

RPM INTERNATIONAL INC/DE/  
Form 10-Q  
January 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the quarterly period ended November 30, 2015,

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from                      to                      .

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

02-0642224  
(IRS. Employer  
Identification No)

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P.O. BOX 777;

2628 PEARL ROAD;

MEDINA, OHIO

44258

(Address of principal executive offices) (Zip Code)

(330) 273-5090

(Registrant's telephone number including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

As of December 31, 2015

132,832,418 Shares of RPM International Inc. Common Stock were outstanding.



RPM INTERNATIONAL INC. AND SUBSIDIARIES\*

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

## PART I. — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

|   | November<br>30, 2015 | May 31,<br>2015 |
|---|----------------------|-----------------|
| <b>Assets</b>   |                      |                 |
| <b>Current Assets</b>   |                      |                 |
| Cash and cash equivalents   | \$ 190,609           | \$ 174,711      |
| Trade accounts receivable (less allowances of<br>\$25,110 and \$24,526, respectively) | 816,814              | 956,211         |
| Inventories   | 710,282              | 674,205         |
| Deferred income taxes   | 28,620               | 29,892          |
| Prepaid expenses and other current assets   | 265,090              | 264,827         |
| Total current assets  | 2,011,415            | 2,099,846       |
| Property, Plant and Equipment, at Cost  | 1,262,062            | 1,258,304       |
| Allowance for depreciation  | (687,426 )           | (668,658 )      |
| Property, plant and equipment, net  | 574,636              | 589,646         |
| <b>Other Assets</b>   |                      |                 |
| Goodwill  | 1,187,204            | 1,215,688       |
| Other intangible assets, net of amortization  | 577,324              | 604,130         |
| Deferred income taxes, non-current  | 2,902                | 5,685           |
| Other   | 164,751              | 179,245         |
| Total other assets  | 1,932,181            | 2,004,748       |
| Total Assets  | \$4,518,232          | \$4,694,240     |
| <b>Liabilities and Stockholders' Equity</b>   |                      |                 |
| <b>Current Liabilities</b>  |                      |                 |
| Accounts payable  | \$ 396,896           | \$ 512,165      |
| Current portion of long-term debt   | 2,593                | 2,038           |
| Accrued compensation and benefits   | 119,482              | 169,370         |
| Accrued losses  | 22,468               | 22,016          |
| Other accrued liabilities   | 197,229              | 197,647         |
| Total current liabilities   | 738,668              | 903,236         |
| <b>Long-Term Liabilities</b>  |                      |                 |
| Long-term debt, less current maturities   | 1,673,471            | 1,654,037       |
| Other long-term liabilities   | 732,467              | 752,821         |
| Deferred income taxes   | 81,402               | 90,681          |
| Total long-term liabilities   | 2,487,340            | 2,497,539       |
| Commitments and contingencies (Note 13)   |                      |                 |

|  |             |             |
|--|-------------|-------------|
| Stockholders' Equity   |             |             |
| Preferred stock, par value \$0.01; authorized 50,000 shares; none issued   | -           | -           |
| Common stock, par value \$0.01; authorized 300,000 shares; issued 139,979 and outstanding 133,318 as of November 30, 2015; issued 138,828 and outstanding 133,203 as of May 31, 2015 | 1,333       | 1,332       |
| Paid-in capital  | 887,650     | 872,127     |
| Treasury stock, at cost  | (170,220 )  | (124,928 )  |
| Accumulated other comprehensive (loss)   | (477,470 )  | (394,135 )  |
| Retained earnings  | 1,048,968   | 936,996     |
| Total RPM International Inc. stockholders' equity  | 1,290,261   | 1,291,392   |
| Noncontrolling Interest  | 1,963       | 2,073       |
| Total equity   | 1,292,224   | 1,293,465   |
| Total Liabilities and Stockholders' Equity   | \$4,518,232 | \$4,694,240 |

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

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

|   | Three Months Ended<br>November 30, |             | Six Months Ended<br>November 30, |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | 2015                               | 2014        | 2015                             | 2014        |
| Net Sales   | \$1,155,984                        | \$1,071,128 | \$2,398,510                      | \$2,275,024 |
| Cost of Sales   | 662,050                            | 617,185     | 1,371,618                        | 1,312,688   |
| Gross Profit  | 493,934                            | 453,943     | 1,026,892                        | 962,336     |
| Selling, General and Administrative Expenses              | 352,594                            | 334,889     | 725,448                          | 681,414     |
| Interest Expense  | 22,478                             | 19,404      | 44,938                           | 38,819      |
| Investment (Income), Net                                  | (1,100 )                           | (5,058 )    | (5,168 )                         | (8,861 )    |
| Other (Income), Net                                       | (299 )                             | (1,042 )    | (788 )                           | (2,864 )    |
| Income Before Income Taxes                                | 120,261                            | 105,750     | 262,462                          | 253,828     |
| Provision for Income Taxes                                | 36,112                             | 31,894      | 77,951                           | 75,133      |
| Net Income  | 84,149                             | 73,856      | 184,511                          | 178,695     |
| Less: Net Income Attributable to Noncontrolling Interests | 716                                | 4,090       | 1,263                            | 9,850       |
| Net Income Attributable to RPM International Inc.         |                                    |             |                                  |             |
| Stockholders  | \$83,433                           | \$69,766    | \$183,248                        | \$168,845   |
| Average Number of Shares of Common Stock Outstanding:     |                                    |             |                                  |             |
| Basic   | 129,398                            | 130,028     | 129,723                          | 130,061     |
| Diluted   | 136,734                            | 134,966     | 137,072                          | 135,000     |
| Earnings per Share of Common Stock Attributable to        |                                    |             |                                  |             |
| RPM International Inc. Stockholders:                      |                                    |             |                                  |             |
| Basic   | \$0.63                             | \$0.52      | \$1.39                           | \$1.27      |
| Diluted   | \$0.62                             | \$0.52      | \$1.36                           | \$1.24      |
| Cash Dividends Declared per Share of Common Stock         | \$0.275                            | \$0.260     | \$0.535                          | \$0.500     |

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

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

|   | Three Months |            | Six Months Ended |           |
|---|--------------|------------|------------------|-----------|
|   | Ended        |            | November 30,     |           |
|   | November 30, | 2014       | 2015             | 2014      |
| Net Income  | \$84,149     | \$73,856   | \$184,511        | \$178,695 |
| Other comprehensive (loss) income, net of tax:                  |              |            |                  |           |
| Foreign currency translation adjustments                        | (53,814)     | (91,222)   | (84,420)         | (112,488) |
| Pension and other postretirement benefit liability              |              |            |                  |           |
| adjustments (net of tax of \$1,803; \$2,573; \$3,817;           |              |            |                  |           |
| \$4,165, respectively)  | 3,640        | 4,985      | 7,800            | 7,914     |
| Unrealized (loss) gain on securities (net of tax of \$632;      |              |            |                  |           |
| \$(1,276); \$(2,595); \$(1,155), respectively)                  | 369          | (2,567)    | (6,715)          | (2,491)   |
| Unrealized gain (loss) on derivatives (net of tax of \$0; \$75; |              |            |                  |           |
| \$0; \$33, respectively)  | -            | 283        | -                | 217       |
| Total other comprehensive (loss)                                | (49,805)     | (88,521)   | (83,335)         | (106,848) |
| Total Comprehensive Income (Loss)                               | 34,344       | (14,665)   | 101,176          | 71,847    |
| Less: Comprehensive Income Attributable to Noncontrolling       |              |            |                  |           |
| Interests   | 716          | 3,008      | 1,263            | 5,388     |
| Comprehensive Income (Loss) Attributable to                     |              |            |                  |           |
| RPM International Inc. Stockholders                             | \$33,628     | \$(17,673) | \$99,913         | \$66,459  |

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



## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

|  | Six Months Ended<br>November 30, |           |
|--|----------------------------------|-----------|
|  | 2015                             | 2014      |
| <b>Cash Flows From Operating Activities:</b>   |                                  |           |
| Net income   | \$184,511                        | \$178,695 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                                  |           |
| Depreciation   | 33,509                           | 30,132    |
| Amortization   | 22,144                           | 16,015    |
| Reversal of contingent consideration obligations   | (14,500 )                        | (18,080 ) |
| Deferred income taxes  | (680 )                           | 2,170     |
| Stock-based compensation expense   | 15,524                           | 15,706    |
| Other non-cash interest expense  | 4,862                            | 1,329     |
| Other  | 1,441                            | (2,551 )  |
| Changes in assets and liabilities, net of effect from purchases and sales of businesses:     |                                  |           |
| Decrease in receivables  | 117,358                          | 44,564    |
| (Increase) in inventory  | (49,781 )                        | (41,392 ) |
| Decrease in prepaid expenses and other current and long-term assets                          | 4,617                            | 1,306     |
| (Decrease) in accounts payable   | (105,841)                        | (133,960) |
| (Decrease) in accrued compensation and benefits  | (45,649 )                        | (57,837 ) |
| Increase (decrease) in accrued losses  | 715                              | (8,471 )  |
| Increase in other accrued liabilities  | 7,375                            | 37,229    |
| Other  | (8,532 )                         | (9,599 )  |
| Cash Provided By Operating Activities  | 167,073                          | 55,256    |
| <b>Cash Flows From Investing Activities:</b>   |                                  |           |
| Capital expenditures   | (31,295 )                        | (26,498 ) |
| Acquisition of businesses, net of cash acquired  | (12,006 )                        | (33,355 ) |
| Purchase of marketable securities  | (14,213 )                        | (14,308 ) |
| Proceeds from sales of marketable securities   | 11,737                           | 19,205    |
| Other  | 5,355                            | 6,515     |
| Cash (Used For) Investing Activities   | (40,422 )                        | (48,441 ) |
| <b>Cash Flows From Financing Activities:</b>   |                                  |           |
| Additions to long-term and short-term debt   | 38,765                           | 83,312    |
| Reductions of long-term and short-term debt  | (18,774 )                        | (6,501 )  |
| Cash dividends   | (71,276 )                        | (66,763 ) |
| Shares repurchased and returned for taxes  | (45,292 )                        | (8,954 )  |
| Payments of acquisition-related contingent consideration                                     | (1,631 )                         | (24,750 ) |
| Other  | 270                              | 1,048     |

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|  |            |            |
|--|------------|------------|
| Cash (Used For) Financing Activities                         | (97,938 )  | (22,608 )  |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (12,815 )  | (20,548 )  |
| Net Change in Cash and Cash Equivalents                      | 15,898     | (36,341 )  |
| Cash and Cash Equivalents at Beginning of Period             | 174,711    | 332,868    |
| Cash and Cash Equivalents at End of Period                   | \$ 190,609 | \$ 296,527 |

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2015

(Unaudited)

NOTE 1 — CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION

Our financial statements include all of our majority-owned subsidiaries, except for certain subsidiaries that were deconsolidated during the period from May 31, 2010 through December 31, 2014. We reconsolidated such subsidiaries as of January 1, 2015 (refer to Note 2). We account for our investments in less-than-majority-owned joint ventures, for which we have the ability to exercise significant influence, under the equity method. Effects of transactions between related companies are eliminated in consolidation.

Noncontrolling interests are presented in our consolidated financial statements as if parent company investors (controlling interests) and other minority investors (noncontrolling interests) in partially-owned subsidiaries have similar economic interests in a single entity. As a result, investments in noncontrolling interests are reported as equity in our consolidated financial statements. Additionally, our consolidated financial statements include 100% of a controlled subsidiary's earnings, rather than only our share. Transactions between the parent company and noncontrolling interests are reported in equity as transactions between stockholders, provided that these transactions do not create a change in control.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the U.S. ("GAAP") for interim financial information and the instructions to Form 10-Q. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three and six months ended November 30, 2015 and 2014. For further information, refer to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended May 31, 2015.

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

NOTE 2 — SPECIALTY PRODUCTS HOLDING CORP. ("SPHC")

Prior to May 31, 2010, Bondex International, Inc. ("Bondex") and its parent, SPHC, were defendants in various asbestos-related bodily injury lawsuits filed in various state courts. These cases generally sought unspecified damages for asbestos-related diseases based on alleged exposures to asbestos-containing products. On May 31, 2010, Bondex and SPHC, filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware (the

“Bankruptcy Court”) to reorganize under chapter 11 of the Bankruptcy Code. SPHC and Bondex took this action in an effort to permanently and comprehensively resolve all pending and future asbestos-related liability claims associated with Bondex and SPHC.

Similarly, Republic Powdered Metals, Inc. (“Republic”) and NMBFiL, Inc. (“NMBFiL”), both of which are indirect wholly owned subsidiaries of RPM International Inc. (“RPM”), filed to reorganize under chapter 11 of the Bankruptcy Code in August 2014 to resolve all their pending and future asbestos-related liability claims. Both Republic and NMBFiL remained consolidated subsidiaries of RPM, considering the short-term nature of the bankruptcy and that RPM maintained control of them from a participating rights perspective.

On December 10, 2014 a plan of reorganization was confirmed (the “Bankruptcy Plan”), and, effective as of December 23, 2014 (the “Effective Date”), Bondex, SPHC, Republic and NMBFiL emerged from bankruptcy. In accordance with the Bankruptcy Plan, trusts were established under Section 524(g) of the United States Bankruptcy Code (together, the “Trust”) and funded with first installments. Pursuant to the Bankruptcy Plan, the Trust assumed all liability and responsibility for current and future asbestos personal injury claims of Bondex, SPHC, Republic and NMBFiL, and such entities will have no further liability or responsibility for, and will (along with affiliates) be permanently protected from, such asbestos claims.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2015

(Unaudited)

The Trust was funded with \$450.0 million in cash and a promissory note, bearing no interest and maturing on or before the fourth anniversary of the Effective Date (the “Bankruptcy Note”). The net present value of the Bankruptcy Note, or \$331.5 million, is classified as other long-term liabilities in our consolidated financial statements at November 30, 2015. Borrowings under our \$800.0 million revolving credit facility were used to fund the initial payment of \$450.0 million, which is classified as long-term debt in our Consolidated Balance Sheets. A portion of the payments due under the Bankruptcy Note is secured by a right to the equity of SPHC, Republic and Bondex. The Bankruptcy Plan, and Bankruptcy Note, provide for the following additional contributions to the Trust:

- On or before the second anniversary of the Effective Date, an additional \$102.5 million in cash, RPM stock or a combination thereof (at our discretion in this and all subsequent cases) will be deposited into the Trust;
- On or before the third anniversary of the Effective Date, an additional \$120.0 million in cash, RPM stock or a combination thereof will be deposited into the Trust; and
- On or before the fourth anniversary of the Effective Date, a final payment of \$125.0 million in cash, RPM stock or a combination thereof will be deposited into the Trust.

Total current and future contributions to the Trust are deductible for U.S. income tax purposes.

Effective with the filing of the Notice of Entry of Order confirming the Bankruptcy Plan, which required the funding of the Trust, we regained control of SPHC and its subsidiaries, and accordingly, we have accounted for the event as a business combination. The funding of the Trust represents the total consideration transferred in the transaction, or \$772.6 million. The opening balance sheets are based upon closing balances as of December 31, 2014 and results of operations have been included in our consolidated financial statements beginning on January 1, 2015 (the “Accounting Effective Date”) forward, as we concluded that the activity occurring between the date control was obtained (December 23, 2014) and the Accounting Effective Date was not significant.

The fair values of SPHC and its subsidiaries have been determined as of January 1, 2015. Additionally, the fair value of RPM Holdco, of which SPHC owns 21.39% of the outstanding common stock, has been determined in order to account for our increase in ownership of the noncontrolling interest as an equity transaction. The total consideration has been allocated on a relative fair value basis between the noncontrolling interest in RPM Holdco, or approximately \$208.4 million, and the net assets of SPHC, or approximately \$564.2 million. The difference between the fair value of the noncontrolling interest in RPM Holdco and the carrying value of the noncontrolling interest was recorded as an equity transaction. The portion of the transaction accounted for as a business combination resulted in preliminary goodwill of \$118.7 million and intangible assets of \$176.0 million. The acquired intangible assets totaling \$176.0 million comprise the following \$118.7 million of customer and distributor relationships, \$2.0 million of definite-lived tradenames, \$52.7 million of indefinite-lived tradenames and \$2.6 million of formulas. Income tax assets of \$271.7 million were recorded in connection with the deductibility of current and future contributions to the Trust. Additionally, deferred tax liabilities of \$72.3 million were recorded for the excess of the fair value book basis of certain assets over the corresponding tax basis. The fair values of net tangible assets, intangible assets and the noncontrolling interest were based upon valuations, which required our significant use of estimates and assumptions. While the valuations of consideration transferred and total assets acquired and liabilities assumed are substantially complete, measurement period adjustments may be recorded in the future as we finalize certain fair value estimates. The primary areas that remain preliminary relate to the fair values of deferred income taxes.

NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which establishes a comprehensive revenue recognition standard for virtually all industries in GAAP. Under the original issuance, the new standard would have applied to annual periods beginning after December 15, 2016, including interim periods therein. However, in August 2015, the FASB issued ASU 2015-14, which extends the standard effective date by one year and includes an option to apply the standard on the original effective date. We have not yet determined the effects, if any, adoption of this pronouncement may have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03 "Interest-Imputation of Interest," which changes the presentation of debt issuance costs in financial statements and specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of the note. The guidance does not change the current requirements surrounding the recognition and measurement of debt issuance costs, and the amortization of debt issuance costs will continue to be reported as interest expense. The guidance is effective for years and interim periods within those fiscal years beginning after December 15, 2015. Early adoption is allowed for all entities and the new guidance shall be applied to all prior periods retrospectively. We do not expect the adoption of this

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2015

(Unaudited)

guidance to have a significant impact on our consolidated financial position and results of operations, although it will change the financial statement classification of the deferred debt cost. As of November 30, 2015, we had \$3.0 million and \$9.8 million of current and long-term net deferred debt costs, respectively. As of May 31, 2015, we had \$3.0 million and \$11.5 million of current and long-term net deferred debt costs, respectively. Current and long-term deferred debt costs are included in our Consolidated Balance Sheets and are reflected in prepaid expenses and other current assets, and other long-term assets, respectively. Under the new guidance, the net deferred debt costs would offset the carrying amount of the respective debt on the Consolidated Balance Sheets.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which will require entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet. This guidance simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, and may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

## NOTE 4 — MARKETABLE SECURITIES

The following tables summarize marketable securities held at November 30, 2015 and May 31, 2015 by asset type:

|                         | Available-For-Sale Securities |                  |                   | Fair Value<br>(Net Carrying Amount) |
|-------------------------|-------------------------------|------------------|-------------------|-------------------------------------|
|                         | Amortized Cost                | Unrealized Gains | Unrealized Losses |                                     |
| (In thousands)          | Cost                          | Gains            | Losses            | Amount)                             |
| November 30, 2015       |                               |                  |                   |                                     |
| Equity securities:      |                               |                  |                   |                                     |
| Stocks - foreign        | \$4,282                       | \$ 415           | \$ (248 )         | \$4,449                             |
| Stocks - domestic       | 32,032                        | 3,991            | (955 )            | 35,068                              |
| Mutual funds - foreign  | 33,605                        | 948              | (2,398 )          | 32,155                              |
| Mutual funds - domestic | 57,862                        | 124              | (4,030 )          | 53,956                              |
| Total equity securities | 127,781                       | 5,478            | (7,631 )          | 125,628                             |

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Fixed maturity:

|                                    |           |          |             |           |
|------------------------------------|-----------|----------|-------------|-----------|
| U.S. treasury and other government | 21,714    | 85       | (258 )      | 21,541    |
| Corporate bonds                    | 1,032     | 135      | -           | 1,167     |
| Foreign bonds                      | 36        | 2        | -           | 38        |
| Mortgage-backed securities         | 18        | 23       | -           | 41        |
| Total fixed maturity securities    | 22,800    | 245      | (258 )      | 22,787    |
| Total                              | \$150,581 | \$ 5,723 | \$ (7,889 ) | \$148,415 |



## RPM INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2015

(Unaudited)

|                                    | Available-For-Sale Securities |                     |                      | Fair<br>Value<br>(Net<br>Carrying<br>Amount) |
|------------------------------------|-------------------------------|---------------------|----------------------|--|
|                                    | Gross<br>Amortized<br>Cost    | Unrealized<br>Gains | Unrealized<br>Losses |  |
| (In thousands)                     |                               |                     |                      |  |
| May 31, 2015                       |                               |                     |                      |  |
| Equity securities:                 |                               |                     |                      |  |
| Stocks - foreign                   | \$3,722                       | \$ 339              | \$ (85 )             | \$3,976                                      |
| Stocks - domestic                  | 34,368                        | 5,649               | (559 )               | 39,458                                       |
| Mutual funds - foreign             | 32,657                        | 2,114               | (230 )               | 34,541                                       |
| Mutual funds - domestic            | 56,442                        | 228                 | (2,779 )             | 53,891                                       |
| Total equity securities            | 127,189                       | 8,330               | (3,653 )             | 131,866                                      |
| Fixed maturity:                    |                               |                     |                      |  |
| U.S. treasury and other government | 21,340                        | 171                 | (162 )               | 21,349                                       |
| Corporate bonds                    | 1,218                         | 171                 | -                    | 1,389  |
| Foreign bonds                      | 36                            | 2                   | -                    | 38   |
| Mortgage-backed securities         | 81                            | 47                  | -                    | 128  |
| Total fixed maturity securities    | 22,675                        | 391                 | (162 )               | 22,904                                       |
| Total                              | \$149,864                     | \$ 8,721            | \$ (3,815 )          | \$154,770                                    |

Marketable securities, included in other current and long-term assets totaling \$72.8 million and \$75.6 million at November 30, 2015, respectively, and included in other current and long-term assets totaling \$69.3 million and \$85.5 million at May 31, 2015, respectively, are composed of available-for-sale securities and are reported at fair value. We carry a portion of our marketable securities portfolio in long-term assets since they are generally held for the settlement of our general and product liability insurance claims processed through our wholly owned captive insurance subsidiaries.

Marketable securities are composed of available-for-sale securities and are reported at fair value. Realized gains and losses on sales of investments are recognized in net income on the specific identification basis. Changes in the fair values of securities that are considered temporary are recorded as unrealized gains and losses, net of applicable taxes, in accumulated other comprehensive income (loss) within stockholders' equity. Other-than-temporary declines in market value from original cost are reflected in operating income in the period in which the unrealized losses are deemed other than temporary. In order to determine whether other-than-temporary declines in market value have occurred, the duration of the decline in value and our ability to hold the investment are considered in conjunction with an evaluation of the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related market value.

Gross gains realized on sales of investments were \$2.1 million and \$3.2 million for the quarters ended November 30, 2015 and 2014, respectively. During the three months ended November 30, 2015, we recognized gross realized losses on sales of investments of \$0.1 million, while we recognized no such losses during the three months ended November 30, 2014. During the three months ended November 30, 2015, we recognized losses of approximately \$2.5 million for securities deemed to have other-than-temporary impairments, while we recognized no such losses during the second quarter of fiscal 2015. These amounts are included in investment (income), net in the Consolidated Statements of Income.

Gross gains realized on sales of investments were \$4.6 million and \$5.3 million for the six months ended November 30, 2015 and 2014, respectively. During the first six months of fiscal 2016, we recognized gross realized losses on sales of investments of \$0.2 million, while we recognized no such losses during the first six months of fiscal 2015. During the six months ended November 30, 2015, we recognized losses of approximately \$2.5 million for securities deemed to have other-than-temporary impairments, while we recognized no such losses during the first half of fiscal 2015.

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Summarized below are the securities we held at November 30, 2015 and May 31, 2015 that were in an unrealized loss position and that were included in accumulated other comprehensive income (loss), aggregated by the length of time the investments had been in that position:

| (In thousands)                                  | November 30, 2015 |                   | May 31, 2015 |                   |
|---|-------------------|-------------------|--------------|-------------------|
|   | Gross             |                   | Gross        |                   |
|   | Fair Value        | Unrealized Losses | Fair Value   | Unrealized Losses |
| Total investments with unrealized losses        | \$97,059          | \$ (7,889 )       | \$58,978     | \$ (3,815 )       |
| Unrealized losses with a loss position for less |                   |                   |              |                   |
| than 12 months                                  | 55,461            | (4,872 )          | 32,693       | (1,441 )          |
| Unrealized losses with a loss position for more |                   |                   |              |                   |
| than 12 months                                  | 41,598            | (3,017 )          | 26,285       | (2,374 )          |

We have reviewed all of the securities included in the table above and have concluded that we have the ability and intent to hold these investments until their cost can be recovered, based upon the severity and duration of the decline. Therefore, we did not recognize any other-than-temporary impairment losses on these investments. The unrealized losses generally relate to investments whose fair values at November 30, 2015 were less than 15% below their original cost. From time to time, we may experience significant volatility in general economic and market conditions. If we were to experience unrealized losses that were to continue for longer periods of time, or arise to more significant levels of unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.

The net carrying values of debt securities at November 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

| (In thousands) | Amortized Cost | Fair Value |
|----------------|----------------|------------|
| Due:           |                |            |

|                             |           |          |
|-----------------------------|-----------|----------|
| Less than one year          | \$ 3,738  | \$3,706  |
| One year through five years | 15,818    | 15,683   |
| Six years through ten years | 2,135     | 2,150    |
| After ten years             | 1,109     | 1,248    |
|                             | \$ 22,800 | \$22,787 |

#### NOTE 5 — FAIR VALUE MEASUREMENTS

Financial instruments recorded in the balance sheet include cash and cash equivalents, trade accounts receivable, marketable securities, notes and accounts payable, and debt.

An allowance for anticipated uncollectible trade receivable amounts is established using a combination of specifically identified accounts to be reserved, and a reserve covering trends in collectibility. These estimates are based on an analysis of trends in collectibility and past experience, but are primarily made up of individual account balances identified as doubtful based on specific facts and conditions. Receivable losses are charged against the allowance when we confirm uncollectibility.

All derivative instruments are recognized in our Consolidated Balance Sheets and measured at fair value. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any ineffective portion of hedges are recognized as a gain or (loss) in our Consolidated Statements of Income in the current period. Changes in the fair value of derivative instruments used effectively as cash flow hedges are recognized in other comprehensive income (loss), along with the change in the value of the hedged item. We do not hold or issue derivative instruments for speculative purposes.

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The valuation techniques utilized for establishing the fair values of assets and liabilities are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect management's market assumptions. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value, as follows:

Level 1 Inputs — Quoted prices for identical instruments in active markets.

Level 2 Inputs — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs — Instruments with primarily unobservable value drivers.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

|                                    | Quoted Prices   |  |   | Fair Value at<br>November 30,<br>2015 |
|------------------------------------|---|--|---|---------------------------------------|
|                                    | in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |                                       |
| (In thousands)                     |   |  |   |                                       |
| U.S. Treasury and other government | \$ -  | \$ 21,541  | \$ -  | \$ 21,541                             |
| Foreign bonds                      |   | 38   |   | 38                                    |
| Mortgage-backed securities         |   | 41   |   | 41                                    |
| Corporate bonds                    |   | 1,167  |   | 1,167                                 |
| Stocks - foreign                   | 4,449   |  |   | 4,449                                 |
| Stocks - domestic                  | 35,068  |  |   | 35,068                                |
| Cash and cash equivalents          | 1,545   |  |   | 1,545                                 |
| Mutual funds - foreign             |   | 32,155   |   | 32,155                                |
| Mutual funds - domestic            |   | 53,956   |   | 53,956                                |
| Foreign currency forward contract  |   | (8,678)  |   | (8,678)                               |
| Contingent consideration           |   |  | (11,706)  | (11,706)                              |
| Total                              | \$ 41,062   | \$ 100,220   | \$ (11,706)                                     | \$ 129,576                            |

|                                    | Quoted Prices                                |                                    |                             | Fair Value at<br>May 31, |
|------------------------------------|--|------------------------------------|-----------------------------|--------------------------|
|                                    | in Active<br>Markets for<br>Identical Assets | Significant<br>Other<br>Observable | Significant<br>Unobservable |                          |
| (In thousands)                     | (Level 1)                                    | Inputs (Level 2)                   | Inputs (Level 3)            | 2015                     |
| U.S. Treasury and other government | \$ -   | \$ 21,349                          | \$ -                        | \$ 21,349                |
| Foreign bonds                      |  | 38                                 |                             | 38                       |
| Mortgage-backed securities         |  | 128                                |                             | 128                      |
| Corporate bonds                    |  | 1,389                              |                             | 1,389                    |
| Stocks - foreign                   | 3,976  |                                    |                             | 3,976                    |
| Stocks - domestic                  | 39,458                                       |                                    |                             | 39,458                   |
| Mutual funds - foreign             |  | 34,541                             |                             | 34,541                   |
| Mutual funds - domestic            |  | 53,891                             |                             | 53,891                   |
| Foreign currency forward contract  |  | (6,369 )                           |                             | (6,369 )                 |
| Contingent consideration           |  |                                    | (27,598 )                   | (27,598 )                |
| Total                              | \$ 43,434                                    | \$ 104,967                         | \$ (27,598 )                | \$ 120,803               |

Our marketable securities are primarily composed of available-for-sale securities, and are valued using a market approach. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For most of our financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by

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market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

At November 30, 2015, we had a foreign currency forward contract with a fair value of approximately \$8.7 million, which is classified in other accrued liabilities in our Consolidated Balance Sheets. At May 31, 2015, we had a foreign currency forward contract with a fair value of approximately \$6.4 million, which is classified in other accrued liabilities in our Consolidated Balance Sheets. Our foreign currency forward contract, which has not been designated as a hedge, was designed to reduce our exposure to the changes in the cash flows of intercompany foreign-currency-denominated loans related to changes in foreign currency exchange rates by fixing the functional currency cash flows. The foreign exchange rates included in the forward contract are based upon observable market data, but are not quoted market prices, and therefore, the forward currency forward contract is considered a Level 2 liability on the fair value hierarchy.

The contingent consideration represents the estimated fair value of the additional variable cash consideration payable in connection with recent acquisitions that is contingent upon the achievement of certain performance milestones. We estimated the fair value using expected future cash flows over the period in which the obligation is expected to be settled, and applied a discount rate that appropriately captures a market participant's view of the risk associated with the obligation, which are considered to be Level 3 inputs. During the quarter ended November 30, 2015, we reversed approximately \$14.5 million for contingent earnout targets that were not expected to be met, due to a delay in new business that will push the majority of orders previously anticipated for fiscal 2016 into our 2017 fiscal year. Additionally, during the first six months of fiscal 2016, we paid approximately \$1.6 million for settlements of contingent consideration obligations relating to certain performance milestones that were established in prior periods and achieved during the current period. These amounts are reported in payments of acquisition-related contingent consideration in the Consolidated Statements of Cash Flows.

The carrying value of our current financial instruments, which include cash and cash equivalents, marketable securities, trade accounts receivable, accounts payable and short-term debt approximates fair value because of the short-term maturity of these financial instruments. At November 30, 2015 and May 31, 2015, the fair value of our long-term debt was estimated using active market quotes, based on our current incremental borrowing rates for similar types of borrowing arrangements, which are considered to be Level 2 inputs. Based on the analysis performed, the fair value and the carrying value of our financial instruments and long-term debt as of November 30, 2015 and May 31, 2015 are as follows:

| (In thousands)                            | At November 30, 2015 |            |
|---|----------------------|------------|
|   | Carrying Value       | Fair Value |
| Cash and cash equivalents                 | \$ 190,609           | \$ 190,609 |
| Marketable equity securities              | 125,628              | 125,628    |
| Marketable debt securities                | 22,787               | 22,787     |
| Long-term debt, including current portion | 1,676,064            | 1,724,147  |

| (In thousands)                            | At May 31, 2015 |            |
|---|-----------------|------------|
|   | Carrying Value  | Fair Value |
| Cash and cash equivalents                 | \$174,711       | \$174,711  |
| Marketable equity securities              | 131,866         | 131,866    |
| Marketable debt securities                | 22,904          | 22,904     |
| Long-term debt, including current portion | 1,656,075       | 1,783,962  |



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## NOTE 6 — INVESTMENT (INCOME), NET

Investment (income), net, consists of the following components:

| (In thousands)                                | Three Months<br>Ended<br>November 30, |           | Six Months<br>Ended<br>November 30, |           |
|---|---------------------------------------|-----------|-------------------------------------|-----------|
|   | 2015                                  | 2014      | 2015                                | 2014      |
| Interest (income)                             | \$(1,218)                             | \$(1,601) | \$(2,582)                           | \$(3,005) |
| (Gain) on sale of marketable securities       | (2,042)                               | (3,204)   | (4,418)                             | (5,320)   |
| Other-than-temporary impairment on securities | 2,472                                 | -         | 2,472                               | -         |
| Dividend (income)                             | (312 )                                | (253 )    | (640 )                              | (536 )    |
| Investment (income), net                      | \$(1,100)                             | \$(5,058) | \$(5,168)                           | \$(8,861) |

## NOTE 7 — OTHER (INCOME), NET

Other (income), net, consists of the following components:

| (In thousands)                                       | Three Months<br>Ended<br>November 30, |           | Six Months<br>Ended<br>November 30, |           |
|--|---------------------------------------|-----------|-------------------------------------|-----------|
|  | 2015                                  | 2014      | 2015                                | 2014      |
| Royalty (income) expense, net                        | \$174                                 | \$(378 )  | \$163                               | \$(1,595) |
| (Income) related to unconsolidated equity affiliates | (473)                                 | (664 )    | (951)                               | (1,269)   |
| Other (income), net                                  | \$(299)                               | \$(1,042) | \$(788)                             | \$(2,864) |

## NOTE 8 — INCOME TAXES

The effective income tax rate was 30.0% for the three months ended November 30, 2015 compared to an effective income tax rate of 30.2% for the three months ended November 30, 2014. The effective income tax rate was 29.7% for the six months ended November 30, 2015 compared to an effective income tax rate of 29.6% for the six months

ended November 30, 2014.

The effective tax rate for the three and six months ended November 30, 2015 and 2014 reflect variances from the 35% federal statutory rate primarily due to lower effective tax rate of certain of our foreign subsidiaries, the benefit of the domestic manufacturing deduction and the unfavorable impact of state and local taxes.

At May 31, 2015, we determined that it was possible that we could repatriate approximately \$419.1 million of undistributed foreign earnings in the foreseeable future. Accordingly, as of May 31, 2015, we recorded a deferred income tax liability of \$108.5 million, which represented our estimate of the U.S income and foreign withholding tax associated with the \$419.1 million of undistributed foreign earnings. Based on November 30, 2015 exchange rates, the amount of undistributed earnings that may be repatriated has been revalued to \$401.5 million and the corresponding deferred tax liability has been reduced to \$101.9 million. This reduction in the deferred tax liability is due to the impact of foreign exchange and is recorded in accumulated other comprehensive income (loss). We have not provided for U.S. income and foreign withholding taxes on the remaining foreign undistributed earnings because such earnings have been retained and reinvested by the foreign subsidiaries as of November 30, 2015. Accordingly, no provision has been made for U.S. income taxes or foreign withholding taxes, which may become payable if the remaining undistributed earnings of foreign subsidiaries were distributed to the U.S.

Subsequent to November 30, 2015, on December 18, 2015, President Obama signed into law the Consolidated Appropriations Act, 2016 (the "Act") that reinstated certain tax benefits and credits that had expired. The Act also made a number of the provisions permanent, including the research and development credit, extended others for five years and extended the remainder two years. Although we are still in the process of analyzing this new legislation, we do not expect this law to have a material impact on our consolidated financial results.

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## NOTE 9 — INVENTORIES

Inventories, net of reserves, were composed of the following major classes:

|                                  | November<br>30,<br>2015 | May 31,<br>2015 |
|----------------------------------|-------------------------|-----------------|
| (In thousands)                   |                         |                 |
| Raw material and supplies        | \$ 229,766              | \$ 235,649      |
| Finished goods                   | 480,516                 | 438,556         |
| Total Inventory, Net of Reserves | \$ 710,282              | \$ 674,205      |

## NOTE 10 — STOCK REPURCHASE PROGRAM

On January 8, 2008, we announced our authorization of a stock repurchase program under which we may repurchase shares of RPM International Inc. common stock at management's discretion for general corporate purposes. Our current intent is to limit our repurchases to approximately one to two million shares per year, which would include amounts required to offset dilution created by stock issued in connection with our equity-based compensation plans and other repurchases. As a result of this authorization, we may repurchase shares from time to time in the open market or in private transactions at various times and in amounts and for prices that our management deems appropriate, subject to insider trading rules and other securities law restrictions. The timing of our purchases will depend upon prevailing market conditions, alternative uses of capital and other factors. We may limit or terminate the repurchase program at any time. During the three and six months ended November 30, 2015, we repurchased approximately 100,000 shares and 400,000 shares of our common stock under this program, respectively. These shares of common stock were repurchased during the current quarter and six month period for approximately \$4.4 million and \$17.2 million, respectively.

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## NOTE 11 — EARNINGS PER SHARE

The following table sets forth the reconciliation of the numerator and denominator of basic and diluted earnings per share, as calculated using the two-class method for the three and six month periods ended November 30, 2014. For the three and six month periods ended November 30, 2015, basic earnings per share were calculated using the two-class method, while diluted earnings per share were calculated using the treasury method, as the results under the two-class method were less dilutive.

| (In thousands, except per share amounts)   | Three Months Ended<br>November 30, |          | Six Months Ended<br>November 30, |           |
|--|------------------------------------|----------|----------------------------------|-----------|
|  | 2015                               | 2014     | 2015                             | 2014      |
| <b>Numerator for earnings per share:</b>   |                                    |          |                                  |           |
| Net income attributable to RPM International Inc.  |                                    |          |                                  |           |
| stockholders   | \$83,433                           | \$69,766 | \$183,248                        | \$168,845 |
| Less: Allocation of earnings and dividends to  |                                    |          |                                  |           |
| participating securities   | (1,571 )                           | (1,602 ) | (3,068 )                         | (3,673 )  |
| Net income available to common shareholders - basic  | 81,862                             | 68,164   | 180,180                          | 165,172   |
| Add: Undistributed earnings reallocated to unvested  |                                    |          |                                  |           |
| shareholders   |                                    | 6        |                                  | 18        |
| Reverse: Allocation of earnings and dividends to   |                                    |          |                                  |           |
| participating securities   | 1,571                              |          | 3,068                            |           |
| Add: Income effect of contingently issuable shares   | 1,354                              | 1,340    | 2,706                            | 2,679     |
| Net income available to common shareholders - diluted  | \$84,787                           | \$69,510 | \$185,954                        | \$167,869 |
| <b>Denominator for basic and diluted earnings per share:</b>                                   |                                    |          |                                  |           |
| Basic weighted average common shares   | 129,398                            | 130,028  | 129,723                          | 130,061   |
| Average diluted options  | 3,453                              | 1,063    | 3,466                            | 1,064     |
| Additional shares issuable assuming conversion of  |                                    |          |                                  |           |
| convertible securities   | 3,883                              | 3,875    | 3,883                            | 3,875     |
| Total shares for diluted earnings per share (1), (2)   | 136,734                            | 134,966  | 137,072                          | 135,000   |
| <b>Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders:</b> |                                    |          |                                  |           |
| Basic Earnings Per Share of Common Stock   | \$0.63                             | \$0.52   | \$1.39                           | \$1.27    |
| Diluted Earnings Per Share of Common Stock   | \$0.62                             | \$0.52   | \$1.36                           | \$1.24    |

- (1) For the three months ended November 30, 2014, approximately 3.2 million shares of stock granted under stock-based compensation plans were excluded from the calculation of diluted EPS, as the effect would have been anti-dilutive.
- (2) For the six months ended November 30, 2014, approximately 3.0 million shares of stock granted under stock-based compensation plans were excluded from the calculation of diluted EPS, as the effect would have been anti-dilutive.

#### NOTE 12 — PENSION PLANS

We offer defined benefit pension plans, defined contribution pension plans, as well as several unfunded health care benefit plans primarily for certain of our retired employees.

Historically, we estimated the service and interest cost components of net periodic pension and postretirement benefit cost by applying a single weighted-average discount rate, derived from the yield curve used to measure the benefit obligation at the beginning of the period. During the first quarter of the current fiscal year, we elected to change our approach in estimating service and interest cost by applying the split discount rate approach. Under the split discount rate approach, we estimate service and interest cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We made this change in order to more precisely measure our service and interest costs, and the split discount rate approach achieves this by improving the correlation between projected benefit cash flows and the corresponding spot yield curve rates. This change will not affect the measurement of our total benefit obligation at our annual measurement date, as the change in service and interest cost is completely offset by deferred actuarial (gains)/losses that will arise at the next annual measurement date. As this change is treated as

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a change in estimate, the impact is reflected in the first quarter of the current fiscal year and prospectively, and historical measurements of service and interest cost were not affected.

This change in estimate is anticipated to reduce our current year annual net periodic benefit expense by approximately \$5.4 million for our U.S. Plans and by approximately \$1.0 million for our non-U.S. plans. Accordingly, for the three months ended November 30, 2015, total service cost and interest cost for all plans was \$9.6 million and \$6.1 million, respectively, a reduction of \$0.2 million and \$1.4 million, respectively, as a result of implementing the new approach. For the six months ended November 30, 2015, total service cost and interest cost for all plans was \$19.2 million and \$12.2 million, respectively, a reduction of \$0.4 million and \$2.8 million, respectively, as a result of implementing the new approach. This resulted in an increase in income from continuing operations and net income for the three months ended November 30, 2015 of approximately \$1.6 million and \$1.1 million, respectively, and an increase in both basic and diluted earnings per share of \$0.01. For the six months ended November 30, 2015, this resulted in an increase in income from continuing operations and net income of approximately \$3.2 million and \$2.2 million, respectively, and an increase in both basic and diluted earnings per share of \$0.02.

The following tables provide the retirement-related benefit plans' impact on income before income taxes for the three and six months ended November 30, 2015 and 2014:

|                                    | U.S. Plans         |          | Non-U.S. Plans     |         |
|------------------------------------|--------------------|----------|--------------------|---------|
|                                    | Three Months Ended |          | Three Months Ended |         |
|                                    | November 30,       |          | November 30,       |         |
|                                    | 2015               | 2014     | 2015               | 2014    |
| Pension Benefits<br>(In thousands) |                    |          |                    |         |
| Service cost                       | \$8,202            | \$7,564  | \$1,067            | \$1,231 |
| Interest cost                      | 4,499              | 5,002    | 1,323              | 1,891   |
| Expected return on plan assets     | (6,437)            | (6,034)  | (1,983)            | (2,296) |
| Amortization of:                   |                    |          |                    |         |
| Prior service cost                 | 58                 | 74       |                    | 10      |
| Net actuarial losses recognized    | 4,190              | 3,472    | 457                | 536     |
| Settlement                         |                    |          | 91                 |         |
| Net Periodic Benefit Cost          | \$10,512           | \$10,078 | \$955              | \$1,372 |

| U.S. Plans         | Non-U.S. Plans     |
|--------------------|--------------------|
| Three Months Ended | Three Months Ended |

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|   | November<br>30, |        | November<br>30, |       |
|---|-----------------|--------|-----------------|-------|
|   | 2015            | 2014   | 2015            | 2014  |
| Postretirement Benefits<br>(In thousands) |                 |        |                 |       |
| Service cost                              | \$-             | \$-    | \$281           | \$313 |
| Interest cost                             | 59              | 66     | 221             | 308   |
| Amortization of:                          |                 |        |                 |       |
| Prior service (credit)                    | (62)            | (62)   |                 |       |
| Net actuarial (gains) losses recognized   |                 | (34)   | 61              | 104   |
| Net Periodic Benefit Cost                 | \$(3 )          | \$(30) | \$563           | \$725 |

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|                                    | U.S. Plans                       |           | Non-U.S. Plans                      |          |
|------------------------------------|----------------------------------|-----------|-------------------------------------|----------|
|                                    | Six Months Ended<br>November 30, |           | Six Months<br>Ended<br>November 30, |          |
| Pension Benefits<br>(In thousands) | 2015                             | 2014      | 2015                                | 2014     |
| Service cost                       | \$ 16,404                        | \$ 15,128 | \$ 2,134                            | \$ 2,462 |
| Interest cost                      | 8,998                            | 10,004    | 2,646                               | 3,782    |
| Expected return on plan assets     | (12,874)                         | (12,068)  | (3,966)                             | (4,592)  |
| Amortization of:                   |                                  |           |                                     |          |
| Prior service cost                 | 116                              | 148       |                                     | 20       |
| Net actuarial losses recognized    | 8,380                            | 6,944     | 914                                 | 1,072    |
| Settlement                         |                                  |           | 91                                  |          |
| Net Periodic Benefit Cost          | \$ 21,024                        | \$ 20,156 | \$ 1,819                            | \$ 2,744 |

  

|   | U.S. Plans                          |         | Non-U.S. Plans                      |          |
|---|-------------------------------------|---------|-------------------------------------|----------|
|   | Six Months<br>Ended<br>November 30, |         | Six Months<br>Ended<br>November 30, |          |
| Postretirement Benefits<br>(In thousands) | 2015                                | 2014    | 2015                                | 2014     |
| Service cost                              | \$-                                 | \$-     | \$ 562                              | \$ 626   |
| Interest cost                             | 118                                 | 132     | 442                                 | 616      |
| Amortization of:                          |                                     |         |                                     |          |
| Prior service (credit)                    | (124)                               | (124)   |                                     |          |
| Net actuarial (gains) losses recognized   |                                     | (68 )   | 122                                 | 208      |
| Net Periodic Benefit Cost                 | \$(6 )                              | \$(60 ) | \$ 1,126                            | \$ 1,450 |

Note that the information reflected above for the U.S. plans includes the Day-Glo plan as of its reconsolidation date of January 1, 2015.

We previously disclosed in our financial statements for the fiscal year ended May 31, 2015 that we expected to contribute approximately \$32.0 million to our retirement plans in the U.S. and approximately \$5.7 million to plans outside the U.S. during the current fiscal year. As of November 30, 2015, we expect to contribute an additional \$3.8 million to the Retirement Plan in the U.S., which will increase our total expected U.S. contributions for the 2016 fiscal year to \$35.8 million.



NOTE 13 — CONTINGENCIES AND OTHER ACCRUED LOSSES

We provide, through our wholly owned insurance subsidiaries, certain insurance coverage, primarily product liability coverage, to our other subsidiaries. Excess coverage is provided by third-party insurers. Our product liability accruals provide for these potential losses as well as other uninsured claims. Product liability accruals are established based upon actuarial calculations of potential liability using industry experience, actual historical experience and actuarial assumptions developed for similar types of product liability claims, including development factors and lag times. To the extent there is a reasonable possibility that potential losses could exceed the amounts already accrued, we believe that the amount of any such additional loss would be immaterial to our results of operations, liquidity and consolidated financial position.

We also offer warranties on many of our products, as well as long-term warranty programs at certain of our businesses, and have established product warranty liabilities. We review these liabilities for adequacy on a quarterly basis and adjust them as necessary. The primary factors that could affect these liabilities may include changes in performance rates as well as costs of replacement. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted, as required, to reflect actual experience. It is probable that we will incur future losses related to warranty claims we have received but that have not been fully investigated and related to claims not yet received. While our warranty liabilities represent our best estimates at November 30, 2015, we can provide no assurances that we will not experience material claims in the future or that we will not incur significant costs to

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resolve such claims beyond the amounts accrued or beyond what we may recover from our suppliers. Product warranty expense is recorded within selling, general and administrative expense within our Consolidated Statements of Income.

Also, due to the nature of our businesses, the amount of claims paid can fluctuate from one period to the next. While our warranty liabilities represent our best estimates of our expected losses at any given time, from time-to-time we may revise our estimates based on our experience relating to factors such as weather conditions, specific circumstances surrounding product installations and other factors.

The following table includes the changes in our accrued warranty balances:

|                                   | Three Months<br>Ended<br>November 30,<br>2015 |          | Six Months Ended<br>November 30,<br>2015 |           |
|-----------------------------------|---|----------|--|-----------|
|                                   | 2014  | 2014     | 2014                                     | 2014      |
|                                   | (In thousands)                                |          |  |           |
| Beginning Balance                 | \$ 10,112                                     | \$ 7,421 | \$ 11,663                                | \$ 14,741 |
| Deductions (1)                    | (4,890 )                                      | (5,066 ) | (9,550 )                                 | (19,741 ) |
| Provision charged to SG&A expense | 4,218   | 6,603    | 7,327                                    | 13,958    |
| Ending Balance                    | \$ 9,440                                      | \$ 8,958 | \$ 9,440                                 | \$ 8,958  |

(1) Primarily claims paid during the year.

In addition, like other companies participating in similar lines of business, some of our subsidiaries are involved in several proceedings relating to environmental matters. It is our policy to accrue remediation costs when it is probable that such efforts will be required and the related costs can be reasonably estimated. These liabilities are undiscounted and are not material to our financial statements during any of the periods presented.

We were notified by the SEC on June 24, 2014, that we are the subject of a formal investigation pertaining to the timing of our disclosure and accrual of loss reserves in fiscal 2013 with respect to the previously disclosed U.S. Department Of Justice (the "DOJ") and the U.S. General Services Administration (the "GSA") Office of Inspector General investigation into compliance issues relating to Tremco Roofing Division's GSA contracts. As previously disclosed, our audit committee completed an investigation into the facts and circumstances surrounding the timing of our disclosure and accrual of loss reserves with respect to the GSA and DOJ investigations, and determined that it was appropriate to restate our financial results for the first, second and third quarters of fiscal 2013. These restatements had no impact on our audited financial statements for the fiscal years ended May 31, 2013 or 2014. The audit committee's investigation concluded that there was no intentional misconduct on the part of any of our officers.

We are cooperating with the SEC in its ongoing investigation and continue to be engaged in discussions with the staff of the SEC's Division of Enforcement (the "Staff") concerning potential issues arising out of the SEC's investigation. As previously disclosed, on October 26, 2015, we and our General Counsel received Wells notices from the SEC's Division of Enforcement in connection with its investigation. A Wells notice is not a formal allegation or a finding of wrongdoing, but is a preliminary determination by the Staff that it may recommend to the SEC that a civil enforcement action or administrative proceeding be brought against the recipient. Our Wells notice also indicated that the Staff had preliminarily determined to recommend that the SEC pursue a clawback claim relating to incentive compensation payments paid to our Chief Executive Officer and Chief Financial Officer during the periods prior to the restatement. The Staff did not indicate an intention to recommend any charges against either of these officers.

Under SEC procedures, a recipient of a Wells notice has an opportunity to respond in the form of a Wells submission that seeks to persuade the SEC that such an action should not be brought. In November 2015, we made a Wells submission to further explain RPM's views concerning such matters and our belief that no enforcement action is warranted against us or our officers. We intend to contest any charges that may be brought.

Any action by the SEC could result in sanctions against us and/or certain of our officers. A protracted investigation could impose substantial additional costs and distractions, regardless of its outcome. We have determined that it is probable that we will incur a loss relating to this matter and have estimated a range of potential loss. We have accrued at the low end of the range of loss, as no amount

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within the range is more likely to occur, and no amount within the estimated range of loss would have a material impact on our consolidated financial condition, results of operations or cash flows.

A consolidated class-action complaint is pending against Rust-Oleum seeking to have a class certified and alleging breach of warranty, breach of contract and other claims regarding certain deck coating products of Rust-Oleum. Rust-Oleum is vigorously defending this action, including any attempts at class certification. At this time, we are unable to predict the outcome of this matter or provide any quantification of how the final resolution of this matter may impact our future consolidated financial condition, results of operations or cash flows.

## NOTE 14 — EQUITY

The following tables illustrate the components of total equity and comprehensive income for the three months ended November 30, 2015 and 2014:

| (In thousands)   | Total RPM                 |                         |              |
|--|---------------------------|-------------------------|--------------|
|  | International Inc. Equity | Noncontrolling Interest | Total Equity |
| Total equity at August 31, 2015  | \$ 1,294,402              | \$ 2,620                | \$ 1,297,022 |
| Net income   | 83,433                    | 716                     | 84,149       |
| Other Comprehensive Income:  |                           |                         |              |
| Foreign currency translation adjustments                                   | (53,814 )                 |                         | (53,814 )    |
| Pension and other postretirement benefit liability adjustments, net of tax | 3,640                     |                         | 3,640        |
| Unrealized (loss) on securities, net of tax                                | 369                       |                         | 369          |
| Total Other Comprehensive Income, net of tax                               | (49,805 )                 | -                       | (49,805 )    |
| Comprehensive Income   | 33,628                    | 716                     | 34,344       |
| Dividends paid   | (36,642 )                 |                         | (36,642 )    |
| Other noncontrolling interest activity                                     |                           | (1,373 )                | (1,373 )     |
| Shares repurchased and returned for taxes                                  | (9,944 )                  |                         | (9,944 )     |
| Stock based compensation expense   | 8,817                     |                         | 8,817        |
| Total Equity at November 30, 2015  | \$ 1,290,261              | \$ 1,963                | \$ 1,292,224 |

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| (In thousands)  | Total RPM                    |                            | Total<br>Equity |
|---|------------------------------|----------------------------|-----------------|
|   | International<br>Inc. Equity | Noncontrolling<br>Interest |                 |
| Total equity at August 31, 2014   | \$ 1,436,234                 | \$ 198,134                 | \$ 1,634,368    |
| Net income  | 69,766                       | 4,090                      | 73,856          |
| Other Comprehensive Income:   |                              |                            |                 |
| Foreign currency translation adjustments                                      | (89,462 )                    | (1,760 )                   | (91,222 )       |
| Pension and other postretirement benefit<br>liability adjustments, net of tax | 4,374                        | 611                        | 4,985           |
| Unrealized (loss) gain on securities, net of tax                              | (2,574 )                     | 7                          | (2,567 )        |
| Unrealized gain on derivatives, net of tax                                    | 223                          | 60                         | 283             |
| Total Other Comprehensive (Loss), net of tax                                  | (87,439 )                    | (1,082 )                   | (88,521 )       |
| Comprehensive Income  | (17,673 )                    | 3,008                      | (14,665 )       |
| Dividends paid  | (34,776 )                    |                            | (34,776 )       |
| Other noncontrolling interest activity  | 51                           | (51 )                      | -               |
| Shares repurchased  | (1,788 )                     |                            | (1,788 )        |
| Stock option exercises, net of shares returned for taxes                      | 4,956                        |                            | 4,956           |
| Stock based compensation expense  | (3,796 )                     |                            | (3,796 )        |
| Restricted awards, net  | 7,179                        |                            | 7,179           |
| Total Equity at November 30, 2014   | \$ 1,390,387                 | \$ 201,091                 | \$ 1,591,478    |

## RPM INTERNATIONAL INC. AND SUBSIDIARIES

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The following table illustrates the components of total equity and comprehensive income for the six months ended November 30, 2015 and 2014:

| (In thousands)                                     | Total RPM     |                |              |
|--|---------------|----------------|--------------|
|  | International | Noncontrolling | Total        |
|  | Inc. Equity   | Interest       | Equity       |
| Total equity at May 31, 2015                       | \$ 1,291,392  | \$ 2,073       | \$ 1,293,465 |
| Net income   | 183,248       | 1,263          | 184,511      |
| Other Comprehensive Income:                        |               |                |              |
| Foreign currency translation adjustments           | (84,420 )     |                | (84,420 )    |
| Pension and other postretirement benefit liability |               |                |              |
| adjustments, net of tax                            | 7,800         |                | 7,800        |
| Unrealized (loss) on securities, net of tax        | (6,715 )      |                | (6,715 )     |
| Total Other Comprehensive (Loss), net of tax       | (83,335 )     | -              | (83,335 )    |
| Comprehensive Income                               | 99,913        | 1,263          | 101,176      |
| Dividends paid                                     | (71,276 )     |                | (71,276 )    |
| Other noncontrolling interest activity             |               | (1,373 )       | (1,373 )     |
| Shares repurchased and returned for taxes          | (45,292 )     |                | (45,292 )    |
| Stock based compensation expense                   | 15,524        |                | 15,524       |
| Total Equity at November 30, 2015                  | \$ 1,290,261  | \$ 1,963       | \$ 1,292,224 |

| (In thousands)                                     | Total RPM     |                |              |
|--|---------------|----------------|--------------|
|  | International | Noncontrolling | Total        |
|  | Inc. Equity   | Interest       | Equity       |
| Total equity at May 31, 2014                       | \$ 1,382,844  | \$ 195,750     | \$ 1,578,594 |
| Net income   | 168,845       | 9,850          | 178,695      |
| Other Comprehensive Income:                        |               |                |              |
| Foreign currency translation adjustments           | (107,200 )    | (5,288 )       | (112,488 )   |
| Pension and other postretirement benefit liability |               |                |              |
| adjustments, net of tax                            | 7,134         | 780            | 7,914        |

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|  |              |            |              |
|--|--------------|------------|--------------|
| Unrealized (loss) on securities, net of tax  | (2,491 )     |            | (2,491 )     |
| Unrealized gain on derivatives, net of tax   | 171          | 46         | 217          |
| Total Other Comprehensive (Loss), net of tax | (102,386 )   | (4,462 )   | (106,848 )   |
| Comprehensive Income                         | 66,459       | 5,388      | 71,847       |
| Dividends paid                               | (66,763 )    |            | (66,763 )    |
| Other noncontrolling interest activity       | 47           | (47 )      | -            |
| Shares repurchased                           | (1,788 )     |            | (1,788 )     |
| Stock option exercises, net                  | 505          |            | 505          |
| Stock based compensation expense             | 1,904        |            | 1,904        |
| Restricted awards, net                       | 7,179        |            | 7,179        |
| Total Equity at November 30, 2014            | \$ 1,390,387 | \$ 201,091 | \$ 1,591,478 |

NOTE 15 — SEGMENT INFORMATION

As disclosed in our Annual Report on Form 10-K for the year ended May 31, 2015, during July 2015, our Board of Directors approved the realignment of certain businesses and management structure to recognize how we allocate resources and analyze the operating performance of our operating segments. This realignment did not change our reportable segments at May 31, 2015. During August 2015, we made the determination to combine our former RPM2-Industrial operating segment and our former SPHC operating segment into a single operating segment, called the “Specialty Products Group,” which is discussed in further detail below. Information for all periods presented has been recast to reflect this change.

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We operate a portfolio of businesses and product lines that manufacture and sell a variety of specialty paints, protective coatings and roofing systems, sealants and adhesives. We manage our portfolio by organizing our businesses and product lines into three reportable segments: the industrial reportable segment, the specialty reportable segment and the consumer reportable segment. Within each reportable segment, we aggregate operating segments or product lines that consist of individual companies or groups of companies and product lines, which generally address common markets, share similar economic characteristics, utilize similar technologies and can share manufacturing or distribution capabilities. Our seven operating segments represent components of our business for which separate financial information is available that is utilized on a regular basis by our chief operating decision maker in determining how to allocate the assets of the company and evaluate performance. These seven operating segments are each managed by an operating segment manager, who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment's underlying businesses. We evaluate the profit performance of our segments primarily based on income before income taxes, but also look to earnings (loss) before interest and taxes ("EBIT") as a performance evaluation measure because interest expense is essentially related to acquisitions, as opposed to segment operations.

Our industrial reportable segment products are sold throughout North America and also account for the majority of our international sales. Our industrial product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. The industrial reportable segment comprises three separate operating segments — Tremco Group, tremco illbruck Group and Performance Coatings Group. Products and services within this reportable segment include construction chemicals; roofing systems; weatherproofing and other sealants; and polymer flooring.

Our specialty reportable segment products are sold throughout North America and a few international locations, primarily in Europe. Our specialty product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. The specialty reportable segment is a single operating segment, which offers products that include industrial cleaners; restoration services equipment; colorants; exterior finishes; edible coatings and specialty glazes for pharmaceutical and food industries; and other specialty OEM coatings. As discussed in Note 2, this segment includes the SPHC businesses, which were reconsolidated as of January 1, 2015.

Our consumer reportable segment manufactures and markets professional use and do-it-yourself ("DIY") products for a variety of mainly consumer applications, including home improvement and personal leisure activities. Our consumer segment's major manufacturing and distribution operations are located primarily in North America, along with a few locations in Europe and other parts of the world. Our consumer reportable segment products are primarily sold directly to mass merchandisers, home improvement centers, hardware stores, paint stores, craft shops, cosmetic companies and through distributors. This reportable segment comprises three operating segments — Rust-Oleum Group, DAP Group and RPM2-Consumer Group. Products within this reportable segment include specialty, hobby and professional paints; nail care enamels; caulks; adhesives; silicone sealants and wood stains.

In addition to our three reportable segments, there is a category of certain business activities and expenses, referred to as corporate/other, that does not constitute an operating segment. This category includes our 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 any reportable segment. Assets related to the corporate/other category consist primarily of investments, prepaid expenses and headquarters' property and equipment. These corporate and other assets and expenses reconcile reportable segment data to total consolidated income before income taxes, interest expense and earnings before interest and taxes; as well as identifiable assets, capital expenditures and depreciation and amortization.

We reflect income from our joint ventures on the equity method, and receive royalties from our licensees.

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The following tables reflect the results of our reportable segments consistent with our management philosophy, and represent the information we utilize, in conjunction with various strategic, operational and other financial performance criteria, in evaluating the performance of our portfolio of businesses. Information for all periods presented has been recast to reflect the current year change in reportable segments.

|                                    | Three Months Ended      |                         | Six Months Ended        |                         |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                    | November<br>30,<br>2015 | November<br>30,<br>2014 | November<br>30,<br>2015 | November<br>30,<br>2014 |
|                                    | (In thousands)          |                         |                         |                         |
| <b>Net Sales</b>                   |                         |                         |                         |                         |
| Industrial Segment                 | \$610,201               | \$647,836               | \$1,273,530             | \$1,342,120             |
| Specialty Segment                  | 186,729                 | 70,511                  | 370,369                 | 150,113                 |
| Consumer Segment                   | 359,054                 | 352,781                 | 754,611                 | 782,791                 |
| Consolidated                       | \$1,155,984             | \$1,071,128             | \$2,398,510             | \$2,275,024             |
| <b>Income Before Income Taxes</b>  |                         |                         |                         |                         |
| <b>Industrial Segment</b>          |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$62,962                | \$62,810                | \$145,713               | \$148,233               |
| Interest (Expense), Net (b)        | (1,535 )                | (1,976 )                | (3,034 )                | (4,647 )                |
| EBIT (c)                           | \$64,497                | \$64,786                | \$148,747               | \$152,880               |
| <b>Specialty Segment</b>           |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$29,324                | \$14,299                | \$57,530                | \$31,340                |
| Interest Income, Net (b)           | 199                     | 78                      | 395                     | 116                     |
| EBIT (c)                           | \$29,125                | \$14,221                | \$57,135                | \$31,224                |
| <b>Consumer Segment</b>            |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$65,429                | \$61,562                | \$131,552               | \$138,231               |
| Interest Income (Expense), Net (b) | 42                      | (4 )                    | 100                     | (12 )                   |
| EBIT (c)                           | \$65,387                | \$61,566                | \$131,452               | \$138,243               |
| <b>Corporate/Other</b>             |                         |                         |                         |                         |
| (Expense) Before Income Taxes (a)  | \$(37,454 )             | \$(32,921 )             | \$(72,333 )             | \$(63,976 )             |
| Interest (Expense), Net (b)        | (20,084 )               | (12,444 )               | (37,231 )               | (25,415 )               |
| EBIT (c)                           | \$(17,370 )             | \$(20,477 )             | \$(35,102 )             | \$(38,561 )             |
| <b>Consolidated</b>                |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$120,261               | \$105,750               | \$262,462               | \$253,828               |
| Interest (Expense), Net (b)        | (21,378 )               | (14,346 )               | (39,770 )               | (29,958 )               |
| EBIT (c)                           | \$141,639               | \$120,096               | \$302,232               | \$283,786               |

May 31,

November 2015  
30,

2015

| Identifiable Assets |             |             |
|---------------------|-------------|-------------|
| Industrial Segment  | \$1,944,190 | \$2,105,364 |
| Specialty Segment   | 791,719     | 798,893     |
| Consumer Segment    | 1,552,852   | 1,626,097   |
| Corporate/Other     | 229,471     | 163,886     |
| Consolidated        | \$4,518,232 | \$4,694,240 |

- (a) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by Generally Accepted Accounting Principles (GAAP) in the United States, to EBIT.
- (b) Interest (expense), net includes the combination of interest (expense) and investment income/(expense), net.

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(c) EBIT is defined as earnings (loss) before interest and taxes. We evaluate the profit performance of our segments based on income before income taxes, but also look to EBIT as a performance evaluation measure because interest expense is essentially related to acquisitions, as opposed to segment operations. We believe EBIT is useful to investors for this purpose as well, using EBIT as a metric in their investment decisions. EBIT should not be considered an alternative to, or more meaningful than, income before taxes as determined in accordance with GAAP, since EBIT omits the impact of interest and taxes in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness and ongoing tax obligations. Nonetheless, EBIT is a key measure expected by and useful to our fixed income investors, rating agencies and the banking community all of whom believe, and we concur, that this measure is critical to the capital markets' analysis of our segments' core operating performance. We also evaluate EBIT because it is clear that movements in EBIT impact our ability to attract financing. Our underwriters and bankers consistently require inclusion of this measure in offering memoranda in conjunction with any debt underwriting or bank financing. EBIT may not be indicative of our historical operating results, nor is it meant to be predictive of potential future results.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements include all of our majority-owned subsidiaries, except for certain subsidiaries that were deconsolidated during the period from May 31, 2010 through December 31, 2014. We reconsolidated such subsidiaries as of January 1, 2015 (refer to Note 2 to the consolidated financial statements for further information). Investments in less-than-majority-owned joint ventures for which we have the ability to exercise significant influence over are accounted for under the equity method. Preparation of our financial statements requires the use of estimates and assumptions that affect the reported amounts of our assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We continually evaluate these estimates, including those related to our allowances for doubtful accounts; inventories; allowances for recoverable taxes; uncertain tax positions; useful lives of property, plant and equipment; goodwill and other intangible assets; environmental, warranties and other contingent liabilities; income tax valuation allowances; pension plans; and the fair value of financial instruments. We base our estimates on historical experience, our most recent facts, and other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of our assets and liabilities. Actual results, which are shaped by actual market conditions, may differ materially from our estimates.

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

#### Revenue Recognition

Revenues are recognized when realized or realizable, and when earned. In general, this is when title and risk of loss pass to the customer. Further, revenues are realizable when we have persuasive evidence of a sales arrangement, the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. We reduce our revenues for estimated customer returns and allowances, certain rebates, sales incentives and promotions in the same period the related sales are recorded.

We also record revenues generated under long-term construction contracts, mainly in connection with the installation of specialized roofing and flooring systems, and related services. In general, we account for long-term construction contracts under the percentage-of-completion method, and therefore record contract revenues and related costs as our contracts progress. This method recognizes the economic results of contract performance on a timelier basis than does the completed-contract method; however, application of this method requires reasonably dependable estimates of progress toward completion, as well as other dependable estimates. When reasonably dependable estimates cannot be made, or if other factors make estimates doubtful, the completed-contract method is applied. Under the completed-contract method, billings and costs are accumulated in the balance sheet as the contract progresses, but no revenue is recognized until the contract is complete or substantially complete.

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

Our reporting currency is the U.S. dollar. However, the functional currency for each of our foreign subsidiaries is its principal operating currency. We translate the amounts included in our Consolidated Statements of Income from our foreign subsidiaries into U.S. dollars at weighted-average exchange rates, which we believe are 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 period, and we record the resulting foreign exchange translation adjustments in our Consolidated Balance Sheets as a component of accumulated other comprehensive income (loss). If the U.S. dollar strengthens, we reflect the resulting losses as a component of

accumulated other comprehensive income (loss). Conversely, if the U.S. dollar weakens, foreign exchange translation gains result, which favorably impact accumulated other comprehensive income (loss). Translation adjustments may be included in net earnings in the event of a sale or liquidation of certain of our underlying foreign investments. If we determine that the functional currency of any of our foreign subsidiaries should be the U.S. dollar, our financial statements will be affected. Should this occur, we will adjust our reporting to appropriately account for any such changes.

As appropriate, we use permanently invested intercompany loans as a source of capital to reduce exposure to foreign currency fluctuations at our foreign subsidiaries. These loans, on a consolidated basis, are treated as being analogous to equity for accounting purposes. Therefore, foreign exchange gains or losses on these intercompany loans are recorded in accumulated other comprehensive income (loss).

## Goodwill

We test our goodwill balances at least annually, or more frequently as impairment indicators arise, at the reporting unit level. Our reporting units have been identified at the component level, which is the operating segment level or one level below our operating segments.

We follow the Financial Accounting Standards Board (“FASB”) guidance found in Accounting Standards Codification (“ASC”) 350 that simplifies how an entity tests goodwill for impairment. It provides an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, and whether it is necessary to perform the two-step goodwill impairment test.

We assess qualitative factors in each of our reporting units that carry goodwill. Among other relevant events and circumstances that affect the fair value of our reporting units, we assess individual factors such as:

- a significant adverse change in legal factors or the business climate;
- an adverse action or assessment by a regulator;
- unanticipated competition;
- a loss of key personnel; and
- a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of.

We assess these qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. This quantitative test is required only if we conclude that it is more likely than not that a reporting unit’s fair value is less than its carrying amount.

In applying the first step of the quantitative test, we compare the fair value of a reporting unit to its carrying value. Calculating the fair value of a reporting unit requires our use of estimates and assumptions. We use significant judgment in determining the most appropriate method to establish the fair value of a reporting unit. We estimate the fair value of a reporting unit by employing various valuation techniques, depending on the availability and reliability of comparable market value indicators, and employ methods and assumptions that include the application of third-party market value indicators and the computation of discounted future cash flows for a reporting unit’s annual projected earnings before interest, taxes, depreciation and amortization (“EBITDA”).

We evaluate discounted future cash flows for a reporting unit’s projected EBITDA. Under this approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not impaired. An indication that goodwill may be impaired results when the carrying value of the net assets of a reporting unit exceeds the fair value of the reporting unit. At that point, the second step of the impairment test is performed, which requires a fair value estimate of each tangible and intangible asset in order to determine the implied fair value of the reporting unit’s goodwill. If the carrying value of a reporting unit’s goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

In applying the discounted cash flow methodology, we rely on a number of factors, including future business plans, actual and forecasted operating results, and market data. The significant assumptions employed under this method include discount rates; revenue growth rates, including assumed terminal growth rates; and operating margins used to project future cash flows for a reporting unit. The discount rates utilized reflect market-based estimates of capital costs and discount rates adjusted for management’s assessment of a market participant’s view with respect to other risks associated with the projected cash flows of the individual reporting unit. Our estimates are based upon assumptions we believe to be reasonable, but which by nature are uncertain and unpredictable. We believe we incorporate ample sensitivity ranges into our analysis of goodwill impairment testing for a reporting unit, such that actual experience

would need to be materially out of the range of expected assumptions in order for an impairment to remain undetected.

Our annual goodwill impairment analysis for fiscal 2015 did not result in any indicators of impairment. Should the future earnings and cash flows at our reporting units decline and/or discount rates increase, future impairment charges to goodwill and other intangible assets may be required.



## Other Long-Lived Assets

We assess identifiable, amortizable intangibles and other long-lived assets for impairment whenever events or changes in facts and circumstances indicate the possibility that the carrying values of these assets may not be recoverable over their estimated remaining useful lives. Factors considered important in our assessment, which might trigger an impairment evaluation, include the following:

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

Measuring a potential impairment of amortizable intangibles and other long-lived assets requires the use of various estimates and assumptions, including the determination of which cash flows are directly related to the assets being evaluated, the respective useful lives over which those cash flows will occur and potential residual values, if any. If we determine that the carrying values of these assets may not be recoverable based upon the existence of one or more of the above-described indicators or other factors, any impairment amounts would be measured based on the projected net cash flows expected from these assets, including any net cash flows related to eventual disposition activities. The determination of any impairment losses would be based on the best information available, including internal estimates of discounted cash flows; market participant assumptions; quoted market prices, when available; and independent appraisals, as appropriate, to determine fair values. Cash flow estimates would be based on our historical experience and our internal business plans, with appropriate discount rates applied.

Additionally, we test all indefinite-lived intangible assets for impairment at least annually during our fiscal fourth quarter. We follow the guidance provided by ASC 350 that simplifies how an entity tests indefinite-lived intangible assets for impairment. It provides an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. Our fiscal 2015 annual impairment tests of each of our indefinite-lived intangible assets did not result in any impairment loss.

## Income Taxes

Our provision for income taxes is calculated using the liability method, which requires the recognition of deferred income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in valuation allowances. We provide valuation allowances against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In determining the adequacy of valuation allowances, we consider cumulative and anticipated amounts of domestic and international earnings or losses of the appropriate character, anticipated amounts of foreign source income, as well as the anticipated taxable income resulting from the reversal of future taxable temporary differences. We intend to maintain any recorded valuation allowances until sufficient positive evidence (for example, cumulative positive foreign earnings or capital gain income) exists to support a reversal of the tax valuation allowances.

Further, at each interim reporting period, we estimate an effective income tax rate that is expected to be applicable for the full year. Significant judgment is involved regarding the application of global income tax laws and regulations and when projecting the jurisdictional mix of income. Additionally, interpretation of tax laws, court decisions or other guidance provided by taxing authorities influences our estimate of the effective income tax rates. As a result, our actual effective income tax rates and related income tax liabilities may differ materially from our estimated effective tax rates and related income tax liabilities. Any resulting differences are recorded in the period they become known.

## Contingencies

We are party to various claims and lawsuits arising in the normal course of business. 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 estimable. Our provisions are based on historical experience and legal advice, reviewed quarterly and adjusted according to developments. In general, our accruals, including our accruals for environmental, warranty and tax liabilities, discussed further below, represent the best estimate of a range of probable losses. Estimating probable losses requires the analysis of multiple factors that often depend on judgments about potential actions by third parties, such as regulators, courts, and state and federal legislatures. Changes in the amounts of our loss provisions, which can be material, affect our Consolidated Statements of Income. To the extent there is a reasonable possibility that potential losses could exceed the amounts already accrued, we believe that the amount of any such

additional loss would be immaterial to our results of operations, liquidity and consolidated financial position. We evaluate our accruals at the end of each quarter, or sometimes more frequently, based on available facts, and may revise our estimates in the future based on any new information becoming available.

Our environmental-related accruals are similarly established and/or adjusted as more 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; therefore, we have been unable to fully evaluate the ultimate costs for those sites. As a result, accruals have not been estimated for certain of these sites and costs may ultimately exceed existing estimated accruals for other sites. We have received indemnities for potential environmental issues from purchasers of certain of our properties and businesses and from sellers of some of the properties or businesses we have acquired. If the indemnifying party fails to, or becomes unable to, fulfill its obligations under those agreements, we may incur environmental costs in addition to any amounts accrued, which may have a material adverse effect on our financial condition, results of operations or cash flows.

We offer warranties on many of our products, as well as long term warranty programs at certain of our businesses, and thus have established corresponding warranty liabilities. Warranty expense is impacted by variations in local construction practices, installation conditions, and geographic and climate differences. Although we believe that appropriate liabilities have been recorded for our warranty expense, actual results may differ materially from our estimates.

Additionally, our operations are subject to various federal, state, local and foreign tax laws and regulations that govern, among other things, taxes on worldwide income. The calculation of our income tax expense is based on the best information available, including the application of currently enacted income tax laws and regulations, and involves our significant judgment. The actual income tax liability for each jurisdiction in any year can ultimately be determined, in some instances, several years after the financial statements have been published.

We also maintain accruals for estimated income tax exposures for many different jurisdictions. Tax exposures are settled primarily through the resolution of audits within each tax jurisdiction or the closing of a statute of limitation. Tax exposures and actual income tax liabilities can also be affected by changes in applicable tax laws, retroactive tax law changes, or other factors, which may cause us to believe revisions of past estimates are appropriate. Although we believe that appropriate liabilities have been recorded for our income tax expense and income tax exposures, actual results may differ materially from our estimates.

#### Allowance for Doubtful Accounts Receivable

An allowance for anticipated uncollectible trade receivable amounts is established using a combination of specifically identified accounts to be reserved and a reserve covering trends in collectibility. These estimates are based on an analysis of trends in collectibility and past experience, but are primarily made up of individual account balances identified as doubtful based on specific facts and conditions. Receivable losses are charged against the allowance when we confirm uncollectibility. Actual collections of trade receivables could differ from our estimates due to changes in future economic or industry conditions or specific customer's financial conditions.

#### Inventories

Inventories are stated at the lower of cost or market, cost being determined 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 materials, labor and manufacturing overhead. We review the net realizable value of our inventory in detail on an on-going basis, with consideration given to various factors, which include our estimated reserves for excess, obsolete,

slow moving or distressed inventories. If actual market conditions differ from our projections, and our estimates prove to be inaccurate, write-downs of inventory values and adjustments to cost of sales may be required. Historically, our inventory reserves have approximated actual experience.

#### Marketable Securities

Marketable securities, included in other current and long-term assets, are composed of available-for-sale securities and are reported at fair value. Realized gains and losses on sales of investments are recognized in net income on the specific identification basis. Changes in fair values of securities that are considered temporary are recorded as unrealized gains and losses, net of applicable taxes, in accumulated other comprehensive income (loss) within stockholders' equity. Other-than-temporary declines in market value from original cost are reflected in operating income in the period in which the unrealized losses are deemed other than temporary. In order to determine whether an other-than-temporary decline in market value has occurred, the duration of the decline in value and our ability

to hold the investment to recovery are considered in conjunction with an evaluation of the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related market value.

#### Pension and Postretirement Plans

We sponsor qualified defined benefit pension plans and various other nonqualified postretirement plans. The qualified defined benefit pension plans are funded with trust assets invested in a diversified portfolio of debt and equity securities and other investments. Among other factors, changes in interest rates, investment returns and the market value of plan assets can (i) affect the level of plan funding, (ii) cause volatility in the net periodic pension cost, and (iii) increase our future contribution requirements. A significant decrease in investment returns or the market value of plan assets or a significant decrease in interest rates could increase our net periodic pension costs and adversely affect our results of operations. A significant increase in our contribution requirements with respect to our qualified defined benefit pension plans could have an adverse impact on our cash flow.

During the first quarter of fiscal 2016, we elected to change our approach in estimating the service and interest cost components of net periodic benefit cost. Please refer to Note 12 to the consolidated financial statements for further information.

Changes in our key plan assumptions would impact net periodic benefit expense and the projected benefit obligation for our defined benefit and various postretirement benefit plans. Based upon May 31, 2015 information, the following tables reflect the impact of a 1% change in the key assumptions applied to our defined benefit pension plans in the U.S. and internationally:

|  | U.S.        |             | International |             |
|--|-------------|-------------|---------------|-------------|
|  | 1% Increase | 1% Decrease | 1% Increase   | 1% Decrease |
| (In millions)  |             |             |               |             |
| <b>Discount Rate</b>                                 |             |             |               |             |
| Increase (decrease) in expense in FY 2015            | \$(6.3 )    | \$ 7.7      | \$(2.0 )      | \$ 2.0      |
| Increase (decrease) in obligation as of May 31, 2015 | \$(61.3 )   | \$ 76.7     | \$(31.3 )     | \$ 37.0     |
| <b>Expected Return on Plan Assets</b>                |             |             |               |             |
| Increase (decrease) in expense in FY 2015            | \$(2.9 )    | \$ 2.9      | \$(1.8 )      | \$ 1.8      |
| Increase (decrease) in obligation as of May 31, 2015 | N/A         | N/A         | N/A           | N/A         |
| <b>Compensation Increase</b>                         |             |             |               |             |
| Increase (decrease) in expense in FY 2015            | \$4.9       | \$ (4.4 )   | \$0.8         | \$ (1.1 )   |
| Increase (decrease) in obligation as of May 31, 2015 | \$23.1      | \$ (20.9 )  | \$5.4         | \$ (4.8 )   |

Based upon May 31, 2015 information, the following table reflects the impact of a 1% change in the key assumptions applied to our various postretirement health care plans:

|  | U.S.        |             | International |             |
|--|-------------|-------------|---------------|-------------|
|  | 1% Increase | 1% Decrease | 1% Increase   | 1% Decrease |
|  |             |             |               |             |

(In millions)

## Discount Rate

|  |         |           |         |           |
|--|---------|-----------|---------|-----------|
| Increase (decrease) in expense in FY 2015            | \$-     | \$ -      | \$(0.5) | \$ 0.7    |
| Increase (decrease) in obligation as of May 31, 2015 | \$(0.7) | \$ 0.8    | \$(4.3) | \$ 5.6    |
| Healthcare Cost Trend Rate                           |         |           |         |           |
| Increase (decrease) in expense in FY 2015            | \$-     | \$ -      | \$0.7   | \$ (0.5 ) |
| Increase (decrease) in obligation as of May 31, 2015 | \$0.3   | \$ (0.3 ) | \$6.4   | \$ (3.3 ) |

## BUSINESS SEGMENT INFORMATION

In July 2015, our Board of Directors approved the realignment of certain businesses and management structure to recognize how we allocate resources and analyze the operating performance of our operating segments. During August 2015, we made the determination to combine our former RPM2-Industrial operating segment and our former SPHC operating segment into a single operating segment, called the “Specialty Products Group,” which is discussed in further detail below and constitutes a new reportable segment. Information for all periods presented has been recast to reflect this change.

We operate a portfolio of businesses and product lines that manufacture and sell a variety of specialty paints, protective coatings and roofing systems, sealants and adhesives. We manage our portfolio by organizing our businesses and product lines into three reportable segments: the industrial reportable segment, the specialty reportable segment and the consumer reportable segment. Within each reportable segment, we aggregate operating segments or product lines that consist of individual companies or groups of companies

and product lines, which generally address common markets, share similar economic characteristics, utilize similar technologies and can share manufacturing or distribution capabilities. Our seven operating segments represent components of our business for which separate financial information is available that is utilized on a regular basis by our chief operating decision maker in determining how to allocate the assets of the company and evaluate performance. These seven operating segments are each managed by an operating segment manager, who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment's underlying businesses. We evaluate the profit performance of our segments primarily based on income before income taxes, but also look to earnings (loss) before interest and taxes ("EBIT") as a performance evaluation measure because interest expense is essentially related to acquisitions, as opposed to segment operations.

Our industrial reportable segment products are sold throughout North America and also account for the majority of our international sales. Our industrial product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. The industrial reportable segment comprises three separate operating segments — Tremco Group, tremco illbruck Group and Performance Coatings Group. Products and services within this reportable segment include construction chemicals; roofing systems; weatherproofing and other sealants; and polymer flooring.

Our specialty reportable segment products are sold throughout North America and a few international locations, primarily in Europe. Our specialty product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. The specialty reportable segment is a single operating segment, which offers products that include industrial cleaners; restoration services equipment; colorants; exterior finishes; edible coatings and specialty glazes for pharmaceutical and food industries; and other specialty OEM coatings. This segment includes the SPHC businesses, which were reconsolidated as of January 1, 2015.

Our consumer reportable segment manufactures and markets professional use and do-it-yourself ("DIY") products for a variety of mainly consumer applications, including home improvement and personal leisure activities. Our consumer reportable segment's major manufacturing and distribution operations are located primarily in North America, along with a few locations in Europe and other parts of the world. Our consumer reportable segment's products are sold throughout North America primarily to mass merchants, home improvement centers, hardware stores, paint stores, craft shops, cosmetic companies and to other smaller customers through distributors. This reportable segment comprises three operating segments — Rust-Oleum Group, DAP Group and RPM2-Consumer Group. Products within this reportable segment include specialty, hobby and professional paints; nail care enamels; caulks; adhesives; silicone sealants and wood stains.

In addition to our three reportable segments, there is a category of certain business activities and expenses, referred to as corporate/other, that does not constitute an operating segment. This category includes our 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 any reportable segment. Assets related to the corporate/other category consist primarily of investments, prepaid expenses and headquarters' property and equipment. These corporate and other assets and expenses reconcile reportable segment data to total consolidated income before income taxes, interest expense and earnings before interest and taxes.

The following table reflects the results of our reportable segments consistent with our management philosophy, and represents the information we utilize, in conjunction with various strategic, operational and other financial performance criteria, in evaluating the performance of our portfolio of product lines. Information for all periods presented has been recast to reflect the current year change in reportable segments.

|                                    | Three Months Ended      |                         | Six Months Ended        |                         |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                    | November<br>30,<br>2015 | November<br>30,<br>2014 | November<br>30,<br>2015 | November<br>30,<br>2014 |
| Net Sales                          |                         |                         |                         |                         |
|                                    | (In thousands)          |                         |                         |                         |
| Industrial Segment                 | \$610,201               | \$647,836               | \$1,273,530             | \$1,342,120             |
| Specialty Segment                  | 186,729                 | 70,511                  | 370,369                 | 150,113                 |
| Consumer Segment                   | 359,054                 | 352,781                 | 754,611                 | 782,791                 |
| Consolidated                       | \$1,155,984             | \$1,071,128             | \$2,398,510             | \$2,275,024             |
| Income Before Income Taxes (a)     |                         |                         |                         |                         |
| Industrial Segment                 |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$62,962                | \$62,810                | \$145,713               | \$148,233               |
| Interest (Expense), Net (b)        | (1,535 )                | (1,976 )                | (3,034 )                | (4,647 )                |
| EBIT (c)                           | \$64,497                | \$64,786                | \$148,747               | \$152,880               |
| Specialty Segment                  |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$29,324                | \$14,299                | \$57,530                | \$31,340                |
| Interest Income, Net (b)           | 199                     | 78                      | 395                     | 116                     |
| EBIT (c)                           | \$29,125                | \$14,221                | \$57,135                | \$31,224                |
| Consumer Segment                   |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$65,429                | \$61,562                | \$131,552               | \$138,231               |
| Interest Income (Expense), Net (b) | 42                      | (4 )                    | 100                     | (12 )                   |
| EBIT (c)                           | \$65,387                | \$61,566                | \$131,452               | \$138,243               |
| Corporate/Other                    |                         |                         |                         |                         |
| (Expense) Before Income Taxes (a)  | \$(37,454 )             | \$(32,921 )             | \$(72,333 )             | \$(63,976 )             |
| Interest (Expense), Net (b)        | (20,084 )               | (12,444 )               | (37,231 )               | (25,415 )               |
| EBIT (c)                           | \$(17,370 )             | \$(20,477 )             | \$(35,102 )             | \$(38,561 )             |
| Consolidated                       |                         |                         |                         |                         |
| Income Before Income Taxes (a)     | \$120,261               | \$105,750               | \$262,462               | \$253,828               |
| Interest (Expense), Net (b)        | (21,378 )               | (14,346 )               | (39,770 )               | (29,958 )               |
| EBIT (c)                           | \$141,639               | \$120,096               | \$302,232               | \$283,786               |

- (a) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by generally accepted accounting principles ("GAAP") in the U.S., to EBIT.
- (b) Interest (expense), net includes the combination of interest (expense) and investment income/(expense), net.
- (c) EBIT is defined as earnings (loss) before interest and taxes. We evaluate the profit performance of our segments based on income before income taxes, but also look to EBIT as a performance evaluation measure because interest expense is essentially related to corporate acquisitions, as opposed to segment operations. We believe EBIT is useful to investors for this purpose as well, using EBIT as a metric in their investment decisions. EBIT should not be considered an alternative to, or more meaningful than, operating income as determined in accordance with GAAP, since EBIT omits the impact of interest and taxes in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness and ongoing tax



obligations. Nonetheless, EBIT is a key measure expected by and useful to our fixed income investors, rating agencies and the banking community all of whom believe, and we concur, that this measure is critical to the capital markets' analysis of our segments' core operating performance. We also evaluate EBIT because it is clear that movements in EBIT impact our ability to attract financing. Our underwriters and bankers consistently require inclusion of this measure in offering memoranda in conjunction with any debt underwriting or bank financing. EBIT may not be indicative of our historical operating results, nor is it meant to be predictive of potential future results.

## RESULTS OF OPERATIONS

Three Months Ended November 30, 2015

**Net Sales** Consolidated net sales of \$1,156.0 million for the second quarter of fiscal 2016 grew by approximately 7.9% from net sales of \$1,071.1 million for last year's second quarter. Organic sales improved 2.6%, while acquisitions added 11.6%. The reconstituted SPHC businesses, all of which are included in our specialty reportable segment, are included in acquisition growth. Consolidated net sales for the quarter were offset by an unfavorable foreign exchange impact of 6.3%.

Industrial segment net sales declined by 5.8% to \$610.2 million for the current quarter versus net sales of \$647.8 million during the same period a year ago. The decline was due to unfavorable foreign exchange, which impacted net sales by 8.4% during the current quarter. Our businesses in Brazil are beginning to feel the impact of the rapidly deteriorating economic environment, and we anticipate that during the last half of our fiscal year, we will continue to experience the impact of unfavorable foreign exchange. Additionally, there was a continued slowdown during the current quarter in net sales for our businesses serving the energy sector. The impact of these items was partially offset by organic growth in net sales of 1.9%. During the current quarter, our North American-based industrial companies experienced continuing growth in businesses serving the commercial construction market. Lastly, recent acquisitions contributed 0.7% to net sales during the current quarter.

Specialty segment net sales for the quarter grew by 164.8% to \$186.7 million, primarily due to acquisition growth of 167.1%, which includes the reconstituted SPHC businesses, and from organic growth in net sales, which provided 3.8%. Foreign currency negatively impacted specialty segment net sales for the quarter by 6.1%.

Consumer segment net sales for the quarter grew by 1.8% to \$359.1 million, from \$352.8 million during last year's second quarter, due to growth in organic net sales of 3.6%, which were partially offset by the impact of unfavorable foreign currency of 2.5%. Acquisitions provided 0.7% growth in net sales in the consumer segment.

**Gross Profit Margin** Our consolidated gross profit margin improved to 42.7% of net sales for the second quarter of fiscal 2016 from a consolidated gross profit margin of 42.4% for the comparable period a year ago. Reflected in this improvement is the impact of lower manufacturing costs for approximately 0.7% during the current quarter versus the same period last year, partially offset by unfavorable foreign exchange, which impacted current quarter gross profit margin by approximately 0.4%.

**Selling, General and Administrative Expenses ("SG&A")** Our consolidated SG&A expense increased by approximately \$17.7 million during the current period versus the last year, but decreased to 30.5% of net sales from 31.3% of net sales for the prior year quarter. SG&A for the current quarter reflects overall added expenses recorded by our recently acquired businesses, mainly our recent reconstituted SPHC and its subsidiaries, partially offset by foreign exchange translation. SG&A expense for each of the quarters ended November 30, 2015 and 2014 was favorably impacted by the reversal of certain contingent consideration obligations relating to our Kirker acquisition, and totaled \$14.5 million and \$17.0 million, respectively. Warranty expense for the quarter ended November 30, 2015 decreased by approximately \$2.4 million from the amount recorded during the comparable prior year period, and it is typical that warranty expense will fluctuate from period to period.

Our industrial segment SG&A was approximately \$15.6 million lower during the second quarter of fiscal 2016 versus the comparable prior year period, and lower as a percentage of net sales, reflecting the 5.8% decline in net sales, primarily from foreign exchange translation during the current quarter versus the same period a year ago, as well as favorable variances in warranty expense and transactional foreign exchange expense. There was a slight increase in legal expense during the current quarter.

Our specialty segment SG&A was approximately \$35.2 million higher during the second quarter of fiscal 2016 versus the comparable prior year period, and higher as a percentage of net sales, reflecting the recent reconsolidation of SPHC and its subsidiaries, as well as a small acquisition.

Our consumer segment SG&A was slightly higher during the second quarter of fiscal 2016 versus the same period last year, but slightly lower as a percentage of net sales, reflecting the overall 1.8% improvement in sales during the current quarter in this segment. Consumer segment SG&A expense for each of the quarters ended November 30, 2015 and 2014 was favorably impacted by the reversal of certain contingent consideration obligations relating to our Kirker acquisition, and totaled \$14.5 million and \$17.0 million, respectively.

SG&A expenses in our corporate/other category of \$17.4 million during the second quarter of fiscal 2016 were \$3.1 million lower than expense of \$20.5 million during the same period last year. This was due to favorable experience in benefit costs as well as lower insurance and executive compensation costs.

We recorded total net periodic pension and postretirement benefit costs of \$12.0 million and \$12.1 million for the second quarter of fiscal 2016 and 2015, respectively. The \$0.1 million decrease in pension expense was primarily the result of lower service and interest cost of \$0.7 million during the second quarter of fiscal 2016 versus the comparable prior year period combined with a favorable impact of \$0.1 million from larger returns on higher plan asset levels during the current period. The reduction in service and interest cost also impacted deferred actuarial losses to be amortized in future periods. Partially offsetting those reductions in costs was an unfavorable impact of approximately \$0.7 million resulting from larger actuarial losses recognized during the current period versus last year. We expect that pension expense will fluctuate on a year-to-year basis, depending upon the investment performance of plan assets and potential changes in interest rates, but such changes are not expected to be material to our consolidated financial results. During the current fiscal year, we elected to change our approach in estimating the service and interest cost components of net periodic benefit expense by applying the split discount rate approach, which reduced our current quarter pension expense by approximately \$1.6 million. See Note 12, "Pension Plans," for additional information regarding this recent change.

**Interest Expense** Interest expense was \$22.4 million for the second quarter of fiscal 2016 versus \$19.4 million for the same period a year ago. Higher average borrowings increased interest expense during this year's second quarter by approximately \$6.0 million versus the same period a year ago. Our average borrowings were higher due to recent acquisitions, primarily as a result of our \$450.0 million payment to the 524(g) trust for the reconsolidation of SPHC, which was paid in December 2014. The payment was funded from our revolving credit and accounts receivable securitization facilities, part of which was ultimately replaced with a 30-year bond issued in May 2015. Excluding acquisition-related borrowings, lower average borrowings year-over-year decreased interest expense by approximately \$3.8 million. Excluding debt associated with recent acquisitions, interest rates averaged 4.81% overall for the second quarter of fiscal 2016 compared with 4.69% for the same period of fiscal 2015, which increased interest expense by approximately \$0.8 million during the current quarter versus the same period last year.

**Investment (Income), Net** Net investment income of approximately \$1.1 million for the second quarter of fiscal 2016 compares to net investment income of \$5.1 million during the same period last year. Dividend and interest income totaled \$1.6 million and \$1.9 million the three month periods ended November 30, 2015 and 2014, respectively. Net realized gains on the sales of investments totaled \$2.0 million during the second quarter of fiscal 2016, while those gains were \$3.2 million during the same period a year ago. Impairments recognized on securities that management has determined are other-than-temporary declines in value totaled \$2.5 million during the current quarter, while there were no such losses recorded during the same period a year ago.

**Other Expense (Income), Net** Other income of \$0.3 million for the second quarter of fiscal 2016 compared with other income of \$1.1 million for the same period a year ago. Items reflected in this balance include net royalty expense of \$0.2 million for the second quarter of fiscal 2016 and net royalty income of \$0.4 million during the second quarter of fiscal 2015. Also included in this balance is our equity in earnings of unconsolidated affiliates totaling approximately \$0.5 million and \$0.7 million for the second quarter of fiscal 2016 and 2015, respectively.

**Income Before Income Taxes ("IBT")** Our consolidated pretax income for the second quarter of fiscal 2016 of \$120.3 million compares with \$105.8 million for the same period a year ago.

Our industrial segment had pretax income of \$63.0 million, or 10.3% of net sales, for the quarter ended November 30, 2015, versus pretax income of \$62.8 million, or 9.7% of net sales, for the same period a year ago. Our industrial segment experienced the continuing impact of unfavorable foreign exchange, and we anticipate that this trend may continue. Our specialty segment had pretax income of \$29.3 million, or 15.7% of net sales, for the quarter ended November 30, 2015, versus pretax income of \$14.3 million, or 20.3% of net sales, for the same period a year ago. Our consumer segment IBT increased to \$65.4 million, or 18.2% of net sales for the second quarter of fiscal 2016, from the prior year second quarter result of \$61.6 million, or 17.5% of net sales.

**Income Tax Rate** The effective income tax rate was 30.0% for the three months ended November 30, 2015 compared to an effective income tax rate of 30.2% for the three months ended November 30, 2014. The decrease in the effective income tax rate is primarily due to variances in the forecasted jurisdictional mix of earnings.

**Net Income** Net income of \$84.1 million for the quarter ended November 30, 2015 compares to net income of \$73.9 million for the comparable prior year period. During the current fiscal year, we elected to change our approach in estimating the service and interest cost components of net periodic benefit cost by applying the split discount rate approach, which resulted in an increase in net income of approximately \$1.1 million. During the quarter ended November 30, 2015, we had a net income from noncontrolling interests of \$0.7 million versus net income of \$4.1 million during the comparable prior year period. The majority of the prior year net income from noncontrolling interests was related to the deconsolidated SPHC businesses, which were reconsolidated on January 1, 2015. Net income attributable to RPM International Inc. stockholders for the second quarter of fiscal 2016 was \$83.4 million, which compared to net income of \$69.8 million for the comparable prior year period.

Diluted earnings per share of common stock for the quarter ended November 30, 2015 of \$0.62 compares with diluted earnings per share of common stock of \$0.52 for the quarter ended November 30, 2014. As discussed above, we changed our approach in estimating the service and interest cost components of net periodic benefit expense, which resulted in an increase in diluted earnings per share of \$0.01 during the current quarter.

#### Six Months Ended November 30, 2015

**Net Sales** Consolidated net sales of \$2,398.5 million for the first half of fiscal 2016 grew by approximately 5.4% from net sales of \$2,275.0 million for the same period last year. Organic sales improved 1.2%, while acquisitions added 10.7%. The reconsolidated SPHC businesses, all of which are included in our specialty reportable segment, are included in acquisition growth. Consolidated net sales for the first half were offset by an unfavorable foreign exchange impact of 6.5%.

Industrial segment net sales declined by 5.1% to \$1,273.5 million for this year's first six months versus net sales of \$1,342.1 million during the same period a year ago. The decline was due to unfavorable foreign exchange, which impacted net sales by 8.6% during this year's first half. During the current quarter of fiscal 2016, our businesses in Brazil began to feel the impact of the rapidly deteriorating economic environment, and we anticipate that during the last half of our current fiscal year, we will continue to experience the impact of unfavorable foreign exchange. Additionally, there was a continued slowdown during the current quarter in net sales for our businesses serving the energy sector. The impact of these items was partially offset by organic growth in net sales of 2.9%, which includes continuing growth during the first half of fiscal 2016 in our North American-based industrial companies serving the commercial construction market. Lastly, recent acquisitions contributed 0.6% to net sales during this year's first half.

Specialty segment net sales for the first half grew by 146.7% to \$370.4 million, primarily due to acquisition growth of 153.6%, which includes the reconsolidated SPHC businesses, and from organic growth in net sales, which provided 0.3%. Foreign currency negatively impacted specialty segment net sales for the first half of the current fiscal year by 7.2%.

Consumer segment net sales for the first half of the current fiscal year declined by 3.6% to \$754.6 million, from \$782.8 million during last year's first six months, due to a decline in organic net sales of 1.3% and the impact of unfavorable foreign currency of 2.8%. Consumer segment net sales were sluggish during this year's first half, mainly related to the unseasonably rainy weather experienced in late spring through mid-July in many regions throughout North America. Acquisitions provided 0.5% growth in net sales in the consumer segment.

**Gross Profit Margin** Our consolidated gross profit margin improved to 42.8% of net sales for the first half of fiscal 2016 from a consolidated gross profit margin of 42.3% for the comparable period a year ago, reflecting lower manufacturing costs for approximately 0.8% during this year's first half versus the same period last year, primarily by our industrial and consumer segment businesses. Unfavorable foreign exchange impacted current period gross profit margin by approximately 0.4%.

**SG&A** Our consolidated SG&A expense increased by approximately \$44.0 million during this year's first six months versus the same period last year, and increased to 30.2% of net sales from 30.0% of net sales for the prior year period. SG&A for this year's first six months reflects overall added expenses recorded by our recently acquired businesses, mainly our recent reconsolidation of SPHC and its subsidiaries, all of which are included in our specialty segment. SG&A expense for the six month periods ended November 30, 2015 and 2014 was favorably impacted by the reversal of certain contingent consideration obligations relating to recent acquisitions, and totaled \$14.5 million and \$18.1 million, respectively. Also, during this year's first half, there was also higher compensation and employee benefits expense, as well as higher freight expense. Warranty expense for the first half ended November 30, 2015 decreased by approximately \$6.6 million from the amount recorded during the comparable prior year period, and it is

typical that warranty expense will fluctuate from period to period.

Our industrial segment SG&A was approximately \$22.7 million lower during the first half of fiscal 2016 versus the comparable prior year period, and slightly lower as a percentage of net sales, reflecting the 5.1% decline in net sales from unfavorable foreign exchange translation during this year's first half versus the same period a year ago. There were slight increases in compensation, legal expense and employee benefits during this year's first half, partially offset by lower warranty expense.

Our specialty segment SG&A was approximately \$69.0 million higher during the first half of fiscal 2016 versus the comparable prior year period, and higher as a percentage of net sales, reflecting the recent reconsolidation of SPHC and its subsidiaries, as well as a small product line acquisition. Additionally, there was an unfavorable impact of higher employee compensation expense versus the comparable prior year period, as well as higher freight expense.

Our consumer segment SG&A was flat during the first half of fiscal 2016 versus the same period last year, but higher as a percentage of net sales, reflecting the overall 3.6% decline in sales during this year's first half in this segment.  
Consumer segment SG&A expense

for the six month periods ended November 30, 2015 and 2014 was favorably impacted by the reversal of certain contingent consideration obligations relating to recent acquisitions, and totaled \$14.5 million and \$18.1 million, respectively.

SG&A expenses in our corporate/other category of \$35.1 million during the first half of fiscal 2016 was lower versus \$38.6 million during the same period last year, reflecting favorable experience in benefit costs.

We recorded total net periodic pension and postretirement benefit costs of \$24.0 million and \$24.3 million for the first half of fiscal 2016 and 2015, respectively. The \$0.3 million decrease in pension expense was primarily the result of lower service and interest cost of \$1.4 million during the first half of fiscal 2016 versus the comparable prior year period combined with a favorable impact of \$0.1 million from larger returns on higher plan asset levels during the current period. The reduction in service and interest cost also impacted deferred actuarial losses to be amortized in future periods. Partially offsetting those reductions in costs was an unfavorable impact of approximately \$1.2 million resulting from larger actuarial losses recognized during the current period versus last year. During the current fiscal year, we elected to change our approach in estimating the service and interest cost components of net periodic benefit expense by applying the split discount rate approach, which reduced pension expense for this year's first six months by approximately \$3.2 million. See Note 12, "Pension Plans," for additional information regarding this recent change.

**Interest Expense** Interest expense was \$44.9 million for the first half of fiscal 2016 versus \$38.8 million for the same period a year ago. Higher average borrowings increased interest expense during this year's first half by approximately \$12.2 million versus the same period a year ago. Our average borrowings were higher due to recent acquisitions, primarily as a result of our \$450.0 million payment to the 524(g) trust for the reconsolidation of SPHC, which was paid in December 2014. The payment was funded from our revolving credit and accounts receivable securitization facilities, part of which was ultimately replaced with a 30-year bond issued in May 2015. Excluding acquisition-related borrowings, lower average borrowings year-over-year decreased interest expense by approximately \$7.2 million. Excluding debt associated with recent acquisitions, interest rates averaged 4.76% overall for the first half of fiscal 2016 compared with 4.72% for the same period of fiscal 2015, which increased interest expense by approximately \$1.1 million during this year's first half versus the same period last year.

**Investment (Income), Net** Net investment income of approximately \$5.2 million for the first six months of fiscal 2016 compares to net investment income of \$8.9 million during the same period last year. Dividend and interest income totaled \$3.3 million and \$3.6 million the three month periods ended November 30, 2015 and 2014, respectively. Net realized gains on the sales of investments totaled \$4.4 million during the second quarter of fiscal 2016, while those gains were \$5.3 million during the same period a year ago. Impairments recognized on securities that management has determined are other-than-temporary declines in value totaled \$2.5 million during the current period, while there were no such losses recorded during the same period a year ago.

**Other Expense (Income), Net** Other income of \$0.8 million for the first half of fiscal 2016 compared with other income of \$2.9 million for the same period a year ago. Items reflected in this balance include net royalty expense of \$0.2 million for the first half of fiscal 2015 and net royalty income of \$1.6 million during the same period a year ago. Also included in this balance is our equity in earnings of unconsolidated affiliates totaling approximately \$1.0 million and \$1.3 million for the first half of fiscal 2016 and 2015, respectively.

**IBT** Our consolidated pretax income for the first half of fiscal 2016 of \$262.5 million compares with \$253.8 million for the same period a year ago.

Our industrial segment had pretax income of \$145.7 million, or 11.4% of net sales, for the first half ended November 30, 2015, versus pretax income of \$148.2 million, or 11.0% of net sales, for the same period a year ago. Our industrial segment experienced the continuing impact of unfavorable foreign exchange, and we anticipate that this trend may



continue through the remainder of fiscal 2016. Our specialty segment had pretax income of \$57.5 million, or 15.5% of net sales, for the first half ended November 30, 2015, versus pretax income of \$31.3 million, or 20.9% of net sales, for the same period a year ago. Our consumer segment IBT decreased to \$131.6 million, or 17.4% of net sales for the first half of fiscal 2016, from the prior year second period result of \$138.2 million, or 17.7% of net sales. Consumer segment net sales were sluggish during this year's first half due to the unseasonably rainy weather experienced in late spring through mid-July in many regions throughout North America.

**Income Tax Rate** The effective income tax rate was 29.7% for the six months ended November 30, 2015 compared to an effective income tax rate of 29.6% for the six months ended November 30, 2014.

**Net Income** Net income of \$184.5 million for the first half of fiscal 2016 compares to net income of \$178.7 million for the comparable prior year period. During the current fiscal year, we elected to change our approach in estimating the service and interest cost components of net periodic benefit cost by applying the split discount rate approach, which resulted in an increase in net income of approximately \$2.2 million. During the six months ended November 30, 2015, we had a net income from noncontrolling interests of \$1.3 million versus net income of \$9.9 million during the comparable prior year period. The majority of the prior year net income

from noncontrolling interests was related to the deconsolidated SPHC businesses, which were reconsolidated on January 1, 2015. Net income attributable to RPM International Inc. stockholders for the first half of fiscal 2016 was \$183.2 million, which compared to net income of \$168.8 million for the comparable prior year period.

Diluted earnings per share of common stock for the first half ended November 30, 2015 of \$1.36 compares with diluted earnings per share of common stock of \$1.24 for the first half ended November 30, 2014. As discussed above, we changed our approach in estimating the service and interest cost components of net periodic benefit expense, which resulted in an increase in diluted earnings per share of \$0.02 during this year's first half.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Approximately \$167.1 million of cash was provided by operating activities during the first half of fiscal 2016, compared with \$55.3 million of cash provided by operating activities during the same period last year.

The net change in cash from operations includes the change in net income, which increased by \$5.8 million during the first half of fiscal 2016 versus fiscal 2015. Other items impacting the net change in cash from operations were items adjusting net income for non-cash expenses and income, which provided \$17.6 million more cash during the first half of fiscal 2016 versus the same period last year. Changes in working capital accounts and all other accruals provided approximately \$88.4 million more cash flow during the first half of fiscal 2016 versus the same period last year.

The change in accounts receivable during the first six months of fiscal 2016 provided cash of \$117.4 million versus \$44.6 million of cash provided by net reductions in accounts receivable during the same period last year, or approximately \$72.8 million more cash provided year over year. This resulted from the timing of sales and improved collection efforts on accounts receivable. Days sales outstanding at November 30, 2015 decreased to 60.1 days from 64.3 days sales outstanding at November 30, 2014.

Inventory balances used \$49.8 million of cash during the first half of fiscal 2016, compared with a use of \$41.4 million in cash during the same period a year ago, or \$8.4 million more cash used year over year. This resulted from the timing of purchases by retail customers. Days of inventory outstanding at November 30, 2015 increased to 96.6 days from 93.0 days of inventory outstanding at November 30, 2014.

The current year-to-date change in accounts payable used \$28.1 million less cash during the first six months of fiscal 2016 compared to the same period last year, resulting from a change in the timing of certain payments. Accrued compensation and benefits used approximately \$12.2 million less cash during the first half of fiscal 2016 versus a year ago, due to lower bonus payments made during the first six months of fiscal 2016 versus the same period last year. Other accruals and prepaids, including those for other short-term and long-term items and changes, provided \$26.5 million less cash during the first half of fiscal 2016 versus the same period last year, primarily from the timing of pension plan contributions made during the prior year period as well as a legal settlement paid during last year's first half.

Cash provided from operations, along with the use of available credit lines, as required, remain our primary sources of liquidity.

### Investing Activities

Capital expenditures, other than for ordinary repairs and replacements, are made to accommodate our continued growth to achieve production and distribution efficiencies, expand capacity, introduce new technology, improve

environmental health and safety capabilities, improve information systems, and enhance our administration capabilities. Capital expenditures of \$31.3 million during the first half of fiscal 2016 compare with depreciation of \$33.5 million. We believe our current production capacity, along with moderate plant modifications or additions will be adequate to meet our immediate needs based on anticipated growth rates. We are increasing our capital spending in fiscal 2016 in an effort to more aggressively invest in our internal growth initiatives, especially in overseas markets. We anticipate that additional shifts at our production facilities, coupled with the capacity added through acquisition activity and our planned increase in future capital spending levels, will enable us to meet increased demand throughout the remainder of fiscal 2016.

Our captive insurance companies invest their excess cash in marketable securities in the ordinary course of conducting their operations, and this activity will continue. Differences in the amounts related to these activities on a year-over-year basis are primarily attributable to differences in the timing and performance of their investments balanced against amounts required to satisfy claims. At November 30, 2015, the fair value of our investments in marketable securities totaled \$148.4 million, of which investments with a fair value of \$97.1 million were in an unrealized loss position. At May 31, 2015, the fair value of our investments in marketable securities

totaled \$154.8 million, of which investments with a fair value of \$59.0 million were in an unrealized loss position. The fair value of our portfolio of marketable securities is based on quoted market prices for identical, or similar, instruments in active or non-active markets or model-derived-valuations with observable inputs. We have no marketable securities whose fair value is subject to unobservable inputs. Total pretax unrealized losses recorded in accumulated other comprehensive income at November 30, 2015 and May 31, 2015 were \$7.9 million and \$3.8 million, respectively.

We regularly review our marketable securities in unrealized loss positions in order to determine whether or not we have the ability and intent to hold these investments. That determination is based upon the severity and duration of the decline, in addition to our evaluation of the cash flow requirements of our businesses. Unrealized losses at November 30, 2015 were generally related to the normal volatility in valuations over the past several months for a portion of our portfolio of investments in marketable securities. The unrealized losses generally relate to investments whose fair values at November 30, 2015 were less than 15% below their original cost or that have been in a loss position for less than six consecutive months. From time to time, we may experience significant volatility in general economic and market conditions. If we were to experience unrealized losses that were to continue for longer periods of time, or arise to more significant levels of unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.

As of November 30, 2015, approximately \$167.1 million of our consolidated cash and cash equivalents were held at various foreign subsidiaries. Undistributed earnings held at our foreign subsidiaries that are considered permanently reinvested will be used, for instance, to expand operations organically or for acquisitions in foreign jurisdictions. Further, our operations in the U.S. generate sufficient cash flow to satisfy U.S. operating requirements.

At May 31, 2015, we determined that it is possible that we could repatriate approximately \$419.1 million of undistributed foreign earnings in the foreseeable future. Accordingly, as of May 31, 2015, we recorded a deferred income tax liability of \$108.5 million, which represented our estimate of the U.S income and foreign withholding tax associated with the \$419.1 million of undistributed foreign earnings. Based on November 30, 2015 exchange rates, the amount of undistributed earnings that may be repatriated has been revalued to \$401.5 million and the corresponding deferred tax liability has been reduced to \$101.9 million. This reduction is due to the impact of foreign exchange and is recorded in accumulated other comprehensive income (loss). Due to the uncertainties and complexities involved in the various options for repatriation of foreign cash, including any associated governmental or other local restrictions, it is not practicable to calculate the deferred taxes associated with the remaining foreign earnings.

#### Financing Activities

Our available liquidity, including our cash and cash equivalents and amounts available under our committed credit facilities, stood at \$960.8 million at November 30, 2015. Our debt-to-capital ratio was 56.5% at November 30, 2015, compared with 56.2% at May 31, 2015.

#### Revolving Credit Agreement

During fiscal 2015, we entered into an \$800.0 million unsecured syndicated revolving credit facility (the "New Revolving Credit Facility"), which expires on December 5, 2019. The New Revolving Credit Facility replaced our prior \$600.0 million revolving credit facility that was set to expire on June 29, 2017.

The New Revolving Credit Facility includes sublimits for the issuance of swingline loans, which are comparatively short-term loans used for working capital purposes and letters of credit. The aggregate maximum principal amount of

the commitments under the New Revolving Credit Facility may be expanded upon our request, subject to certain conditions, up to \$1.0 billion. The New Revolving Credit Facility is available to refinance existing indebtedness, to finance working capital and capital expenditures, to satisfy all or a portion of our obligations relating to the plan of reorganization for our SPHC subsidiary, and for general corporate purposes.

The New Revolving Credit Facility requires us to comply with various customary affirmative and negative covenants, including a leverage covenant and interest coverage ratio. Under the terms of the leverage covenant, we may not permit our consolidated indebtedness as of any fiscal quarter end to exceed 65% of the sum of such indebtedness and our consolidated shareholders' equity on such date. The minimum required consolidated interest coverage ratio for EBITDA to interest expense is 3.50 to 1. The interest coverage ratio is calculated at the end of each fiscal quarter for the four fiscal quarters then ended.

As of November 30, 2015, we were in compliance with all financial covenants contained in our New Revolving Credit Facility, including the leverage and interest coverage ratio covenants. At that date, our leverage ratio was 55.2%, while our interest coverage ratio was 8.8 to 1. Our available liquidity under our New Revolving Credit Facility stood at \$725.2 million at November 30, 2015.

Our access to funds under our New Revolving Credit Facility is dependent on the ability of the financial institutions that are parties to the New Revolving Credit Facility to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. Moreover, the obligations of the financial institutions under our New Revolving Credit Facility are several and not joint and, as a result, a funding default by one or more institutions does not need to be made up by the others.

#### Accounts Receivable Securitization Program

On May 9, 2014, we replaced our existing \$150.0 million accounts receivable securitization program (which immediately prior to such replacement was assigned from Wells Fargo Bank, National Association to PNC Bank, National Association, as administrative agent) with a new, three-year, \$200.0 million accounts receivable securitization facility (the "AR Program"). The AR Program was entered into pursuant to (1) a second amended and restated receivables sale agreement, dated as of May 9, 2014 (the "Sale Agreement"), among certain of our subsidiaries (the "Originators"), and RPM Funding Corporation, a special purpose entity (the "SPE") whose voting interests are wholly owned by us, and (2) an amended and restated receivables purchase agreement, dated as of May 9, 2014 and subsequently amended on August 29, 2014, February 25, 2015 and November 3, 2015 (the "Purchase Agreement"), among the SPE, certain purchasers from time to time party thereto (the "Purchasers"), and PNC Bank, National Association, as administrative agent.

Under the Sale Agreement, the Originators may, during the term thereof, sell specified accounts receivable to the SPE, which may in turn, pursuant to the Purchase Agreement, transfer an undivided interest in such accounts receivable to the Purchasers. Once transferred to the SPE, such receivables are owned in their entirety by the SPE and are not available to satisfy claims of our creditors or creditors of the originating subsidiaries until the obligations owing to the participating banks have been paid in full. We indirectly hold a 100% economic interest in the SPE and will, along with our subsidiaries, receive the economic benefit of the AR Program. The transactions contemplated by the AR Program do not constitute a form of off-balance sheet financing, and will be fully reflected in our financial statements.

The maximum availability under the AR Program is \$200.0 million. Availability is further subject to changes in the credit ratings of the Originator's customers, customer concentration levels or certain characteristics of the accounts receivable being transferred and therefore at certain times we may not be able to fully access the \$200.0 million of funding available under the AR Program. As of November 30, 2015, the outstanding balance under the AR Program was \$155.0 million, which compares with the maximum availability on that date of \$200.0 million.

The interest rate under the Purchase Agreement is based on the Alternate Base Rate, LIBOR Market Index Rate, one-month LIBOR or LIBOR for a specified tranche period, as selected by the SPE, at its option, plus in each case, a margin of 0.70%. In addition, as set forth in an Amended and Restated Fee Letter, dated May 9, 2014 (the "Fee Letter"), the SPE is obligated to pay a monthly unused commitment fee to the Purchasers based on the daily amount of unused commitments under the Agreement, which fee ranges from 0.30% to 0.50% based on usage.

The AR Program contains various customary affirmative and negative covenants and also contains customary default and termination provisions, which provide for acceleration of amounts owed under the AR Program upon the occurrence of certain specified events, including, but not limited to, failure by the SPE to pay interest and other amounts due, defaults on certain indebtedness, certain judgments, change in control, certain events negatively

affecting the overall credit quality of transferred accounts receivable, bankruptcy and insolvency events, and failure by us to meet financial tests requiring maintenance of an interest coverage ratio, if applicable. If we do not maintain an investment grade public debt rating with at least two specified rating agencies, we must comply with the interest coverage ratio, which requires us not to permit the ratio, calculated at the end of each fiscal quarter for the four fiscal quarters then ended, of EBITDA, as defined in the AR Program, for such period to interest expense for such period, to be less than 3.5:1. This financial test, to the extent applicable, is substantively identical to a similar covenant already contained in our revolving credit facility.

Our failure to comply with the covenants described above and other covenants contained in the Credit Facility could result in an event of default under that agreement, entitling the lenders to, among other things, declare the entire amount outstanding under the Credit Facility to be due and payable. The instruments governing our other outstanding indebtedness generally include cross-default provisions that provide that under certain circumstances, an event of default that results in acceleration of our indebtedness under the Credit Facility will entitle the holders of such other indebtedness to declare amounts outstanding immediately due and payable.

### 2.25% Convertible Senior Notes due 2020

On December 9, 2013, we issued \$205 million of 2.25% convertible senior notes due 2020 (the “Convertible Notes”). We will pay interest on the Convertible Notes semi-annually on June 15<sup>th</sup> and December 15<sup>th</sup> of each year, and began doing so on June 15, 2014. Net proceeds of approximately \$200.1 million from the sale were used to refinance \$200 million in principal amount of unsecured senior notes due December 15, 2013, which had an interest rate of 6.25%.

The Convertible Notes will be convertible under certain circumstances and during certain periods at an initial conversion rate of 18.8905 shares of RPM common stock per \$1,000 principal amount of notes (representing an initial conversion price of approximately \$52.94 per share of common stock), subject to adjustment in certain circumstances. In October 2015, we declared a dividend in excess of \$0.24 per share, and consequently, the adjusted conversion rate at November 30, 2015 was 18.93935. The initial conversion price represents a conversion premium of approximately 37% over the last reported sale price of RPM common stock of \$38.64 on December 3, 2013. Prior to June 15, 2020, the Convertible Notes may be converted only upon specified events, and, thereafter, at any time. Upon conversion, the Convertible Notes may be settled, at RPM’s election, in cash, shares of RPM’s common stock, or a combination of cash and shares of RPM’s common stock.

We account for the liability and equity components of the Convertible Notes separately, and in a manner that will reflect our nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The effective interest rate on the liability component is 3.92%. Contractual interest was \$1.2 million and amortization of the debt discount was \$0.7 million for each of the three month periods ended November 30, 2016 and 2015. Contractual interest was \$2.3 million and amortization of the debt discount was \$1.4 million for the first half of fiscal 2016 and \$1.3 million for the first half of 2015. At November 30, 2015, the remaining period over which the debt discount will be amortized was 5.25 years, the unamortized debt discount was \$15.5 million, and the carrying amount of the equity component was \$20.7 million.

### 3.45% Notes due 2022

On October 23, 2012, we sold \$300 million aggregated principal amount of 3.45% Notes due 2022 (the “Notes”). The net proceeds of \$297.7 million from the offering of the Notes were used to repay short-term borrowings outstanding under our \$600 million revolving credit facility.

### 5.25% Notes due 2045

On May 26, 2015, we issued \$250 million of 5.25% notes due 2045 (the “New Notes”). The New Notes were priced at 99.401% of the \$250 million principal, and at that price, the New Notes have a yield to maturity of 5.29%. We will pay interest on the New Notes semi-annually on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, and will begin doing so on December 1, 2015. Net proceeds of approximately \$245.7 million from the offering of the New Notes were used to repay a portion of short-term borrowings outstanding under our New Revolving Credit Facility.

The following table summarizes our financial obligations and their expected maturities at November 30, 2015 and the effect such obligations are expected to have on our liquidity and cash flow in the periods indicated.

### Contractual Obligations

Total Contractual Payments Due In



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|   | 2016                             | 2017-18   | 2019-20   | After 2020 |             |
|---|----------------------------------|-----------|-----------|------------|-------------|
|   | Payment Stream<br>(In thousands) |           |           |            |             |
| Long-term debt obligations                            | \$1,676,064                      | \$2,594   | \$404,547 | \$530,870  | \$738,053   |
| Capital lease obligations                             | 650                              | 292       | 228       | 130        |             |
| Operating lease obligations                           | 195,762                          | 47,746    | 62,896    | 28,611     | 56,509      |
| Other long-term liabilities (1):                      |                                  |           |           |            |             |
| Interest payments on long-term debt obligations       | 650,808                          | 71,900    | 143,800   | 82,590     | 352,518     |
| Promissory note payments on 524(g) Trust              | 347,500                          |           | 222,500   | 125,000    |             |
| Contributions to pension and postretirement plans (2) | 363,600                          | 42,400    | 53,300    | 96,600     | 171,300     |
| Total   | \$3,234,384                      | \$164,932 | \$887,271 | \$863,801  | \$1,318,380 |

(1) Excluded from other long-term liabilities are our gross long-term liabilities for unrecognized tax benefits, which totaled \$16.4 million at November 30, 2015. Currently, we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities related to these liabilities.

(2) These amounts represent our estimated cash contributions to be made in the periods indicated for our pension and postretirement plans, assuming no actuarial gains or losses, assumption changes or plan changes occur in any period. The projection results assume the required minimum contribution will be contributed. Amounts include the impact of the reconsolidation of SPHC as of January 1, 2015.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet financings, other than the minimum operating lease commitments included in the above Contractual Obligations table. 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. At the end of fiscal 2010, we deconsolidated our wholly owned subsidiary, SPHC, and its subsidiaries, from our balance sheet and eliminated the results of SPHC's operations from our operations beginning on May 31, 2010. During the quarter ended February 28, 2015, SPHC and its subsidiaries emerged from bankruptcy and were reconsolidated with our results beginning on January 1, 2015 (refer to Note 2 to the consolidated financial statements).

#### OTHER MATTERS

##### Environmental Matters

Environmental obligations continue to be appropriately addressed and, based upon the latest available information, it is not anticipated that the outcome of such matters will materially affect our results of operations or financial condition. Our critical accounting policies and estimates set forth above describe our method of establishing and adjusting environmental-related accruals and should be read in conjunction with this disclosure. For additional information, refer to "Part II, Item 1. Legal Proceedings."

#### 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), which 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) global markets and general economic conditions, including uncertainties surrounding the volatility in financial markets, the availability of capital and the effect of changes in interest rates, and the viability of banks and other financial institutions; (b) the prices, supply and capacity of raw materials, including assorted pigments, resins, solvents, and other natural gas- and oil-based materials; packaging, including plastic containers; and transportation services, including fuel surcharges; (c) continued growth in demand for our products; (d) legal, environmental and litigation risks inherent in our construction and chemicals businesses and risks related to the adequacy of our 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 related to the adequacy of our contingent liability reserves; and (j) other risks detailed in our filings with the Securities and Exchange Commission, including the risk factors set forth in our Annual Report on Form 10-K for the year ended May 31, 2015, as the same may be updated from time to time. We do not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the filing date of this document.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in raw materials costs, interest rates and foreign exchange rates since we fund our operations through long- and short-term borrowings and conduct our business in a variety of foreign currencies. There were no material potential changes in our exposure to these market risks since May 31, 2015.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of November 30, 2015 (the "Evaluation Date"), have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods

specified in the Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) CHANGES IN INTERNAL CONTROL.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended November 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

## Environmental Proceedings

As previously reported, several of our subsidiaries are, from time to time, identified as a “potentially responsible party” under the Federal Comprehensive Environmental Response, Compensation and Liability Act and similar state environmental statutes. In some cases, our subsidiaries are participating in the cost of certain clean-up efforts or other remedial actions. Our share of such costs, however, has not been material and we believe that these environmental proceedings will not have a material adverse effect on our consolidated financial condition or results of operations. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Other Matters,” in Part I of this Quarterly Report on Form 10-Q.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

## ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table presents information about repurchases of common stock we made during the second quarter of fiscal 2016:

| Period                                       | Total Number<br>of Shares<br>Purchased (1) | Average<br>Price<br>Paid<br>Per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet be<br>Purchased<br>Under the<br>Plans or<br>Programs (2) |
|--|--|--|--|---|
| September 1, 2015 through September 30, 2015 | 100,000                                    | \$ 44.08                                 | 100,000  | -   |

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|  |         |          |         |   |
|--|---------|----------|---------|---|
| October 1, 2015 through October 31, 2015   | 44,429  | \$ 43.21 | -       | - |
| November 1, 2015 through November 30, 2015 | 79,507  | \$ 45.68 | -       | - |
| Total - Second Quarter                     | 223,936 | \$ 44.48 | 100,000 | - |

- (1) The majority of the shares of common stock reported as purchased, or 100,000 shares, were acquired under our Share Repurchase Program. The remainder represents shares of common stock that were disposed of back to us in satisfaction of tax obligations related to the vesting of restricted stock which was granted under RPM International Inc.'s Amended and Restated 2004 Omnibus Equity and Incentive Plan. Refer to Note 10.
- (2) Refer to Note 10 to the consolidated financial statements for further information regarding our stock repurchase program.

ITEM 6. EXHIBITS

Exhibit

Number Description

- 12 Computation of Ratio of Earnings to Fixed Charges. (x)
- 31.1 Rule 13a-14(a) Certification of the Company's Chief Executive Officer.(x)
- 31.2 Rule 13a-14(a) Certification of the Company's Chief Financial Officer.(x)
- 32.1 Section 1350 Certification of the Company's Chief Executive Officer.(x)
- 32.2 Section 1350 Certification of the Company's Chief Financial Officer.(x)
- 99.1 Amendment No. 1 to Second Amended and Restated Receivables Sale Agreement, dated as of August 29, 2014. (x)
- 99.2 Amendment No. 2 to Second Amended and Restated Receivables Sale Agreement, dated as of November 3, 2015. (x)
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.

(x) Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RPM International Inc.

By: /s/ Frank C. Sullivan  
Frank C. Sullivan  
Chairman and Chief Executive Officer

By: /s/ Russell L. Gordon  
Russell L. Gordon  
Vice President and  
Chief Financial Officer

Dated: January 6, 2016