%, principally from incurring approximately \$5 million in additional costs related to the restructuring program, tempered slightly by two more months of DAP, with its comparatively lower SG&A expense structure. This division also incurred higher freight costs in the form of oil-driven fuel surcharges, premiums to expedite certain shipments during restructuring, and increased handling costs to service more frequent shipments. Additional costs related to the conclusion of the restructuring program initiated during 2000 are scheduled to be fully incurred by the end of calendar 2001, and will be much lower than those incurred during fiscal 2001.

Industrial and Consumer Division 2001 earnings before interest and taxes (EBIT) were both well ahead of their reported EBIT for 2000. Excluding the restructuring and asset impairment charges and all related costs from 2000, totaling \$59.8 million, pro forma EBIT results [000s] for Industrial, Consumer and Corporate/Other were \$121,312; \$79,761; and (\$17,672), respectively, or \$183,401 in total. On that basis, Industrial EBIT year-over-year appears flat [\$122,034 vs. \$121,312], but considering the loss of EBIT from the divestitures during 2000 and the additional \$3 million spent this year toward completion of the restructuring program, Industrial EBIT during 2001 would have been \$7 million ahead of 2000, or up 6% on the 4% higher sales. On the same pro forma basis, Consumer EBIT was off \$17 million [\$62,662 vs. \$79,761], or 21%, for the reasons discussed above. Lastly, on the same pro forma basis, Corporate/Other costs were flat year-over-year [(\$18,006) vs. (\$17,672)] as certain lower costs offset higher costs for e-commerce infrastructure development, which is now completed.

In August 1999, the Company announced a comprehensive restructuring program to generate manufacturing, distribution and administrative efficiencies, and to better position the Company for

increased profitability and long-term growth. Pre-tax restructuring and asset impairment charges of \$45 million and \$7 million were taken during the first and fourth quarters of fiscal 2000, respectively. Through year-end 2001, the Company had incurred all of these charges (refer to Note I to the Consolidated Financial Statements).

Net interest expense increased \$13.4 million in 2001 (refer to Note A [12]), reflecting higher average interest rates, year-over-year, on the variable rate portion (approximately 80%) of outstanding borrowings (refer to Note B), two additional months of indebtedness related to the August 1999 DAP acquisition, and higher average indebtedness associated with the repurchase of 8,970,100 RPM common shares between January 1999 and July 2000 (refer to Note D). The Federal Reserve Board cuts in interest rates that began early in calendar 2001 are now translating into lower rates on the variable portions of the Company's outstanding borrowings, resulting in comparably lower interest costs.

The effective income tax rate this year of 38% compares favorably with last year's 42.9% rate. The 2000 rate had been impacted by the restructuring and asset impairment charges plus related costs that year. Excluding those charges and costs, the pro forma tax rate for 2000 would have been 40.3%, still higher than this year's 38%. This year's rate reduction mainly reflects an improved mix of foreign income, including fewer unusable foreign tax losses this year than last, which management expects will be sustainable.

This year's net income of \$63 million, or \$.62 per diluted share, compares favorably with last year's \$41 million, or \$.38 per diluted share. Excluding the \$59.8 million pre-tax restructuring and asset impairment charges plus related costs, pro forma net income for 2000 would have been \$78.6 million, or \$.73 per diluted share. Against pro forma 2000, 2001 net income and EPS are off 20% and 15%, respectively, as a result of the factors

discussed above. In addition, the difference in pro forma decline year-over-year between net income and EPS reflects the net benefit from the shares repurchased, which added \$.01 per diluted share to 2001 results.

### **Fiscal 2000 Compared to Fiscal 1999**

Fiscal 2000 net sales were ahead of fiscal 1999 by \$241.2 million, or 14%, representing the 53<sup>rd</sup> consecutive year of business growth for RPM. The vast majority of this increase came as a net result of the August 1999 DAP acquisition plus several product line additions, net of divestitures. DAP accounted for the majority of the year 2000 sales increase, adjusted for divestitures during 2000 and for unfavorable foreign exchange differences from year-to-year. Growth within the Industrial and Consumer Divisions' base businesses, before acquisitions, divestitures, and exchange differences, amounted to approximately 3% and 4%, respectively. These growth rates included several product line additions and are generally reflective of real unit volume increases, as price levels year-to-year remained fairly stable.

Gross profit margin in 2000 declined 2.1%, ending at 44%, compared to 1999's 46.1% performance. The Industrial Division margin of 45.7% compared with 46.5% in 1999. The key influence to this change was the difficulties experienced in reorganizing to combine certain businesses, most notably outside the U.S. Additionally, there were sales mix differences and minor raw material price increases during 2000. Management believes that such cost increases can be effectively managed, prospectively, as productive activities of its Purchasing Action Group continue. This group focuses on purchasing major common raw and packaging materials used across multiple business units, and will continue its effort to identify and expand into other select procurement opportunities going forward. The Consumer Division year 2000 margin of 41.8% compared with 45.5% 1999.

The majority of this margin reduction resulted from the DAP acquisition. DAP's entire cost structure generally differs among the Consumer Division companies, having much lower gross margins, but requiring lower support levels in the SG&A expense areas. The Consumer Division also incurred \$7 million in inventory discontinuation costs during 2000 associated with the restructuring program. In addition, the Consumer Division experienced raw material cost movements similar to those described for the Industrial Division.

SG&A expenses were essentially unchanged from 1999 to 2000 as a percentage of sales, ending both years at the 35% level. Industrial and Consumer expenses amounted to 34.7% and 33.4% in 2000 compared with 33.7% and 34.7%, respectively, in 1999. The Industrial Division increase was almost totally driven by the divestiture of business units, which carried much lower SG&A expense levels. Conversely, the Consumer Division, spending difference was the result of the lower SG&A structure of DAP.

Excluding the restructuring and asset impairment charges of \$52 million, and the related \$7.9 million of additional cost of sales, EBIT amounted to \$183.4 million in fiscal 2000 (see above), compared with \$192.4 million in fiscal 1999. As set forth, within the Industrial Division, the earnings benefits of modest volume increases were principally offset by costs incurred in reorganizing to combine certain businesses and other cost increases not recovered by price increases. The Consumer Division year-over-year comparisons disclose similar occurrences; however, the DAP acquisition helped to more than offset the earnings reduction. Weaker performance at certain business units, and general cost increases not timely covered by pricing actions, drove a net cost increase which exceeded the benefit from modest sales growth. General corporate and other expenses increased just over 10%, with the investment initiative for e-commerce infrastructure development driving the remainder of this cost increase.

Two non-core product lines, with annual sales of \$65 million, were divested for a net gain during 2000. Non-recurring expenses offset this net gain during the year.

Net interest expense increased \$19.0 million in 2000 (refer to Note A [12]), reflecting primarily the additional indebtedness to acquire DAP and smaller acquisitions throughout the year, and to repurchase RPM common shares. These increases were partly offset by interest expense saved from the August 10, 1998 redemption of convertible debt securities, which reduced interest expense by \$1.3 million, and from debt paydowns during 2000. Fractionally higher interest rates in 2000 further increased net interest expense.

The effective income tax rate in 2000 was 42.9%, compared to a 1999 rate of 40.8%. The higher 2000 rate is totally attributable to the restructuring and asset impairment charges and related costs referred to above, totaling \$59.8 million, pre-tax. Excluding those charges and costs, the pro forma tax rate for 2000 would have been 40.3%, or just slightly improved from the 1999 rate.

The much lower net income in the year 2000 than in 1999 was again largely attributable to the \$59.8 million of pre-tax restructuring and asset impairment charges and related costs taken and incurred during 2000. Excluding such costs, pro forma 2000 net income would have been \$78.6 million, or \$0.73 per diluted share, with this pro forma difference attributable to the lower comparable performances in both operating segments, higher corporate expenses and the higher interest costs discussed above.

## Liquidity and Capital Resources

### Cash Provided From Operations

The Company generated \$74.5 million in cash from operations during 2001, \$28.1 million less than during 2000. The major difference between years occurred

with working capitals, particularly accounts receivable and inventory, where there was considerable, yet temporary, net consumption of cash this past year tied to the restructuring program and to certain information systems conversions during the year. These levels will be brought back in line now that these activities have been essentially completed.

The Company expects to continue to generate strong free cash flow from its operations, which remains its primary source of financing internal growth with limited use of short-term credit.

### Investing Activities

The Company is not capital intensive, and capital expenditures generally do not exceed depreciation and amortization in a given year. Other than to make ordinary repairs and replacements, capital expenditures are made to accommodate the Company's continued growth through improved production and distribution efficiencies and capacity, and to enhance administration. Capital expenditures in 2001 of \$54.1 million compare with depreciation and amortization of \$81.5 million. Approximately \$10 million of this year's expenditures were made to accommodate the restructuring program, which is now completed, and \$12 million were information technology (IT) related, including the completion of several major IT platform conversions. As previously indicated, capital spending in the IT area is expected to trend downward for the next several years.

The Company's captive insurance company invests in marketable securities in the ordinary course of conducting its operations, and this activity will continue. The differences between years are attributable to the timing and performance of its investments.

During 2001, the Company sold or divested certain non-core assets, generating total proceeds of \$31.7 million.

### **Financing Activities**

On January 22, 1999, the Company announced the authorization of a share repurchase program, allowing the repurchase of up to 5 million RPM common shares over a period of 12 months. On October 8, 1999, the Company announced the authorized expansion of this repurchase program to a total of 10 million shares. As of May 31, 2001, the Company had repurchased 8,970,100 of its common shares at an average price of \$11.11 per share. No further share repurchases under this program are anticipated at this time.

On July 14, 2000, the Company had refinanced its then-existing \$300 million and \$400 million revolving credit facilities with a \$200 million, 364-day revolving credit facility and a \$500 million, 5-year revolving credit facility. These new facilities have been available to back up the Company's \$700 million commercial paper program to the extent these facilities are not drawn upon. As of May 31, 2001, the Company had drawn \$655.7 million against these facilities and had no outstanding commercial paper. Due to the Company's current public debt ratings, access to the commercial paper market is presently limited. Subsequent to year end, the Company refinanced its \$200 million facility with a one-year term loan due July 12, 2002. The debt to capital ratio was 60% at May 31, 2000 and 2001.

The stronger dollar effect on the Company's foreign net assets reduced shareholders' equity this past year, a trend that could continue if the dollar strengthens further and foreign net assets continue to grow.

The Company maintains excellent relations with its banks and other financial institutions to support its existing businesses and to provide access to financing for future growth opportunities.

### **Other Matters**

#### **Environmental Matters**

Environmental obligations continue to be appropriately addressed and, based upon the latest available information, it is not anticipated that the outcome of such matters will materially affect the Company's results of operations or financial condition (refer to Note H to the Consolidated Financial Statements).

#### **Market Risk**

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates since it funds its operations through long- and short-term borrowings and denominates its business transactions in a variety of foreign currencies. A summary of the Company's primary market risk exposures is presented below.

#### **Interest Rate Risk**

The Company's primary interest rate risk exposure results from floating rate debt including various revolving credit and other lines of credit. At May 31, 2001, approximately 83% of the Company's total long-term debt consisted of floating rate debt. If interest rates were to increase 100 basis points (1%) from May 31, 2001 rates, and assuming no changes in long-term debt from the May 31, 2001 levels, the additional annual expense would be approximately \$8.0 million on a pre-tax basis. The Company currently does not hedge its exposure to floating interest rate risk.

#### **Foreign Currency Risk**

The Company's foreign sales and results of operations are subject to the impact of foreign currency fluctuations. As most of the Company's foreign operations are in countries with fairly stable currencies, such as the United Kingdom, Belgium and Canada, this effect has not been material. In addition, foreign debt is denominated in the respective foreign currency, thereby eliminating any related translation impact on earnings.

If the dollar continues to strengthen, the Company's foreign results of operations will be negatively impacted, but the effect is not expected to be material. A 10% adverse change in foreign currency exchange rates would not have resulted in a material impact in the Company's net income for the year ended May 31, 2001. The Company does not currently hedge against the risk of exchange rate fluctuations.

### **Euro Currency Conversion**

On January 1, 1999, eleven of the fifteen members of the European Union adopted a new European currency unit (the "euro") as their common legal currency. The participating countries' national currencies will remain legal tender as denominations of the euro from January 1, 1999 through January 1, 2002, and the exchange rates between the euro and such national currency units will be fixed. The Company has assessed the potential impact of the euro currency conversion on its operating results and financial condition. The impact of pricing differences on country-to-country indebtedness is not expected to be material. The Company converted its European operations to the euro currency basis effective June 1, 1999.

### **Forward-Looking Statements**

The foregoing discussion includes forward-looking statements relating to the business of the Company. These forward-looking statements, or other statements made by the Company, are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to uncertainties and factors (including those specified below) which are difficult to predict and, in many instances, are beyond the control of the Company. As a result, actual results of the Company could differ materially from those expressed in or implied by any such forward-looking statements. These uncertainties and factors include (a) the price and supply of raw materials, particularly titanium dioxide, certain resins, aerosols and solvents;

(b) continued growth in demand for the Company's products; (c) environmental liability risks inherent in the chemical coatings business; (d) the effect of changes in interest rates; (e) the effect of fluctuations in currency exchange rates upon the Company's foreign operations; (f) the potential impact of the euro currency conversion; (g) the effect of non-currency risks of investing in and conducting operations in foreign countries, including those relating to political, social, economic and regulatory factors; (h) future acquisitions and the Company's ability to effectively integrate such acquisitions; (i) liability risks and insurance coverage inherent in the Company's EIFS and asbestos litigation; and (j) the ability of the Company to realize the projected pre-tax savings associated with the restructuring and consolidation program, and to divest non-core product lines.

## Consolidated Balance Sheets RPM, Inc. and Subsidiaries

(In thousands, except per share amounts)

May 31	2001	2000
<b>Assets</b>		
<b>Current Assets</b>		
Cash and short-term investments (Note A)	\$ 23,926	\$ 31,340
Trade accounts receivable (less allowances of \$17,705 in 2001 and \$16,248 in 2000)	411,718	399,683
Inventories (Note A)	277,494	244,559
Prepaid expenses and other current assets	106,282	109,510
<b>Total current assets</b>	<b>819,420</b>	<b>785,092</b>
<b>Property, Plant and Equipment, At Cost (Note A)</b>		
Land	21,713	24,055
Buildings and leasehold improvements	188,590	190,658
Machinery and equipment	412,751	384,966
	623,054	599,679
Less allowance for depreciation and amortization	261,018	233,451
<b>Property, plant and equipment, net</b>	<b>362,036</b>	<b>366,228</b>
<b>Other Assets</b>		
Goodwill, net of amortization (Note A)	571,276	595,106
Other intangible assets, net of amortization (Note A)	300,372	320,631
Other	25,386	32,146
<b>Total other assets</b>	<b>897,034</b>	<b>947,883</b>
<b>Total Assets</b>	<b>\$2,078,490</b>	<b>\$2,099,203</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Notes and accounts payable	\$ 152,307	\$ 154,256
Current portion of long-term debt (Note B)	7,379	4,987
Accrued compensation and benefits	74,888	76,314
Accrued loss reserves (Note H)	55,416	64,765
Accrued restructuring reserve (Note I)	-0-	13,540
Other accrued liabilities	75,022	61,326
Income taxes payable (Notes A and C)	10,756	1,014
<b>Total current liabilities</b>	<b>375,768</b>	<b>376,202</b>
<b>Long-Term Liabilities</b>		
Long-term debt, less current maturities (Note B)	955,399	959,330
Other long-term liabilities	53,479	57,381
Deferred income taxes (Notes A and C)	54,134	60,566
<b>Total long-term liabilities</b>	<b>1,063,012</b>	<b>1,077,277</b>
<b>Total liabilities</b>	<b>1,438,780</b>	<b>1,453,479</b>
<b>Shareholders' Equity</b>		
Common shares, stated value \$.015 per share; authorized 200,000 shares; issued 111,153 and outstanding 102,211 in 2001; issued 110,947 and outstanding 103,134 in 2000 (Note D)	1,619	1,616
Paid-in capital	430,015	424,077
Treasury shares, at cost (Note D)	(99,308)	(88,516)
Accumulated other comprehensive loss (Note A)	(53,074)	(39,555)
Retained earnings	360,458	348,102
<b>Total shareholders' equity</b>	<b>639,710</b>	<b>645,724</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$2,078,490</b>	<b>\$2,099,203</b>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Income RPM, Inc. and Subsidiaries

(In thousands, except per share amounts)

Year Ended May 31	2001	2000	1999
<b>Net Sales</b>	\$2,007,762	\$1,962,410	\$1,720,628
Cost of sales	1,127,787	1,099,637	927,110
Gross profit	879,975	862,773	793,518
Selling, general and administrative expenses	713,285	687,249	601,140
Restructuring and asset impairment charge (Note I)	-0-	51,970	-0-
Interest expense, net	65,203	51,793	32,781
Income before income taxes	101,487	71,761	159,597
Provision for income taxes (Note C)	38,526	30,769	65,051
<b>Net Income</b>	<b>\$ 62,961</b>	<b>\$ 40,992</b>	<b>\$ 94,546</b>
Average shares outstanding (Note D)	102,202	107,221	108,731
Basic earnings per common share (Note D)	\$.62	\$.38	\$.87
Diluted earnings per common share (Note D)	\$.62	\$.38	\$.86
Cash dividends per common share	\$.498	\$.485	\$.465

See Notes to Consolidated Financial Statements

## Consolidated Statements of Shareholders' Equity RPM, Inc. and Subsidiaries

(In thousands)

	Common Shares			Treasury Shares	Accumulated Other Comprehensive		Total
	Number Of Shares (Note D)	Stated Value	Paid-In Capital		Loss (Note A)	Retained Earnings	
<b>Balance at May 31, 1998</b>	100,254	\$1,460	\$264,508	\$	\$(14,542)	\$314,911	<u>\$566,337</u>
Comprehensive income							
Net income						94,546	94,546
Reclassification adjustments					(65)		(65)
Other comprehensive loss					(9,301)		(9,301)
Comprehensive income							85,180
Dividends paid						(50,446)	(50,446)
Debt conversion	10,135	148	156,896				157,044
Business combinations	(24)		(417)				(417)
Repurchase of shares	(1,296)			(17,044)			(17,044)
Stock option exercises	281	4	2,218				2,222
Restricted share awards	93	1	(1)				
<b>Balance at May 31, 1999</b>	109,443	1,613	423,204	(17,044)	(23,908)	359,011	<u>742,876</u>
Comprehensive income							
Net income						40,992	40,992
Reclassification adjustments					738		738
Other comprehensive loss					(16,385)		(16,385)
Comprehensive income							25,345
Dividends paid						(51,901)	(51,901)
Repurchase of shares	(6,517)			(71,472)			(71,472)
Stock option exercises	100	1	875				876
Restricted share awards	108	2	(2)				
<b>Balance at May 31, 2000</b>	103,134	1,616	424,077	(88,516)	(39,555)	348,102	<u>645,724</u>
Comprehensive income							
Net income						62,961	62,961
Reclassification adjustments					1,015		1,015
Other comprehensive loss					(14,534)		(14,534)
Comprehensive income							49,442
Dividends paid						(50,605)	(50,605)
Repurchase of shares	(1,157)			(11,101)			(11,101)
Stock option exercises	59	1	101	309			411
Restricted share awards	175	2	5,837				5,839
<b>Balance at May 31, 2001</b>	102,211	\$1,619	\$430,015	\$(99,308)	\$(53,074)	\$360,458	<u>\$639,710</u>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows RPM, Inc. and Subsidiaries

(In thousands)

Year Ended May 31	2001	2000	1999
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 62,961	\$ 40,992	\$ 94,546
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	43,035	42,290	34,803
Amortization of goodwill	19,694	18,352	13,625
Other amortization	18,765	18,508	13,707
Asset impairment charge, net of gains	3,354	6,940	
(Decrease) in deferred liabilities	(6,432)	(31,081)	(4,189)
(Earnings) of unconsolidated affiliates	(275)	(435)	(2,332)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:			
(Increase) decrease in accounts receivable	(11,095)	6,251	(27,828)
(Increase) decrease in inventory	(37,578)	4,716	11,089
(Increase) in prepaid and other assets	(9,735)	(13,484)	(11,523)
Increase (decrease) in accounts payable	(2,812)	1,615	(6,349)
Increase (decrease) in accrued restructuring	(13,540)	13,540	
Increase (decrease) in accrued liabilities	12,373	(11,285)	7,639
Other	(4,220)	5,659	(5,467)
<b>Cash From Operating Activities</b>	<b>74,495</b>	<b>102,578</b>	<b>117,721</b>
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(54,118)	(63,185)	(63,406)
Acquisition of businesses, net of cash acquired	(2,645)	(323,033)	(34,551)
Purchase of marketable securities	(21,906)	(19,816)	(31,666)
Proceeds from marketable securities	28,283	13,142	29,895
Joint ventures (investments) and distributions	647	(500)	1,063
Proceeds from sale of assets and businesses	31,694	55,290	565
<b>Cash From (Used For) Investing Activities</b>	<b>(18,045)</b>	<b>(338,102)</b>	<b>(98,100)</b>
<b>Cash Flows From Financing Activities:</b>			
Additions to long-term and short-term debt	708,850	937,077	494,127
Reductions of long-term and short-term debt	(710,389)	(566,610)	(469,022)
Cash dividends	(50,605)	(51,901)	(50,446)
Exercise of stock options	411	876	2,222
Repurchase of shares	(11,101)	(71,472)	(17,044)
<b>Cash From (Used For) Financing Activities</b>	<b>(62,834)</b>	<b>247,970</b>	<b>(40,163)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(1,030)</b>	<b>(835)</b>	<b>(512)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(7,414)</b>	<b>11,611</b>	<b>(21,054)</b>
<b>Cash at Beginning of Year</b>	<b>31,340</b>	<b>19,729</b>	<b>40,783</b>
<b>Cash at End of Year</b>	<b>\$ 23,926</b>	<b>\$ 31,340</b>	<b>\$ 19,729</b>
<b>Supplemental Disclosures of Cash Flows Information:</b>			
Cash paid during the year for:			
Interest	\$ 60,027	\$ 55,253	\$ 36,155
Income taxes	\$ 35,216	\$ 70,086	\$ 71,904
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities:</b>			
Shares issued for restricted stock plan	\$ 1,459	\$ 1,202	\$ 1,385
Receivables (debt) from business combinations		\$ (6,724)	\$ (1,557)
Interest accreted on convertible securities			\$ 1,696
Shares (returned) in business combinations			\$ (417)
Conversion of debt to equity			\$157,044

See Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

May 31, 2001, 2000 and 1999

## **Note A – A Summary of Significant Accounting Principles**

### **(1) Principles of Consolidation**

The consolidated financial statements include the accounts of RPM, Inc. and its majority owned subsidiaries. The Company accounts for its investment in less than majority owned joint ventures under the equity method. Intercompany accounts, transactions and unrealized profits and losses are eliminated in consolidation.

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

### **(2) Business Combinations**

During the two year period ended May 31, 2001, the Company completed several acquisitions which have been accounted for by the purchase method of accounting. The \$199,435,000 difference between the fair value of net assets acquired and the purchase consideration of \$354,810,000 has been allocated to goodwill. The assets, liabilities and operating results of these companies are reflected in the Company's financial statements from their respective dates of acquisition forward.

The Company also completed several divestitures of businesses and product lines during the past two years, realizing proceeds of \$74,262,000. The resulting net gains of \$823,000 for the year ended May 31, 2001 and \$11,993,000 for the year ended May 31, 2000, when netted against non-recurring costs, had an immaterial effect on net income.

Pro forma results of operations, reflecting the acquisitions and divestitures for the years ended May 31, 2001 and May 31, 2000, were not materially different from reported results.

### **(3) Foreign Currency**

The functional currency of 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 an annual average exchange rate. The resulting translation adjustments have been recorded in other comprehensive loss, a component of shareholders' equity, and will be included in net earnings only upon the sale or liquidation of the underlying foreign investment, which is not contemplated at this time. Transaction gains and losses have been immaterial during the past three fiscal years.

#### (4) Comprehensive Income

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

(In thousands)	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustments	Unrealized Gain (Loss) On Securities	Total
Balance at May 31, 1998	\$(13,821)	\$ (786)	\$ 65	\$(14,542)
Reclassification adjustments for (gains) losses included in net income			(65)	(65)
Other Comprehensive Loss	(8,496)	(67)	(738)	(9,301)
Balance at May 31, 1999	(22,317)	(853)	(738)	(23,908)
Reclassification adjustments for (gains) losses included in net income			738	738
Other Comprehensive Loss	(16,223)	853	(1,015)	(16,385)
Balance at May 31, 2000	(38,540)		(1,015)	(39,555)
Reclassification adjustments for (gains) losses included in net income			1,015	1,015
Other Comprehensive Loss	(14,552)	(102)	120	(14,534)
<b>Balance at May 31, 2001</b>	<b>\$(53,092)</b>	<b>\$ (102)</b>	<b>\$ 120</b>	<b>\$(53,074)</b>

#### (5) Cash and Short-Term Investments

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company does not believe it is exposed to any significant credit risk on cash and short-term investments.

#### (6) Marketable Securities

Marketable securities, all of which are classified as available for sale, total \$24,480,000 and \$29,277,000 at May 31, 2001 and 2000, respectively. The estimated fair values of these securities are included in other current assets and are based on quoted market prices.

#### (7) Financial Instruments

The Company's 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 the Company's debt instruments approximates fair value based on quoted market prices, variable interest rates or borrowing rates for similar types of debt arrangements.

#### (8) 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	2001	2000
(In thousands)		
Raw material and supplies	\$ 89,071	\$ 86,755
Finished goods	188,423	157,804
<b>Total Inventory</b>	<b>\$277,494</b>	<b>\$244,559</b>

### (9) Depreciation

Depreciation is computed over the estimated useful lives of the assets primarily using the straight-line method.

Depreciation expense charged to operations for the three years ended May 31, 2001 was \$43,035,000, \$42,290,000 and \$34,803,000, respectively. The annual depreciation rates are based on the following ranges of useful lives:

Land improvements	10 to 50 years
Buildings and improvements	5 to 50 years
Machinery and equipment	3 to 20 years

### (10) Intangibles

The excess of cost over the underlying value of the net assets of companies acquired is being amortized on the straight-line basis, primarily over 40 years. Amortization expense charged to operations for the three years ended May 31, 2001 was \$19,694,000, \$18,352,000 and \$13,625,000, respectively. Goodwill is shown net of accumulated amortization of \$103,494,000 at May 31, 2001 (\$88,060,000 at May 31, 2000).

Intangible assets also represent costs allocated to formulae, trademarks and other specifically identifiable assets arising from business acquisitions. These assets are being amortized using the straight-line method principally over periods of 7 to 40 years. The Company assesses the recoverability of the excess of cost over the assigned value of net assets acquired by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operations. Amortization expense charged to operations for the three years ended May 31, 2001 was \$16,602,000, \$17,084,000 and \$12,504,000, respectively.

Other intangible assets consist of the following major classes:

May 31	2001	2000
(In thousands)		
Formulae	\$167,845	\$170,146
Trademarks	105,466	106,363
Distributor networks	39,034	39,076
Workforce	38,107	40,589
Other	30,627	34,635
	381,079	390,809
Accumulated amortization	80,707	70,178
<b>Other Intangible Assets, Net</b>	<b>\$300,372</b>	<b>\$320,631</b>

### (11) Research and Development

Research and development costs are charged to operations when incurred and are included in operating expenses. The amounts charged for the three years ended May 31, 2001 were \$21,841,000, \$22,328,000 and \$18,022,000, respectively. The customer sponsored portion of such expenditures was not significant.

### (12) Interest Expense, Net

Interest expense is shown net of investment income which consists of interest, dividends and capital gains. Investment income for the three years ended May 31, 2001 was \$3,682,000, \$2,643,000 and \$4,880,000, respectively.

### (13) Income Taxes

The Company and its wholly owned domestic subsidiaries file a consolidated federal income tax return. 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. The accumulation of these differences at May 31, 2001 is shown as a noncurrent liability of \$54,134,000 (net of a noncurrent asset of \$74,268,000). At May 31, 2000, the noncurrent liability was \$60,566,000 (net of a noncurrent asset of \$72,323,000). The Company does not intend to

distribute the accumulated earnings of consolidated foreign subsidiaries amounting to \$102,847,000 at May 31, 2001, and \$92,706,000 at May 31, 2000, and therefore no provision has been made for the taxes which would result if such earnings were remitted to the Company.

#### **(14) Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **(15) Reportable Segments**

Reportable segment information appears on pages 6 and 7 of this report.

#### **(16) Changes in Accounting Policies**

##### **Derivatives**

The Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") beginning June 1, 2001. SFAS No. 133, as amended by SFAS No. 138, establishes accounting and reporting standards that require derivative instruments to be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. The adoption of SFAS No. 133 will not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

##### **Revenue Recognition**

The Company's subsidiaries recognize revenue when title and risk of loss passes to customers. Staff Accounting Bulletin No. 101, "Revenue Recognition," issued by the Securities and Exchange Commission, did not have an impact on the Company's operating revenues for any of the years presented.

The Financial Accounting Standards Board's Emerging Issues Task Force pronouncements issued during the current year covering shipping and handling costs and certain sales incentives have been adopted. The net impact of these accounting changes resulted in modest increases in net sales with offsets to selling, general and administrative expenses. This change has no effect on the dollar amount of the Company's net income. Prior year net sales and selling, general and administrative expenses have been reclassified to conform to current period presentation.

Shipping costs paid to third party shippers for transporting products to customers are included in selling, general and administrative expense. For the years ended May 31, 2001, 2000 and 1999, shipping costs were \$75,400,000, \$66,100,000 and \$56,000,000, respectively.

##### **Goodwill and Other Intangibles**

The Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" effective June 1, 2001. The Standard replaces the requirement to amortize goodwill and certain other intangible assets with an impairment test requirement. The Company is in the process of evaluating this Standard and its impact on net income.

## Note B – Borrowings

A description of long-term debt follows:

May 31	2001	2000
(In thousands)		
Revolving credit agreement for \$500,000,000 with a syndicate of banks through July 14, 2005. Interest, which is tied to LIBOR, averaged 6.09% at May 31, 2001. The Chairman of the Board and Chief Executive Officer of the Company is a director of one of the banks providing this facility.	\$500,000	\$ -0-
Revolving 364-day credit agreement for \$200,000,000 with a syndicate of banks. Interest, which is tied to LIBOR, averaged 5.62% at May 31, 2001.	155,700	-0-
Commercial Paper refinanced with proceeds from the credit agreements described above.	-0-	604,000
Short-term borrowings with a bank bearing interest of 5.63% at May 31, 2001. These obligations along with other short-term borrowings have been reclassified as long-term debt reflecting the Company's intent and ability, through unused credit facilities, to refinance these obligations.	33,000	75,000
7.00% unsecured senior notes due June 15, 2005.	150,000	150,000
Unsecured notes due March 1, 2008, interest, which is tied to LIBOR, averaged 5.10% at May 31, 2001.	100,000	100,000
Revolving multi-currency credit agreement for \$15,000,000 with a bank through December 31, 2002. Interest, which is tied to one of various rates, averaged 5.67% at May 31, 2001.	9,827	-0-
Revolving 364-day multi-currency credit agreement for \$23,445,000 with a bank. Interest, which is tied to one of various rates, averaged 5.30% at May 31, 2000.	-0-	17,553
6.75% unsecured senior notes due to an insurance company in annual installments through 2003.	5,143	6,857
Other notes and mortgages payable at various rates of interest due in installments through 2008, substantially secured by property.	9,108	10,907
	962,778	964,317
Less current portion	7,379	4,987
<b>Total Long-term Debt, Less Current Maturities</b>	<b>\$955,399</b>	<b>\$959,330</b>

Subsequent to year end, the Company refinanced the \$200,000,000 credit agreement with a one-year term loan due July 12, 2002.

At May 31, 2001, the Company had additional unused short-term lines of credit with several banks totalling \$51,600,000, in addition to the \$44,300,000 available under the \$200 million, 364-day revolving credit agreement.

The aggregate maturities of long-term debt for the five years subsequent to May 31, 2001 are as follows: 2002 - \$7,379,000; 2003 - \$202,075,000; 2004 - \$2,960,000; 2005 - \$269,000; 2006 - \$650,030,000.

## Note C – Income Taxes

Consolidated income before taxes consists of the following:

Year Ended May 31	2001	2000	1999
(In thousands)			
United States	\$ 81,853	\$ 41,424	\$124,965
Foreign	19,634	30,337	34,632
	\$101,487	\$ 71,761	\$159,597
<b>Provision for income taxes consists of the following:</b>			
Current:			
U.S. federal	\$ 38,991	\$ 43,174	\$ 48,609
State and local	3,829	3,547	7,448
Foreign	2,138	15,129	13,183
	44,958	61,850	69,240
Deferred:			
U.S. federal	(4,831)	(29,028)	(6,238)
Foreign	(1,601)	(2,053)	2,049
	(6,432)	(31,081)	(4,189)
<b>Provision for Income Taxes</b>	<b>\$ 38,526</b>	<b>\$ 30,769</b>	<b>\$ 65,051</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:

Income taxes at U.S. statutory rate	\$ 35,520	\$ 25,116	\$ 55,859
Difference in foreign taxes versus the U.S. statutory rate	(1,563)	2,458	1,032
State and local income taxes net of federal income tax benefit	2,489	2,306	4,841
Tax credits	(676)	(340)	(660)
Amortization of goodwill	4,530	4,285	3,326
Tax benefits from foreign sales corporation	(1,675)	(1,725)	(1,860)
Other	(99)	(1,331)	2,513
<b>Actual Tax Expense</b>	<b>\$ 38,526</b>	<b>\$ 30,769</b>	<b>\$ 65,051</b>
<b>Actual Tax Rate</b>	<b>37.96%</b>	<b>42.88%</b>	<b>40.76%</b>

Deferred income taxes result from timing differences in recognition of revenue and expense for book and tax purposes, primarily from the tax timing differences relating to business combinations.

## Note D – Common Shares

There are 200,000,000 common shares authorized with a stated value of \$.015 per share. At May 31, 2001 and 2000, there were 102,211,000 and 103,134,000 shares outstanding, respectively, each of which is entitled to one vote.

Basic earnings per share is computed by dividing income available to common shareholders, the numerator, by the weighted average number of common shares outstanding during each year, the denominator (102,202,000 in 2001, 107,221,000 in 2000 and 108,731,000 in 1999).

In computing diluted earnings per share, the net income was increased in 1999 by the add back of interest expense, net of tax, on convertible securities assumed to be converted. In addition, the number of common shares was increased by common stock options with exercisable prices lower than the average market prices of common shares during each year and reduced by the number of shares assumed to have been purchased with proceeds from the exercised options. In 1999 the number of common shares was also increased by additional shares issuable assuming conversion of convertible securities.

In April 1997, the Company adopted a Restricted Stock Plan. The Plan is intended to replace, over a period of time, the Company's existing cash based Benefit Restoration Plan. Under the terms of the Plan, up to 1,563,000 shares may be awarded to certain employees through May 2007. For the year ended May 31, 2001, 175,000 shares were awarded under this Plan, net of forfeitures (108,000 shares in 2000). Substantially, none of these awards, which generally are subject to forfeiture until the completion of five years of service, were vested at May 31, 2001 or 2000.

In 1999, the Company authorized the repurchase of up to 10,000,000 of its common shares. The repurchase of shares under this program were made in the open market or in private transactions, at times and in amounts and prices that management deemed appropriate. The Company terminated the repurchase program in July 2000, through which time the Company had repurchased 8,970,000 shares (7,813,000 through May 31, 2000) at an aggregate cost of \$99,617,000 (\$88,516,000 at May 31, 2000). The Company has subsequently reissued 28,000 of these shares in connection with its Stock Option program, bringing the balance to 8,942,000 in

treasury shares. Shares repurchased under this program are held at cost and are included in Shareholders' Equity as treasury shares.

In April 1999, the Company adopted a Shareholder Rights Plan and declared a dividend distribution of one right for each outstanding common share. The Plan provides existing shareholders the right to purchase shares of the Company at a discount in certain circumstances as defined by the Plan. The rights are not exercisable at May 31, 2001 and expire in May 2009.

The Company has options outstanding under two stock option plans, the 1989 Stock Option Plan and the 1996 Key Employees Stock Option Plan, which provide for the granting of options for up to 9,000,000 shares (4,500,000 shares in 2000 and 1999). These options are generally exercisable cumulatively in equal annual installments commencing one year from the grant date and have expiration dates ranging from July 2001 to April 2011. At May 31, 2001, 3,589,000 shares (291,000 at May 31, 2000) were available for future grant.

Transactions during the last two years are summarized as follows:

Shares Under Option	2001	2000
(In thousands)		
Outstanding, beginning of year (weighted average price of \$13.01 ranging from \$5.84 to \$17.25 per share)	6,243	4,708
Granted (weighted average price of \$9.21 ranging from \$8.69 to \$9.26 per share)	1,202	1,843
Cancelled (weighted average price of \$13.26 ranging from \$8.81 to \$17.25 per share)	(369)	(208)
Exercised (weighted average price of \$6.92 ranging from \$5.84 to \$8.42 per share)	(59)	(100)
<b>Outstanding, end of year (weighted average price of \$12.39 ranging from \$8.42 to \$16.35 per share)</b>	<b>7,017</b>	<b>6,243</b>
<b>Exercisable, end of year (weighted average price of \$13.17 ranging from \$8.42 to \$16.35 per share)</b>	<b>3,947</b>	<b>3,103</b>

Range of Exercise Prices	Options Outstanding at May 31, 2001			Options Exercisable at May 31, 2001	
	Shares (000's)	Weighted Average Remaining Life	Weighted Average Price	Shares (000's)	Weighted Average Price
\$ 5.00 - \$ 9.99	2,364	8.5	\$ 9.36	445	\$ 9.41
\$10.00 - \$14.99	2,523	4.9	\$12.64	2,110	\$12.43
\$15.00 - \$17.25	2,130	6.7	\$15.46	1,392	\$15.50
	<u>7,017</u>	6.6	\$12.39	<u>3,947</u>	\$13.17

The Company is accounting for its stock option plans under the provisions of the Accounting Principle Board's Opinion No. 25 and, accordingly, no compensation cost has been recognized. If compensation cost had been determined based on the fair value at the grant date for awards under this plan consistent with the method prescribed by Statement of Financial Accounting Standards No. 123, the Company's net income and earnings per share for the years ended May 31, 2001 and 2000, would have been reduced to the pro forma amounts indicated in the following table:

	2001	2000
(In thousands except per share amounts)		
Pro Forma Net Income	\$ 59,956	\$ 38,169
Pro Forma Earnings Per Share:		
<b>Basic</b>	\$ .59	\$ .36
<b>Diluted</b>	\$ .59	\$ .36

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions. The expected volatility rate is 32.5% for shares granted in 2001 and 28.9% for 2000. The expected life is 7.0 and 7.5 years, with dividend yields of 3.5% and 3.3% and risk-free interest rates of 5.1% and 6.4%, for 2001 and 2000, respectively.

#### Note E – Leases

At May 31, 2001, certain property, plant and equipment were leased by the Company under long-term leases. Certain of these leases provide for increased rental based upon an increase in the cost-of-living index. Future minimum lease commitments as of May 31, 2001 for all non-cancelable leases are as follows:

May 31	(In thousands)
2002	\$ 13,572
2003	10,627
2004	6,445
2005	4,766
2006	4,241
Thereafter	18,400
<b>Total Minimum Lease Commitments</b>	<b>\$ 58,051</b>

Rental expenses for all operating leases totalled \$20,523,000 in 2001, \$17,183,000 in 2000 and \$13,934,000 in 1999. Capitalized leases were insignificant for the three years ended May 31, 2001.

#### Note F – Retirement Plans

The Company sponsors a non-contributory defined benefit pension plan (The Retirement Plan) covering substantially all domestic non-union employees. Pension coverage for employees of the Company's foreign subsidiaries is provided, to the extent deemed appropriate, through separate plans, many of which are governed by local statutory requirements. In addition, benefits for domestic union employees are provided by separate plans.

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. The Company's funding policy is to contribute annually an amount that can be deducted for federal income tax purposes using a different actuarial cost method and different assumptions from those used for financial reporting.

Net periodic pension cost (income) consisted of the following for the three years ended May 31, 2001:

	U.S. Plans			Non-U.S. Plans		
	2001	2000	1999	2001	2000	1999
(In thousands)						
Service cost	\$7,742	\$6,650	\$7,247	\$1,112	\$1,122	\$1,041
Interest cost	6,470	5,678	5,253	2,314	2,176	2,263
Expected return on plan assets	(9,157)	(6,123)	(6,071)	(3,396)	(3,026)	(3,183)
Amortization of:						
Prior service cost	164	132	114			
Net gain on adoption of SFAS No. 87	(87)	(96)	(100)			
Net actuarial (gains) losses recognized	(62)	439	71	(85)	91	1
Curtailment/settlement (gains) losses	(722)	103	(1,728)		(24)	(308)
<b>Net Pension Cost</b>	<b>\$4,348</b>	<b>\$6,783</b>	<b>\$4,786</b>	<b>\$ (55)</b>	<b>\$ 339</b>	<b>\$ (186)</b>

The changes in benefit obligations and plan assets, as well as the funded status of the Company's pension plans at May 31, 2001 and 2000 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2001	2000	2001	2000
(In thousands)				
Benefit obligation at beginning of year	\$ 81,892	\$ 76,328	\$ 32,343	\$ 33,006
Service cost	7,742	6,650	1,112	1,122
Interest cost	6,470	5,678	2,314	2,176
Benefits paid	(12,785)	(3,820)	(1,641)	(1,376)
Participant contributions			428	404
Actuarial (gains) losses	4,156	(5,884)	2,219	(3,520)
Currency exchange rate changes			(2,600)	683
Curtailment/settlement (gains) losses	(721)	(11,184)		(152)
Plan amendments		2,786		
Acquisitions	445	11,338		
<b>Benefit Obligation at End of Year</b>	<b>\$ 87,199</b>	<b>\$ 81,892</b>	<b>\$ 34,175</b>	<b>\$ 32,343</b>
Fair value of plan assets at beginning of year	\$101,502	\$ 61,715	\$ 40,921	\$ 36,469
Actual return on plan assets	(2,543)	22,675	186	4,138
Employer contributions	7,202	9,772	500	421
Participant contributions			428	404
Benefits paid	(12,785)	(3,820)	(1,641)	(1,376)
Currency exchange rate changes			(2,837)	865
Curtailment/settlement gains (losses)		(6,092)		
Acquisitions	523	17,252		
<b>Fair Value of Plan Assets at End of Year</b>	<b>\$ 93,899</b>	<b>\$101,502</b>	<b>\$ 37,557</b>	<b>\$ 40,921</b>
Excess of plan assets versus benefit obligations at end of year	\$ 6,700	\$ 19,610	\$ 3,382	\$ 8,577
Contributions after measurement date	2,537	15	93	108
Unrecognized actuarial (gains) losses	2,715	(13,191)	3,514	(1,811)
Unrecognized prior service cost	1,568	1,732		
Unrecognized net transitional asset	(198)	(285)		
<b>Net Amount Recognized</b>	<b>\$ 13,322</b>	<b>\$ 7,881</b>	<b>\$ 6,989</b>	<b>\$ 6,874</b>

	U.S. Plans		Non-U.S. Plans	
	2001	2000	2001	2000
(In thousands)				
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	\$ 14,057	\$ 9,401	\$ 7,973	\$ 7,874
Accrued benefit liability	(781)	(1,520)	(1,041)	(1,000)
Accumulated other comprehensive loss	46		56	
<b>Net Amount Recognized</b>	<b>\$ 13,322</b>	<b>\$ 7,881</b>	<b>\$ 6,988</b>	<b>\$ 6,874</b>

For domestic plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of assets were \$781,000, \$781,000 and \$ -0- , respectively, as of May 31, 2001 and \$1,243,000, \$1,243,000 and \$ -0- , respectively, as of May 31, 2000. For foreign plans with

accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of assets were \$1,145,000, \$1,042,000 and \$ -0- , respectively, as of May 31, 2001 and \$1,088,000, \$944,000 and \$ -0- , respectively, as of May 31, 2000.

The following weighted average assumptions were used to determine the Company's obligations under the plans:

	U.S. Plans		Non-U.S. Plans	
	2001	2000	2001	2000
Discount rate	7.50%	8.00%	6.63%	6.17%
Expected return on plan assets	9.00%	9.00%	8.25%	8.25%
Rate of compensation increase	4.00%	4.50%	4.00%	4.25%

The plans' assets consist primarily of stocks, bonds and fixed income securities.

The Company also sponsors an employee savings plan under Section 401(k) of the Internal Revenue Code, which covers substantially all non-union employees in the United States. The Plan provides for matching contributions in Company shares based upon qualified

employee contributions. Matching contributions charged to income were \$5,170,000, \$4,925,000 and \$4,304,000 for years ending May 31, 2001, 2000 and 1999, respectively.

**Note G – Postretirement Health Care Benefits**

In addition to the defined benefit pension plan, the Company also provides health care benefits to certain of its retired employees through unfunded plans. Employees

become eligible for these benefits if they meet minimum age and service requirements. The components of this expense for the three years ended May 31, 2001 were as follows:

	2001	2000	1999
(In thousands)			
Service cost - Benefits earned during this period	\$ 81	\$ 110	\$ 99
Interest cost on the accumulated obligation	918	890	784
Amortization of unrecognized (gains)	(124)	(55)	(40)
<b>Net Periodic Postretirement Expense</b>	<b>\$ 875</b>	<b>\$ 945</b>	<b>\$ 843</b>

The changes in the benefit obligations of the plans at May 31, 2001 and 2000, were as follows:

	2001	2000
(In thousands)		
Accumulated postretirement benefit obligation at beginning of year	\$11,928	\$11,548
Service cost	81	110
Interest cost	918	890
Settlement/curtailment (gains) losses		(221)
Acquisitions		1,629
Benefit payments	(972)	(902)
Actuarial (gains) losses	791	(1,238)
Currency exchange rate changes	(131)	112
Accumulated postretirement benefit obligation at end of year	12,615	11,928
Unrecognized actuarial gains (losses)	1,874	2,881
<b>Accrued Postretirement Health Care Benefits</b>	<b>\$14,489</b>	<b>\$14,809</b>

A 7.5% general discount rate was used in determining the accumulated postretirement benefit obligation as of May 31, 2001 (8.0% for May 31, 2000). A 7.0% increase in the cost of covered health care benefits was generally assumed for fiscal 2001 (8.0% for fiscal 2000). 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 1.0% increase in the health care costs

trend rate would have increased the accumulated postretirement benefit obligation as of May 31, 2001 by \$1,275,000 and the net postretirement expense by \$113,000. A 1.0% decrease in the health care costs trend rate would have decreased the accumulated postretirement benefit obligation as of May 31, 2001 by \$1,116,000 and the net postretirement expense by \$94,000.

## Note H – Contingencies and Loss Reserves

Accrued loss reserves consisted of the following classes:

May 31	2001	2000
(In thousands)		
Accrued product liability reserves	\$ 39,054	\$ 41,176
Accrued warranty reserves - Current	5,170	7,908
Accrued environmental reserves	9,557	14,116
Accrued other	1,635	1,565
Accrued loss reserves - Current	55,416	64,765
Accrued warranty reserves - Long-term	11,959	13,740
<b>Total Accrued Loss Reserves</b>	<b>\$ 67,375</b>	<b>\$ 78,505</b>

The Company, through its wholly owned insurance subsidiary, provides certain insurance coverage, primarily product liability, to the Company's other domestic subsidiaries. Excess coverage is provided by outside carriers. The reserves reflected above provide for these potential losses as well as other uninsured claims. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience.

In addition, the Company, like others in similar businesses, is involved in several proceedings relating to environmental matters. It is the Company's 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.

Due to the uncertainty inherent in the loss reserve estimation process, 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 the Company's competitive or financial position or its ongoing results of operations. However, such costs could be material to results of operations in a future period.

**Note I – Restructuring and Asset Impairment Charge**

For the year ended May 31, 2000, the Company recorded a restructuring charge of \$51,970,000. Included in this charge were severance and other employee related costs of \$21,986,000, contract exit and termination costs of \$2,059,000, facility closures and write-downs of property, plant and equipment of \$22,342,000 and write-downs of intangibles of \$5,583,000.

In addition to the \$51,970,000 restructuring charge, related costs were incurred during the May 31, 2000 year primarily to account for inventory of certain product lines that were being discontinued, totalling \$7,876,000, and these costs were charged to earnings and classified as a component of cost of sales.

Through May 31, 2001, the Company has paid or incurred all of the \$51,970,000 restructuring charge as reflected below:

	Total Charge	Paid or Incurred in Year Ended May 31	
		2001	2000
(In thousands)			
Severance costs	\$21,986	\$12,058	\$ 9,928
Exit and termination costs	2,059	1,482	577
Property, plant and equipment	22,342		22,342
Intangibles	5,583		5,583
<b>Restructuring and Asset Impairment Charge</b>	<b>\$51,970</b>	<b>\$13,540</b>	<b>\$38,430</b>

The severance and other employee related costs provided for a reduction of approximately 780 employees related to facility closures and streamlining of operations for cost reduction initiatives. The costs of exit and contract termination were comprised primarily of non-cancelable

lease obligations on the closed facilities. The charge for property, plant and equipment represents write-downs to net realizable value of less efficient and duplicate facilities and machinery and equipment no longer needed in the combined restructured manufacturing operations.

**Note J – Interim Financial Information (Unaudited)**

The following is a summary of the quarterly results of operations for the years ended May 31, 2001 and 2000:

	Three Months Ended			
	August 31	November 30	February 28	May 31
(In thousands except per share amounts)				
<b>2001</b>				
Net sales	\$554,923	\$499,904	\$405,400	\$547,535
Gross profit	\$249,252	\$219,102	\$167,537	\$244,084
Net income (loss)	\$ 28,850	\$ 16,868	\$ (7,018)	\$ 24,261
<b>Basic Earnings (Loss) Per Share</b>	\$ .28	\$ .17	\$ (.07)	\$ .24
<b>Diluted Earnings (Loss) Per Share</b>	\$ .28	\$ .17	\$ (.07)	\$ .24
<b>Dividends Per Share</b>	\$.1225	\$.1250	\$.1250	\$.1250

	Three Months Ended			
	August 31	November 30	February 29	May 31
(In thousands except per share amounts)				
<b>2000</b>				
Net sales	\$497,869	\$502,450	\$413,178	\$548,913
Gross profit	\$228,290	\$216,309	\$176,063	\$242,111
Net income	\$ 7,264	\$ 20,364	\$ 3,731	\$ 9,633
<b>Basic Earnings Per Share</b>	\$ .07	\$ .19	\$ .04	\$ .09
<b>Diluted Earnings Per Share</b>	\$ .07	\$ .19	\$ .04	\$ .09
<b>Dividends Per Share</b>	\$.1175	\$.1225	\$.1225	\$.1225

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

## Independent Auditor's Report

To The Board of Directors and Shareholders  
RPM, Inc. and Subsidiaries  
Medina, Ohio

We have audited the accompanying consolidated balance sheets of RPM, Inc. and Subsidiaries as of May 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three year period ended May 31, 2001.

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 auditing standards generally accepted in the 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, Inc. and Subsidiaries at May 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three year period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States.

*Pinella, Smith + O'Leary, LLP*

Cleveland, Ohio

July 2, 2001

## Quarterly Stock Price and Dividend Information

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

### Range of Market Prices

Fiscal 2001	High	Low	Dividends paid per share
1st Quarter	\$ 10.7500	\$ 8.6250	\$ 0.1225
2nd Quarter	10.2500	7.7500	0.1250
3rd Quarter	9.9375	8.2500	0.1250
4th Quarter	10.5000	8.2500	0.1250
Fiscal 2000	High	Low	Dividends paid per share
1st Quarter	\$ 15.0625	\$ 13.1250	\$ 0.1175
2nd Quarter	13.5000	11.1250	0.1225
3rd Quarter	11.8750	9.5000	0.1225
4th Quarter	11.3125	9.6875	0.1225

Source: *The Wall Street Journal*

The number of holders of record of RPM, Inc. Common Shares as of July 13, 2001 was 42,229.

# Shareholder Information

## World Headquarters

RPM, 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: <http://www.rpminc.com>  
E-mail: [rpmcorp@rpminc.com](mailto:rpmcorp@rpminc.com)

## Annual Meeting

Shareholders and friends are invited to attend RPM's Annual Meeting, which will be held at the Holiday Inn Select, 15471 Royalton Rd. (Rt. 82 & I-71), Strongsville, Ohio, on Friday, October 12 at 2:00 p.m.

## Form 10-K and Other Financial Information

Shareholders may obtain a copy of the RPM Annual Report to the Securities and Exchange Commission on Form 10-K, other investor information and a corporate video by writing to Kathie M. Rogers, Manager of Investor Relations, RPM, Inc., P.O. Box 777, Medina, OH 44258.

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).

## Stock Transfer Agent, Registrar and Dividend Disbursing Agent

National City Bank maintains the company's shareholder 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)

Shareholders of record may access their accounts via the Internet to review account holdings and transaction history through National City Bank's Stock Access at

[www.ncstockaccess.com](http://www.ncstockaccess.com). Shareholders can download frequently used forms, as well, from this web site. For log-in assistance, shareholders should contact National City Bank at 800-622-6757 or 800-988-5238.

## Direct Deposit of Dividends

Shareholders 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 above.

## Dividend Payments

Common share dividends are payable quarterly, upon authorization of the Board of Directors. Regular payment dates are the 31<sup>st</sup> of July, October, January and the 30<sup>th</sup> of April.

## 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% of the shareholders 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 your existing Dividend Reinvestment account 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)

## Common Share Symbol: RPM

RPM, Inc. common share price is quoted on the New York Stock Exchange.

## Independent Accountants

Ciulla, Smith & Dale, LLP, Cleveland, Ohio

## Counsel

Calfee, Halter & Griswold LLP, Cleveland, Ohio

# Directors and Officers

## Board of Directors

**Dr. Max D. Amstutz (2):** Elected 1995; Chairman, SGS – Societe Generale de Surveillance Holding Ltd., Geneva Switzerland (world leader in verification, testing and certification); Chairman, Finter Bank Zurich (private banking); Former Managing Director, Holderbank Financiere Glaris Ltd., Glaris, Switzerland (cement); Former Chairman, Von Roll Holding Ltd., Zurich, Switzerland (machinery); Former Chairman, Aluisse-Lonza Holding Ltd., Zurich, Switzerland (aluminum, chemicals and packaging).

**Edward B. Brandon (1), (3\*):** Elected 1989; Retired Chairman, National City Corporation; Director, National City Corporation, Cleveland, Ohio.

**Lorrie Gustin (2):** Elected 1992; Director, National Association of Investors Corporation (NAIC) Trust, Madison Heights, Michigan; Secretary, World Federation of Investment Clubs, Krefeld, Germany; Past President of NAIC; Retired Vice President, Finance Integral Insurance Co., Milwaukee, Wisconsin.

**E. Bradley Jones (1), (2):** Elected 1990; Retired Chairman and Chief Executive Officer, Republic Steel Corporation, LTV Steel Company, Cleveland, Ohio, and Group Vice President of the LTV Corporation, Dallas, Texas; Director, CSX Corporation, Richmond, Virginia; Trustee, Fidelity Charitable Gift Fund, Boston, Massachusetts.

**James A. Karman (1):** Elected 1963; Vice Chairman and Chief Financial Officer; Director, Shiloh Industries, Inc., Cleveland, Ohio; A. Schulman, Inc., Akron, Ohio; Metropolitan Financial Corporation, Cleveland, Ohio.

**Donald K. Miller (2\*):** Elected 1972; Chairman, Axiom International Investor LLC, New York, New York (an international equity asset management firm); Director, Huffey Corporation, Dayton, Ohio; Layne Christensen Company, Mission Woods, Kansas.

**William A. Papenbrock:** 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.

**Thomas C. Sullivan (1\*):** Elected 1963; Chairman of the Board and Chief Executive Officer; Director, Huffey Corporation, Dayton, Ohio; Pioneer-Standard Electronics, Inc., Cleveland, Ohio; National City Corporation, Cleveland, Ohio; Kaydon Corporation, Ann Arbor, Michigan.

**Dr. Jerry Sue Thornton (1), (3):** Elected 1999; President of Cuyahoga Community College, Cleveland, Ohio; Director, American Greetings Corporation, Cleveland, Ohio; Applied Industrial Technologies, Inc., Cleveland, Ohio; National City Corporation, Cleveland, Ohio; OfficeMax, Inc., Shaker Heights, Ohio.

**Joseph P. Viviano:** Elected 2001; retired Vice Chairman and Director, Hershey Foods Corporation; Director, Chesapeake Corporation, Richmond, Virginia; Harsco Corporation, Camp Hill, Pennsylvania; Huffey Corporation, Dayton, Ohio; R.J. Reynolds Tobacco Company, Winston-Salem, North Carolina.

(1) Executive Committee

(2) Audit Committee

(3) Compensation Committee

\* Chairman

## Officers

**Thomas C. Sullivan**  
Chairman and  
Chief Executive Officer

**James A. Karman**  
Vice Chairman and  
Chief Financial Officer

**Frank C. Sullivan**  
President

**Glenn R. Hasman**  
Vice President - Finance  
and Communications

**Paul G. Hoogenboom**  
Vice President -  
Operations and Systems

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

**Robert L. Matejka**  
Vice President - Controller

**Ronald A. Rice**  
Vice President - Risk  
Management and Benefits

**Keith R. Smiley**  
Vice President - Treasurer

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

# Operating Companies

## Industrial Division

Alteco Technik G.m.b.H.  
Twistringen, Germany

American Emulsions Co., Inc.  
Dalton, Georgia

APSA S. p. A.  
Milan, Italy

Carboline Company  
St. Louis, Missouri

Chemical Specialties Mfg. Corp.  
Baltimore, Maryland

Day-Glo Color Corp.  
Cleveland, Ohio

Dryvit Systems, Inc.  
West Warwick, Rhode Island

The Euclid Chemical Company  
Cleveland, Ohio

Fibergrate Composite Structures Inc.  
Dallas, Texas

Kop-Coat, Inc.  
Pittsburgh, Pennsylvania

Multicor S.A. Argentina I.y C.  
Buenos Aires, Argentina

Nullifire Limited  
Coventry, United Kingdom

RPM/Belgium N.V.  
Tielt, Belgium

Radiant Color N.V.  
Houthalen, Belgium

Republic Powdered Metals, Inc.  
Beachwood, Ohio

StonCor Africa (Pty.) Ltd.  
Johannesburg, South Africa

StonCor Benelux B.V.  
Brussels, Belgium

StonCor Group, Inc.  
Maple Shade, New Jersey

Stonhard South America Ltda.  
Sao Paulo, Brazil

TCI, Inc.  
Ellaville, Georgia

Tremco Asia Pte. Ltd.  
Singapore

Tremco Canada  
Toronto, Canada

Tremco Incorporated  
Cleveland, Ohio

Tremco Limited  
Slough, United Kingdom

## Consumer Division

Bondo Corporation  
Atlanta, Georgia  
Cincinnati, Ohio

CPC Modern Masters, Inc.  
North Hollywood, California

Chemical Coatings, Inc.  
Hudson, North Carolina

DAP Products Inc.  
Baltimore, Maryland

The Flecto Company, Inc.  
Vernon Hills, Illinois

Guardian Products, Inc.  
Ceres, California

Mantrose-Haeuser Co., Inc.  
Westport, Connecticut

Martin Mathys N.V.  
Zelem, Belgium

Mohawk Finishing Products, Inc.  
Hudson, North Carolina

Rust-Oleum Corporation  
Vernon Hills, Illinois

Rust-Oleum/Europe  
Paris, France  
Roosendaal, The Netherlands

The Testor Corporation  
Rockford, Illinois

Richard E. Thibaut, Inc.  
Newark, New Jersey

Westfield Coatings Corp.  
Westfield, Massachusetts

Wm. Zinsser & Co. Inc.  
Somerset, New Jersey

## Plant Locations

Argentina

Belgium

Brazil

Canada

China

Colombia

Germany

Italy

Malaysia

Mexico

The Netherlands

New Zealand

Poland

South Africa

United Arab Emirates

United Kingdom

United States of America

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