RPM INTERNATIONAL INC/DE/
Form 10-Q
January 04, 2018

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

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 January 2, 2018 133,665,724 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 30, 2017	May 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 267,857	$ 350,497
Trade accounts receivable (less allowances of $43,508 and $44,138, respectively)	980,240	995,330
Inventories	864,019	788,197
Prepaid expenses and other current assets	282,940	263,412
Total current assets	2,395,056	2,397,436
Property, Plant and Equipment, at Cost	1,547,126	1,484,579
Allowance for depreciation	(786,701)	(741,893)
Property, plant and equipment, net	760,425	742,686
Other Assets		
Goodwill	1,167,963	1,143,913
Other intangible assets, net of amortization	579,929	573,092
Deferred income taxes	20,621	19,793
Other	220,677	213,529
Total other assets	1,989,190	1,950,327
Total Assets	$ 5,144,671	$ 5,090,449
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 447,071	$ 534,718
Current portion of long-term debt	253,688	253,645
Accrued compensation and benefits	138,375	181,084
Accrued losses	23,566	31,735
Other accrued liabilities	212,293	234,212
Total current liabilities	1,074,993	1,235,394
Long-Term Liabilities		
Long-term debt, less current maturities	1,883,272	1,836,437
Other long-term liabilities	506,606	482,491
Deferred income taxes	70,279	97,427
Total long-term liabilities	2,460,157	2,416,355
Commitments and contingencies (Note 14)		
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 141,587 and outstanding 133,666 as of November 30, 2017; issued 141,242 and outstanding 133,563 as of May 31, 2017	1,337	1,336
Paid-in capital	968,919	954,491
Treasury stock, at cost	(230,347)	(218,222)
Accumulated other comprehensive (loss)	(434,598)	(473,986)
Retained earnings	1,301,442	1,172,442
Total RPM International Inc. stockholders' equity	1,606,753	1,436,061
Noncontrolling Interest	2,768	2,639
Total equity	1,609,521	1,438,700
Total Liabilities and Stockholders' Equity	$ 5,144,671	$ 5,090,449

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		Six Months Ended	
	November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
Net Sales	$1,315,416	$ 1,190,770	$2,660,810	$2,442,833
Cost of Sales	764,401	669,089	1,537,787	1,369,110
Gross Profit	551,015	521,681	1,123,023	1,073,723
Selling, General and Administrative Expenses	419,599	419,494	814,008	803,579
Goodwill and Other Intangible Asset Impairments	-	188,298	-	188,298
Interest Expense	26,396	22,905	53,169	45,683
Investment (Income), Net	(3,739)	(2,416)	(8,192)	(6,254)
Other (Income) Expense, Net	(422)	257	(427)	799
Income (Loss) Before Income Taxes	109,181	(106,857)	264,465	41,618
Provision (Benefit) for Income Taxes	13,323	(36,601)	51,704	(1,520)
Net Income (Loss)	95,858	(70,256)	212,761	43,138
Less: Net Income Attributable to Noncontrolling Interests	395	670	882	1,295
Net Income (Loss) Attributable to RPM International Inc. Stockholders	$95,463	$ (70,926)	$211,879	$41,843
Average Number of Shares of Common Stock Outstanding:				
Basic	131,163	130,695	131,204	130,647
Diluted	135,592	130,695	135,663	130,647
Earnings (Loss) per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic	$0.72	$ (0.54)	$1.59	$0.32
Diluted	$0.70	$ (0.54)	$1.56	$0.32
Cash Dividends Declared per Share of Common Stock	$0.320	$ 0.300	$0.620	$0.575

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		Six Months Ended	
	November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
Net Income (Loss)	$95,858	$ (70,256)	$212,761	$43,138
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(8,158)	(51,984)	36,320	(63,495)
Pension and other postretirement benefit liability adjustments (net of tax of $1,611; $1,963; $2,257; $4,762, respectively)	3,066	3,590	3,695	9,294
Unrealized (loss) gain on securities (net of tax of $1,176; $(320); $1,027; $776, respectively)	2,549	(895)	2,471	709
Unrealized (loss) on derivatives	(2,746)	-	(3,140)	-
Total other comprehensive income (loss)	(5,289)	(49,289)	39,346	(53,492)
Total Comprehensive Income (Loss)	90,569	(119,545)	252,107	(10,354)
Less: Comprehensive Income Attributable to Noncontrolling Interests	323	670	841	1,295
Comprehensive Income (Loss) Attributable to RPM International Inc. Stockholders	$90,246	$ (120,215)	$251,266	$ (11,649)

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	
	November 30, 2017	November 30, 2016
Cash Flows From Operating Activities:		
Net income	$212,761	$ 43,138
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	40,386	35,568
Amortization	23,245	22,111
Goodwill and other intangible asset impairments	-	188,298
Deferred income taxes	(32,276)	(59,363)
Stock-based compensation expense	14,429	17,013
Other non-cash interest expense	2,843	4,964
Realized (gains) on sales of marketable securities	(4,897)	(3,698)
Other	9	(47)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	34,136	110,871
(Increase) in inventory	(62,923)	(81,586)
Decrease (increase) in prepaid expenses and other current and long-term assets	3,919	(20,876)
(Decrease) in accounts payable	(95,302)	(69,518)
(Decrease) in accrued compensation and benefits	(45,464)	(55,662)
(Decrease) in accrued losses	(8,490)	(899)
Increase in other accrued liabilities	33,304	28,057
Other	(494)	361
Cash Provided By Operating Activities	115,186	158,732
Cash Flows From Investing Activities:		
Capital expenditures	(45,295)	(48,049)
Acquisition of businesses, net of cash acquired	(54,647)	(65,201)
Purchase of marketable securities	(96,039)	(25,142)
Proceeds from sales of marketable securities	58,867	24,588
Other	469	956
Cash (Used For) Investing Activities	(136,645)	(112,848)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	35,036	76,369
Reductions of long-term and short-term debt	(1,535)	(73,588)
Cash dividends	(82,878)	(76,604)
Shares repurchased and returned for taxes	(12,125)	(19,663)
Payments of acquisition-related contingent consideration	(3,359)	(4,130)

Other	(1,464)	(1,365)
Cash (Used For) Financing Activities	(66,325)	(98,981)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	5,144	(6,148)
Net Change in Cash and Cash Equivalents	(82,640)	(59,245)
Cash and Cash Equivalents at Beginning of Period	350,497	265,152
Cash and Cash Equivalents at End of Period	$ 267,857	$ 205,907

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 six month periods ended November 30, 2017 and 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, 2017.

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).

NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which establishes a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP. The new standard prescribes a five-step model for recognizing revenue, which will require significant judgment in its application. The new standard requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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. The provisions of this ASU may be applied retrospectively to each prior reporting period presented, or on a modified retrospective basis by recognizing a cumulative catch-up transition amount at the date of initial application. We have selected the modified retrospective transition method, which we will apply upon adoption of the standard as of June 1, 2018.

Given the scope of work required to implement the recognition and disclosure requirements under the new standard, we began our assessment process during fiscal 2016. Our progress to date includes a preliminary identification of areas which will require changes to policies, processes, systems or internal controls. We expect revenue recognition for our broad portfolio of products and services to remain largely unchanged. However, the guidance is expected to change the timing of revenue recognition in certain areas, including our accounting for long-term construction contracts. While these impacts are not expected to be material to our overall Consolidated Financial Statements, we do anticipate that the new disclosure requirements surrounding revenue recognition will be significant. We continue to assess all potential impacts of the guidance and given the stage of our adoption procedures as well as our normal ongoing business dynamics, our preliminary conclusions and assessments of the potential impacts on each of our different business units' revenue streams are subject to change.

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. At a minimum, total assets and total liabilities will increase in the period the ASU is adopted. At November 30, 2017, our total undiscounted future minimum payments outstanding for operating lease obligations approximated $214.0 million.

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 two 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. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently reviewing the impact this guidance will have on our Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which simplifies hedge accounting through changes to both designation and measurement requirements. For hedges that qualify as highly effective, the new standard eliminates the requirement to separately measure and record hedge ineffectiveness, resulting in better alignment between the presentation of the effects of the hedging instrument and the hedged item in the financial statements. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the update. Our early adoption of this pronouncement during our current quarter ended November 30, 2017 did not have a material impact on our Consolidated Financial Statements. Refer to Note 6, “Derivatives and Hedging,” for further information.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

During the three month period ended November 30, 2016, we recorded impairment charges related to a reduction of the carrying value of goodwill and other intangible assets totaling $188.3 million. All of the charges were recorded by our consumer reportable segment. The goodwill impairment loss incurred during fiscal 2017 totaled $140.7 million, and the impairment losses for other intangible assets, totaling $47.8 million, related to formulae for $15.4 million; customer-related intangibles for $30.2 million; other intangibles for $0.2 million and indefinite-lived trademarks for $2.0 million.

Total accumulated goodwill impairment losses were $156.3 million and $155.6 million at November 30, 2017 and 2016, which comprise the goodwill impairment loss incurred during fiscal 2017 as well as a $14.9 million goodwill impairment loss recorded by our industrial reportable segment during fiscal 2009.

The gross amount of other intangible asset accumulated impairment losses were $53.6 million and $48.4 million at November 30, 2017 and 2016, which comprise the other intangible asset impairment loss of $47.8 million incurred during fiscal 2017 as well as a $0.6 million other intangible asset impairment loss recorded by our industrial reportable segment during fiscal 2009. Additionally, during the third quarter of fiscal 2017, we recorded an impairment loss on an indefinite-lived tradename for approximately $4.9 million, 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 the 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 impairment charges outlined above for goodwill and other intangible assets.

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 an 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 believed was appropriate as it reflected the relative risk, the time value of money, and was consistent with Kirker's peer group. After recording the goodwill impairment charge of $140.7 million, no goodwill remained on the Kirker balance sheets as of November 30, 2016.

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 above, we recorded other intangible asset impairments of approximately $45.7 million for the three and six months 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-live 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 for the three and six months 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 at November 30, 2016. Based upon our review of the fair value hierarchy, the inputs used in these fair value measurements were considered Level 3 inputs.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 – MARKETABLE SECURITIES

The following tables summarize marketable securities held at November 30, 2017 and May 31, 2017 by asset type:

	Available-For-Sale Securities			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
November 30, 2017				
Equity securities:				
Stocks - domestic	$1,800	$ 77	$ -	$ 1,877
Mutual funds - foreign	41,901	2,961	(211)	44,651
Mutual funds - domestic	100,971	4,282	(2,042)	103,211
Total equity securities	144,672	7,320	(2,253)	149,739
Fixed maturity:				
U.S. treasury and other government	23,567	66	(343)	23,290
Corporate bonds	651	85	(6)	730
Total fixed maturity securities	24,218	151	(349)	24,020
Total	$168,890	$ 7,471	$ (2,602)	$ 173,759

	Available-For-Sale Securities			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
May 31, 2017				
Equity securities:				
Stocks - domestic	$2,391	$ 76	$ -	$ 2,467
Mutual funds - foreign	35,169	2,470	(204)	37,435
Mutual funds - domestic	102,671	2,084	(3,118)	101,637
Total equity securities	140,231	4,630	(3,322)	141,539
Fixed maturity:				
U.S. treasury and other government	22,176	120	(177)	22,119
Corporate bonds	706	97	(6)	797
Total fixed maturity securities	22,882	217	(183)	22,916
Total	$163,113	$ 4,847	$ (3,505)	$ 164,455

Marketable securities, included in other current and long-term assets totaling $102.5 million and $71.3 million at November 30, 2017, respectively, and included in other current and long-term assets totaling $89.5 million and $75.0 million at May 31, 2017, 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 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.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Gross gains realized on sales of investments were $2.0 million and $1.9 million for the quarters ended November 30, 2017 and 2016, respectively. During the second quarter of fiscal 2017, we recognized gross realized losses on sales of investments of $0.8 million, while such losses were de minimis during the current fiscal quarter. During the second quarter of fiscal 2017, we recognized losses of approximately $0.2 million for securities deemed to have other-than-temporary impairments, while there were no such losses during the current fiscal quarter.

Gross gains realized on sales of investments were $6.1 million and $4.7 million for the six months ended November 30, 2017 and 2016, respectively. During the first half of fiscal 2018 and 2017, we recognized gross realized losses on sales of investments of $1.2 million and $1.0 million, respectively. During the first half of fiscal 2017, we recognized losses of approximately $0.4 million for securities deemed to have other-than-temporary impairments, while there were no such losses during the first half of fiscal 2018. These amounts are included in investment (income), net in the Consolidated Statements of Income.

Summarized below are the securities we held at November 30, 2017 and May 31, 2017 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:

	November 30, 2017		May 31, 2017	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Total investments with unrealized losses	$55,199	$ (2,602)	$59,987	$ (3,505)
Unrealized losses with a loss position for less than 12 months	13,813	(75)	40,854	(2,983)
Unrealized losses with a loss position for more than 12 months	41,386	(2,527)	19,133	(522)

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, 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 November 30, 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	$ 3,727	$ 3,716
One year through five years	16,089	15,879
Six years through ten years	3,224	3,154
After ten years	1,178	1,271
	$ 24,218	$ 24,020

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.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at November 30, 2017
U.S. Treasury and other government	$ -	$ 23,290	$ -	$ 23,290
Corporate bonds		730		730
Stocks - domestic	1,877			1,877
Mutual funds - foreign		44,651		44,651
Mutual funds - domestic		103,211		103,211
Contingent consideration			(14,685)	(14,685)
Total	$ 1,877	$ 171,882	$ (14,685)	$ 159,074

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at May 31, 2017

U.S. Treasury and other government	$ -	$ 22,119	$ -	$ 22,119
Corporate bonds		797		797
Stocks - domestic	2,467			2,467
Mutual funds - foreign		37,435		37,435
Mutual funds - domestic		101,637		101,637
Contingent consideration			(17,979)	(17,979)
Total	$ 2,467	$ 161,988	$ (17,979)	$ 146,476

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.

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 first half of fiscal 2018, we paid approximately $3.3 million for settlements of contingent consideration obligations relating to certain performance milestones that were established in prior periods and achieved during the current period. During the first half of fiscal 2017, we paid approximately $4.1 million for settlements of contingent consideration obligations relating to certain performance milestones that were established in prior periods and achieved during last year’s first half. These amounts are reported in payments of acquisition-related contingent consideration in cash flows from financing activities in the Consolidated Statements of Cash Flows.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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, 2017 and May 31, 2017, 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, 2017 and May 31, 2017 are as follows:

	At November 30, 2017	
(In thousands)	Carrying Value	Fair Value
Cash and cash equivalents	$267,857	$267,857
Marketable equity securities	149,739	149,739
Marketable debt securities	24,020	24,020
Long-term debt, including current portion	2,136,960	2,272,309

	At May 31, 2017	
(In thousands)	Carrying Value	Fair Value
Cash and cash equivalents	$350,497	$350,497
Marketable equity securities	141,539	141,539
Marketable debt securities	22,916	22,916
Long-term debt, including current portion	2,090,082	2,243,167

NOTE 6 - DERIVATIVES AND HEDGING

Derivative Instruments and Hedging Activities

We are exposed to market risks, such as changes in foreign currency exchange rates and interest rates. To manage the volatility related to these exposures, from time to time, we enter into various derivative transactions. We use various types of derivative instruments including forward contracts and swaps. We formally assess, designate and document, as a hedge of an underlying exposure, each qualifying derivative instrument that will be accounted for as an accounting hedge at inception. Additionally, we assess, both at inception and at least quarterly thereafter, whether the financial instruments used in the hedging transaction are effective at offsetting changes in either the fair values or cash flows of the underlying exposures.

Net Investment Hedge

In October 2017, as a means of mitigating the impact of currency fluctuations on our Euro investments in foreign entities, we executed a fair value hedge and two cross currency swaps, in which we will pay variable rate interest in Euros and receive fixed rate interest in U.S. Dollars with a combined notional amount of approximately €85.25 million ($100 million U.S. Dollar equivalent), and which have a maturity date of November 2022. This effectively converts a portion of our U.S. Dollar denominated fixed rate debt to Euro denominated variable rate debt. The fair value hedge is recognized at fair value in our Consolidated Balance Sheets, while changes in the fair value of the hedge are recognized in interest expense in our Consolidated Statements of Income. We designated the swaps as net investment hedges of our net investment in our European operations under ASU 2017-12 and applied the spot method to these hedges. The changes in fair value of the derivative instruments that are designated and qualify as hedges of net investments in foreign operations are recognized in accumulated other comprehensive income ("AOCI") to offset the changes in the values of the net investments being hedged. Amounts released from AOCI and reclassified into interest expense did not have a material impact on our Consolidated Financial Statements for any period presented.

Derivatives Designated as Cash Flow Hedging Instruments

We have designated certain forward contracts as hedging instruments pursuant to ASC No. 815 ("ASC 815"), "Derivatives and Hedging." Changes in the fair value of these highly effective hedges are recorded as a component of AOCI. During the period in which a forecasted transaction affects earnings, amounts previously recorded as a component of AOCI are reclassified into earnings as a component of cost of sales. Amounts released from AOCI and reclassified into earnings did not have a material impact on our Consolidated Financial Statements for any period presented. As of November 30, 2017, and May 31, 2017 the notional amount of the forward contracts held to sell international currencies was $14.6 million and $9.8 million, respectively.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivatives Not Designated as Hedges

At November 30, 2017, we held three foreign currency forward contracts designed to reduce our exposure to 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. These contracts have not been designated as hedges; therefore, the changes in fair value of these derivatives are recognized in earnings as a component of other (income) expense. Amounts recognized in earnings did not have a material impact on our Consolidated Financial Statements for any period presented. As of November 30, 2017 and May 31, 2017, the notional amounts of the forward contracts held to purchase foreign currencies was $151.7 million and $49.4 million, respectively.

Disclosure about Derivative Instruments

All of our derivative assets and liabilities measured at fair value are classified as Level 2 within the fair value hierarchy. We determine the fair value of our derivatives based on valuation methods, which project future cash flows and discount the future amounts to present value using market based observable inputs, including interest rate curves, foreign currency rates, as well as future and basis point spreads, as applicable.

The fair values of qualifying and non-qualifying instruments used in hedging transactions as of November 30, 2017 and May 31, 2017 are as follows:

(in thousands)			Fair Value	
Derivatives Designated as Hedging Instruments		Balance Sheet Location	November 30, 2017	May 31, 2017
Assets:				
	Foreign Currency Exchange (Cash Flow)	Other Current Assets	438	15
	Cross Currency Swap (Net Investment)	Other Current Assets	1,905	-
	Interest Rate Swap (Fair Value)	Other Current Assets	260	-
	Cross Currency Swap (Net Investment)	Other Assets (Long-Term)	1,658	-
Liabilities:				
	Foreign Currency Exchange (Cash Flow)	Other Accrued Liabilities	29	-
	Cross Currency Swap (Net Investment)	Other Long-Term Liabilities	6,807	-
	Interest Rate Swap (Fair Value)	Other Long-Term Liabilities	994	-

(in thousands)			Fair Value	
Derivatives Not Designated as Hedging Instruments		Balance Sheet Location	November 30, 2017	May 31, 2017
Assets:				
	Foreign Currency Exchange	Other Current Assets	525	24

Liabilities:			
Foreign Currency Exchange	Other Accrued Liabilities	202	-

NOTE 7 - INVESTMENT (INCOME), NET

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

(In thousands)	Three Months Ended November 30, 2017	Three Months Ended November 30, 2016	Six Months Ended November 30, 2017	Six Months Ended November 30, 2016
Interest (income)	$(1,297)	$ (1,093)	$(2,191)	$ (2,233)
Net (gain) on sale of marketable securities	(2,037)	(1,114)	(4,897)	(3,698)
Other-than-temporary impairment on securities		217		403
Dividend (income)	(405)	(426)	(1,104)	(726)
Investment (income), net	$(3,739)	$ (2,416)	$(8,192)	$ (6,254)

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 - OTHER (INCOME) EXPENSE, NET

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

	Three Months Ended		Six Months Ended	
(In thousands)	November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
Royalty expense, net	$(178)	$ 581	$90	$ 1,336
(Income) related to unconsolidated equity affiliates	(244)	(324)	(517)	(537)
Other (income) expense, net	$(422)	$ 257	$(427)	$ 799

NOTE 9 — INCOME TAXES

The effective income tax expense rate was 12.2% for the three months ended November 30, 2017 compared to an effective income tax benefit rate of 34.3% for the three months ended November 30, 2016. The effective income tax expense rate was 19.6% for the six months ended November 30, 2017 compared to an effective income tax benefit rate of 3.7% for the six months ended November 30, 2016.

The effective tax rate for the three months ended November 30, 2017 and 2016 reflect variances from the 35% federal statutory rate due to lower effective tax rate of certain of our foreign subsidiaries, the benefit of the domestic manufacturing deduction, partially offset by the unfavorable impact of state and local taxes. Additionally, we recorded favorable discrete tax adjustments for excess tax benefits related to equity compensation of $2.0 million and $1.0 million, respectively, in the three-month periods ended November 30, 2017 and 2016; and $3.5 million and $11.3 million, respectively, for the six month periods ended November 30, 2017 and 2016.

Additionally, during the three-month period ended November 30, 2017, we approved and completed a foreign legal entity restructuring and corresponding planning strategy that resulted in a discrete tax benefit of $18.0 million. Of this amount, a U.S. tax benefit of $1.2 million resulted from the generation of foreign tax credits which offset a deemed inclusion in U.S. taxable income of foreign earnings. The planned subsequent distribution of these foreign earnings resulted in a benefit of $16.8 million for a corresponding reduction in the estimated deferred income tax liability for the U.S. tax cost associated with unremitted foreign earnings that are not considered permanently reinvested.

Furthermore, income tax expense for the six-month period ended November 30, 2017 reflects the net discrete tax benefit of $9.0 million that we previously reported during the three-month period ended August 31, 2017. As of November 30, 2017, the amount of unremitted foreign earnings, not previously subject to U.S. tax that may be repatriated and the corresponding deferred tax liability have been adjusted to $221.8 million and $63.4 million, respectively. The reduction to the amount of unremitted foreign earnings that may be repatriated, and the related tax impact, is principally the result of the above noted transaction related to the foreign earnings not considered permanently reinvested, partially offset by the impact of foreign currency translation. The increase to the deferred tax liability related to foreign currency translation was recorded as a component of accumulated 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 November 30, 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 foreign subsidiaries were paid to us as dividends.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted into law. The income tax effects of changes in tax laws are recognized in the period when enacted. The Act provides for numerous significant tax law changes and modifications with varying effective dates, which include reducing the corporate income tax rate from 35% to 21%, creating a territorial tax system (with a one-time mandatory tax on previously deferred foreign earnings), broadening the tax base and allowing for immediate capital expensing of certain qualified property.

As a fiscal year-end taxpayer, certain provisions of the Act will begin to impact us in our fiscal third quarter ending February 28, 2018, while other provisions will impact us beginning in fiscal 2019. The corporate tax rate reduction is effective for RPM as of January 1, 2018 and, accordingly, will reduce our current fiscal year federal statutory rate to a blended rate of approximately 29.2%.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We are currently analyzing the various components of the Act and its impact on our financial statements, including the estimated impact resulting from the re-measurement of our deferred tax assets and liabilities and the estimated charge for the one-time tax on our deferred foreign earnings and expect to record provisional amounts for these impacts in our third quarter financial statements.

We regularly assess our permanent reinvestment assertion regarding undistributed foreign earnings. The Act includes other provisions that may factor into our reinvestment assertions. Any prospective changes in our assertions regarding permanent reinvestment of undistributed earnings will be recorded in the period of the change.

NOTE 10 — INVENTORIES

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

	November 30, 2017	May 31, 2017
(In thousands)		
Raw material and supplies	$269,887	$248,426
Finished goods	594,132	539,771
Total Inventory, Net of Reserves	$864,019	$788,197

NOTE 11 — 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 six month periods ended November 30, 2017 and 2016, we did not repurchase any shares of our common stock under this program.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12 — EARNINGS (LOSS) 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 treasury stock method for the three months ended November 30, 2016 and the two-class method for the six months ended November 30, 2016. For the three and six months ended November 30, 2017, basic and diluted earnings per share were calculated using the two-class method.

(In thousands, except per share amounts)	Three Months Ended November 30, 2017	Three Months Ended November 30, 2016	Six Months Ended November 30, 2017	Six Months Ended November 30, 2016
Numerator for earnings per share:				
Net income (loss) attributable to RPM International Inc. stockholders	$95,463	$ (70,926)	$211,879	$ 41,843
Less: Allocation of earnings and dividends to participating securities	(1,313)		(2,828)	(621)
Net income (loss) available to common shareholders - basic	94,150	(70,926)	209,051	41,222
Add: Undistributed earnings reallocated to unvested shareholders	3		7	
Add: Income effect of contingently issuable shares	1,379		2,756	
Net income (loss) available to common shareholders - diluted	$95,532	$ (70,926)	$211,814	$ 41,222
Denominator for basic and diluted earnings per share:				
Basic weighted average common shares	131,163	130,695	131,204	130,647
Average diluted options	514		544	
Additional shares issuable assuming conversion of convertible securities (1)	3,915		3,915	
Total shares for diluted earnings per share (2)	135,592	130,695	135,663	130,647
Earnings (Loss) Per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic Earnings (Loss) Per Share of Common Stock	$0.72	$ (0.54)	$1.59	$ 0.32
Diluted Earnings (Loss) Per Share of Common Stock	$0.70	$ (0.54)	$1.56	$ 0.32

(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.

(2) Restricted shares totaling 123,262 and 99,612 for the three and six months ended November 30, 2017, 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 243,000 shares of restricted stock identified as being anti-dilutive for the three months ended November 30, 2016; and none identified as being anti-dilutive for the six months ended November 30, 2016. In addition, stock appreciation rights ("SARs") totaling 600,000 for the three and six months ended November 30, 2017, and 1,170,000 for the three and six months ended November 30, 2016, were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 13 — 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 six month periods ended November 30, 2017 and 2016:

	U.S. Plans Three Months Ended		Non-U.S. Plans Three Months Ended	
Pension Benefits	November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
(In thousands)				
Service cost	$9,465	$ 9,401	$1,175	$ 1,127
Interest cost	4,379	4,331	1,145	1,224
Expected return on plan assets	(8,086)	(6,252)	(1,978)	(1,886)
Amortization of:				
Prior service cost (credit)	29	54	(6)	
Net actuarial losses recognized	3,618	5,540	419	573
Net Periodic Benefit Cost	$9,405	$ 13,074	$755	$ 1,038

	U.S. Plans Three Months Ended		Non-U.S. Plans Three Months Ended	
Postretirement Benefits	November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
(In thousands)				
Service cost	$ -	$ -	$ 311	$ 284
Interest cost	43	57	224	222
Amortization of:				
Prior service (credit)	(55)	(58)		
Net actuarial losses recognized	6		79	60
Net Periodic Benefit (Credit) Cost	$ (6)	$ (1)	$ 614	$ 566

	U.S. Plans Six Months Ended		Non-U.S. Plans Six Months Ended	
Pension Benefits	November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
(In thousands)				
Service cost	$18,930	$ 18,802	$2,350	$ 2,254
Interest cost	8,758	8,662	2,290	2,448
Expected return on plan assets	(16,172)	(12,504)	(3,956)	(3,772)
Amortization of:				

Prior service cost	58	108	(12)	-
Net actuarial losses recognized	7,236	11,080	838	1,146
Net Periodic Benefit Cost	$18,810	$ 26,148	$1,510	$ 2,076

Postretirement Benefits	U.S. Plans Six Months Ended November 30, 2017	U.S. Plans Six Months Ended November 30, 2016	Non-U.S. Plans Six Months Ended November 30, 2017	Non-U.S. Plans Six Months Ended November 30, 2016
(In thousands)				
Service cost	$-	$ -	$622	$ 568
Interest cost	86	114	448	444
Amortization of:				
Prior service (credit)	(110)	(116)	-	-
Net actuarial losses recognized	12	-	158	120
Net Periodic Benefit (Credit) Cost	$(12)	$ (2)	$1,228	$ 1,132

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The decrease in pension and postretirement benefit cost from fiscal 2017 to 2018 reflects the impact of increased asset values, which we expect will generate higher returns, and a change in estimate for lump sum valuations. 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, 2017 that we expected to contribute approximately $1.0 million to our retirement plans in the U.S. and approximately $7.0 million to plans outside the U.S. during the current fiscal year. As of November 30, 2017, this has not changed.

NOTE 14 – 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, 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.

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

	Three Months Ended		Six Months Ended	
	November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
	(In thousands)			
Beginning Balance	$15,771	$ 15,233	$19,149	$ 13,314
Deductions (1)	(6,030)	(5,942)	(14,671)	(8,432)
Provision charged to expense	4,716	6,663	9,979	11,072
Ending Balance	$14,457	$ 15,954	$14,457	$ 15,954

(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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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. Both we and our General Counsel filed motions to dismiss the complaint on February 24, 2017. Those motions to dismiss the complaint were denied by the Court on September 29, 2017. We and our General Counsel filed answers to the complaint on October 16, 2017. No trial date has been set, but formal discovery will commence in January 2018. We intend to continue to contest the allegations in the complaint vigorously.

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.

With respect to a case pending against one of our subsidiaries in which there is alleged both trade secret and trademark infringement, during the quarter ended August 31, 2017, the court denied our motion for summary judgment and based on our current understanding of the claim we have determined that it is reasonably possible that we may incur a loss related to this claim; however we cannot estimate the amount or range of any potential loss.

NOTE 15 – EQUITY

The following tables illustrate the components of total equity and comprehensive income for the three months ended November 30, 2017 and 2016:

(In thousands)	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at August 31, 2017	$ 1,559,111	$ 3,092	$ 1,562,203
Net income	95,463	395	95,858

Other Comprehensive Income:			
Foreign currency translation adjustments	(8,086)	(72)	(8,158)
Pension and other postretirement benefit liability adjustments, net of tax	3,066		3,066
Unrealized gain on securities, net of tax	2,549		2,549
Unrealized (loss) on derivatives, net of tax	(2,746)		(2,746)
Total Other Comprehensive (Loss), net of tax	(5,217)	(72)	(5,289)
Comprehensive Income	90,246	323	90,569
Dividends paid	(42,789)		(42,789)
Other noncontrolling interest activity		(647)	(647)
Shares repurchased and returned for taxes	(6,779)		(6,779)
Stock based compensation expense	6,964		6,964
Total Equity at November 30, 2017	$ 1,606,753	$ 2,768	$ 1,609,521

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands)	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at August 31, 2016	$ 1,435,438	$ 2,126	$ 1,437,564
Net (loss) income	(70,926)	670	(70,256)
Other Comprehensive Income (Loss):			
Foreign currency translation adjustments	(51,984)		(51,984)
Pension and other postretirement benefit liability adjustments, net of tax	3,590		3,590
Unrealized (loss) on securities, net of tax	(895)		(895)
Total Other Comprehensive (Loss), net of tax	(49,289)	-	(49,289)
Comprehensive (Loss) Income	(120,215)	670	(119,545)
Dividends paid	(40,075)		(40,075)
Other noncontrolling interest activity		(894)	(894)
Shares repurchased and returned for taxes	(2,558)		(2,558)
Stock based compensation expense	8,842		8,842
Total Equity at November 30, 2016	$ 1,281,432	$ 1,902	$ 1,283,334

(In thousands)	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at May 31, 2017	$ 1,436,061	$ 2,639	$ 1,438,700
Net income	211,879	882	212,761
Other Comprehensive Income:			
Foreign currency translation adjustments	36,361	(41)	36,320
Pension and other postretirement benefit liability adjustments, net of tax	3,695		3,695
Unrealized gain on securities, net of tax	2,471		2,471
Unrealized (loss) on derivatives, net of tax	(3,140)		(3,140)
Total Other Comprehensive Income (Loss), net of tax	39,387	(41)	39,346
Comprehensive Income	251,266	841	252,107
Dividends paid	(82,878)		(82,878)
Other noncontrolling interest activity		(712)	(712)
Shares repurchased and returned for taxes	(12,125)		(12,125)
Stock based compensation expense	14,429		14,429
Total Equity at November 30, 2017	$ 1,606,753	$ 2,768	$ 1,609,521

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands)	Total RPM International Inc. Equity	Noncontrolling Interest	Total Equity
Total equity at May 31, 2016	$ 1,372,335	$ 2,413	$ 1,374,748
Net income	41,843	1,295	43,138
Other Comprehensive Income:			
Foreign currency translation adjustments	(63,495)		(63,495)
Pension and other postretirement benefit liability adjustments, net of tax	9,294		9,294
Unrealized gain on securities, net of tax	709		709
Total Other Comprehensive (Loss), net of tax	(53,492)	-	(53,492)
Comprehensive (Loss) Income	(11,649)	1,295	(10,354)
Dividends paid	(76,604)		