

RPM INTERNATIONAL INC/DE/
Form 10-Q
April 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended February 28, 2017,

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	02-0642224
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification No.)
P.O. BOX 777;	44258
2628 PEARL ROAD;	(Zip Code)
MEDINA, OHIO	

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(Address of principal executive offices)

(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 April 3, 2017 133,573,447 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)

	February 28, 2017	May 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 210,796	\$265,152
Trade accounts receivable (less allowances of \$41,357 and \$24,600, respectively)	788,275	963,092
Inventories	856,461	685,818
Prepaid expenses and other current assets	224,347	221,286
Total current assets	2,079,879	2,135,348
Property, Plant and Equipment, at Cost	1,433,413	1,344,830
Allowance for depreciation	(731,279)	(715,377)
Property, plant and equipment, net	702,134	629,453
Other Assets		
Goodwill	1,133,013	1,219,630
Other intangible assets, net of amortization	579,237	575,401
Deferred income taxes	25,872	19,771
Other	212,084	185,366
Total other assets	1,950,206	2,000,168
Total Assets	\$ 4,732,219	\$ 4,764,969
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 417,730	\$500,506
Current portion of long-term debt	383,980	4,713
Accrued compensation and benefits	133,588	183,768
Accrued losses	37,123	35,290
Other accrued liabilities	258,102	277,914
Total current liabilities	1,230,523	1,002,191
Long-Term Liabilities		
Long-term debt, less current maturities	1,597,553	1,635,260
Other long-term liabilities	569,859	702,979
Deferred income taxes	48,557	49,791
Total long-term liabilities	2,215,969	2,388,030
Commitments and contingencies (Note 13)		
Stockholders' Equity		

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Preferred stock, par value \$0.01; authorized 50,000 shares; none issued	-	-
Common stock, par value \$0.01; authorized 300,000 shares; issued 141,220 and outstanding 133,583 as of February 28, 2017; issued 140,195 and outstanding 132,944 as of May 31, 2016	1,336	1,329
Paid-in capital	946,955	921,956
Treasury stock, at cost	(216,366)	(196,274)
Accumulated other comprehensive (loss)	(533,165)	(502,047)
Retained earnings	1,084,462	1,147,371
Total RPM International Inc. stockholders' equity	1,283,222	1,372,335
Noncontrolling Interest	2,505	2,413
Total equity	1,285,727	1,374,748
Total Liabilities and Stockholders' Equity	\$ 4,732,219	\$ 4,764,969

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		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net Sales	\$ 1,022,496	\$ 988,555	\$ 3,465,329	\$ 3,387,065
Cost of Sales	593,923	575,593	1,963,033	1,947,211
Gross Profit	428,573	412,962	1,502,296	1,439,854
Selling, General and Administrative Expenses	386,032	370,913	1,189,611	1,096,361
Goodwill and Other Intangible Asset Impairments	4,900		193,198	
Interest Expense	23,769	23,140	69,452	68,078
Investment (Income), Net	(3,627)	(2,909)	(9,881)	(8,077)
Other Expense (Income), Net	502	(88)	1,301	(876)
Income Before Income Taxes	16,997	21,906	58,615	284,368
Provision for Income Taxes	4,313	2,613	2,793	80,564
Net Income	12,684	19,293	55,822	203,804
Less: Net Income Attributable to Noncontrolling Interests	756	711	2,051	1,974
Net Income Attributable to RPM International Inc.				
Stockholders	\$ 11,928	\$ 18,582	\$ 53,771	\$ 201,830
Average Number of Shares of Common Stock Outstanding:				
Basic	130,677	129,068	130,657	129,506
Diluted	130,677	129,068	130,657	136,848
Earnings per Share of Common Stock Attributable to				
RPM International Inc. Stockholders:				
Basic	\$0.09	\$ 0.14	\$0.41	\$ 1.53
Diluted	\$0.09	\$ 0.14	\$0.41	\$ 1.50
Cash Dividends Declared per Share of Common Stock	\$0.300	\$ 0.275	\$0.875	\$ 0.810

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended		Nine Months Ended	
	February 28,	February 29,	February 28,	February 29,
	2017	2016	2017	2016
Net Income	\$ 12,684	\$ 19,293	\$ 55,822	\$ 203,804
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	16,576	(16,214)	(46,919)	(100,634)
Pension and other postretirement benefit liability adjustments				
(net of tax of \$1,863; \$1,827; \$6,626; \$5,645, respectively)	3,222	3,264	12,516	11,064
Unrealized gain (loss) on securities (net of tax of \$1,192; \$(3,376);				
\$1,968; \$(5,971), respectively)	2,577	(7,334)	3,286	(14,049)
Total other comprehensive income (loss)	22,375	(20,284)	(31,117)	(103,619)
Total Comprehensive Income (Loss)	35,059	(991)	24,705	100,185
Less: Comprehensive Income Attributable to Noncontrolling				
Interests	756	711	2,051	1,974
Comprehensive Income (Loss) Attributable to				
RPM International Inc. Stockholders	\$ 34,303	\$ (1,702)	\$ 22,654	\$ 98,211

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)

	Nine Months Ended	
	February 28, 2017	February 29, 2016
Cash Flows From Operating Activities:		
Net income	\$ 55,822	\$ 203,804
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	53,343	49,980
Amortization	33,497	33,151
Goodwill and other intangible asset impairments	193,198	-
Reversal of contingent earnout obligations	-	(14,500)
Deferred income taxes	(26,996)	(18,556)
Stock-based compensation expense	25,005	23,000
Other non-cash interest expense	7,149	7,305
Realized (gains) on sales of marketable securities	(5,338)	(5,438)
Other	136	1,994
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	190,423	179,003
(Increase) in inventory	(143,409)	(81,837)
(Increase) in prepaid expenses and other current and long-term assets	(26,698)	(13,347)
(Decrease) in accounts payable	(95,727)	(133,841)
(Decrease) in accrued compensation and benefits	(50,425)	(35,202)
Increase in accrued losses	2,247	5,948
(Decrease) increase in other accrued liabilities	(35,135)	4,696
Other	(3,613)	17,659
Cash Provided By Operating Activities	173,479	223,819
Cash Flows From Investing Activities:		
Capital expenditures	(80,110)	(54,819)
Acquisition of businesses, net of cash acquired	(246,874)	(28,926)
Purchase of marketable securities	(36,418)	(21,981)
Proceeds from sales of marketable securities	36,696	18,722
Other	1,493	7,430
Cash (Used For) Investing Activities	(325,213)	(79,574)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	422,521	116,578
Reductions of long-term and short-term debt	(78,654)	(19,419)
Cash dividends	(116,680)	(107,806)
Shares repurchased and returned for taxes	(20,092)	(66,765)

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Payments of acquisition-related contingent consideration	(4,206)	(2,006)
Payments to 524(g) trust	(102,500)	
Other	(2,009)	(1,239)
Cash Provided By (Used For) Financing Activities	98,380	(80,657)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,002)	(17,587)
Net Change in Cash and Cash Equivalents	(54,356)	46,001
Cash and Cash Equivalents at Beginning of Period	265,152	174,711
Cash and Cash Equivalents at End of Period	\$210,796	\$ 220,712

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION

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 nine month periods ended February 28, 2017 and February 29, 2016. 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, 2016.

Our financial statements include all of our majority-owned subsidiaries. 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.

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

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. See Note 2, “New Accounting Pronouncements,” below for discussion relating to the reclassification of deferred debt issuance costs. Also, see Note 15, “Segment Information,” for discussion surrounding the change in composition of operating and reportable segments during fiscal 2017.

NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 are currently reviewing the revised guidance and assessing the potential impacts on each of our different business units’ revenue streams and on our overall 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 adopted ASU 2015-03 on June 1, 2016. As a result, net deferred debt costs are presented as offsets to the carrying amount of the respective debt on our Consolidated Balance Sheets for each period presented. The net deferred debt costs previously reported in our May 31, 2016 Consolidated Balance Sheet in prepaid expenses and other current assets of \$3.0 million and other long-term assets of \$8.2 million were reclassified as offsets to long-term debt, less current maturities. There was no impact on our results of operations as a result of our adoption of ASU 2015-03.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments," which simplifies the treatment of adjustments to provisional amounts recognized in the period for items in a business combination for which the accounting is incomplete at the end of the reporting period. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015 and for interim periods therein. Our adoption of the provisions of ASU 2015-16 beginning on June 1, 2016 did not have a material impact on our Consolidated Financial Statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which increases lease transparency and comparability among organizations. Under the new standard, lessees will be required to recognize all assets and liabilities arising from leases on the balance sheet, with the exception of leases with a term of 12 months or less, which permits a lessee to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The new standard requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. We are currently evaluating the impact this guidance will have on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which makes a number of changes meant to simplify and improve accounting for share-based payments. The new guidance includes amendments to share-based accounting for income taxes, the related classification in the statement of cash flows and share award forfeiture accounting. ASU 2016-09 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those reporting periods. Early adoption is permitted. We elected to early adopt ASU 2016-09 in the first quarter of fiscal 2017. The primary impact of our adoption was the recognition of excess tax benefits related to equity compensation in our provision for income taxes rather than paid-in capital, which is a change required to be applied on a prospective basis in accordance with the new guidance. Accordingly, we recorded discrete income tax benefits in the consolidated statements of income of \$0.2 million and \$11.5 million during the three and nine months ended February 28, 2017, respectively, for excess tax benefits related to equity compensation. The corresponding cash flows are reflected in cash provided by operating activities instead of financing activities, as was previously required.

Additionally, under ASU 2016-09, we have elected to continue to estimate equity award forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact on our results of operations. The presentation requirements for cash flows related to employee taxes paid for withheld shares also had no impact to any of the periods presented in our consolidated statements of cash flows since such cash flows have historically been presented as a financing activity.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” which makes a number of changes meant to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. Upon adoption, entities must apply the guidance retrospectively to all periods presented. We are currently evaluating the impact this guidance will have on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations: Clarifying the Definition of a Business,” with the objective of adding guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions (disposals) of assets or of businesses. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We are currently reviewing the impact this revised guidance will have on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment,” to eliminate Step 2 from the goodwill impairment test in order to simplify the subsequent measurement of goodwill. The guidance is effective for fiscal years beginning after December 15, 2019. Early application is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Adoption of this guidance is not expected to have a material impact on our Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. We are currently reviewing the impact this guidance will have on our Consolidated Financial Statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill, by reportable segment, for the nine months ended February 28, 2017 follows:

(In thousands)	Industrial Segment	Specialty Segment	Consumer Segment	Total
Balance as of June 1, 2016	\$475,355	\$171,768	\$572,507	\$1,219,630
Acquisitions	39,366	3,376	30,080	72,822
Impairment			(140,456)	(140,456)
Translation adjustments	(4,700)	(1,663)	(12,620)	(18,983)
Balance as of February 28, 2017	\$510,021	\$173,481	\$449,511	\$1,133,013

The gross amount of accumulated impairment losses at June 1, 2016 totaled \$14.9 million, all of which was recorded during the fiscal year ended May 31, 2009 by our industrial reportable segment. For the nine months ended February 28, 2017, we recognized \$140.5 million of preliminary goodwill impairment losses, which was recorded by our consumer reportable segment. At February 28, 2017, accumulated impairment losses totaled \$155.4 million.

Other intangible assets as of February 28, 2017 consist of the following major classes:

(In thousands)	February 28, 2017			
	Gross Carrying Amount	Accumulated Amortization	Impairment Charge	Net Carrying Amount
Amortized intangible assets				
Formulae	\$230,184	\$ (126,707)	\$ (15,332)	\$ 88,145
Customer-related intangibles	367,024	(115,255)	(30,115)	221,654
Trademarks/names	41,948	(14,567)		27,381
Other	37,269	(20,424)	(198)	16,647
Total Amortized Intangibles	676,425	(276,953)	(45,645)	353,827
Indefinite-lived intangible assets				
Trademarks/names	232,945		(7,535)	225,410
Total Other Intangible Assets	\$909,370	\$ (276,953)	\$ (53,180)	\$ 579,237

The gross amount of other intangible asset accumulated impairment losses at June 1, 2016 totaled \$0.6 million, all of which was recorded during the fiscal year ended May 31, 2009 by our industrial reportable segment. For the three and nine months ended February 28, 2017, we recorded preliminary other intangible asset impairment losses of approximately \$4.9 million and \$52.6 million, respectively, all of which was recorded by our consumer reportable segment.

As previously reported, we had monitored the performance of our Kirker nail enamel business throughout fiscal 2016. During the third quarter ended February 29, 2016, we reported that performance shortfalls for Kirker were attributable to a delay in new business. We performed our annual goodwill impairment analysis during the fourth quarter of fiscal 2016, which resulted in an excess of fair value over carrying value of 8% for our Kirker reporting unit. During our first quarter ended August 31, 2016, we reported that while Kirker's first quarter results were below the comparable prior year period, their performance was in line with expectations, and our assessment of the Kirker business did not indicate the presence of any goodwill impairment triggering events.

For the quarter ended November 30, 2016, we identified certain factors that we considered important in assessing the requirement to perform an interim impairment evaluation for our Kirker reporting unit. First, Kirker's three month operating results for the period ended November 30, 2016 were significantly below historical and expected operating results and downward adjustments were recently made regarding our expectations for Kirker's performance. In the quarter ended November 30, 2016, Kirker experienced market share losses at several key customers, including the loss of its largest customer, which accounted for over 15% of Kirker's fiscal 2016 sales. In addition, some problematic customer relationship issues surfaced during the quarter ended November 30, 2016, which resulted in a personnel change in a key leadership position at Kirker. After considering the totality of these recent events, we determined that an interim step one goodwill impairment assessment was required, as well as an impairment assessment for our intangible and other long-lived assets. Our testing resulted in the preliminary impairment charges reflected above for goodwill and other intangible assets.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Our goodwill impairment assessment included estimating the fair value of our Kirker reporting unit and comparing it with its carrying amount at November 30, 2016. Since the carrying amount of Kirker exceeded its fair value, additional steps were required to determine and recognize a preliminary impairment loss. Calculating the fair value of a reporting unit requires our significant use of estimates and assumptions, which are generally considered Level 3 inputs based on our review of the fair value hierarchy. We estimated the fair value of our Kirker reporting unit by applying a discounted future cash flow calculation to Kirker's projected earnings before interest, taxes, depreciation and amortization ("EBITDA"). In applying this methodology, we relied on a number of factors, including actual and forecasted operating results and market data for the nail enamel industry. Discounted cash flow calculations represent a common measure used to value and buy or sell businesses in our industry. The discounted cash flow used in the goodwill impairment test for Kirker assumed discrete period revenue growth through fiscal 2021 that was reflective of recent downward revisions to previous expectations for future growth from market opportunities related to contracting with certain retailers to fill nail polish for their respective private label brands as well as downward revisions to growth expectations for the Kirker liquid nail polish business below the expected liquid nail polish growth rates for the markets in which Kirker operates. In the terminal year we assumed a long-term earnings growth rate of 3.0% that we believe is appropriate given the current industry specific expectations. As of the valuation date, we utilized a weighted-average cost of capital of 8.0%, which we believe is appropriate as it reflects the relative risk, the time value of money, and is consistent with Kirker's peer group. After recording the goodwill impairment charge of \$140.5 million, no goodwill remained on the Kirker balance sheets as of November 30, 2016 and February 28, 2017.

Our other intangible asset impairment assessment involved estimating the fair value of each of Kirker's amortizable intangibles and other long-lived assets as well as the indefinite-lived tradename asset and comparing it with its carrying amount. 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. As the results of our testing indicated that the carrying values of certain of these assets would not be recoverable, as outlined in further detail in the table above, we recorded other intangible asset impairments of approximately \$45.7 million during the quarter ended November 30, 2016.

Calculating the fair value of the Kirker indefinite-lived tradename required our significant use of estimates and assumptions. We estimated the fair value of Kirker's indefinite-lived tradename by applying a relief-from-royalty calculation, which included discounted future cash flows related to its projected revenues. In applying this methodology, we relied on a number of factors, including actual and forecasted revenues and market data for the nail enamel industry. As the carrying amount of the tradename exceeded its fair value, the impairment loss of \$2.0 million was recorded during the quarter ended November 30, 2016.

Certain assets and liabilities are subject to nonrecurring fair value measurements, which typically are remeasured at fair value as a result of impairment charges. As a result of the impairment testing described above, the fair value of Kirker's identifiable intangible assets and indefinite-lived tradename were recalculated, and the resulting fair value approximated \$5.8 million. Based upon our review of the fair value hierarchy, the inputs used in these fair value measurements were considered Level 3 inputs.

For the quarter ended February 28, 2017, we identified certain factors that we considered important in assessing the requirement to perform an interim impairment evaluation for our Restore indefinite tradename asset. First, sales of our Restore product line during the three month period ended February 28, 2017 were below historical and expected operating results and significant downward adjustments were recently made to sales projections for Restore products.

In the quarter ended February 28, 2017, we became aware that it was highly likely that Restore's largest customer would discontinue sales of the Restore product line in its retail stores, which was evidenced by this customer's significant reduction in future orders based on its historical order pattern. We determined that this was significant to consider for the purposes of impairment testing, as sales of Restore products to this customer accounted for over 60% of total sales of Restore products for fiscal 2016. After considering the magnitude of the loss in sales volume from this key customer, we determined that it was necessary to perform an interim assessment for the other intangible assets and indefinite-lived tradename related to the Restore product line.

Our impairment assessment involved estimating the fair value of the indefinite-lived tradename and comparing it with its carrying amount. Calculating the fair value of the Restore indefinite-lived tradename required our significant use of estimates and assumptions. We estimated the fair value of the Restore indefinite-lived tradename by applying a relief-from-royalty calculation, which included discounted future cash flows related to its projected revenues. In applying this methodology, we relied on a number of factors, including actual and forecasted revenues for sales of the Restore product line. As the carrying amount of the tradename exceeded its fair value, the preliminary impairment charge of \$4.9 million was recorded for the three and nine months ended February 28, 2017. Additionally, a further assessment of the remaining useful life of the Restore tradename was performed, which resulted in a change in to its remaining economic useful life, from an indefinite-life to a 10-year amortizable life.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We are not able to finalize our other intangible asset impairment assessments until such time as we finalize our fair value determinations, which we expect to complete during our fourth fiscal quarter ending May 31, 2017. At that time, we will record the necessary adjustments, if any, to our preliminary impairment charges recorded in the current quarter.

NOTE 4 – MARKETABLE SECURITIES

The following tables summarize marketable securities held at February 28, 2017 and May 31, 2016 by asset type:

(In thousands)	Available-For-Sale Securities			Fair Value (Net Carrying Amount)
	Gross	Gross		
	Cost	Amortized Unrealized Gains	Unrealized Losses	
February 28, 2017				
Equity securities:				
Stocks - foreign	\$5,700	\$ 231	\$ (155)	\$ 5,776
Stocks - domestic	30,690	3,054	(975)	32,769
Mutual funds - foreign	35,144	1,001	(1,765)	34,380
Mutual funds - domestic	64,033	1,557	(2,416)	63,174
Total equity securities	135,567	5,843	(5,311)	136,099
Fixed maturity:				
U.S. treasury and other government	22,499	76	(283)	22,292
Corporate bonds	715	97	(8)	804
Total fixed maturity securities	23,214	173	(291)	23,096
Total	\$158,781	\$ 6,016	\$ (5,602)	\$ 159,195
(In thousands)	Available-For-Sale Securities			Fair Value (Net Carrying Amount)
	Gross	Gross		
	Cost	Amortized Unrealized Gains	Unrealized Losses	
May 31, 2016				
Equity securities:				
Stocks - foreign	\$5,051	\$ 439	\$ (247)	\$ 5,243
Stocks - domestic	27,717	3,831	(911)	30,637

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Mutual funds - foreign	35,903	802	(4,357)	32,348
Mutual funds - domestic	60,354	99	(4,587)	55,866
Total equity securities	129,025	5,171	(10,102)	124,094
Fixed maturity:				
U.S. treasury and other government	21,704	214	(80)	21,838
Corporate bonds	887	137	-	1,024
Total fixed maturity securities	22,591	351	(80)	22,862
Total	\$151,616	\$ 5,522	\$ (10,182)	\$ 146,956

Marketable securities, included in other current and long-term assets totaling \$83.9 million and \$75.3 million at February 28, 2017, respectively, and included in other current and long-term assets totaling \$74.2 million and \$72.8 million at May 31, 2016, 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 (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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 \$1.7 million and \$1.1 million for the quarters ended February 28, 2017 and February 29, 2016, respectively. During the third quarter of fiscal 2017 and 2016, we recognized gross realized losses on sales of investments of \$0.1 million and \$0.1 million, respectively. During the third quarter of fiscal 2016, we recognized losses of approximately \$0.8 million for securities deemed to have other-than-temporary impairments, while such losses were not significant for the current three month period. These amounts are included in investment (income), net in the Consolidated Statements of Income.

Gross gains realized on sales of investments were \$6.4 million and \$5.7 million for the first nine months of fiscal 2017 and 2016, respectively. During the first nine months of fiscal 2017 and 2016, we recognized gross realized losses on sales of investments of \$1.1 million and \$0.3 million, respectively. During the first nine months of fiscal 2017 and 2016, we recognized losses of approximately \$0.4 million and \$3.3 million, respectively, for securities deemed to have other-than-temporary impairments.

Summarized below are the securities we held at February 28, 2017 and May 31, 2016 that were in an unrealized loss position and that were included in accumulated other comprehensive (loss), aggregated by the length of time the investments had been in that position:

(In thousands)	February 28, 2017		May 31, 2016	
	Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Total investments with unrealized losses	\$94,585	\$ (5,602)	\$89,360	\$ (10,182)
Unrealized losses with a loss position for less than 12 months	32,564	(1,250)	41,762	(4,856)
Unrealized losses with a loss position for more than 12 months	62,021	(4,352)	47,598	(5,326)

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 February 28, 2017 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 February 28, 2017, 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	\$ 5,645	\$ 5,622
One year through five years	13,567	13,433
Six years through ten years	2,958	2,912
After ten years	1,044	1,129
	\$ 23,214	\$ 23,096

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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			
	in Active	Significant		
	Markets for	Other	Significant	Fair Value at
	Identical Assets	Observable	Unobservable	February 28,
(In thousands)	(Level 1)	Inputs (Level 2)	Inputs (Level 3)	2017
U.S. Treasury and other government	\$ -	\$ 22,292	\$ -	\$ 22,292
Corporate bonds		804		804
Stocks - foreign	5,776			5,776
Stocks - domestic	32,769			32,769
Cash and cash equivalents	1,425			1,425
Mutual funds - foreign		34,380		34,380
Mutual funds - domestic		63,174		63,174
Foreign currency forward contract		(168)		(168)
Contingent consideration			(14,541)	(14,541)
Total	\$ 39,970	\$ 120,482	\$ (14,541)	\$ 145,911

(In thousands)	Quoted Prices	Significant	Significant	Fair Value at
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	in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	May 31, 2016
U.S. Treasury and other government	\$ -	\$ 21,838	\$ -	\$ 21,838
Corporate bonds		1,024		1,024
Stocks - foreign	5,243			5,243
Stocks - domestic	30,637			30,637
Mutual funds - foreign		32,348		32,348
Mutual funds - domestic		55,866		55,866
Foreign currency forward contract		(159)		(159)
Contingent consideration			(11,771)	(11,771)
Total	\$ 35,880	\$ 110,917	\$ (11,771)	\$ 135,026

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 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.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At February 28, 2017, we had a foreign currency forward contract with a fair value of approximately \$0.2 million, which is classified in other current liabilities in our Consolidated Balance Sheets. At May 31, 2016, we had a foreign currency forward contract with a fair value of approximately \$0.2 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 and the amount of currently estimated purchase price for the finalization of a step-acquisition. 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 fiscal 2017, we accrued an additional approximate \$6.9 million for contingent payments related to new acquisitions, including the estimated amount for the mandatory purchase of a step-acquisition, and paid approximately \$4.2 million for settlements of contingent consideration obligations relating to certain performance milestones that were established in prior periods and achieved during the current period, and these amounts are reported in payments of acquisition-related contingent consideration in cash flows from financing activities 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 February 28, 2017 and May 31, 2016, 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 February 28, 2017 and May 31, 2016 are as follows:

(In thousands)	At February 28, 2017	
	Carrying Value	Fair Value
Cash and cash equivalents	\$210,796	\$210,796
Marketable equity securities	136,099	136,099
Marketable debt securities	23,096	23,096
Long-term debt, including current portion	1,981,533	2,158,984

(In thousands)	At May 31, 2016	
	Carrying Value	Fair Value
Cash and cash equivalents	\$265,152	\$265,152
Marketable equity securities	124,094	124,094
Marketable debt securities	22,862	22,862
Long-term debt, including current portion	1,639,973	1,925,079

NOTE 6 - INVESTMENT (INCOME), NET

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

(In thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Interest (income)	\$(1,599)	\$ (2,019)	\$(3,832)	\$ (4,602)
Net (gain) on sale of marketable securities	(1,640)	(1,020)	(5,338)	(5,438)
Other-than-temporary impairment on securities	17	839	420	3,312
Dividend (income)	(405)	(709)	(1,131)	(1,349)
Investment (income), net	\$(3,627)	\$ (2,909)	\$(9,881)	\$ (8,077)

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7 - OTHER EXPENSE (INCOME), NET

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

(In thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Royalty expense, net	\$744	\$ 557	\$2,080	\$ 720
(Income) related to unconsolidated equity affiliates	(242)	(645)	(779)	(1,596)
Other expense (income), net	\$502	\$ (88)	\$1,301	\$ (876)

NOTE 8 — INCOME TAXES

The effective income tax rate was 25.4% for the three months ended February 28, 2017 compared to an effective income tax rate of 11.9% for the three months ended February 29, 2016. The effective income tax rate was 4.8% for the nine months ended February 28, 2017 compared to an effective income tax rate of 28.3% for the nine months ended February 29, 2016.

The effective tax rate for the three and nine months ended February 28, 2017 and February 29, 2016 reflect variances from the 35% federal statutory rate due to the 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.

Additionally, the effective tax rate for the three and nine months ended February 28, 2017 was favorably impacted as a result of our current year early adoption of ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” In conjunction with our adoption of the standard, we recorded discrete benefits of \$0.2 million and \$11.5 million during the three and nine months ended February 28, 2017, respectively, for excess tax benefits related to equity compensation. Please see Note 2, “New Accounting Pronouncements,” for additional discussion regarding our adoption of the standard.

The effective tax rate for the three and nine month periods ended February 29, 2016 was favorably impacted by \$3.9 million of discrete tax benefits recorded in the fiscal 2016 third quarter. The discrete benefits were primarily related to the reversal of tax contingency reserves and benefits related to the distribution of foreign earnings that were previously subjected to U.S. tax.

At May 31, 2016, we determined that it was possible that we would repatriate approximately \$377.3 million of undistributed foreign earnings in the foreseeable future. Accordingly, as of May 31, 2016, we recorded a deferred income tax liability of \$98.5 million, which represented our estimate of the net U.S income and foreign withholding tax associated with the \$377.3 million of unremitted foreign earnings. As of February 28, 2017, the amount of undistributed earnings that may be repatriated and the corresponding deferred tax liability has been adjusted to \$372.6 million and \$96.3 million, respectively. The adjustments are primarily due to foreign currency translation, which was

recorded as a component of other comprehensive income. We have not provided for U.S. income and foreign withholding taxes on the remaining foreign subsidiaries' undistributed earnings because such earnings have been retained and reinvested by the subsidiaries as of February 28, 2017. 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 those foreign subsidiaries were paid to us as dividends.

NOTE 9 — INVENTORIES

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

	February 28, 2017	May 31, 2016
(In thousands)		
Raw material and supplies	\$253,901	\$227,900
Finished goods	602,560	457,918
Total Inventory, Net of Reserves	\$856,461	\$685,818

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 only to amounts required to offset dilution created by stock issued in connection with our equity-based compensation plans, or approximately one to two million shares per year. 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 nine months ended February 28, 2017, we did not repurchase any shares of our common stock under this program. During the three and nine months ended February 29, 2016, we repurchased approximately 400,000 shares and 800,000 shares of our common stock under this program, respectively. These shares of common stock were repurchased during the prior year third quarter and nine month period for approximately \$17.8 million and \$35.1 million, respectively.

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 nine months ended February 28, 2017. For the three months ended February 29, 2016, basic weighted-average shares outstanding and basic net income available to common shareholders are used in calculating diluted earnings per share under the two-class method, as that method resulted in the most-dilutive earnings per share. For the nine months ended February 29, 2016, basic and diluted earnings per share are calculated under the two-class method and the treasury method, respectively, as those methods resulted in the most-dilutive earnings per share.

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Numerator for earnings per share:				
Net income attributable to RPM International Inc.				
stockholders	\$11,928	\$ 18,582	\$53,771	\$ 201,830
Less: Allocation of earnings and dividends to				
participating securities	(232)	(316)	(847)	(3,375)
Net income available to common shareholders -				
basic	11,696	18,266	52,924	198,455

Add: Undistributed earnings reallocated to unvested
shareholders

Reverse: Allocation of earnings and dividends to

participating securities 3,375

Add: Income effect of contingently issuable shares 4,067

Net income available to common shareholders -

diluted \$11,696 \$ 18,266 \$52,924 \$ 205,897

Denominator for basic and diluted earnings per share:

Basic weighted average common shares 130,677 129,068 130,657 129,506

Average diluted options 3,456

Additional shares issuable assuming conversion of

convertible securities (1) 3,886

Total shares for diluted earnings per share (2) 130,677 129,068 130,657 136,848

Earnings Per Share of Common Stock Attributable to

RPM International Inc. Stockholders:

Basic Earnings Per Share of Common Stock \$0.09 \$ 0.14 \$0.41 \$ 1.53

Diluted Earnings Per Share of Common Stock \$0.09 \$ 0.14 \$0.41 \$ 1.50

(1) Represents the number of shares that would be issued if our contingently convertible notes were converted. We include these shares in the calculation of diluted EPS as the conversion of the notes may be settled, at our election, in cash, shares of our common stock, or a combination of cash and shares of our common stock.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(2) Restricted shares totaling 1,676,404 and 919,918 for the three and nine months ended February 29, 2016, respectively, were excluded from the calculation of diluted earnings per share because the grant price of the restricted shares exceeded the average market price of the shares during the period and their effect, accordingly, would have been anti-dilutive. There were no restricted shares identified as being anti-dilutive for the three and nine months ended February 28, 2017. In addition, stock appreciation rights (SARs) totaling 600,000 for the three and nine months ended February 28, 2017 and 1,140,000 for the three and nine months ended February 29, 2016 were excluded from the calculation of diluted earnings per share as their 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. The following tables provide the retirement-related benefit plans' impact on income before income taxes for the three and nine month periods ended February 28, 2017 and February 29, 2016:

	U.S. Plans Three Months Ended		Non-U.S. Plans Three Months Ended	
	February 28, 2017	February 2016	February 28, 2017	February 2016
Pension Benefits (In thousands)				
Service cost	\$9,401	\$8,202	\$1,127	\$1,067
Interest cost	4,331	4,499	1,224	1,319
Expected return on plan assets	(6,252)	(6,437)	(1,886)	(1,978)
Amortization of:				
Prior service cost	54	58		
Net actuarial losses recognized	5,540	4,190	573	455
Net Periodic Benefit Cost	\$13,074	\$10,512	\$1,038	\$863

	U.S. Plans Three Months Ended		Non-U.S. Plans Three Months Ended	
	February 28, 2017	February 2016	February 28, 2017	February 29, 2016
Postretirement Benefits (In thousands)				

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Service cost	\$ -	\$ -	\$84	\$81
Interest cost	57	59	222	221
Amortization of:				
Prior service (credit)	(58)	(62)		
Net actuarial (gains) losses recognized			60	61
Net Periodic Benefit Cost	\$ (1)	\$ (3)	\$66	\$63

	U.S. Plans		Non-U.S. Plans	
	Nine Months Ended		Nine Months Ended	
	February		February	
	February 28,	February 28,	February 28,	February 28,
Pension Benefits (In thousands)	2017	2016	2017	2016
Service cost	\$28,203	\$24,606	\$3,381	\$3,201
Interest cost	12,993	13,497	3,672	3,965
Expected return on plan assets	(18,756)	(19,311)	(5,658)	(5,944)
Amortization of:				
Prior service cost	162	174	-	-
Net actuarial losses recognized	16,620	12,570	1,719	1,369
Settlement	-	-	-	91
Net Periodic Benefit Cost	\$39,222	\$31,536	\$3,114	\$2,682

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	U.S. Plans		Non-U.S. Plans	
	Nine Months Ended		Nine Months Ended	
	February 28, 2017	February 28, 2016	February 28, 2017	February 29, 2016
Postretirement Benefits (In thousands)				
Service cost	\$-	\$ -	\$52	\$43
Interest cost	171	177	666	663
Amortization of:				
Prior service (credit)	(174)	(186)	-	-
Net actuarial (gains) losses recognized	-	-	180	183
Net Periodic Benefit Cost	\$(3)	\$(9)	\$,698	\$,689

The current year increases in pension and postretirement benefit cost reflect the impact of our assumptions used to determine net cost. The rate of expected return on plan assets and the effective discount rate applicable to service cost assumptions both decreased from fiscal 2016 to fiscal 2017. 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. We previously disclosed in our financial statements for the fiscal year ended May 31, 2016 that we expected to contribute approximately \$54.1 million to our retirement plans in the U.S. and approximately \$6.0 million to plans outside the U.S. during the current fiscal year. As of February 28, 2017, this has not changed.

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 February 28, 2017, we can provide no assurances that we will not experience material claims in the future or that we will not incur significant costs to resolve such claims beyond the amounts accrued or beyond what we may recover from our suppliers. Based upon the nature of the expense, product warranty expense is recorded as a reduction of sales, as a component of cost of sales, or within selling, general and administrative expense.

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.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Three Months Ended		Nine Months Ended	
	February		February	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
	(In thousands)			
Beginning Balance	\$ 15,954	\$ 9,440	\$ 13,314	\$ 11,663
Deductions (1)	(3,662)	(4,268)	(12,094)	(13,818)
Provision charged to expense	7,308	8,790	18,380	16,117
Ending Balance	\$ 19,600	\$ 13,962	\$ 19,600	\$ 13,962

(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 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 investigation, 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.

In connection with the foregoing, on September 9, 2016, the SEC filed an enforcement action against us and our General Counsel. We have cooperated with the SEC’s investigation and believe the allegations in the complaint mischaracterize both our and our General Counsel’s actions in connection with the matters related to our quarterly results in fiscal 2013 and are without merit. We intend to contest the allegations in the complaint vigorously, and both we and our General Counsel filed motions to dismiss the complaint on February 24, 2017.

The action by the SEC could result in sanctions against us and/or our General Counsel and 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 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.

In December 2014, we received notice of a claim seeking damages against one of our industrial segment subsidiaries alleging failure of a coating system application on a parking garage in Dubai, UAE. Subsequent to the end of the current quarter, the case settled for an immaterial amount.

A consolidated class-action complaint is pending against Rust-Oleum Corporation (“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. In October 2016, the parties executed a settlement agreement. The court has granted final approval of the settlement. Rust-Oleum will deposit \$9.3 million into a settlement fund in satisfaction of the claims. We recorded the amount of the settlement in accrued losses in our Consolidated Balance Sheets and reflected the amount in other expense (income), net, in our Consolidated Statements of Income as of and for the fiscal year ended May 31, 2016.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 – EQUITY

The following tables illustrate the components of total equity and comprehensive income for the three months ended February 28, 2017 and February 29, 2016:

(In thousands)	Total RPM		
	International	Noncontrolling	Total
	Inc. Equity	Interest	Equity
Total equity at November 30, 2016	\$ 1,281,432	\$ 1,902	\$ 1,283,334
Net income	11,928	756	12,684
Other Comprehensive Income:			
Foreign currency translation adjustments	16,576		16,576
Pension and other postretirement benefit liability			
adjustments, net of tax	3,222		3,222
Unrealized gain on securities, net of tax	2,577		2,577
Total Other Comprehensive Income, net of tax	22,375	-	22,375
Comprehensive Income	34,303	756	35,059
Dividends paid	(40,076)		(40,076)
Other noncontrolling interest activity		(153)	(153)
Shares repurchased and returned for taxes	(429)		(429)
Stock based compensation expense	7,992		7,992
Total Equity at February 28, 2017	\$ 1,283,222	\$ 2,505	\$ 1,285,727

(In thousands)	Total RPM		
	International	Noncontrolling	Total
	Inc. Equity	Interest	Equity
Total equity at November 30, 2015	\$ 1,290,261	\$ 1,963	\$ 1,292,224
Net income	18,582	711	19,293
Other Comprehensive Income:			
Foreign currency translation adjustments	(16,214)		(16,214)
Pension and other postretirement benefit liability			
adjustments, net of tax	3,264		3,264
Unrealized (loss) on securities, net of tax	(7,334)		(7,334)
Total Other Comprehensive (Loss), net of tax	(20,284)	-	(20,284)
Comprehensive Income (Loss)	(1,702)	711	(991)
Dividends paid	(36,530)		(36,530)

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Other noncontrolling interest activity	(186)	(186)
Shares repurchased and returned for taxes	(21,473)	(21,473)
Stock based compensation expense	7,476		7,476	
Total Equity at February 29, 2016	\$ 1,238,032	\$ 2,488	\$ 1,240,520	

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables illustrate the components of total equity and comprehensive income for the nine months ended February 28, 2017 and February 29, 2016:

(In thousands)	Total RPM		
	International	Noncontrolling	Total
	Inc. Equity	Interest	Equity
Total equity at May 31, 2016	\$ 1,372,335	\$ 2,413	\$ 1,374,748
Net income	53,771	2,051	55,822
Other Comprehensive Income:			
Foreign currency translation adjustments	(46,919)		(46,919)
Pension and other postretirement benefit liability			
adjustments, net of tax	12,516		12,516
Unrealized gain on securities, net of tax	3,286		3,286
Total Other Comprehensive (Loss), net of tax	(31,117)	-	(31,117)
Comprehensive Income	22,654	2,051	24,705
Dividends paid	(116,680)		(116,680)
Other noncontrolling interest activity		(1,959)	(1,959)
Shares repurchased and returned for taxes	(20,092)		(20,092)
Stock based compensation expense	25,005		25,005
Total Equity at February 28, 2017	\$ 1,283,222	\$ 2,505	\$ 1,285,727

(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	201,830	1,974	203,804
Other Comprehensive Income:			
Foreign currency translation adjustments	(100,634)		(100,634)
Pension and other postretirement benefit liability			
adjustments, net of tax	11,064		11,064
Unrealized (loss) on securities, net of tax	(14,049)		(14,049)
Total Other Comprehensive (Loss), net of tax	(103,619)	-	(103,619)
Comprehensive Income	98,211	1,974	100,185
Dividends paid	(107,806)		(107,806)
Other noncontrolling interest activity		(1,559)	(1,559)
Shares repurchased and returned for taxes	(66,765)		(66,765)

Stock based compensation expense	23,000		23,000
Total Equity at February 29, 2016	\$ 1,238,032	\$ 2,488	\$ 1,240,520

NOTE 15 — SEGMENT INFORMATION

We changed the composition of our operating and reportable segments in order to reflect management's view of the operating results for each segment during our first quarter ended August 31, 2016. Under our new composition, we made the determination to move a group of businesses serving the industrial flooring, concrete repair and specialty waterproofing markets out of our specialty reportable segment into our Performance Coatings Group operating segment, which better aligns with our management structure and reports through our industrial reportable segment. For the fiscal year ended May 31, 2016, this group of businesses represented less than 1% of our consolidated net sales, income before income taxes and identifiable assets. 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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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.

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 SPG-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 and identifiable assets.

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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	Nine Months Ended
February 29, 2017	February 28, 29, 2017
2016	2016