



Frank C. Sullivan
President and Chief Executive Officer

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May 18, 2004

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609



Re: Regulation NMS
File No. 57-10-04

Dear Mr. Katz:

We wish to thank the Commission for this opportunity to comment on proposed Regulation NMS and to express our support for the Commission's efforts to modernize the regulation of the U.S. equity markets.

A letter to SEC Chairman William Donaldson outlining our company's views on Regulation NMS is attached. You will note this was sent previously. I have been informed that we need to send it again so it is received during the appropriate review period in order for it to be formally entered into the record.

Very truly yours,

RPM INTERNATIONAL INC.

Frank C. Sullivan

FCS/blk

Attachment



Frank C. Sullivan
President and Chief Executive Officer

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57-10-04

February 24, 2004



The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

RE: Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
"Market Structure III: The Role of the Specialist in the Evolving Modern Marketplace"

Dear Chairman Donaldson:

I was recently provided an opportunity to testify in front of the U.S. House of Representatives Subcommittee on Capital Markets at the above-referenced hearing on Friday, February 20, 2004. I thought it would be appropriate to follow up this testimony with a copy of my written statement, which is enclosed, as well as a summary of my views on this very important topic on capital markets and the companies and investors they serve.

It is interesting to note that of the seven witnesses asked to testify only two, myself as CEO of a public company with more than 100,000 individual shareholders and Mr. Gus Sauter, Chief Investment Officer and Managing Director of the Vanguard Group of Funds, directly represented the investing public, and that both of us continue to see important value added by the role of specialists in today's capital markets and also supported the Trade-Through Rule.

As a summary of our company's experience, which I believe is reflective of that of the majority of publicly traded companies in the United States, the centralized market system with the specialist at its center has proven to be a superior model for stock trading and has helped improve the quality of our investor base and reduce our cost of capital by providing deeper liquidity and better execution than comparable markets. This opinion is based upon our experience of having changed from the Nasdaq Market in 1998 to the New York Stock Exchange ("NYSE") the result of which has been an increase in our liquidity by a factor of nearly two-thirds and a feeling of much greater accountability relative to the relationship that we have with our specialist at the NYSE.

On numerous occasions, our specialist has stepped in to stabilize the market in times of extraordinary trading activity. On average our specialist is active in trading our stock approximately 8% indicating that 92% of the time buyers and sellers are meeting directly as they would on any other type of exchange including electronic trading markets. It is the direct involvement of the specialists to help stabilize the market often using their own capital that has made a difference for us during times of volatile or unusual trading activity. The specialist is able to use their vast experience and history in trading our stock as well as other stocks to dampen volatility and ensure a liquid market. I suspect this human role is one of the things that troubles

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electronic markets most as traders on these markets aggressively use computer trading which can act only as programmed and, thus, a human role in trading regardless of how small is problematic for these large institutional computerized trading programs.

As a company that directly represents over 100,000 individual shareholders and one that is dependent on the capital markets to support its growth, we clearly see the value added of the specialist system of the NYSE. If there were a more effective market for trading our stock, we could, and most assuredly would, change to that venue.

As it relates to the Trade-Through Rule, this is intended to protect the interest of small and individual investors which were typified by the "Mrs. Jones" referenced by Congressman Kanjorski during the hearing. The Trade-Through Rule acts as a sort of "speed bump" in order to make sure that the stock investing and trading interest of small individual investors are not run over or disadvantaged by the rapid and large trading which is done by major institutions. Once again, I believe this Trade-Through Rule "speed bump" is seen as an impediment by major institutions and massive stock traders which they would just as soon see disappear because it is in their way. If Congress were to dictate an elimination of the Trade-Through Rule "speed bump," my guess is "Mrs. Jones" would be so intimidated by the massive size trades done at an ever-faster rate of execution that she may very well choose to get off the highway. The implications of this for capital raising at American companies are profound and potentially hugely negative.

Our capital markets are the most efficient in the world for a number of reasons. One of the most important reasons, from a company's perspective that is reliant on these markets for growth capital, is the combination of long-term invested capital most typified by small and individual investors who generally are making long-term investments in companies with the goal of providing for things like homeownership, education or retirement and the extraordinary liquidity provided by the trading of major institutions. Companies whose shares are predominantly owned by major institutions experience an extraordinarily high level of volatility as these institutions trade in and out of stock for various reasons many of which have little to do with particular performance issues of the individual company. Eliminating the Trade-Through Rule would be one element likely driving the "Mrs. Joneses" of long-term stable capital out of the markets directly leaving them the only viable option of investing in companies through the major institutions, thus ruining the necessary balance between the deep liquidity that these institutions provide and the base of long-term stable capital that our public companies need. Accordingly, we strongly support maintenance of the Trade-Through Rule and it is my belief that the CEOs of most companies along with their individual shareholders would concur.

I believe that one of the reasons this is being brought to the forefront as an issue now, advocated mostly by competitors of the NYSE, is the result of the extraordinary challenges and change that this premier capital market institution has been facing during the past year. John Thain, the new CEO at the NYSE, brings extraordinary and fresh capital markets perspective from outside of the NYSE. He has already demonstrated his willingness and desire to make necessary change at the

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NYSE for the betterment of its multiple constituencies. Rather than allowing market competitors to "kick" this very effective and efficient institution while "it is down," I believe it would be far better to allow Mr. Thain the room to institute the changes that he and the new Board of Directors of the NYSE feel are appropriate while at the same time maintaining a rule whose principal purpose is to ensure a fair and orderly market for individual investors who are the best providers of long-term committed capital to companies like RPM.

I appreciate the opportunity to provide you with this overview and summary. We are hopeful that any changes you consider will strengthen the market and not diminish the liquidity and accountability that the auction market model provides to our shareholders.

Very truly yours,

RPM International Inc.

A handwritten signature in black ink, appearing to read "Frank C. Sullivan", with a large, sweeping flourish extending to the right.

Frank C. Sullivan

FCS/jlc
Enclosure

57-10-04

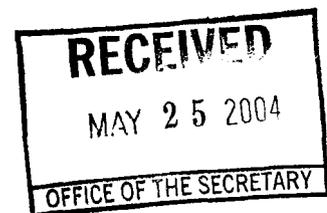
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U.S. House of Representatives
Subcommittee on Capital Markets, Insurance and
Government Sponsored Enterprises

"Market Structure III: The Role of the Specialist in the Evolving Modern
Marketplace"

Testimony by Frank C. Sullivan
President and CEO
RPM International Inc.

February 20, 2004
New York, NY



Thank you Mr. Chairman, Congressman Kanjorski and members of the Subcommittee for extending an invitation to appear before you to discuss market structure - - a matter of great importance to the shareholders, board of directors and management of RPM International Inc., a company traded on the New York Stock Exchange.

I am Frank Sullivan, President and Chief Executive Officer of RPM International Inc. ("RPM"), a company founded by my grandfather in 1947 as Republic Powdered Metals in Medina, Ohio where it remains today.

Fifty-six years later, RPM is a world leader in specialty coatings, serving both industrial and consumer markets. We have grown both organically and through the successful acquisition of over 100 companies or product lines and, as a result, have achieved record growth in 55 of our 56 years of existence, and in our 57th year are continuing to grow sales and earnings at record levels. RPM's industrial products include roofing systems, sealants, flooring coatings and corrosion control coatings, like our Carboline brand, which protects such well-known landmarks as the Peace Bridge and the Rainbow Bridge to Canada, the Golden Gate Bridge and the Statue of Liberty. Leading industrial brands include Stonhard, Tremco, Day-Glo, Euco and Dryvit.

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. Consumer brands include Zinsser, Rust-Oleum, DAP, Varathane, Bondo, and Testors.

For the fiscal year ended May 31, 2003, RPM had sales of \$2.1 billion and \$122.8 million in net income before a \$144 million asbestos charge, which is another topic we are hopeful that Congress will address. We have 7,900 employees and

hundreds of independent sales and technical representatives, approximately 7,000 of which are employed in the United States. The company's products are manufactured in 49 plants in the United States and 19 plants in 16 countries, and are sold in more than 130 countries around the world. Last year, RPM increased its cash dividend to shareholders 8 percent, which represents our 30th consecutive year of cash dividend increases, which puts us in the top half of 1 percent of all publicly traded companies in terms of continuously increasing shareholder dividends. A member of the S&P 400 Midcap Index, we are highly committed to our approximately 300 institutional investors and, most importantly, our 100,000 individual shareholders. RPM is a favorite of retail investors who are members of National Association of Investment Clubs (NAIC) across the country. We have made it a priority to get to know these retail investors very well and feel we appreciate their needs. We take very seriously the quality and fairness of the trading in our shares to ensure the interests of all investors, large and small, are well served.

Mr. Chairman, the capital markets are critical to American companies as they continue to grow and compete globally. The currency created by our stock as it trades in a secondary market is a critical engine of growth. Our ability to use our equity to continue to grow depends to a large extent on how our stock trades and which investors are willing to hold it. Choosing an exchange for listing is a significant decision for any company, as that choice will help determine how liquid markets are for its shares and how volatile its share price will be.

In that context, I would like to relate to the Committee today my perspectives on how stock exchanges and their models affect companies, and specifically how the specialist has impacted our business. As my company has experience with both the Nasdaq and the New York Stock Exchange, we can give you through our experiences a case study in how they differ. The bottom line, from my perspective,

is that the centralized auction market system with the specialist at its center has proven a superior model for us, and has helped improve the quality of our investor base and reduce our cost of capital.

Experience on Nasdaq and why we switched

RPM went public in 1969 and was one of the original listings on Nasdaq in 1971. In 1997/8, I was CFO of RPM and undertook a review of our market to determine whether there was reason to consider a transfer to the NYSE. In my view, we had been well served on the Nasdaq as a new and growing company but by this time we had grown to become a \$1.7B company with 100M shares outstanding, and we met all the NYSE's listing criteria. We heard concerns from our investors about volatility in the trading of RPM stock. Despite our record of growth, we still had a predominantly retail shareholder base (57%). In my view, we needed increased visibility and reduced volatility so that we could better serve our individual shareholders, many of whom had urged us to move to the NYSE for years, and so that we could better attract large institutional investors.

I might note that my father, the then CEO, had served on the Nasdaq Board of Governors for three years, and prior to that was a member of the Issuer Affairs Committee and had a certain loyalty to that market. Any analysis would have to be

airtight if he was to be convinced that RPM and its current and future shareholders would be better served on another market.

I visited the NYSE myself in 1997, met with senior staff and spent time on the trading floor where I had the chance to observe the market and the specialist first hand. I knew that at the time volatility of similar stocks was lower for those stocks traded on the Exchange than at Nasdaq. And others who preceded us in transferring to the NYSE were able to increase their institutional share ownership and analyst coverage. I undertook my own due diligence, speaking to others who had made the move and meeting with advisors whose input I valued. Based on the aggregate analysis and input, the entire management team became convinced a move was right for us.

One important decision we had to make in moving to the NYSE was selecting a specialist. From the beginning we understood the importance of the specialist as he or she would be accountable for the quality of the trading in our stock and also available to provide commentary and help us understand trading dynamics. The decision was important enough for Tom Sullivan, our CEO, Jim Karman, our President, P. Kelly Tompkins, our General Counsel, and myself, to come to the Exchange and personally conduct the interviews. We met with five firms. We found each well prepared and able to articulate why they should be chosen and I must say

it was not easy making our final determination. In the end, we chose Benjamin Jacobson and Sons which was later acquired by Speer Leeds and Kellogg. In June of 1998, we transferred to the New York Stock Exchange

Value of the NYSE and the Specialist

In the five and a half years we have been listed, we and our investors have come to appreciate the value of both the Exchange model and the specialist in a very practical sense. Our objectives in listing have been met as we have continued to maintain a broad individual investor base while increasing our institutional ownership from 43% when we listed to 57% today. At the same time we have seen liquidity increase by two-thirds since listing.

But what about the specialist specifically? How do they add value? While I do not understand all the technical nuances of trading, I do have a fairly solid understanding of the basics.

For example, I do know that Speer Leeds and Kellogg accounts for 8% of the trading in RPM. So 92% of the time, public orders are meeting directly to set the price. I believe that having orders for our shares compete in one pool of liquidity is the most efficient mechanism for pricing. The specialist role in overseeing this process and ensuring fair and orderly markets is, in and of itself, a benefit, but it is

in times of stress that his value is most clearly seen and appreciated. Let me relate a couple of examples.

The first occurred on January 22, 1999, shortly after we listed. Our stock did not trade until 9:51 when it opened at \$12.87, down \$1.12 from the prior's day close. I was informed by Exchange staff and also by Jim Jacobson, the head of the specialist firm, that the opening would be delayed due to a sell side imbalance equal to three quarters of our average daily volume. I learned from Jim that by 9:30 am there were sell orders totaling 130,000 shares and that the specialist began the process of reaching out to recent buyers. In addition to what was delivered systemically to his book, the specialist, acting as a catalyst, attracted buy orders totaling 60,000 shares and acting as dealer, purchased 22,000 shares himself to ultimately open the stock on a trade of 143,000 shares. The specialist on that day was 15% of the market, clearly higher than the average. There is no doubt in my mind that had RPM still been trading on the Nasdaq, the stock would have opened lower, as there is no regulatory requirement for dealers or ECN's to step in and stabilize the market.

What impressed me most, however, was that Jim Jacobson, having explained the trading to me himself, took the extra step of asking the Exchange to undertake a formal review. I received the report about a week later. It was a detailed chronology of the day, showing how and when the specialist had stepped in

to stabilize the market, and concluding he had done his job effectively. I had not asked Jim to do this. He undertook it himself to ensure that I was satisfied all was as it should be. I clearly would not have received this level of detail or service in my prior market. Very early on, my decision to list was reconfirmed through this experience.

Another example occurred in March of 2002 when we needed to raise additional capital to reduce debt associated with a recent acquisition. We chose to issue common stock, which enabled us to raise \$150 million. While investors were attracted to the offering due to the sound fundamentals of the company, there is no doubt that we benefited from the liquidity that existed at the NYSE, our reduced volatility, and investors' confidence in the market for our shares. On March 26, the stock closed at \$14.91. Ten million shares were priced at \$14.25 and opened the following morning at \$14.93. The increase in shares amounted to 10% dilution but the stock price held steady, reflecting the ability of a centralized market to absorb the significant increase in shares with minimal price dislocation.

The specialist kept us well apprised of the buy and sell interest indicated prior to the market open, through the opening itself, and for the remainder of the day. We were well informed at all times. Investors' ability to buy shares on the offering and just as important, to add to or liquidate their positions in the future with minimal price dislocation is critical in ensuring their confidence.

A word on speed vs. price

As noted earlier, I am not a market expert. That said, I am very aware of the current debate regarding the importance of speed vs. price. I support the Exchange's initiative to increase its automatic execution capability but do so because they are, at the same time, preserving the principle of best price. As both an investor myself and the CEO of a company who actively engages with retail investors on a regular basis, it is hard for me to imagine why speed would take precedence over best price for any reason.

Investors I know want to sell shares for the highest price and buy them at the lowest price. Most importantly, they expect and deserve to have the confidence that they will be getting the right price, or put another way, a fair price. This is particularly true with the millions of individual investors who directly or indirectly are the backbone of the most efficient capital market in the world. They always know they can buy our shares, but what will happen when they want to sell them? Why would intermediaries want speed if the investors they represent want best price? One of the great things about our current system is it allows small investors to buy and sell their shares on exactly the same terms as large institutions. There is no “wholesale”

price and “retail” price for our shares, just one price, and I and our other investors can always find out what that price is. Whatever the motive of large institutions, it should be fully transparent and understood by those who entrust their hard earned dollars to them. If there are conflicting motives, shouldn’t the interests of the ultimate investor take precedence?

The NYSE already provides what investors most want. The Exchange has the best price 93% of the time. Around 78% of RPM’s shares are traded at the Exchange precisely because it offers the best price. That matters because it ensures a deep and liquid market for RPM shares, dampens volatility and correctly prices our shares so the value of our company is fairly reflected. I believe that the combination of all these factors results in a more confident investing public and ultimately reduces our cost of capital.

Summary

I applaud this Committee’s undertaking to study market structure and to ensure fair and orderly markets for all investors. The decisions you reach are important for the future of our company and many others like it, and, most importantly, their shareholders. I am pleased to have had the opportunity to share my experiences with you and hope that any changes you consider will strengthen the

market and not diminish the liquidity and accountability that the auction market model provides to our shareholders. Clearly, the New York Stock Exchange has been and will continue to be central to our capital raising process. I fully support its goal of ensuring that all investors, large and small, have fair and equal access to the shares of companies traded on the largest and most liquid equities market in the world...and that they do so with the confidence that they are receiving the best and fairest price.