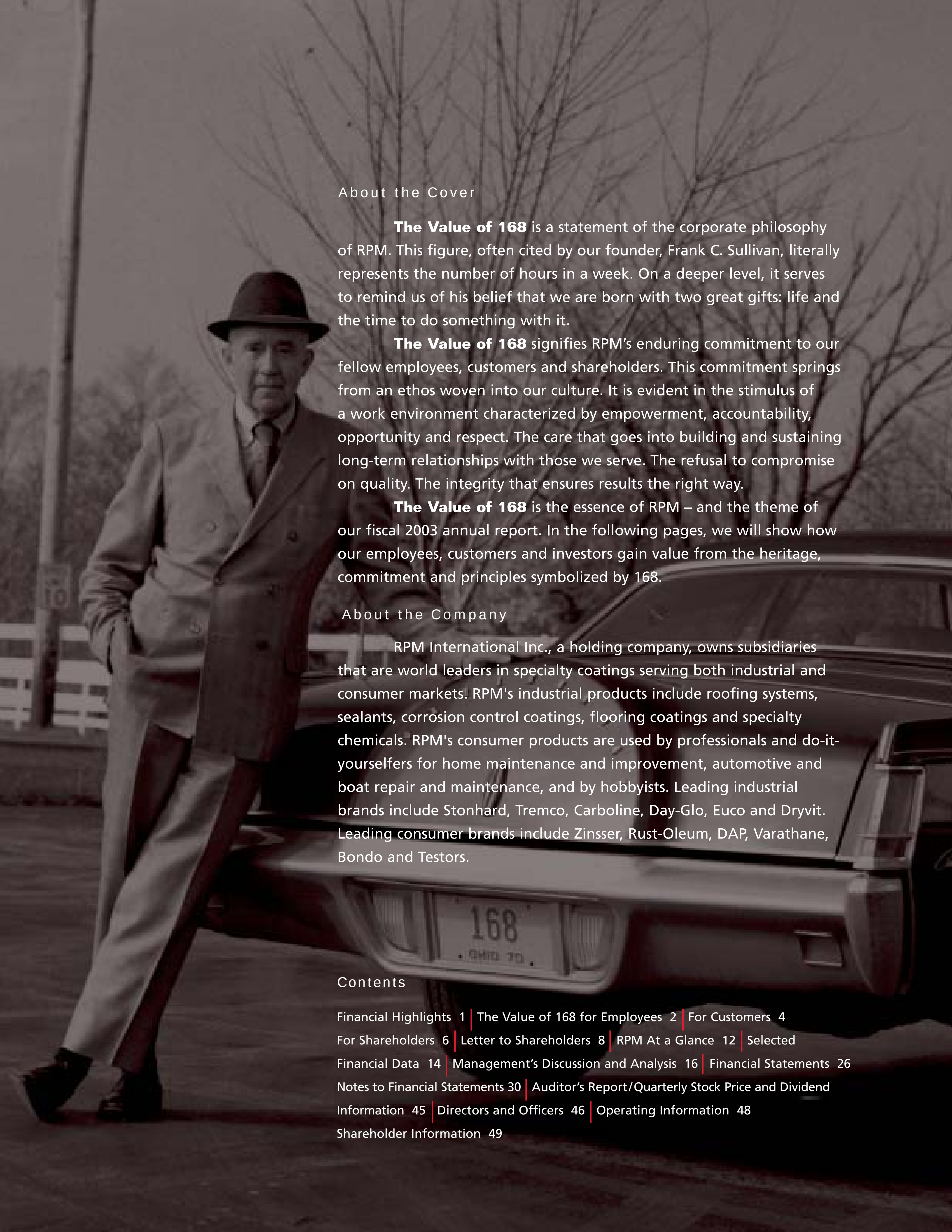
RPM

2003 Annual Report

The Value of

168



About the Cover

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

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

The Value of 168 is the essence of RPM – and the theme of our fiscal 2003 annual report. In the following pages, we will show how our employees, customers and investors gain value from the heritage, commitment and principles symbolized by 168.

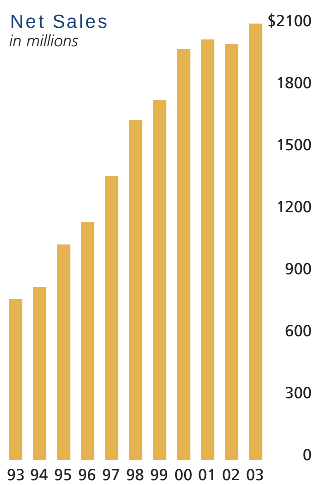
About the Company

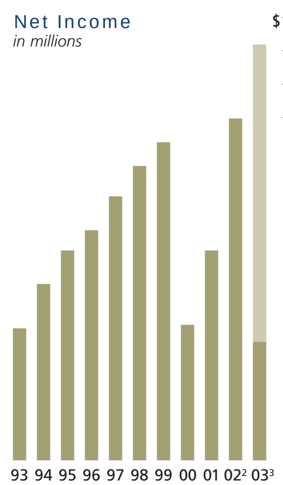
RPM International Inc., a holding company, owns subsidiaries that are world leaders in specialty coatings serving both industrial and consumer markets. RPM's industrial products include roofing systems, sealants, corrosion control coatings, flooring coatings and specialty chemicals. RPM's consumer products are used by professionals and do-it-yourselfers for home maintenance and improvement, automotive and boat repair and maintenance, and by hobbyists. Leading industrial brands include Stonhard, Tremco, Carboline, Day-Glo, Euco and Dryvit. Leading consumer brands include Zinsser, Rust-Oleum, DAP, Varathane, Bondo and Testors.

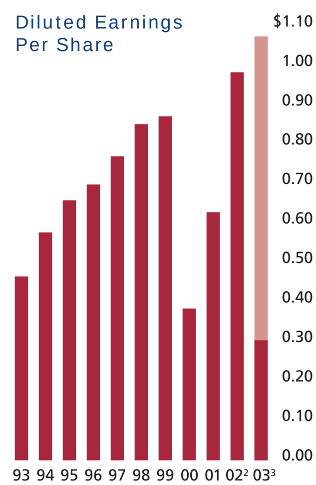
Contents

Financial Highlights

(In millions, except per share and percent data)	2003 Reported	2003 Asbestos Charge	2003 Pro Forma Excluding Asbestos Charge[1]	2002[2]	2001
Net sales	$2,083.5		$2,083.5	$1,986.1	$2,007.8
Income before taxes	$ 47.9	$(140.0)	$ 187.9	$ 154.1	$ 101.5
Net income	$ 35.3	$ (87.5)	$ 122.8	$ 101.6	$ 63.0
Return on sales	1.7%		5.9%	5.1%	3.1%
Return on stockholders' equity	4.1%		13.5%	13.6%	9.8%
Diluted earnings per share	$ 0.30	$ (0.76)	$ 1.06	$ 0.97	$ 0.62
Cash dividends per share	$ 0.5150		$ 0.5150	$ 0.5000	$ 0.4975







(1) Figures exclude the impact of the asbestos charge. See Note H of the Consolidated Financial Statements for discussion. Management believes that the inclusion of this non-GAAP financial data provides investors with additional insights into pertinent performance measures of the business, and that it should be viewed as supplemental data, rather than as substitutes or alternatives to GAAP measures of performance.

(2) Reflects adoption of SFAS No. 142 regarding Goodwill (see Note A [10] to the Consolidated Financial Statements).

(3) Shaded areas reflect the positive impact on the financial data resulting from the exclusion of the asbestos charge. See "Asbestos Charge" column in table above.

"We have learned

that if we take care of our people...

*"Hire the best people you can find. Create an atmosphere that will keep them. Then let them do their jobs." By adhering to our time-tested management approach, we have shaped an environment that sustains **The Value of 168** for our employees.*

A PASSION TO EXCEL Our people are energized by the knowledge that they play the leading role in propelling RPM's continuous growth and improvement.

PRIDE IN HISTORY AND HERITAGE RPM's operating company leaders are typically the original owners, second- or third-generation members of the owners' families or the management teams they chose to carry on their legacy. These entrepreneurs embrace the RPM operating philosophy because they welcome our commitment to preserve the brands, cultures and management of our acquired companies.

THE OPPORTUNITY TO SHARE IN RPM'S SUCCESS We feel strongly that our employees should enjoy the success they have helped create. Not only do they participate in our growth as shareholders, they also gain from our continuing investment in a competitive benefits program, including retirement plans that we have enhanced in recent years, even as many other companies have reduced their retirement benefits for employees.

INDEPENDENCE AT THE OPERATING LEVEL Employees of RPM companies thrive within an organizational structure and entrepreneurial operating philosophy that allow them to make business decisions and respond promptly to customer needs without interference from a large corporate bureaucracy.

A CULTURE OF RESPECT We are a company that aspires each day to respect the two key elements our employees contribute to RPM's success: their talent and their time.

Whether inspecting a new Stonhard installation with a customer (left) or maintaining quality control at a Day-Glo lab (right), RPM employees are energized, knowing that they play the critical role in the company's success.

...they will take

care of our customers...

*RPM delivers **The Value of 168** to customers by combining the flexibility and creativity of a small, nimble enterprise with the strength and stability of a large global organization to bring customers the best of both worlds.*

CLOSE-TO-THE-MARKET DECISION MAKING RPM's unique operating philosophy and decentralized, entrepreneurial structure empower our people to develop close, long-lasting customer relationships that enable them to anticipate and address emerging needs. As a result, customers view us as an innovator, problem solver and trusted partner.

CONFIDENCE IN OUR STABILITY AND RELIABILITY RPM companies are backed by the financial strength of a $2 billion, New York Stock Exchange-listed, Fortune 1000 company committed to providing leading brands that consumers and industrial users need and want – in both major and niche markets. Customers feel secure in knowing that we are a reliable supplier that will grow and adapt with them over the long term.

VALUE-ADDED SERVICES AND SUPPORT Increasingly, customers turn to RPM companies not only for top-quality products but for innovative services. Rust-Oleum's industry-leading MarketScope category management program, for example, has accelerated sales for many of North America's top retailers. Filling another market need, Tremco's WTI roofing maintenance and information-based services have served strong customer demand that resulted in service division revenues more than doubling during the past year.

LEGACY OF PRODUCT INNOVATION By identifying and solving unique and challenging customer problems with value-added, cost-effective solutions, RPM companies continually build upon our reputation for market leadership. As an example, our Stonhard Group's Stonblend RTZ, a urethane flooring that deadens sound, has proved especially useful in venues such as hospitals and schools. And our Fibergrate subsidiary developed a covered stair tread that has the strength of concrete, without the rapid deterioration of concrete in harsh climates. This cost-saving breakthrough has application in hotels, apartment buildings and other commercial sites.

New products like Rust-Oleum's Specialty Plastic Primer, which primes plastic for any number of top coats (left), have enhanced RPM's reputation as an innovator and problem solver. As trusted partners with customers, RPM companies are sought for such prestigious projects as the construction of the Nelson Mandela Bridge (right) in Johannesburg, South Africa, where Carboline coatings protect the bridge's structural steel and Tremco products cover its deck.

...and that's how

you create *shareholder value."*

— Frank C. Sullivan, 2002

*Creating shareholder value has always been second nature to RPM, and our record shows that we have consistently delivered on that promise under all economic conditions – a clear demonstration of **The Value of 168** for those who entrust their capital to RPM.*

STRONG BELIEFS, OPEN COMMUNICATIONS RPM's roots as a family business have grounded us in a commitment to the highest levels of integrity in financial performance and reporting and in the way we do business. Thus, candor in investor communications comes naturally to us. This approach is evident in the open manner in which we discuss all matters that affect RPM, and ensure that every investor has access to this information. For example, despite the trend to do otherwise, we continue to send our shareholders printed quarterly reports that summarize our financial results.

CULTURE OF GOOD CORPORATE GOVERNANCE RPM has long been a leader in corporate governance practices. As evidence, our Board of Directors has had a majority of independent directors since 1975, and its audit and compensation committees have been made up entirely of outside directors since 1977. In addition, our audit committee regularly meets, independent of management, with internal and outside auditors. Such practices, now being mandated by new federal law and recently changed New York Stock Exchange listing standards, have been integral to good corporate governance at RPM for the last three decades.

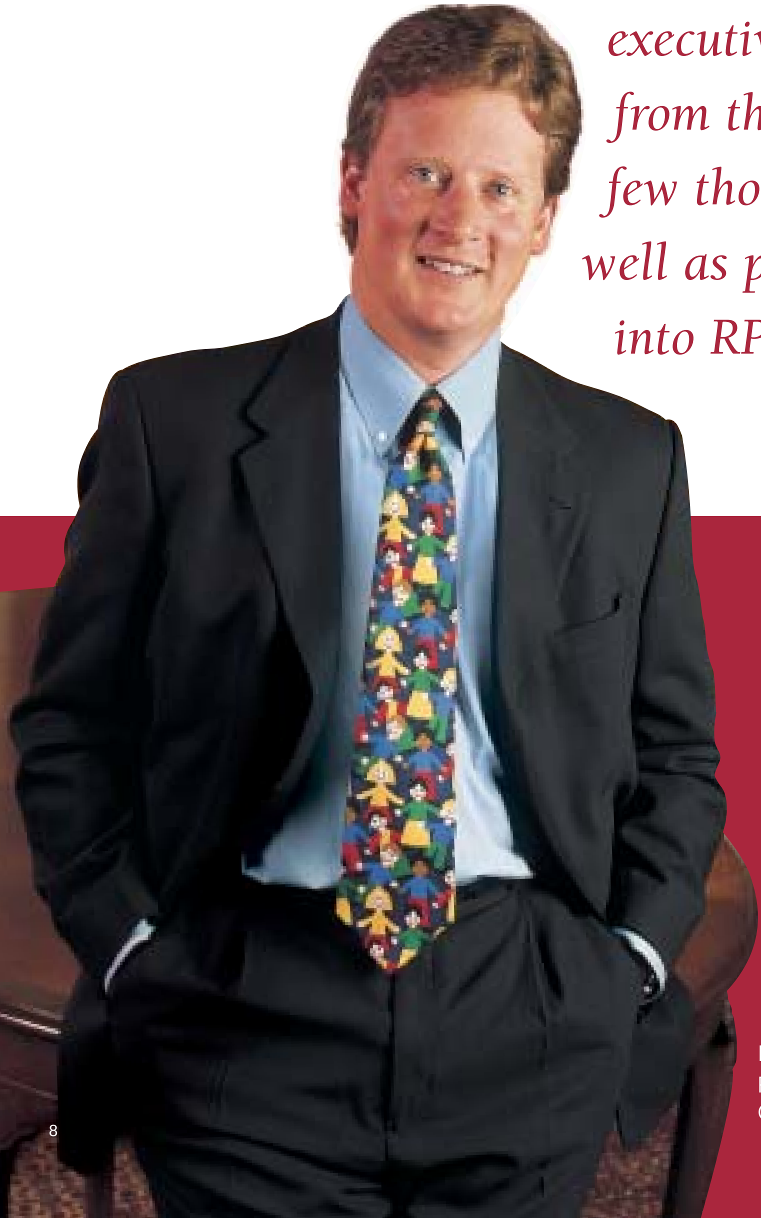
A PREFERRED ACQUIRER As a recognized industry consolidator, we have consistently created value for shareholders by attracting good companies with great brands and effective management teams that welcome the many growth opportunities RPM offers. Private business owners buy into RPM rather than selling out – often becoming significant RPM shareholders in the process.

COMMITMENT TO GROWTH AND STABILITY By maintaining a long-term view that extends well beyond the next quarter, RPM has generated record results in all but two of its 56 years in business and raised the cash dividend in each of the past 29 years. Since 1971, RPM shareholders have received an annual compounded rate of return of approximately 16 percent, with dividends reinvested. Our success as an investment has made us a favorite of investment clubs and individual investors, and has earned us numerous awards.

RPM has long been a favorite of individual investors of all ages (left), in part because of its commitment to stable growth and increasing return on investment (right).

To the Shareholders and Associates of RPM,

Almost a year ago, I had the honor of becoming RPM's third chief executive officer. Now, with some distance from this event, I want to share with you a few thoughts shaped by my new perspective as well as provide you with some insight into RPM's long-term growth strategy.



RPM: Vision 2007

- Revenues of $3.35 billion
- Net income of $200 million
- Expanded European presence
- A plan to expand in Asia

Frank C. Sullivan
President and
Chief Executive Officer

Reflections on The Value of 168

From my first days at RPM, I was impressed by the abundance of talent and dedication I observed in our people. And, as CEO, I am well aware of how much they mean to the success of the company. Because of their efforts, fiscal 2003 was notable for RPM and memorable for me.

I evoke RPM's heritage of people who care because it speaks directly to the theme of this annual report, **The Value of 168**. For my late grandfather, who founded this company, the figure 168 – the number of hours in a week – had special meaning. For him, 168 was a figurative hourglass, a reminder that time passes quickly, and every hour should be celebrated because it can never be recaptured. He approached each situation that way, and his spirit drives us to this day.

For RPM, the value of 168 lies in the answer to the question: How have we been able to sustain our superb performance for the better part of five-plus decades? We have done it because we bring a passion to our business and its growth that springs from our rich history. We have done it because of pride that permeates not only RPM, but also our operating companies where, in many cases, second- and third-generation family members still run their businesses. We have done it because we have been able to attract, retain and motivate the people who have created our success.

I feel a deep obligation to nurture the value of 168 on my watch so that the people of RPM will continue to enjoy the proportion of those hours they spend on the job and, consequently, our customers will grow with us and our shareholders will receive the increasing returns they seek and deserve.

A Year of Accomplishment

Fiscal 2003 was a strong year for RPM, as the following highlights attest:

• In a very tough economic environment, we generated sales growth of 5 percent, to a record $2.1 billion, principally through the focused efforts of our employee base and sales force, which continued to grow market share. Revenue growth combined with strong operational focus resulted in a 21 percent net income gain, to $122.8 million, and an earnings per share increase of 9 percent, to $1.06, both before our charge to increase reserves for asbestos liabilities.

• After a hiatus of almost three years necessitated by our successful restructuring, we reactivated our acquisition program. In the process, we acquired at fair value businesses with approximately $70 million in annualized revenues. In line with our established criteria, we added top brand name products and great management teams willing to stay and run the businesses as part of RPM; instead of selling out, they bought into our operating philosophy. Consistent with our acquisition strategy, we retained the sales forces that underpin the success of these companies.

Our 30-year track record with acquisitions refutes the theory that we must do ever-larger deals as RPM grows. The execution of our acquisition strategy does not hinge on large, splashy transactions. What we consistently seek are the right deals at the right prices with the right management teams.

• We further improved our financial profile by refinancing approximately $150 million in debt from shorter-term floating rate obligations to longer-term convertible bonds with a fixed rate of 2.75 percent.

• We continued to generate strong cash flow. We have all seen how unscrupulous companies can inflate earnings, but cash flow cannot be manufactured. RPM shareholders can look to this as a reliable barometer of the company's financial health.

• For the 29th consecutive year, we raised our cash dividend. This action underscores our abiding commitment to shareholders through our strong dividend yield and our enviable track record of dividend growth. This move preceded congressional passage of the tax cut bill that President Bush signed in May. The enactment of this measure, which equalizes the taxation of dividends and capital gains, is very good news for RPM shareholders.

• Finally, we drove this performance with skilled, energetic leaders working together at both the corporate and operating company levels. Despite a difficult economy, these teams rose to the occasion and prevailed. I have boundless respect for these professionals, who give me confidence that we have the strategy, structure and people we need to support our next level of growth.

The Next Level

Our growth strategy is anchored by three primary components: internal growth, acquisitions and enhanced profitability.

INTERNAL Our goal is to achieve 5 percent internal growth annually through leadership in niche markets; value-added, customer-oriented solutions; product line development and extension; growth with customers; new markets for existing products; and effective cross selling.

ACQUISITIONS We will look to match internal growth each year by acquiring strong entrepreneurial businesses and synergistic product lines, and by occasionally adding strategic platforms in new categories serving the markets we already know.

Our acquisition activity will center increasingly on Europe, which presents many attractive growth opportunities. Currently, we have a $180 million base of business on which to build; our goal is to develop a $500 million base of business in the European marketplace within the next three years.

As we grow more aggressively in Europe, we will face the inevitable challenges of different cultures, languages, and monetary and tax systems. But this is where RPM traditionally shines – and clearly demonstrates the value of 168. As the best home for entrepreneurial companies in the markets we serve, we have a corporate culture that accommodates multiple cultures.

Moreover, we have deep respect for the unique history, heritage and culture of the various RPM companies. In Europe, we understand that good, well-run businesses often are buttressed by generations of proud family history. Nobody manages better than we do in that environment.

ENHANCED PROFITABILITY The final element of our strategy is tied to continued operating leverage from our restructuring efforts and the inherent synergies from our acquisition program. Companies in the RPM family retain considerable operational autonomy and yet, where appropriate, we integrate business functions such as finance, treasury, benefits administration, purchasing and, in some cases, manufacturing to capture synergies and improve overall operating results. We believe this combination of decentralized management with the strengths and synergies of a large global corporation is the best way to deliver value to customers and shareholders.

By executing these components, we will achieve our vision for 2007.

Addressing the Asbestos Challenge

Earlier this year, we announced that the insurance available to our Bondex subsidiary to cover asbestos litigation would be depleted by early fiscal 2004. Accordingly, RPM took a charge of $88 million after tax in fourth-quarter 2003, which we believe is an appropriate step in our ongoing efforts to address this significant risk management issue. I encourage you to read Note H to our financial statements in this annual report as well as RPM's Form 10-K annual report filed with the Securities and Exchange Commission for the scope and details associated with this asbestos charge.

We believe that recent law changes in a number of states, coupled with congressional moves toward some form of federal legislation on this issue, will have a positive impact over time on our ability to more clearly define RPM's ultimate asbestos liability outlook. In the meantime, no matter what the outcome in Washington, D.C., RPM will move forward with its growth plans. Based on the strength of our operating results, balance sheet and cash flow as well as the numerous legal, defense and reserve strategies available to us, we will successfully manage this issue, just as we have met every economic, competitive and legal challenge since our founding.

The Power of Momentum

The overriding impression I hope to convey in this, my first annual report to RPM shareholders, is that your company continues to gain momentum. To me, "momentum" is the most important word relative to a business or company because it goes beyond current value to imply continuing long-term success. Despite economic and legal challenges, we are growing at record levels.

As fiscal 2004 unfolds, we are projecting mid-single-digit sales growth even in the expected absence of a major economic turnaround. In conjunction with the impact of acquisitions, this level should give us the ability to achieve earnings growth of 10 percent to 12 percent and to continue building momentum for future growth.

In closing, I want to acknowledge RPM's 7,700 employees, whose loyalty and tireless efforts to deliver for our valued customers have helped to make this a deeply rewarding period for everyone associated with RPM. It is our job to keep the value of 168 alive and meaningful to our continuing growth and success.

I also want to thank our Board of Directors, whose prudent counsel has been indispensable to a first-year CEO, and whose decades of adherence to strong corporate governance principles have been the backbone of our long-term success for shareholders.

Finally, to my fellow shareholders: I thank you for your commitment, support and belief in our ability to be good stewards of your capital. You allow us to do what we love and create value in the process.

Frank C. Sullivan

Frank C. Sullivan
President and Chief Executive Officer

August 29, 2003

The Footprints of Visionaries

It is humbling to follow two inspired leaders of the caliber of my father, Tom Sullivan, who took over Republic Powdered Metals upon the death of my grandfather in 1971, and Jim Karman, the college friend who became his inseparable business partner.

The numbers prove that Tom and Jim were great stewards of financial capital. I firmly believe, however, that RPM's financial success derived from their enlightened stewardship of human capital. Like my grandfather, they were convinced that when employees have the opportunity to realize their aspirations, they will be energized in their work, to the advantage of both customers and shareholders. It is a philosophy we mean to sustain.

RPM is a great company today not because we just had a strong year, but because we had so many strong years under the leadership of Tom and Jim. They knew how to grow a business, and they did it with an infectious spirit and pride that spread to the people who worked with them. I salute their singular contributions. They embody **The Value of 168**.

RPM International Inc.

At a Glance

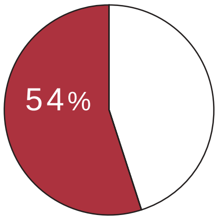
Industrial Segment

Leading Brands

Major Product Lines

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

Percent of Net Sales



*Market Leadership**

- ***Tremco:*** No. 1 in the North American high-end institutional roofing market and No. 2 in the North American sealants market
- ***Stonhard:*** No. 1 global supplier of industrial, high-performance polymer flooring systems
- ***Carboline:*** No. 1 U.S. supplier and a leading global supplier of industrial, high-performance corrosion control coatings
- ***Day-Glo:*** No. 1 globally in the market for fluorescent pigments and colorants
- ***Dryvit:*** No. 1 North American supplier of exterior insulating finishing systems

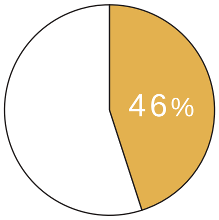
Consumer Segment

Leading Brands

Major Product Lines

- **Primer-Sealers**
- **Specialty Paints & Coatings**
- **Caulks & Sealants**
- **Hobby & Craft**

Percent of Net Sales



*Market Leadership**

- ***Rust-Oleum:*** No. 1 brand recognition and market share position in the U.S. and Canada in the rust-preventative, decorative, specialty and professional segments of the small-project paint category
- ***DAP:*** No. 1 brand recognition and market share position in North America for home improvement latex caulks and sealants and patch and repair products
- ***Flecto:*** No. 1 position in the Canadian clear wood finishes market under the Varathane brand, with strong brand positioning in the U.S. market
- ***Zinsser:*** A leader in brand recognition and market share position in the U.S. market for specialty primers and sealers and wallcovering sundries

*Rankings based on market share


dryvit

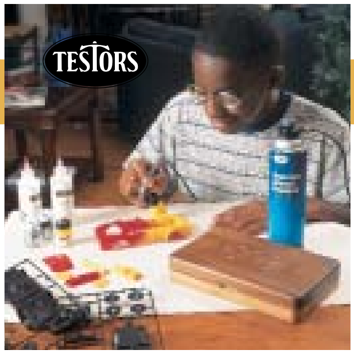
STONHARD

RPM BELGIUM

PETTIT
marine paint

carboline

TREMCO

RUST-OLEUM

TESTORS

ZINSSER

bondo

DAP

Varathane

Selected Financial Data

(In thousands, except per share and percent data)

All financial data based on fiscal years ended May 31		2003	2002[1]	2001
Results from Operations				
	Net sales	$2,083,489	$1,986,126	$2,007,762
	Income before income taxes	47,853	154,124	101,487
	Net income	35,327	101,554	62,961
Performance Measures				
	Return on sales %	1.7	5.1	3.1
	Return on stockholders' equity %	4.1	13.6	9.8
Per Share Data				
	Basic earnings per share	$0.31	$0.97	$0.62
	Diluted earnings per share	0.30	0.97	0.62
	Cash dividends per share	0.5150	0.5000	0.4975
	Stockholders' equity per share	7.61	8.22	6.26
Balance Sheet Highlights				
	Stockholders' equity	877,008	858,106	639,710
	Retained earnings	385,791	409,603	360,458
	Working capital	500,444	479,041	443,652
	Total assets	2,247,211	2,078,844	2,078,490
	Long-term debt	724,846	707,921	955,399
Other Data				
	Depreciation and amortization	58,674	56,859	81,494
	Average shares outstanding	115,294	104,418	102,202

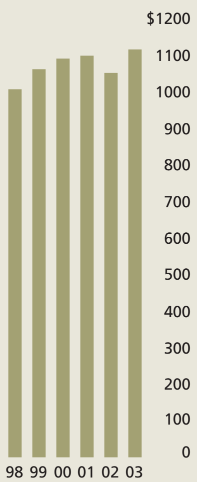
[1] Reflects adoption of SFAS No. 142 regarding Goodwill (see Note A [10] to the Consolidated Financial Statements).

Acquisitions made by the Company during the periods presented may impact comparability from year to year (see Note A [2] to Consolidated Financial Statements).

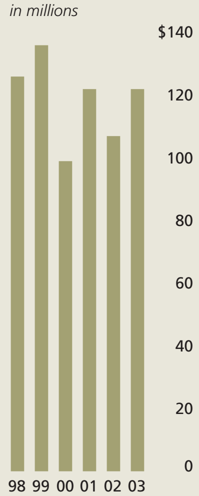
See Notes to Consolidated Financial Statements

Segment Charts — *Industrial*

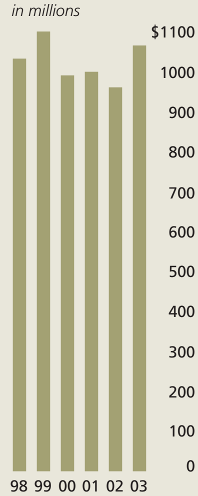
Net Sales
in millions



Earnings Before Interest & Taxes[1]
in millions



Identifiable Assets
in millions

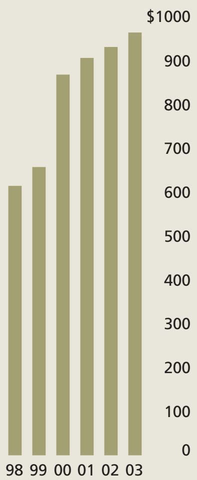


[1] Earnings Before Interest & Taxes for business segments is reconciled to Income Before Income Taxes on page 17, for each of the three years ended May 31, 2003.

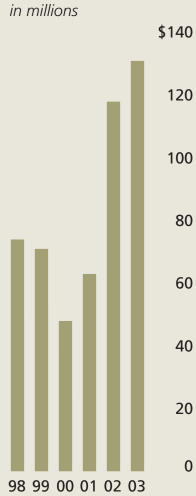
2000	1999	1998	1997	1996	1995	1994	1993
$1,962,410	$1,720,628	$1,623,326	$1,356,588	$1,136,396	$1,030,736	$825,292	$768,372
71,761	159,597	149,556	135,728	119,886	108,492	89,207	66,136
40,992	94,546	87,837	78,315	68,929	62,616	53,753	39,498
2.1	5.5	5.4	5.8	6.1	6.1	6.5	5.1
5.9	14.4	16.6	16.7	17.3	18.8	19.2	16.6
$0.38	$0.87	$0.89	$0.81	$0.72	$0.68	$0.59	$0.48
0.38	0.86	0.84	0.76	0.69	0.65	0.57	0.46
0.4850	0.4645	0.4400	0.4080	0.3776	0.3520	0.3264	0.3029
6.02	6.83	5.75	5.07	4.68	3.83	3.49	2.95
645,724	742,876	566,337	493,398	445,915	350,469	316,444	243,899
348,102	359,011	314,911	270,465	231,896	199,527	169,687	146,852
408,890	402,870	387,284	478,535	275,722	271,635	231,684	191,872
2,099,203	1,737,236	1,685,917	1,633,228	1,155,076	965,523	665,966	648,524
959,330	582,109	716,989	784,439	447,654	407,041	233,969	258,712
79,150	62,135	57,009	51,145	42,562	37,123	26,050	22,283
107,221	108,731	98,527	97,285	95,208	91,571	90,726	82,694

Segment Charts — *Consumer*

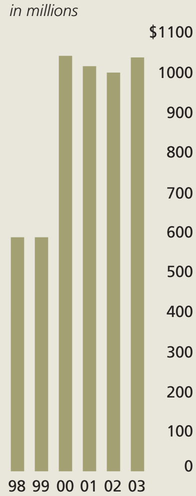
Net Sales
in millions



Earnings Before Interest & Taxes[1]
in millions



Identifiable Assets
in millions



MD&A

Management's Discussion and Analysis

of Results of Operations and Financial Condition

Segment and Geographic Area Information

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

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

Consumer segment products are sold throughout North America to mass merchandisers, home centers, hardware stores, paint stores, automotive supply stores and craft shops. Major customers include Ace Hardware Stores, Canadian Tire, Cotter & Company, Do It Best, The Home Depot, Lowe's Home Centers, W. W. Grainger and Wal-Mart. Consumer segment products are sold to retailers through a combination of direct sales, sales representative organizations and distributor sales.

The eight largest consumer segment customers represented approximately 23%, 23% and 19% of consolidated net sales and approximately 50%, 49% and 41% of consumer segment sales for 2003, 2002 and 2001, respectively. The Home Depot represented approximately 12% and 11% of consolidated net sales and approximately 25% and 24% of consumer segment sales for the years ended May 31, 2003 and 2002, respectively.

We reflect income from our joint ventures on the equity method, and receive royalties from our licensees, both of which minor amounts are reflected as offsets to selling, general and administrative expenses. Export sales were less than 10% of net sales for each of the three years presented.

In addition to the two operating segments, there are certain business activities, referred to as corporate/other, that do not constitute an operating segment, including corporate headquarters and related administrative expenses, results of our captive insurance companies, gains or losses on the sales of certain assets and other expenses not directly associated with either operating segment. Related assets consist primarily of investments, prepaid expenses, deferred pension assets, and headquarters' property and equipment. These corporate and other assets and expenses reconcile operating segment data to total consolidated net sales, earnings before interest and taxes, identifiable assets, capital expenditures, and depreciation and amortization.

The following data reflect the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective June 1, 2001 (refer to Note A [10]).

Segment and Geographic Information

(In thousands)

Year Ended May 31	2003	2002	2001
Segment Information			
Net Sales			
Industrial	$1,117,877	$1,053,632	$1,100,682
Consumer	965,612	932,494	907,080
Corporate/Other			
Total	$2,083,489	$1,986,126	$2,007,762
Income Before Income Taxes[a]			
Earnings Before Interest and Taxes ("EBIT")[b]			
Industrial	$ 122,315	$ 107,033	$ 122,034
Consumer	131,384	118,230	62,662
Corporate/Other	(179,134)[c]	(30,675)	(18,006)
Total EBIT	74,565	194,588	166,690
Interest Expense, Net	26,712	40,464	65,203
Total	$ 47,853	$ 154,124	$ 101,487
Identifiable Assets			
Industrial	$1,067,916	$ 962,742	$1,002,209
Consumer	1,038,350	1,000,928	1,016,067
Corporate/Other	140,945	115,174	60,214
Total	$2,247,211	$2,078,844	$2,078,490
Capital Expenditures			
Industrial	$ 18,741	$ 17,743	$ 30,123
Consumer	22,095	20,559	23,629
Corporate/Other	978	1,629	366
Total	$ 41,814	$ 39,931	$ 54,118
Depreciation and Amortization			
Industrial	$ 27,537	$ 26,883	$ 38,579
Consumer	29,216	28,605	41,627
Corporate/Other	1,921	1,371	1,288
Total	$ 58,674	$ 56,859	$ 81,494
Geographic Information			
Net Sales (based on shipping location)			
United States	$1,683,196	$1,615,047	$1,614,112
Foreign			
Canada	147,063	135,694	140,009
Europe	175,896	158,440	164,517
Other Foreign	77,334	76,945	89,124
Total Foreign	400,293	371,079	393,650
Total	$2,083,489	$1,986,126	$2,007,762
Assets Employed			
United States	$1,830,629	$1,706,843	$1,732,238
Foreign			
Canada	151,771	147,568	128,159
Europe	197,948	160,641	144,619
Other Foreign	66,863	63,792	73,474
Total Foreign	416,582	372,001	346,252
Total	$2,247,211	$2,078,844	$2,078,490

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

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

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

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements include accounts of RPM and all majority-owned subsidiaries. Preparation of our financial statements requires the use of estimates and judgments that affect the amounts of our assets, liabilities, revenues and expenses. We continually evaluate these estimates, including those related to allowances for doubtful accounts, inventories, allowances for recoverable taxes, useful lives of property, plant and equipment, goodwill, environmental and other contingent liabilities, income tax valuation allowances, pension plans and the fair value of financial instruments. These estimates form the basis for making judgments about the carrying value of our assets and liabilities. Actual results may differ from these estimates under different assumptions and conditions.

We have identified below the accounting policies that are critical to our financial statements.

Revenue Recognition

Revenues are recognized when title and risk of loss pass to customers. The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," provides guidance on the application of Generally Accepted Accounting Principles (GAAP) in the U.S. to selected revenue recognition issues. We have concluded that our revenue recognition policy is appropriate and in accordance with GAAP and SAB No. 101.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

Our reporting currency is the U.S. dollar. However, the functional currency of all of our foreign subsidiaries is their local currency. We translate the amounts included in the consolidated statements of income of our foreign subsidiaries into U.S. dollars at year-to-date average exchange rates, which we believe are fairly representative of the actual exchange rates on the dates of the transactions. Our foreign subsidiaries' assets and liabilities are translated into U.S. dollars from local currency at the actual exchange rates as of the end of each reporting date, and we record the resulting foreign exchange translation adjustments in our consolidated balance sheets as a component of accumulated other comprehensive income (loss). If we determined that the functional currency of any of our foreign subsidiaries should be the U.S. dollar, our financial statements would be affected. Should this occur, we would adjust our reporting to appropriately account for such change(s).

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

Goodwill

We adopted two new accounting standards issued by the Financial Accounting Standards Board in June 2001. Statement of Financial Accounting Standards, or SFAS, No. 141, "Business Combinations," eliminates the pooling method of accounting for all business combinations initiated after June 30, 2001, and addresses the initial recognition and measurement of goodwill and intangible assets acquired in a business combination. Accordingly, we apply the provisions of SFAS No. 141 to all business combinations initiated after its effective date. We also adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective June 1, 2001 (refer to Note A [10]). Goodwill amortization ceased upon adoption of the standard, and the required initial impairment tests were performed. Results of these and subsequent impairment tests have not generated any impairment loss to date.

Prospectively, goodwill will be tested on an annual basis, or more frequently, as impairment indicators arise. Impairment tests, which involve the use of estimates related to the fair market values of the business operations with which goodwill is associated, are performed at the end of the first fiscal quarter. Losses, if any, resulting from impairment tests will be reflected in our income statement.

Other Long-Lived Assets

We assess for impairment of identifiable non-goodwill intangibles and other long-lived assets whenever events or changes in facts and circumstances indicate the possibility that the carrying value may not be recoverable. Factors considered important that might trigger an impairment evaluation include the following:

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

When we determine that the carrying value of non-goodwill intangibles and other long-lived assets may not be recoverable based upon the existence of one or more of the above-described indicators, any impairment will be measured based on projected net cash flows expected from the asset(s), including eventual disposition.

Contingencies (also refer to Note H)

We are party to claims and lawsuits arising in the normal course of business, including the various asbestos-related suits discussed herein and in Note H of our Consolidated Financial Statements. Although we cannot precisely predict the amount of any liability that may ultimately arise with respect to any of these matters, we record provisions when we consider the liability probable and reasonably estimable. The provisions are based on historical experience and legal advice, and are reviewed quarterly and adjusted according to developments. Changes in the amount of these provisions affect our consolidated statements of income. Due to the uncertainties inherent in the loss reserve estimation process, we are unable to estimate an additional range of loss in excess of our accruals.

Our environmental-related accruals are similarly established and/or adjusted as information becomes available upon which costs can be reasonably estimated. Actual costs may vary from these estimates because of the inherent uncertainties involved, including the identification of new sites and the development of new information about contamination. Certain sites are still being investigated and, therefore, we have been unable to fully evaluate the ultimate cost for those sites. As a result, reserves have not been taken for some of these sites and for other sites, costs may exceed existing reserves. We have received indemnities for potential environmental issues from purchasers of certain of our properties and businesses and from sellers of properties or businesses we have acquired. We have also purchased insurance to cover potential environmental liabilities at certain sites. If the indemnifying or insuring party fails to, or becomes unable to, fulfill its obligations under those agreements or policies, we may incur environmental costs in addition to any amounts reserved, which may have a material adverse effect on our financial condition, results of operations or cash flows.

Results of Operations

Fiscal 2003 Compared with Fiscal 2002

Net Sales | Fiscal 2003 net sales grew $97.4 million, or 5%, over fiscal 2002. Organic sales growth amounted to $78.2 million, or 4% growth year over year, from unit volume as opposed to pricing and favorable foreign exchange differences of $19 million. These exchange differences were principally against the euro and the Canadian dollar, net of negative differences from Latin American currencies. Eight smaller acquisitions including Koch Waterproofing Solutions, purchased on April 1, 2003, made up the difference, adding approximately $19 million to sales.

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

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

Gross Profit Margin | The fiscal 2003 gross profit margin of 45.8% compares with 45.9% during fiscal 2002, or nearly flat year over year. The benefits from higher sales volume and some lower raw material costs were slightly more than offset by a mix of lower-margin sales. The industrial segment gross margins declined year over year to 46.2% from 46.9%. The benefits from improved sales levels and a number of lower raw material costs in this segment were more than offset by a change in sales mix created by the strong sales of lower-margin services during 2003, related primarily to roofing and flooring.

The consumer segment gross margin improved year over year to 45.4% from 44.8%. This improvement is the result of positive leverage from the higher sales volume, slightly favorable raw material costs and continued conversion cost-saving initiatives.

Manufacturing efficiencies from expanded Class A manufacturing initiatives are being realized in both operating segments, and these efforts will continue. Raw material cost pressures were building during the second half of fiscal 2003, and we believe higher costs in the material cost area may impact the first quarter of fiscal 2004 and, possibly, beyond.

Selling, General and Administrative Expenses ("SG&A") | Consolidated SG&A expenses improved to 35.5% of net sales in 2003 from 36.1% during fiscal 2002, attributable largely to significant growth in lower-margin services sales in the industrial segment that require relatively much lower SG&A support cost, along with ongoing cost reduction and containment efforts throughout both operating segments.

The industrial segment SG&A was 35.2% of net sales in 2003 compared with 36.8% during fiscal 2002. The growth in sales volume, particularly service sales, contributed about half of this improvement. Cost reduction initiatives and cost containment efforts in both periods made up the difference.

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

Corporate/other costs amounted to $39.1 million in 2003 compared with $30.7 million during fiscal 2002. This change reflects increased product liability costs of $5.1 million and a change in export sales tax legislation that went into effect this fiscal year. While this latter change caused $4.0 million of the increase in corporate/other costs during 2003, consolidated SG&A was not affected by this tax law change because this increase in corporate/other expense is offset by corresponding reductions of expense in the industrial and consumer operating segments in the amounts of $2.4 million and $1.6 million, respectively.

Asbestos Charge | Certain of our wholly owned subsidiaries, principally Bondex International, Inc. (Bondex), along with many other U.S. companies, are and have been involved in asbestos-related suits filed primarily in state courts during the past two decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products.

Asbestos-related suits against Bondex increased in the fourth quarter of 2002 and the first two quarters of 2003, influenced by the bankruptcy filings of numerous other defendants in asbestos-related litigation. Based on the significant increase in asbestos claims and the inequitable impact of joint and several liability laws on Bondex, as previously reported, our third-party insurance will be depleted during the first quarter of 2004. Prior to this sudden precipitous increase in loss rates, the combination of reserves and insurance coverage was expected to adequately cover our asbestos claims for the foreseeable future. We are contesting various of our third-party insurers' claims of exhaustion.

During the last seven months of 2003, new state liability laws were enacted in three states where more than 80% of the claims against Bondex are pending. The changes generally provide for liability to be determined on a proportional cause basis. The ultimate impact of these law changes is not expected to be significantly visible until the latter part of fiscal 2004.

During the fourth quarter of 2003, a nationally recognized consulting firm was retained to evaluate whether it would be possible to estimate the cost of disposing pending claims and to assist in determining whether future asbestos-related claims were measurable. Bondex has provided the consultants with all relevant data regarding asbestos-related claims filed against Bondex through May 31, 2003.

At this time, we cannot estimate the liability that will result from all future claims. We have established a reserve for those pending cases that have progressed to a stage where the cost to dispose of these cases can reasonably be estimated. The reserve was established by taking an asbestos charge to 2003 operations of $140,000,000 for measurable known claims and a provision for future claims that can presently be estimated. We believe this asbestos reserve will be sufficient to cover asbestos-related cash flow requirements for approximately three years. Additionally, Bondex's share of costs (net of then-available third-party insurance) for asbestos-related product liability were $6,700,000, $2,800,000 and $2,300,000 for the years ended May 31, 2003, 2002 and 2001, respectively. Future facts, events and legislation, both state and/or federal, may alter our estimates of both pending and future claims. The

Company cannot estimate possible liabilities in excess of those accrued because we cannot predict the number of additional claims that may be filed in the future, the grounds for such claims, the damages that may be demanded, the probable outcome, or the impact of recent state and pending federal legislation on prospective asbestos claims.

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

Earnings Before Interest and Taxes ("EBIT") | We believe that EBIT best reflects the performance of our operating segments, as interest expense and income taxes are not consistently allocated to operating segments by the various constituencies utilizing our financial statements. Requests for operating performance measures received from research analysts, financial institutions and rating agencies typically focus on EBIT, and we believe EBIT disclosure is responsive to investors.

Consolidated EBIT in 2003 of $74.6 million compares with $194.6 million during fiscal 2002, with $140.0 million of this difference representing the asbestos liability charge. Excluding the charge, 2003 EBIT would have been $214.6 million or ahead $20.0 million, or 10%, over fiscal 2002. That represents margin improvement on the 5% sales increase, to 10.3% of net sales from 9.8% during fiscal 2002, the result of the higher sales volume coupled with cost reductions and containments.

Industrial segment EBIT grew $15.3 million, or 14%, on 6% sales growth, to 11% of net sales compared with 10% of sales during fiscal 2002. Consumer segment EBIT grew $13.2 million, or 11%, on 4% sales growth to 14% of net sales compared with 13% of net sales during fiscal 2002. These operating EBIT improvements totaling $28.4 million generally are the result of the growth in sales volume, certain lower raw material costs year over year and ongoing cost reductions and containments across both operating segments.

Net Interest Expense | Net interest expense declined $13.8 million during 2003 (refer to Note A [17]) as a result of much lower average debt levels and lower interest rates. Interest rates on the variable portion of outstanding borrowings, averaging approximately 70% of total debt (refer to Note B), averaged a much lower 3.8% compared with 4.5% during 2002, amounting to savings of $4.8 million in 2003. Total debt levels averaged $202 million lower throughout 2003, accounting for $10.0 million of interest cost saved year over year. After our issuance of 2.75% Senior Convertible Notes in May 2003 (see Financing Activities in "Liquidity and Capital Resources"), the variable rate portion of our total debt structure was down to 51%. During fiscal 2002, there were marketable securities gains of approximately $1.0 million that were not realized again during 2003.

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

Net Income | Fiscal 2003 net income of $35.3 million compares with $101.6 million during fiscal 2002 and reflects the $87.5 million after-tax cost of the 2003 asbestos liability charge. Excluding the charge, 2003 net income would have been $122.8 million, ahead 20.9%, or $21.2 million, from fiscal 2002. The return on sales would have been 5.9% compared with 5.1% for fiscal 2002.

During March 2002, we sold 11.5 million common shares (see Financing Activities in "Liquidity and Capital Resources") through a follow-on public equity offering, and this transaction had a dilutive effect of $0.01 per share on fiscal 2003 reported diluted earnings per share. Excluding the impact of the asbestos charge on earnings, the 11.5 million shares sold in March 2002 would have had a $0.07 per share dilutive effect on fiscal 2003 pro forma diluted earnings per share of $1.06.

Fiscal 2002 Compared with Fiscal 2001

Net Sales | Fiscal 2002 net sales were slightly below fiscal 2001 by $21.6 million, or 1%. The $30 million commercial Durabond unit of DAP was divested in March 2001, with sales of $26.3 million to that point in the 2001 fiscal year. Factoring out those sales to be comparable, plus the negative effects from foreign exchange differences of approximately $14 million, principally against the Canadian dollar, year-over-year sales would show a 1% increase.

Industrial segment sales amounted to 53% of the 2002 RPM total, and were lower year over year by 3.3% when the negative foreign exchange effect of $11.2 million is excluded. The industrial economy, including electronics, was generally weak throughout 2002, which caused a number of customers to postpone higher-cost maintenance and replacement projects, particularly flooring.

Consumer segment sales amounted to 47% of the 2002 RPM total, and were ahead 6.2% year over year on a comparable basis, after adjusting for the Durabond divestiture and negative foreign exchange effects. Consumer demand was solid throughout 2002, especially for our DAP, Rust-Oleum and Zinsser products. This growth reflected a combination of higher unit volume of approximately 5%, with the balance from slightly higher pricing to counter increased raw material and packaging costs during the 2001 fiscal year.

Gross Profit Margin | The gross profit margin improved in fiscal 2002, reaching 45.9% compared with 45.1% during fiscal 2001. The industrial gross margin of 46.9% in 2002 was slightly behind the 47.4% realized during fiscal 2001. This was mainly a volume effect as the sales decline, particularly of higher-margin flooring (off $44 million, or 11%), was too great to overcome versus related overhead costs. Restructuring savings and a number of favorable raw material costs partially offset this volume effect. Consumer gross margins, on the other hand, reached 44.8% from 42.5% during 2001. This improvement reflected additional restructuring savings of approximately $21 million during fiscal 2002, plus positive cost leverage from the higher sales volume and a number of favorable raw material costs in this segment as well.

Selling, General and Administrative Expenses | SG&A expenses improved to 36.1% of sales in 2002 from 36.8% during fiscal 2001. We adopted SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), as of June 1, 2001, the beginning of the 2002 fiscal year, and that change is reflected in SG&A (refer to Note A [10]). On a pro forma basis, the fiscal 2001 SG&A percentage under SFAS No. 142 would have been $25.1 million lower, or 35.6% of sales. The divested Durabond unit of DAP had carried a lower SG&A percentage, having an approximate negative effect of 0.4% of sales, bringing the fiscal 2001 SG&A percentage, adjusted for both SFAS No. 142 and the divestiture, to approximately 36% of sales. The fiscal 2002 $2.1 million third-quarter charge related to the devaluation of the Argentinean peso amounted to 0.1% of fiscal 2002 sales. Without that charge, the 2002 SG&A percentage would have equaled fiscal 2001's 36%, adjusted for SFAS No. 142 and the divestiture.

By segment, industrial SG&A of 36.8% in 2002 compared with 36.3% during fiscal 2001, or 35.2% on a pro forma SFAS No. 142-adjusted basis. This difference was attributable to the much lower sales volume in 2002; increased distribution costs associated with a transition to fewer warehouses; and the Argentinean peso devaluation, all of which were partly offset by solid cost containment efforts throughout the segment. Consumer SG&A of 32.1% in 2002 compared favorably with 35.6% during fiscal 2001, or 34.1% on a pro forma SFAS No. 142-adjusted basis. This significant improvement was attributable to the much higher consumer sales volume; some reduced freight costs, as there were still restructuring-related inefficiencies during fiscal 2001; and solid cost containment efforts throughout this segment. Corporate/other costs were $30.7 million in 2002 compared with $18 million during fiscal 2001. This change reflected a number of increased legal and professional fees associated with terminated acquisition and divestiture efforts; increased product liability costs (including those described under Item 3. Legal Proceedings, Form 10-K); rising health care and other employee benefit costs; management succession costs; and other higher corporate costs.

Earnings Before Interest and Taxes | EBIT climbed $27.9 million in 2002, reaching $194.6 million. Fiscal 2001 EBIT, adjusted for SFAS No. 142, would have been $191.8 million, leaving 2002 EBIT ahead by $2.8 million, or up 1.5% on a 1% decrease in sales. Industrial EBIT was down $15 million during fiscal 2002, or down $26.9 million after adjusting fiscal 2001 for SFAS No. 142, with this decline being attributable mainly to the lower flooring sales volume. Consumer EBIT nearly doubled year over year, up $55.6 million, or still ahead $42.4 million on a SFAS No. 142-adjusted basis, with that growth almost equally attributable to the restructuring savings and the higher comparable sales volume.

Net Interest Expense | Net interest expense declined $24.7 million during 2002 (refer to Note A [17]) as a result of lower interest rates and reduced debt levels during the year. Interest rates on the variable rate portion (approximately 75% to 80%) of outstanding borrowings (refer to Note B) were lower in fiscal 2002. The overall effective interest rate of approximately 4.5% in 2002 compares favorably with 6.9% during fiscal 2001, amounting to savings of $20.3 million for 2002. Total debt levels were approximately $63 million lower on average throughout the year, accounting for the remaining $4.4 million of interest costs saved year over year.

Income Tax Rate | The effective income tax rate of 34.1% for 2002 compared favorably with fiscal 2001's 38% rate (refer to Note C). This rate reduction was driven by the adoption of SFAS No. 142, as goodwill is no longer being amortized for financial purposes.

Net Income | 2002 net income of $101.6 million, or $0.97 per diluted share, increased 61% and 56%, respectively, from fiscal 2001. On a pro forma basis adjusted for SFAS No. 142, fiscal 2001 net earnings and diluted earnings per share would have been $84.8 million and $0.83 (refer to Note A [10]), respectively, putting 2002 results still ahead by 20% and 17%, respectively.

During March 2002, we sold 11.5 million common shares (see Financing Activities in "Liquidity and Capital Resources") through a follow-on public equity offering, and this transaction had a dilutive effect on fiscal 2002 of $0.01 per share.

Liquidity and Capital Resources

Operating Activities

Operating activities generated positive cash flow of $160.6 million during fiscal 2003 compared with $191.4 million a year ago, a decrease of $30.8 million. After adding back the $140.0 million ($87.5 million after tax) effect of the asbestos charge, which did not affect cash flow, our adjusted net income of $122.8 million represents a $21.2 million increase over the prior year's $101.6 million. Depreciation and amortization were flat year over year as capital expenditures have remained relatively flat over the past two years and the effects of SFAS No. 142 are no longer a differentiating factor in the yearly comparative results. The most significant movement in cash flow generated from operating assets was in accounts receivable, where a cash usage of $37.3 million was caused mainly by an increase in sales in the fourth quarter versus relatively flat sales in the prior year's quarter-over-quarter sales results; additionally, approximately $14 million of the increase in cash flow used related to receivables is a result of translating our foreign-denominated receivables at higher asset values as the dollar weakened against virtually all major foreign currencies as of May 31, 2003 versus May 31, 2002. Cash flow generated from inventories was $1.3 million as the effect of Class A manufacturing continued to provide benefits over the last two fiscal years. Inventories were negatively affected by approximately $8 million as a result of the translation of foreign-denominated inventories at this year's year-end spot rates versus those of the prior year. The Company continues a strong focus on improving accounts receivable collections and managing inventories lower as a result of strengthened information technology systems and continuous improvements in operating techniques, such as Class A manufacturing, and these efforts will continue. Prepaid and other current assets increased mostly as a result of recording a receivable due from insurance companies of approximately $16.6 million. Accrued loss reserves were increased by $15.4 million, mainly as a result of recording additional loss provisions related to the insurance receivable.

As disclosed in the Company's "Critical Accounting Policies and Estimates" and its discussion on asbestos litigation (refer to Note H – "Contingencies and Loss Reserves"), as a result of a significant increase in asbestos claims activity and inequitable joint and several liability determinations against Bondex, our third-party insurance will be depleted within the first quarter of 2004. As a result, the Company will then be required to fund costs presently covered by insurance with its then-existing cash from operations.

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

Investing Activities

Capital expenditures, other than for ordinary repairs and replacements, are made to accommodate our continued growth through improved production and distribution efficiencies and capacity, and to enhance administration. Capital expenditures in fiscal 2003 of $41.8 million compare with depreciation and amortization of $58.7 million. We are not capital intensive and capital expenditures generally do not exceed depreciation and amortization in a given year. Capital spending is expected to hold at approximately the fiscal 2003 level for the next several years as many larger spending needs have been accomplished in recent years, such as those to accommodate the restructuring program, plus several major information technology platform conversions. We believe there is adequate production capacity to meet our needs for the next several years at normal growth rates.

During fiscal 2003, there were investments totaling $66.0 million (refer to Note A [2]) for seven product line acquisitions and one minority interest acquisition.

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

Financing Activities

During March 2002, we sold 11.5 million common shares through a follow-on public offering at $14.25 per share, closing April 2, 2002. The entire proceeds of the offering, $156 million, were used to permanently pay down the outstanding balance under the $200 million term loan facility, which was then retired.

On June 6, 2002, we entered into a $125 million accounts receivable securitization transaction with several banks through June 4, 2005, which is subject to continuation by an annual renewal by the banks. The securitized accounts receivable are owned in their entirety by RPM Funding Corporation, a wholly owned consolidated special-purpose entity (SPE), and are not available to satisfy claims of the Company's creditors until the participating banks' obligations have been paid in full. This securitization is being accomplished by having certain subsidiaries sell various of their accounts receivable to the SPE, and by having the SPE then transfer those receivables to a conduit administered by the banks. This securitization did not constitute a form of off-balance sheet financing, and is fully reflected in our financial statements. The amounts available under this program are subject to changes in the credit ratings of the Company's customers, customer concentration levels and certain characteristics of the underlying accounts receivable. This transaction increases our liquidity and reduces our financing costs by replacing up to $125 million of existing borrowing at lower interest rates. As of May 31, 2003, $91 million was securitized under this agreement, the proceeds of which were used to reduce the outstanding balance under the $500 million revolving credit agreement.

On February 12, 2003, the Company announced the authorization of a share repurchase program, allowing the repurchase of up to 10 million shares of RPM common stock over a period of 12 months. As of May 31, 2003, the Company had repurchased 100,000 of its shares at an average price of $11.67 per share.

In May 2003, the Company issued $297 million face value at maturity unsecured 2.75% Senior Convertible Notes ("2.75% Notes") due May 13, 2033. The Company generated net proceeds of $150 million from the sale of the 2.75% Notes. The 2.75% Notes are convertible into 8,034,355 shares of the Company's common stock at a price of $18.68 per share, subject to adjustments, during any fiscal quarter for which the closing price of the Company's common stock is greater than $22.41 per share for a defined duration of time. The 2.75% Notes are also convertible during any period in which the credit rating of the Company is below a specified level, or if specified corporate transactions have occurred. The 2.75% Notes are redeemable by the holder for the issuance price plus accrued original issue discount in May 2008, 2013, 2018, 2023, 2028 and 2033. Interest on the 2.75% Notes is payable at a rate of 2.75% beginning November 13, 2003 until May 13, 2008, depending upon the market price of the Notes. After that date, cash interest will only accrete and will not be paid prior to maturity, subject to certain contingencies.

In May 2003, the Company established a $200 million non-rated commercial paper ("CP") program under which borrowings are unsecured for terms of 270 days or less. This CP program currently allows for lower interest cost than that available under the Company's $500 million revolving credit facility. The $500 million credit facility is available to back up our CP program to the extent it is not drawn upon. As of May 31, 2003, there was $51.7 million outstanding under this CP program, the proceeds of which were used to reduce the outstanding balance of the revolver mentioned above.

Our debt-to-capital ratio was 45% at May 31, 2003, unchanged from May 31, 2002.

The table below summarizes our financial obligations and their expected maturities at May 31, 2003, and the effect such obligations are expected to have on our liquidity and cash flow in the periods indicated.

	May 31, 2003			
(In millions)	Total	Less than 1 Year	1-3 Years	After 3 Years
Current portion of long-term debt	$ 1.3	$ 1.3	$ —	$ —
Long-term debt	724.8	—	434.6	290.2
Non-cancelable operation lease obligations	72.8	16.8	23.9	32.1
	$798.9	$18.1	$458.5	$322.3

The condition of the U.S. dollar has fluctuated throughout the year, and was moderately weaker at fiscal year end over the previous year end, causing a favorable change in the "Accumulated Other Comprehensive Loss" (refer to Note A [5]) component of stockholders' equity of $39.9 million this year versus $3.4 million last year. This change was offset by a decrease of $5.9 million related to adjustments required to certain foreign subsidiaries' Minimum Pension Liability.

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

Off-Balance Sheet Financings

We do not have any off-balance sheet financings, other than the minimum leasing commitments described in Note E. We have no subsidiaries that are not included in our financial statements, nor do we have any interests in or relationships with any special-purpose entities that are not reflected in our financial statements.

Qualitative and Quantitative Disclosures About Market Risk

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

Interest Rate Risk

Our primary interest rate risk exposure results from our floating rate debt, including various revolving and other lines of credit (refer to Note B). At May 31, 2003, approximately 51% of our total debt was subject to floating interest rates. If interest rates were to increase 100 basis points (1%) from May 31, 2003 rates, and assuming no changes in debt from the May 31, 2003 levels, the additional annual interest expense would amount to approximately $3.7 million on a pre-tax basis. We currently do not hedge our exposure to floating interest rate risk.

Foreign Currency Risk

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

If the U.S. dollar continues to weaken, our foreign results of operations will be positively impacted, but the effect is not expected to be material. A 10% change in foreign currency exchange rates would not have resulted in a material impact to net income for the year ended May 31, 2003. We do not currently hedge against the risk of exchange rate fluctuations.

Forward-looking Statements

The foregoing discussion includes forward-looking statements relating to our business. These forward-looking statements, or other statements made by us, are made based on our expectations and beliefs concerning future events impacting us and are subject to uncertainties and factors (including those specified below) that are difficult to predict and, in many instances, are beyond our control. As a result, our actual results could differ materially from those expressed in or implied by any such forward-looking statements. These uncertainties and factors include (a) general economic conditions; (b) the price and supply of raw materials, particularly titanium dioxide, certain resins, aerosols and solvents; (c) continued growth in demand for our products; (d) legal, environmental and litigation risks inherent in RPM's construction and chemicals businesses and risks related to the adequacy of our reserves and insurance coverage for such matters; (e) the effect of changes in interest rates; (f) the effect of fluctuations in currency exchange rates upon our foreign operations; (g) the effect of non-currency risks of investing in and conducting operations in foreign countries, including those relating to domestic and international political, social, economic and regulatory factors; (h) risks and uncertainties associated with our ongoing acquisition and divestiture activities; (i) risks inherent in our contingent liability reserves, including asbestos; and other risks detailed in our other reports and statements filed with the Securities and Exchange Commission, including the risk factors set forth in our prospectus and prospectus supplement included as part of our Registration Statement on Form S-3 (File No. 333-77028), as the same may be amended from time to time.

Consolidated Balance Sheets

(In thousands, except per share amounts)

May 31	2003	2002
Assets		
Current Assets		
Cash and short-term investments (Note A)	$ 50,725	$ 42,172
Trade accounts receivable (less allowances of $17,297 in 2003 and $15,884 in 2002)	439,623	397,659
Inventories (Note A)	253,204	251,446
Deferred income taxes (Notes A and C)	51,285	42,441
Prepaid expenses and other current assets	133,257	110,037
Total current assets	928,094	843,755
Property, Plant and Equipment, at Cost (Note A)		
Land	23,401	21,655
Buildings and leasehold improvements	221,954	203,428
Machinery and equipment	468,654	430,758
	714,009	655,841
Less allowance for depreciation and amortization	343,220	300,044
Property, plant and equipment, net	370,789	355,797
Other Assets		
Goodwill (Note A)	631,253	592,329
Other intangible assets, net of amortization (Note A)	282,949	264,530
Other	34,126	22,433
Total other assets	948,328	879,292
Total Assets	$2,247,211	$2,078,844
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 171,956	$ 160,767
Current portion of long-term debt (Note B)	1,282	5,876
Accrued compensation and benefits	77,577	80,530
Accrued loss reserves (Note H)	64,230	48,537
Asbestos-related liabilities (Note H)	41,583	3,377
Other accrued liabilities	59,759	58,144
Income taxes payable (Notes A and C)	11,263	7,483
Total current liabilities	427,650	364,714
Long-Term Liabilities		
Long-term debt, less current maturities (Note B)	724,846	707,921
Asbestos-related liabilities (Note H)	103,000	
Other long-term liabilities	59,951	55,458
Deferred income taxes (Notes A and C)	54,756	92,645
Total long-term liabilities	942,553	856,024
Total liabilities	1,370,203	1,220,738
Stockholders' Equity		
Preferred stock, par value $0.01; authorized 50,000 shares; none issued		
Common stock, par value $0.01 and without par value with a stated value of $0.015 per share as of May 31, 2003 and 2002, respectively; authorized 300,000 and 200,000 shares, respectively; issued 115,596 and outstanding 115,496 in 2003; issued 122,653 and outstanding 114,696 in 2002 (Note D)	1,156	1,786
Paid-in capital	508,397	585,566
Treasury stock, at cost (Note D)	(1,167)	(88,364)
Accumulated other comprehensive loss (Note A)	(17,169)	(50,485)
Retained earnings	385,791	409,603
Total stockholders' equity	877,008	858,106
Total Liabilities and Stockholders' Equity	$2,247,211	$2,078,844

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

(In thousands, except per share amounts)

Year Ended May 31	2003	2002	2001
Net Sales	$2,083,489	$1,986,126	$2,007,762
Cost of Sales	1,128,937	1,073,910	1,101,417
Gross Profit	954,552	912,216	906,345
Selling, General and Administrative Expenses	739,987	717,628	739,655
Asbestos Charge (Note H)	140,000		
Interest Expense, Net	26,712	40,464	65,203
Income Before Income Taxes	47,853	154,124	101,487
Provision for Income Taxes (Note C)	12,526	52,570	38,526
Net Income	$ 35,327	$ 101,554	$ 62,961
Average Shares of Common Stock Outstanding (Note D)			
Basic	115,294	104,418	102,202
Diluted	115,986	105,131	102,212
Earnings per Common Share			
Basic	$ 0.31	$ 0.97	$ 0.62
Diluted	$ 0.30	$ 0.97	$ 0.62
Cash Dividends per Share of Common Stock	$0.515	$0.500	$0.498

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock						
	Number of Shares (Note D)	Par/ Stated Value	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss (Note A)	Retained Earnings	Total
Balance at May 31, 2000	103,134	$1,616	$424,077	$(88,516)	$(39,555)	$348,102	$645,724
Comprehensive income							
Net income						62,961	62,961
Translation loss and other					(13,519)		(13,519)
Comprehensive income							49,442
Dividends paid						(50,605)	(50,605)
Repurchase of stock	(1,157)			(11,101)			(11,101)
Stock option exercises	59	1	101	309			411
Restricted stock awards	175	2	5,837				5,839
Balance at May 31, 2001	102,211	1,619	430,015	(99,308)	(53,074)	360,458	639,710
Comprehensive income							
Net income						101,554	101,554
Translation gain and other					2,589		2,589
Comprehensive income							104,143
Dividends paid						(52,409)	(52,409)
Sale of stock	11,500	167	155,767				155,934
Stock option exercises, net	847		92	9,412			9,504
Restricted stock awards	138		(308)	1,532			1,224
Balance at May 31, 2002	114,696	1,786	585,566	(88,364)	(50,485)	409,603	858,106
Comprehensive income							
Net income						35,327	35,327
Translation gain and other					33,316		33,316
Comprehensive income							68,643
Dividends paid						(59,139)	(59,139)
Treasury stock retired		(113)	(85,723)	85,836			
Repurchase of stock	(100)			(1,167)			(1,167)
Stock option exercises, net	300	2	2,015	1,269			3,286
Restricted stock awards	600	5	6,111	1,259			7,375
Par value adjustment and other		(524)	428				(96)
Balance at May 31, 2003	115,496	$1,156	$508,397	$ (1,167)	$(17,169)	$385,791	$877,008

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In thousands)

Year Ended May 31	2003	2002	2001
Cash Flows from Operating Activities:			
Net income	$ 35,327	$101,554	$ 62,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	44,736	43,541	43,035
Amortization of goodwill			19,694
Other amortization	13,938	13,318	18,765
Asset impairment charge, net of gains			3,354
Asbestos charges	146,650	2,754	2,338
(Decrease) in deferred income taxes	(46,733)	(3,930)	(6,432)
(Earnings) of unconsolidated affiliates	(396)	(391)	(275)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:			
(Increase) decrease in receivables	(37,258)	14,048	(12,255)
(Increase) decrease in inventory	1,262	25,929	(37,578)
(Increase) in prepaid and other current assets	(27,378)	(7,464)	(8,575)
Increase (decrease) in accounts payable	9,156	8,489	(2,812)
Increase (decrease) in accrued restructuring			(13,540)
Increase (decrease) in accrued liabilities	9,991	(8,564)	10,035
Other including exchange rate changes	11,334	2,086	(4,220)
Cash from Operating Activities	160,629	191,370	74,495
Cash Flows from Investing Activities:			
Capital expenditures	(41,814)	(39,931)	(54,118)
Acquisition of businesses, net of cash acquired	(65,994)	(3,138)	(2,645)
Purchase of marketable securities	(15,145)	(15,693)	(21,906)
Proceeds from marketable securities	11,376	19,495	28,283
Distributions from unconsolidated affiliates	974	16	647
Proceeds from sale of assets and businesses	202	1,553	31,694
Cash (Used for) Investing Activities	(110,401)	(37,698)	(18,045)
Cash Flows from Financing Activities:			
Additions to long-term and short-term debt	305,200	236,681	708,850
Reductions of long-term and short-term debt	(294,099)	(485,662)	(710,389)
Cash dividends	(59,139)	(52,409)	(50,605)
Sale of stock		155,934	
Exercise of stock options	3,286	9,504	411
Repurchase of stock	(1,167)		(11,101)
Cash (Used for) Financing Activities	(45,919)	(135,952)	(62,834)
Effect of Exchange Rate Changes on Cash	4,244	526	(1,030)
Net Increase (Decrease) in Cash	8,553	18,246	(7,414)
Cash at Beginning of Year	42,172	23,926	31,340
Cash at End of Year	$ 50,725	$ 42,172	$ 23,926
Supplemental Disclosures of Cash Flows Information:			
Cash paid during the year for:			
Interest	$ 28,678	$ 50,353	$ 60,027
Income taxes	$ 55,479	$ 59,774	$ 35,216
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Shares issued for restricted stock plans	$ 7,375	$ 1,224	$ 1,459
Debt from business combination	$ 1,230		

See Notes to Consolidated Financial Statements

NOTES

Notes to Consolidated Financial Statements

May 31, 2003, 2002, 2001

Note A – Summary of Significant Accounting Policies

(1) Principles of Consolidation

At the Company's annual meeting on October 11, 2002, stockholders approved a plan to change the Company's legal place of incorporation from Ohio to Delaware. Under the plan, a new legal entity, RPM International Inc., was incorporated in Delaware and became, pursuant to a merger, the parent holding company of Ohio-based RPM, Inc.

The Consolidated Financial Statements include the accounts of RPM International 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 year ended May 31, 2003, the Company completed seven product line acquisitions and one minority interest acquisition, all of which have been accounted for as business combinations. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the respective dates of acquisition. The Company obtained independent valuation of certain intangible assets.

(In thousands)

Current assets	$ 8,782
Property, plant and equipment	9,213
Other intangible assets	
Customer relationships	17,222
Other	12,170
Goodwill	25,334
Liabilities assumed	(6,079)
Net Assets Acquired	$66,642

The operating results of these businesses are reflected in the Company's financial statements from their respective dates of acquisition.

Pro forma results of operations for the years ended May 31, 2003 and May 31, 2002 were not materially different from reported results and, consequently, are not presented.

(3) Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States 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.

(4) 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 accumulated other comprehensive loss, a component of stockholders' equity, and will be included in net earnings only upon the sale or liquidation of the underlying foreign investment, neither of which is contemplated at this time. Transaction gains and losses have been immaterial during the past three fiscal years.

(5) Accumulated Other Comprehensive Loss

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

(In thousands)	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustments	Unrealized Gain (Loss) on Securities	Total
Balance at May 31, 2000	$(38,540)	$ –0–	$(1,015)	$(39,555)
Reclassification adjustments for (gains) losses included in net income			1,015	1,015
Other comprehensive gain (loss)	(14,552)	(102)	120	(14,534)
Balance at May 31, 2001	(53,092)	(102)	120	(53,074)
Reclassification adjustments for (gains) losses included in net income			(120)	(120)
Other comprehensive gain (loss)	3,411	(151)	(551)	2,709
Balance at May 31, 2002	(49,681)	(253)	(551)	(50,485)
Reclassification adjustments for (gains) losses included in net income			(149)	(149)
Other comprehensive gain (loss)	39,872	(5,938)	(469)	33,465
Balance at May 31, 2003	$ (9,809)	$(6,191)	$(1,169)	$(17,169)

(6) 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.

(7) Marketable Securities

Marketable securities, all of which are classified as available for sale, totaled $22,073,000 and $19,396,000 at May 31, 2003 and 2002, respectively. The estimated fair values of these securities are included in other current assets and are based on quoted market prices.

(8) 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.

(9) Inventories

Inventories are stated at the lower of cost or market, cost being determined substantially on a first-in, first-out (FIFO) basis and market being determined on the basis of replacement cost or net realizable value. Inventory costs include raw material, labor and manufacturing overhead. Inventories were composed of the following major classes:

May 31	2003	2002
(In thousands)		
Raw material and supplies	$ 80,517	$ 75,080
Finished goods	172,687	176,366
Total Inventory	$253,204	$251,446

(10) Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method for all business combinations initiated after June 30, 2001. It also provides guidance on purchase accounting related to the recognition of intangible assets. SFAS No. 142 requires that goodwill and identifiable acquired intangible assets with indefinite useful lives shall no longer be amortized, but tested for impairment annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS No. 142 also requires the amortization of identifiable assets with finite useful lives. Identifiable acquired intangible assets, which are subject to amortization, are to be tested for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The adoption of SFAS No. 144 on June 1, 2001 did not have an impact on the Company.

The Company elected to adopt the provisions of SFAS No. 142 as of June 1, 2001, and identified its reporting units (components) to be one level below its industrial and consumer operating segments. The Company determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of June 1, 2001. Upon adoption of SFAS No. 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 ceased, and intangible assets acquired prior to July 1, 2001 that did not meet the criteria for recognition apart from goodwill under SFAS No. 141 were reclassified to goodwill. In connection with the adoption of SFAS No. 142, the Company was required to perform a transitional goodwill impairment assessment within six months of adoption. The Company completed its transitional goodwill impairment assessment, with no adjustment to the carrying value of its goodwill as of June 1, 2001. Prospectively, the annual impairment test will be performed in the first quarter of the Company's fiscal year and any losses resulting from the test will be reflected in operating income. The annual goodwill impairment assessment involves estimating the fair value of the reporting unit and comparing it with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, additional steps are followed to recognize a potential impairment loss. Calculating the fair value of the reporting units requires significant estimates and assumptions by management. The Company estimates the fair value of its reporting units by applying third-party market value indicators to the reporting unit's projected earnings before interest, taxes, depreciation and amortization. The Company completed its annual impairment tests with no adjustment to the carrying value of its goodwill as of May 31, 2003 and 2002.

The changes in the carrying amount of goodwill, by reporting segment, for the year ended May 31, 2003 are as follows:

(In thousands)	Industrial Segment	Consumer Segment	Total
Balance as of May 31, 2002	$255,966	$336,363	$592,329
Goodwill related to acquisitions	25,334		25,334
Translation adjustments	9,497	4,093	13,590
Balance as of May 31, 2003	$290,797	$340,456	$631,253

Other intangible assets consist of the following major classes:

(In thousands)	Amortization Period (in Years)	Gross Carrying Amount	Accumulated Amortization	Net Other Intangible Assets
As of May 31, 2003				
Amortized intangible assets				
Formulae	10 to 33	$173,102	$49,849	$123,253
Customer-related intangibles	7 to 33	65,317	13,097	52,220
Trademarks/names	5 to 40	5,544	1,779	3,765
Other	3 to 20	23,583	10,419	13,164
Total Amortized Intangibles		267,546	75,144	192,402
Unamortized intangible assets				
Trade names		90,547		90,547
Total Other Intangible Assets		$358,093	$75,144	$282,949
As of May 31, 2002				
Amortized intangible assets				
Formulae	10 to 33	$167,721	$42,067	$125,654
Customer-related intangibles	10 to 33	48,094	10,960	37,134
Trademarks/names	5 to 40	4,336	1,146	3,190
Other	3 to 20	23,088	8,903	14,185
Total Amortized Intangibles		243,239	63,076	180,163
Unamortized intangible assets				
Trade names		84,367		84,367
Total Other Intangible Assets		$327,606	$63,076	$264,530

The aggregate other intangible asset amortization expense for the fiscal years ended May 31, 2003, 2002 and 2001 was $11,904,000, $11,329,000 and $16,602,000, respectively. For each of the next five fiscal years through May 31, 2008, the estimated annual intangible asset amortization expense will approximate $12,000,000.

The following pro forma information reconciles net income reported for the year ended May 31, 2001 to adjusted net income, reflecting the impact of SFAS No. 142. All amortization amounts are reflected net of tax.

Year Ended May 31	2003	2002	2001
(In thousands, except per share data)			
Net Income			
Reported net income	$35,327	$101,554	$62,961
Add back: Goodwill amortization			18,468
Add back: Trade name and workforce amortization			3,336
Adjusted Net Income	$35,327	$101,554	$84,765
Basic Earnings per Share			
Reported net income	$0.31	$0.97	$0.62
Goodwill amortization			0.18
Trade name and workforce amortization			0.03
Adjusted Basic Earnings Per Share	$0.31	$0.97	$0.83
Diluted Earnings per Share			
Reported net income	$0.30	$0.97	$0.62
Goodwill amortization			0.18
Trade name and workforce amortization			0.03
Adjusted Diluted Earnings Per Share	$0.30	$0.97	$0.83

(11) Depreciation

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

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

(12) Revenue Recognition

The Company's subsidiaries recognize revenue when title and risk of loss pass to customers.

(13) Shipping Costs

Shipping costs paid to third-party shippers for transporting products to customers are included in selling, general and administrative expenses. For the years ended May 31, 2003, 2002 and 2001, shipping costs were $74,200,000, $73,700,000 and $75,400,000, respectively.

(14) Advertising Costs

Advertising costs are charged to operations when incurred and are included in selling, general and administrative expenses. For the years ended May 31, 2003, 2002 and 2001, advertising costs were $58,700,000, $53,400,000 and $52,400,000, respectively.

(15) Research and Development

Research and development costs are charged to operations when incurred and are included in selling, general and administrative expenses. The amounts charged for the years ended May 31, 2003, 2002 and 2001 were $23,800,000, $20,900,000 and $21,800,000, respectively. The customer-sponsored portion of such expenditures was not significant.

(16) Stock-Based Compensation

At May 31, 2003, the Company had two stock-based compensation plans accounted for under the recognition and measurement principles of Accounting Principles Board Opinion (APBO) No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as more fully described in Note D. Pro forma information regarding the impact of stock-based compensation on net income and earnings per share is required by SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Such pro forma information, determined as if the Company had accounted for its employee stock options under the fair value recognition provisions of SFAS No. 123, is illustrated in the following table:

Year Ended May 31	2003	2002	2001
(In thousands, except per share amounts)			
Net income, as reported	$35,327	$101,554	$62,961
Add: Stock-based employee compensation expense from restricted stock plans included in reported net income, net of related tax effects	1,339	806	905
Deduct: Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects	(4,517)	(2,949)	(3,910)
Pro Forma Net Income	**$32,149**	**$ 99,411**	**$59,956**
Earnings per Share:			
Basic, as Reported	**$0.31**	**$0.97**	**$0.62**
Diluted, as Reported	**$0.30**	**$0.97**	**$0.62**
Pro Forma Basic and Diluted	**$0.28**	**$0.95**	**$0.59**

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

	2003	2002	2001
Risk-free interest rate	3.3%	4.4%	5.1%
Expected life of option	7yrs	7yrs	7yrs
Expected dividend yield	3.5%	3.0%	3.5%
Expected volatility rate	37.3%	34.2%	32.5%

(17) Interest Expense, Net

Interest expense is shown net of investment income, which consists of interest, dividends and capital gains (losses). Investment income for the years ended May 31, 2003, 2002 and 2001 was $1,437,000, $2,094,000 and $3,682,000, respectively.

(18) 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 Company does not intend to distribute the accumulated earnings of consolidated foreign subsidiaries totaling approximately $115,000,000 at May 31, 2003, and therefore no provision has been made for the taxes that would result if such earnings were remitted to the Company.

(19) Reportable Segments

Reportable segment information appears on pages 16 and 17 of this report.

(20) Other Recent Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred, and is effective for exit or disposal activities that are initiated after December 31, 2002. The Company will apply the provisions of SFAS No. 146 to any future exit or disposal activities.

Note B – Borrowings

A description of long-term debt follows:

May 31	2003	2002
(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 2.32% at May 31, 2003.	$113,000	$395,000
Unsecured $297,000,000 face value at maturity 2.75% senior convertible notes due May 13, 2033.	150,042	
Unsecured 7.00% senior notes due June 15, 2005.	150,000	150,000
Unsecured notes due March 1, 2008. Interest, which is tied to LIBOR, averaged 1.28% at May 31, 2003.	100,000	100,000
Accounts Receivable Securitization Program for $125,000,000 with two banks through June 4, 2005, subject to annual renewal by the banks at a weighted average interest rate at May 31, 2003 of 1.89%. 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.	91,000	
Unsecured senior notes due insurance companies: 6.12% due November 15, 2004 in the amount of $15,000,000; 6.61% due November 15, 2006 in the amount of $10,000,000 and 7.30% due November 15, 2008 in the amount of $30,000,000.	55,000	55,000
Commercial paper with a weighted average interest rate at May 31, 2003 of 1.92%.	51,735	
Revolving 364-day credit agreement for $28,000,000 with a bank through October 13, 2003. Interest, which is tied to one of various rates, averaged 1.88% at May 31, 2003.	11,200	
Revolving multi-currency credit agreement for $15,000,000 with a bank through December 31, 2005. Interest, which is tied to one of various rates, averaged 3.24% at May 31, 2003.	1,930	3,835
Other unsecured notes payable at various rates of interest due in installments through 2011.	2,221	9,962
	726,128	713,797
Less current portion	1,282	5,876
Total Long-term Debt, Less Current Maturities	$724,846	$707,921

At May 31, 2003, the Company had additional unused short-term lines of credit with several banks totaling $77,700,000.

The aggregate maturities of long-term debt for the five years subsequent to May 31, 2003 are as follows: 2004 – $1,282,000; 2005 – $15,712,000; 2006 – $418,912,000; 2007 – $10,044,000; 2008 – $250,087,000, including $150,042,000 of 2.75% Senior Convertible Notes based on the date of the noteholders' first put option.

In June 2002, the Company established an accounts receivable securitization program for certain of its subsidiaries. The securitized accounts receivable are owned in their entirety by RPM Funding Corporation, a wholly owned consolidated subsidiary of the Company, and are not available to satisfy claims of the Company's creditors until the participating banks' obligations have been paid in full. This securitization transaction will remain on the balance sheet and allows for a maximum of $125,000,000 of borrowings. The amounts available under the program are subject to changes in the credit ratings of the Company's customers, customer concentration levels or certain characteristics of the underlying accounts receivable.

In May 2003, the Company issued $297,000,000 face value at maturity unsecured 2.75% Senior Convertible Notes due May 13, 2033. The 2.75% Notes are convertible into 8,034,355 shares of the Company's common stock at a price of $18.68 per share, subject to adjustment, during any fiscal quarter for which the closing price of the Company's common stock is greater than $22.41 per share for a defined duration of time. The Notes are also convertible during any period in which the credit rating of the Notes is below a specified level or if specified corporate transactions have occurred. The 2.75% Notes are redeemable by the holder for the issuance price plus accrued original issue discount in May 2008, 2013, 2018, 2023, 2028 and 2033. Interest on the 2.75% Notes is payable at a rate of 2.75% beginning November 13, 2003 until May 13, 2008. After that date, cash interest will not be paid prior to maturity subject to certain contingencies.

Note C – Income Taxes

Consolidated income before taxes consists of the following:

Year Ended May 31	2003	2002	2001
(In thousands)			
United States	$ 19,025	$128,883	$ 81,853
Foreign	28,828	25,241	19,634
Consolidated Income Before Taxes	$ 47,853	$154,124	$101,487

Provision for income taxes consists of the following:

	2003	2002	2001
Current			
U.S. federal	$ 42,500	$ 42,901	$ 31,821
State and local	3,088	4,770	3,829
Foreign	13,671	8,829	9,308
	$ 59,259	$ 56,500	$ 44,958
Deferred			
U.S. federal	$(45,275)	$ (5,370)	$ (9,603)
Foreign	(1,458)	1,440	3,171
	$(46,733)	$ (3,930)	$ (6,432)
Provision for Income Taxes	$ 12,526	$ 52,570	$ 38,526

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

Year Ended May 31	2003	2002	2001
(In thousands)			
Income taxes at U.S. statutory rate	$16,749	$53,943	$ 35,520
Difference in foreign taxes versus the U.S. statutory rate	(2,986)	(3,155)	(1,563)
State and local income taxes net of federal income tax benefit	2,007	3,101	2,489
Amortization of goodwill			4,530
Tax benefits from foreign sales corporation and extraterritorial income exclusion	(1,250)	(1,362)	(1,675)
Other	(1,994)	43	(775)
Actual Tax Expense	$12,526	$52,570	$ 38,526
Actual Tax Rate	26.2%	34.1%	38.0%

Deferred income taxes result from temporary differences in recognition of revenue and expenses for book and tax purposes. Temporary differences and carryforwards that give rise to deferred tax assets and liabilities as of May 31, 2003 and 2002 are as follows:

(In thousands)	2003	2002
Deferred income tax assets related to:		
Inventories	$ 1,679	$ 2,095
Allowance for losses	18,146	13,668
Accrued compensation and benefits	9,864	11,661
Asbestos-related liabilities	54,219	1,267
Accrued other expenses	4,596	10,185
Other long-term liabilities	16,153	14,112
Tax loss/credit carryforwards	11,749	7,870
Other	1,047	2,811
Total	$ 117,453	$ 63,669
Deferred income tax (liabilities) related to:		
Depreciation	$ (36,806)	$ (28,513)
Amortization of intangibles	(84,118)	(85,360)
Total	$(120,924)	$(113,873)
Deferred Income Tax Assets (Liabilities), Net	$ (3,471)	$ (50,204)

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

	2003	2002
Deferred income taxes – current asset	$ 51,285	$ 42,441
Deferred income taxes – noncurrent (liability)	(54,756)	(92,645)
Total	$ (3,471)	$(50,204)

Note D – Common Stock

There are 300,000,000 shares of common stock authorized at May 31, 2003 (200,000,000 at May 31, 2002) with a par value of $0.01 per share (stated value of $.015 per share at May 31, 2002). At May 31, 2003 and 2002, there were 115,496,000 and 114,696,000 shares outstanding, respectively, each of which is entitled to one vote.

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

The Company has shares outstanding under two restricted stock plans. Under the terms of the plans, up to 2,563,000 shares may be awarded to certain employees, generally subject to forfeiture until the completion of five or 10 years of service. For the year ended May 31, 2003, 600,000 shares were awarded under these plans, net of forfeitures (138,000 in 2002) and restrictions lapsed on 508,000 shares (3,000 in 2002). At May 31, 2003, 26,000 vested shares remained in these plans (86,000 at May 31, 2002). Unamortized deferred compensation expense with respect to restricted stock grants was $5,231,000 at May 31, 2003 and is being amortized over the 10-year vesting period. For the years ended May 31, 2003, 2002 and 2001, deferred compensation expense aggregated $2,143,000, $1,224,000 and $1,459,000, respectively.

In February 2003, the Company authorized the repurchase of up to 10,000,000 shares of its common stock, 100,000 of which had been repurchased at May 31, 2003. Shares repurchased under this program will be held at cost and included in Stockholders' Equity as treasury stock.

The Company's Stockholder Rights Plan provides existing stockholders the right to purchase stock of the Company at a discount in certain circumstances as defined by the Plan. The rights were not exercisable at May 31, 2003 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, the latter of which provides for the granting of options for up to 9,000,000 shares. These options are generally exercisable cumulatively in equal annual installments commencing one year from the grant date, and have expiration dates ranging from July 2003 to October 2012. At May 31, 2003, 1,902,000 shares (3,093,000 at May 31, 2002) were available for future grant.

Transactions during the last two years are summarized as follows:

Shares Under Option	2003	2002
(In thousands, except per share amounts)		
Outstanding, beginning of year		
(weighted average price of $12.57 ranging from $8.69 to $16.70 per share)	6,223	7,017
Granted (price of $14.08)	1,191	496
Canceled/expired		
(weighted average price of $13.98 ranging from $8.81 to $16.35 per share)	(153)	(390)
Exercised (weighted average price of $11.33 ranging from $8.69 to $15.15 per share)	(324)	(900)
Outstanding, end of year		
(weighted average price of $12.86 ranging from $8.69 to $16.70 per share)	6,937	6,223
Exercisable, end of year		
(weighted average price of $13.19 ranging from $8.69 to $16.70 per share)	4,477	3,987

	Options Outstanding at May 31, 2003			Options Exercisable at May 31, 2003	
Range of per Share Exercise Prices	Shares (000's)	Weighted Average Remaining Life	Weighted Average Price	Shares (000's)	Weighted Average Price
$ 8.00 to $ 9.99	1,752	7.3	$ 9.36	989	$ 9.40
$10.00 to $14.99	3,216	6.4	$13.18	1,613	$12.85
$15.00 to $16.75	1,969	4.6	$15.46	1,875	$15.47
	6,937	6.1	$12.86	4,477	$13.19

The Company has elected to follow APBO No. 25 and related interpretations in accounting for its employee stock options. Under APBO No. 25, because the exercise price of the Company's employee stock options is not less than the market price of the shares at the date of grant, no compensation expense is recognized in the financial statements. See Note A for pro forma information and the alternative fair value accounting provided for under SFAS No. 123.

Note E – Leases

At May 31, 2003, 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, 2003 for all non-cancelable leases are as follows:

May 31	
(In thousands)	
2004	$16,823
2005	13,841
2006	10,047
2007	7,682
2008	5,281
Thereafter	19,141
Total Minimum Lease Commitments	$72,815

Rental expenses for all operating leases totaled $24,300,000 in 2003, $23,100,000 in 2002 and $20,500,000 in 2001. Capitalized leases were insignificant for the three years ended May 31, 2003.

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, 2003:

	U.S. Plans			Non-U.S. Plans		
(In thousands)	2003	2002	2001	2003	2002	2001
Service cost	$8,904	$8,310	$7,742	$1,168	$1,073	$1,112
Interest cost	6,634	6,706	6,470	2,344	2,305	2,314
Expected return on plan assets	(7,769)	(8,589)	(9,157)	(2,748)	(3,118)	(3,396)
Amortization of:						
Prior service cost	197	188	164			
Net gain on adoption of SFAS No. 87	(85)	(85)	(87)			
Net actuarial (gains) losses recognized	952	(11)	(62)	324	87	(85)
Curtailment/settlement (gains) losses	11		(722)			
Net Pension Cost	$8,844	$6,519	$4,348	$1,088	$ 347	$ (55)

The changes in benefit obligations and plan assets, as well as the funded status of the Company's pension plans at May 31, 2003 and 2002, were as follows:

	U.S. Plans		Non-U.S. Plans	
(In thousands)	2003	2002	2003	2002
Benefit obligation at beginning of year	$ 96,217	$ 87,199	$ 35,244	$34,175
Service cost	8,904	8,310	1,168	1,073
Interest cost	6,634	6,706	2,344	2,305
Benefits paid	(6,738)	(14,022)	(1,403)	(1,465)
Participant contributions			415	385
Actuarial (gains) losses	6,001	7,508	5,471	47
Currency exchange rate changes			4,287	(1,276)
Curtailment/settlement (gains) losses	(194)			
Plan amendments	1,447	516		
Benefit Obligation at End of Year	$112,271	$ 96,217	$ 47,526	$35,244
Fair value of plan assets at beginning of year	$ 85,345	$ 93,899	$ 33,477	$37,557
Actual return on plan assets	(11,687)	(4,748)	(3,579)	(2,101)
Employer contributions	21,749	10,216	419	360
Participant contributions			415	385
Benefits paid	(6,738)	(14,022)	(1,485)	(1,476)
Currency exchange rate changes			2,823	(1,248)
Fair Value of Plan Assets at End of Year	$ 88,669	$ 85,345	$ 32,070	$33,477
Excess (deficit) of plan assets versus benefit obligations at end of year	$ (23,602)	$(10,872)	$(15,456)	$ (1,767)
Contributions after measurement date	44	2,661	116	104
Unrecognized actuarial (gains) losses	47,881	23,571	22,065	8,439
Unrecognized prior service cost	3,135	1,896		
Unrecognized net transitional asset	(28)	(113)		
Net Amount Recognized	$ 27,430	$ 17,143	$ 6,725	$ 6,776
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	$ 27,957	$ 17,688	$ 6,691	$ 7,739
Accrued benefit liability	(1,036)	(792)	(8,441)	(1,106)
Accumulated other comprehensive loss	473	247	8,475	143
Intangible asset	36			
Net Amount Recognized	$ 27,430	$ 17,143	$ 6,725	$ 6,776

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 $1,717,000, $1,670,000 and $612,000, respectively, as of May 31, 2003 and $1,293,000, $1,293,000 and $414,000, respectively, as of May 31, 2002. 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 $27,002,000, $22,837,000 and $14,279,000, respectively, as of May 31, 2003 and $1,159,000, $1,106,000 and $-0-, respectively, as of May 31, 2002.

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

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

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

The Company also sponsors employee savings plans under Section 401(k) of the Internal Revenue Code, which cover substantially all employees in the United States. The plans provide for matching contributions based upon qualified employee contributions. Matching contributions are invested in the same manner that the participants invest their own contributions. Matching contributions charged to income were $6,120,000, $5,206,000 and $5,222,000 for the years ending May 31, 2003, 2002 and 2001, respectively.

Note G – Postretirement Health Care Benefits

In addition to the defined benefit pension plan, the Company 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, 2003 were as follows:

(In thousands)	2003	2002	2001
Service cost – Benefits earned during this period	$ 177	$ 131	$ 81
Interest cost on the accumulated obligation	974	945	918
Amortization of unrecognized (gains)	(47)	(51)	(124)
Net Periodic Postretirement Expense	$1,104	$1,025	$ 875

The changes in the benefit obligations of the plans at May 31, 2003 and 2002 were as follows:

(In thousands)	2003	2002
Accumulated postretirement benefit obligation at beginning of year	$13,482	$12,615
Service cost	177	131
Interest cost	974	945
Benefit payments	(933)	(904)
Actuarial (gains) losses	839	804
Currency exchange rate changes	315	(109)
Accumulated postretirement benefit obligation at end of year	14,854	13,482
Unrecognized actuarial gains (losses)	86	973
Accrued Postretirement Health Care Benefits	$14,940	$14,455

A 6.70% general discount rate was used in determining the accumulated postretirement benefit obligation as of May 31, 2003 (7.25% for May 31, 2002). A 9.00% increase in the cost of covered health care benefits was generally assumed for fiscal 2003 (8.00% for fiscal 2002). This trend rate in all cases is assumed to decrease to 5.00% after several years and remain at that level thereafter, except for various union plans, which will cap at alternate benefit levels. A 1.00% increase in the health care costs trend rate would have increased the accumulated postretirement benefit obligation as of May 31, 2003 by $1,768,000 and the net postretirement expense by $193,000. A 1.00% decrease in the health care costs trend rate would have decreased the accumulated postretirement benefit obligation as of May 31, 2003 by $1,538,000 and the net postretirement expense by $155,000.

Note H – Contingencies and Loss Reserves

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

May 31	2003	2002
(In thousands)		
Accrued product liability reserves	$ 51,840	$35,960
Accrued warranty reserves	6,328	5,412
Accrued environmental reserves	4,695	6,455
Accrued other	1,367	710
Accrued loss reserves – current	64,230	48,537
Asbestos-related liabilities – current	41,583	3,377
Total Reserves – Current	$105,813	$51,914
Accrued warranty reserves – noncurrent	$ 7,781	$ 9,655
Asbestos-related liabilities – noncurrent	103,000	
Total Reserves – Noncurrent	$110,781	$ 9,655

The Company, through its wholly owned insurance subsidiaries, provides certain insurance coverage, primarily product liability, to the Company's other 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.

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

The rate at which plaintiffs filed asbestos-related suits against Bondex increased in the fourth quarter of 2002 and the first two quarters of 2003, influenced by the bankruptcy filings of numerous other defendants in asbestos-related litigation. Based on the significant increase in asbestos claims activity and inequitable joint and several liability determinations against Bondex, as previously reported, our third-party insurance will be depleted within the first quarter of 2004. Our third-party insurers historically have been responsible, under various cost-sharing arrangements, for the payment of approximately 90% of the indemnity and defense costs associated with our asbestos litigation. Prior to this sudden precipitous increase in loss rates, the combination of book loss reserves and insurance coverage was expected to adequately fund asbestos loss payments for the foreseeable future. We have reserved our rights with respect to various of our third-party insurers' claims of exhaustion, and in late calendar 2002 commenced reviewing our known insurance policies to determine whether or not other insurance limits may be available to cover our asbestos liabilities. As a result of this examination, in which we were assisted by an archeological insurance investigation firm, on July 3, 2003, the Company filed a complaint in Federal Court against several insurance carriers for declaratory judgment, breach of contract and bad faith. We are unable at the present time to predict whether, or to what extent, any additional insurance may cover our asbestos liabilities. Our wholly owned captive insurance companies have not provided any insurance or re-insurance coverage of any asbestos-related claims.

During the last seven months of 2003, new state liability laws were enacted in three states where more than 80% of the claims against Bondex are pending. Effective dates for the last two of the law changes were April 8, 2003 and July 1, 2003. The changes generally provide for liability to be determined on a "proportional cause" basis, thereby limiting Bondex's responsibility to only its share of the alleged asbestos exposure. The ultimate impacts of these new laws are difficult to predict given the limited time following enactment, because the full influence of these law changes on legal settlement values is not expected to be significantly visible until the latter part of fiscal 2004.

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

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

- The bankruptcies in the years 2000 through 2002 of other companies facing large asbestos liability were a likely contributing cause of a sharp increase in filings against many defendants, including Bondex.
- The recent state law changes in states wherein the vast majority of our claims are pending and have been historically filed are expected to materially affect future losses and future claim filing activity and resolution costs.
- The currently proposed federal legislative initiative aimed at establishment of a federal asbestos trust fund has influenced and changed the demand behavior of plaintiffs from that of historic levels, creating further uncertainty in the estimation process.

At this time, the Company cannot estimate the liability that will result from all future claims. The Company has established a reserve for those pending cases that have progressed to a stage where the cost to dispose of these cases can reasonably be estimated. The estimation of even pending cases is difficult due to the dynamic nature of asbestos litigation. The reserve was established by taking an asbestos charge to 2003 operations of $140,000,000 for measurable known claims and a provision for the future claims that can presently be estimated. The Company believes this asbestos reserve will be sufficient to cover asbestos-related cash flow requirements for approximately three years. Additionally, Bondex's share of costs (net of then-available third-party insurance) for asbestos-related product liability were $6,700,000, $2,800,000 and $2,300,000 for the years ended May 31, 2003, 2002 and 2001, respectively. The Company developed the estimates for the $140,000,000 asbestos charge in consultation with its outside consulting firm and defense counsel, taking into account both historical and current settlement values. The Company recognizes that future facts, events and legislation, both state and/or federal, may alter its estimates of both its pending and future claims. The Company cannot estimate possible liabilities in excess of those accrued because it cannot predict the number of additional claims that may be filed in the future, the grounds for such claims, the damages that may be demanded, the probable outcome, or the impact of recent state and pending federal legislation on prospective asbestos claims.

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

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, the Company is unable to estimate an additional range of loss in excess of its accruals. It is at least reasonably possible that actual costs will differ from estimates, but, based upon information presently available, such future costs are not expected to have a material adverse effect on 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 – Quarterly Information (Unaudited)

The following is a summary of the quarterly results of operations for the years ended May 31, 2003 and 2002:

	For Quarter Ended			
(In thousands, except per share amounts)	August 31	November 30	February 28	May 31
2003				
Net Sales	$542,413	$517,968	$433,562	$589,546
Gross Profit	$259,204	$234,148	$186,952	$274,248
Net Income (Loss)	$ 44,173	$ 29,640	$ 4,883	$ (43,369)
Basic and Diluted Earnings (Loss) per Share	$ 0.38	$ 0.26	$ 0.04	$ (0.38)
Dividends per Share	$0.125	$0.130	$0.130	$0.130

	For Quarter Ended			
(In thousands, except per share amounts)	August 31	November 30	February 28	May 31
2002				
Net Sales	$533,275	$487,880	$407,538	$557,433
Gross Profit	$250,674	$221,968	$178,636	$260,938
Net Income	$ 36,569	$ 24,490	$ 3,274	$ 37,221
Basic Earnings per Share	$ 0.36	$ 0.24	$ 0.03	$ 0.34
Diluted Earnings per Share	$ 0.36	$ 0.24	$ 0.03	$ 0.33
Dividends per Share	$0.125	$0.125	$0.125	$0.125

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

Independent Auditor's Report

To the Board of Directors and Stockholders

RPM International Inc. and Subsidiaries

Medina, Ohio

We have audited the accompanying consolidated balance sheets of RPM International Inc. and Subsidiaries as of May 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended May 31, 2003. 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 International Inc. and Subsidiaries at May 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2003, in conformity with accounting principles generally accepted in the United States.

Ciulla, Smith & Dale, LLP

Cleveland, Ohio
July 7, 2003

Quarterly Stock Price and Dividend Information

RPM International 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 dividends paid on the common shares, for each quarter of the two most recent fiscal years are set forth in the table below.

Range of Market Prices

Fiscal 2003	High	Low	Dividends paid per share
First Quarter	$16.59	$11.58	$0.125
Second Quarter	$16.01	$12.90	0.130
Third Quarter	$15.90	$ 9.29	0.130
Fourth Quarter	$12.50	$ 9.10	0.130
Fiscal 2002	**High**	**Low**	**Dividends paid per share**
First Quarter	$11.15	$ 8.02	$0.125
Second Quarter	$15.05	$ 7.91	0.125
Third Quarter	$17.08	$12.90	0.125
Fourth Quarter	$17.87	$14.15	0.125

Source: *The Wall Street Journal*

The number of holders of record of RPM International Inc. Common Stock as of July 14, 2003 was 38,877.

DIRECTORS

BOARD OF DIRECTORS

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

Dr. Max D. Amstutz (2) Elected 1995; Chairman, Finter Bank Zurich, Switzerland; former Chairman, SGS – Societe Generale de Surveillance Holding S.A., Geneva, Switzerland (world leader in verification, testing and certification); former Managing Director, Holderbank Financiere Glaris Ltd., Glaris, Switzerland (cement); former Chairman and Chief Executive Officer, Von Roll Holding Ltd. (machinery), and former Vice Chairman, Alusuisse-Lonza Holding Ltd., Zurich, Switzerland (aluminum, chemicals and packaging).

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

Bruce A. Carbonari (4) Elected 2002; President and Chief Executive Officer, Fortune Brands Home and Hardware (a consumer products company specializing in kitchen, bath and related products); Director, The Cleveland Clinic Foundation and the Rock and Roll Hall of Fame and Museum, Cleveland, Ohio.

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, LTV Corporation, Dallas, Texas.

James A. Karman (1) Elected 1963; retired Vice Chairman, RPM International Inc.; Director, Shiloh Industries, Inc., Cleveland, Ohio; and A. Schulman, Inc., Akron, Ohio.

Donald K. Miller (2*) Elected 1972; Chairman, Axiom International Investor LLC, Greenwich, Connecticut (an international equity asset management firm); Director, Huffy Corporation, Dayton, Ohio; and Layne Christensen Company, Mission Woods, Kansas.

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

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

Frank C. Sullivan (1*) Elected 1995; President and Chief Executive Officer; Director, the Greater Cleveland Chapter of the American Red Cross and the Rock and Roll Hall of Fame and Museum, Cleveland, Ohio.

Thomas C. Sullivan (1) Elected 1963; Chairman of the Board; retired Chief Executive Officer, RPM International Inc.; Director, Huffy Corporation, Dayton, Ohio; Pioneer-Standard Electronics, Inc., Cleveland, Ohio; and Kaydon Corporation, Ann Arbor, Michigan.

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

Joseph P. Viviano (4*) Elected 2001; retired Vice Chairman, Hershey Foods Corporation, Hershey, Pennsylvania; Director, Chesapeake Corporation, Richmond, Virginia; Harsco Corporation, Camp Hill, Pennsylvania; Huffy Corporation, Dayton, Ohio; and R.J. Reynolds Tobacco Holdings, Inc., Winston-Salem, North Carolina.

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Governance & Nominating Committee

* Chairman to the Committee

&OFFICERS

OFFICERS

Frank C. Sullivan
President and Chief Executive Officer

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

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

Dennis F. Finn
Vice President – Environmental and Regulatory Affairs

Glenn R. Hasman
Vice President – Finance and Communications

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

Stephen J. Knoop
Vice President – Corporate Development

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

Keith R. Smiley
Vice President, Treasurer and Assistant Secretary

OPERATING

OPERATING COMPANIES

Industrial Segment

Agpro (N.Z.) Limited
Auckland, New Zealand
www.agpro.co.nz

Alteco Technik GmbH
Twistringen, Germany
www.alteco-technik.de

American Emulsions Co., Inc.
Dalton, Georgia
www.americanemulsions.com

APSA S.p.A
Milan, Italy

Carboline Company
St. Louis, Missouri
www.carboline.com

Chemical Specialties Mfg. Corp.
Baltimore, Maryland
www.chemspecworld.com

Day-Glo Color Corp.
Cleveland, Ohio
www.dayglo.com

Dryvit Systems, Inc.
West Warwick, Rhode Island
www.dryvit.com

The Euclid Chemical Company
Cleveland, Ohio
www.euclidchemical.com

Fibergrate Composite Structures Inc.
Addison, Texas
www.fibergrate.com

Kop-Coat, Inc.
Pittsburgh, Pennsylvania
www.kop-coat.com

Multicor S.A. Argentina I.yC.
Buenos Aires, Argentina

Nullifire Limited
Coventry, United Kingdom
www.nullifire.com

Radiant Color N.V.
Houthalen, Belgium
www.radiantcolor.be

Republic Powdered Metals, Inc.
Medina, Ohio
www.rpmrepublic.com

RPM/Belgium N.V.
Tielt, Belgium
www.rpm-belgium.be

Stonhard, Div. of StonCor Group, Inc.
Maple Shade, New Jersey
www.stoncor.com
www.stonhard.com

TCI, Inc.
Ellaville, Georgia
www.tcipowder.com

Tremco Barrier Solutions, Inc.
Reynoldsburg, Ohio
www.guaranteeddrybasements.com

Tremco Incorporated
Cleveland, Ohio
www.tremcoinc.com

Weatherproofing Technologies, Inc.
Beachwood, Ohio
www.tremcoroofing.com

Consumer Segment

Bondo Corporation
Atlanta, Georgia
www.bondo-online.com
www.bondomarhyde.com

Chemical Coatings, Inc.
Hickory, North Carolina

DAP Products Inc.
Baltimore, Maryland
www.dap.com

Guardian Products, Inc.
Ceres, California
www.guardianproducts.com

Mantrose-Haeuser Co., Inc.
Westport, Connecticut
www.mbzgroup.com

Martin Mathys N.V.
Zelem, Belgium
www.mathys.be

Modern Masters Inc.
North Hollywood, California
www.modernmastersinc.com

RPM Wood Finishes Group, Inc.
Hickory, North Carolina
www.mohawk-finishing.com
www.hbehlen.com
www.starfinishing.com

Rust-Oleum Corporation
Vernon Hills, Illinois
www.rust-oleum.com

The Testor Corporation
Rockford, Illinois
www.testors.com

Thibaut Inc.
Newark, New Jersey
www.thibautdesign.com

Westfield Coatings Corp.
Westfield, Massachusetts

Wolman Wood Products,
Div. of Zinsser Co., Inc.
Somerset, New Jersey
www.wolman.com

Zinsser Co., Inc.
Somerset, New Jersey
www.zinsser.com

Plant Locations

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

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SHAREHOLDER INFORMATION

World Headquarters

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

Annual Meeting Shareholders are invited to attend RPM's Annual Meeting, which will be held at Michaud's Towne n' Country, 16808 Pearl Road, Strongsville, OH, at 2 p.m. Friday, October 10, 2003. Directions can be found with the proxy statement or on the RPM web site.

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

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

Institutional Investor and Security Analyst Inquiries Security analysts and investment professionals with questions regarding RPM should contact Glenn R. Hasman, Vice President of Finance and Communications, at 330-273-8820.

Stock Transfer Agent, Registrar and Dividend Disbursing Agent National City Bank maintains RPM'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

Internet Account Access Shareholders of record may access their accounts via the Internet to review account holdings and transaction history through National City Bank's StockAccess℠ at 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 shown at the bottom of the previous column.

Dividend Payments Common stock cash dividends are payable quarterly, upon authorization of the Board of Directors. Regular payment dates are typically the 31st of July, October and January and the 30th of April. RPM has increased the cash dividend payments to its shareholders for 29 consecutive years.

Dividend Reinvestment Plan RPM maintains a Dividend Reinvestment Plan whereby cash dividends, and a maximum of an additional $5,000 per month, may be invested in RPM shares at no commission cost. Approximately 88 percent of the 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 existing Dividend Reinvestment accounts should be directed to:

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

Independent Accountants Ciulla, Smith & Dale, LLP, Cleveland, Ohio

Counsel Calfee, Halter & Griswold LLP, Cleveland, Ohio

Stock Exchange Listing

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

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RPM International Inc.