RPM INTERNATIONAL INC/DE/
Form 10-Q
January 09, 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 November 30, 2016,

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;	44258
2628 PEARL ROAD;	(Zip Code)
MEDINA, OHIO	

(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 January 3, 2017 133,575,814 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, 2016	May 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 205,907	$ 265,152
Trade accounts receivable (less allowances of $40,909 and $24,600, respectively)	840,814	963,092
Inventories	762,167	685,818
Prepaid expenses and other current assets	232,217	221,286
Total current assets	2,041,105	2,135,348
Property, Plant and Equipment, at Cost	1,353,282	1,344,830
Allowance for depreciation	(714,353)	(715,377)
Property, plant and equipment, net	638,929	629,453
Other Assets		
Goodwill	1,085,763	1,219,630
Other intangible assets, net of amortization	521,198	575,401
Deferred income taxes	59,619	19,771
Other	200,847	185,366
Total other assets	1,867,427	2,000,168
Total Assets	$ 4,547,461	$ 4,764,969
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 429,941	$ 500,506
Current portion of long-term debt	3,880	4,713
Accrued compensation and benefits	126,097	183,768
Accrued losses	33,846	35,290
Other accrued liabilities	292,849	277,914
Total current liabilities	886,613	1,002,191
Long-Term Liabilities		
Long-term debt, less current maturities	1,634,967	1,635,260
Other long-term liabilities	701,091	702,979
Deferred income taxes	41,456	49,791
Total long-term liabilities	2,377,514	2,388,030
Commitments and contingencies (Note 13)		
Stockholders' Equity		

Preferred stock, par value $0.01; authorized 50,000 shares; none issued	-	-
Common stock, par value $0.01; authorized 300,000 shares; issued 141,205 and outstanding 133,576 as of November 30, 2016; issued 140,195 and outstanding 132,944 as of May 31, 2016	1,336	1,329
Paid-in capital	938,963	921,956
Treasury stock, at cost	(215,936)	(196,274)
Accumulated other comprehensive (loss)	(555,541)	(502,047)
Retained earnings	1,112,610	1,147,371
Total RPM International Inc. stockholders' equity	1,281,432	1,372,335
Noncontrolling Interest	1,902	2,413
Total equity	1,283,334	1,374,748
Total Liabilities and Stockholders' Equity	$ 4,547,461	$ 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 November 30,		Six Months Ended November 30,	
	2016	2015	2016	2015
Net Sales	$1,190,770	$1,155,984	$2,442,833	$2,398,510
Cost of Sales	669,089	662,050	1,369,110	1,371,618
Gross Profit	521,681	493,934	1,073,723	1,026,892
Selling, General and Administrative Expenses	419,494	352,594	803,579	725,448
Goodwill and Other Intangible Asset Impairments	188,298		188,298	
Interest Expense	22,905	22,478	45,683	44,938
Investment (Income), Net	(2,416)	(1,100)	(6,254)	(5,168)
Other Expense (Income), Net	257	(299)	799	(788)
(Loss) Income Before Income Taxes	(106,857)	120,261	41,618	262,462
(Benefit) Provision for Income Taxes	(36,601)	36,112	(1,520)	77,951
Net (Loss) Income	(70,256)	84,149	43,138	184,511
Less: Net Income Attributable to Noncontrolling Interests	670	716	1,295	1,263
Net (Loss) Income Attributable to RPM International Inc. Stockholders	$(70,926)	$83,433	$41,843	$183,248
Average Number of Shares of Common Stock Outstanding:				
Basic	130,695	129,398	130,647	129,723
Diluted	130,695	136,734	130,647	137,072
(Loss) Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic	$(0.54)	$0.63	$0.32	$1.39
Diluted	$(0.54)	$0.62	$0.32	$1.36
Cash Dividends Declared per Share of Common Stock	$0.300	$0.275	$0.575	$0.535

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 November 30, 2016	Three Months Ended November 30, 2015	Six Months Ended November 30, 2016	Six Months Ended November 30, 2015
Net (Loss) Income	$(70,256)	$84,149	$43,138	$184,511
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(51,984)	(53,814)	(63,495)	(84,420)
Pension and other postretirement benefit liability adjustments (net of tax of $1,963; $1,803; $4,762; $3,817, respectively)	3,590	3,640	9,294	7,800
Unrealized gain (loss) on securities (net of tax of $(320); $632; $776; $(2,595), respectively)	(895)	369	709	(6,715)
Total other comprehensive (loss)	(49,289)	(49,805)	(53,492)	(83,335)
Total Comprehensive (Loss) Income	(119,545)	34,344	(10,354)	101,176
Less: Comprehensive Income Attributable to Noncontrolling Interests	670	716	1,295	1,263
Comprehensive (Loss) Income Attributable to RPM International Inc. Stockholders	$(120,215)	$33,628	$(11,649)	$99,913

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, 2016	2015
Cash Flows From Operating Activities:		
Net income	$43,138	$184,511
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	35,568	33,509
Amortization	22,111	22,144
Goodwill and other intangible asset impairments	188,298	-
Reversal of contingent earnout obligations	-	(14,500)
Deferred income taxes	(59,363)	(680)
Stock-based compensation expense	17,013	15,524
Other non-cash interest expense	4,964	4,862
Realized (gains) on sales of marketable securities	(3,698)	(4,418)
Other	(47)	1,441
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	110,871	117,358
(Increase) in inventory	(81,586)	(49,781)
(Increase) decrease in prepaid expenses and other current and long-term assets	(20,876)	4,617
(Decrease) in accounts payable	(69,518)	(105,841)
(Decrease) in accrued compensation and benefits	(55,662)	(45,649)
(Decrease) increase in accrued losses	(899)	715
Increase in other accrued liabilities	28,057	7,375
Other	361	(4,114)
Cash Provided By Operating Activities	158,732	167,073
Cash Flows From Investing Activities:		
Capital expenditures	(48,049)	(31,295)
Acquisition of businesses, net of cash acquired	(65,201)	(12,006)
Purchase of marketable securities	(25,142)	(14,213)
Proceeds from sales of marketable securities	24,588	11,737
Other	956	5,355
Cash (Used For) Investing Activities	(112,848)	(40,422)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	76,369	38,765
Reductions of long-term and short-term debt	(73,588)	(18,774)
Cash dividends	(76,604)	(71,276)
Shares repurchased and returned for taxes	(19,663)	(45,292)

Payments of acquisition-related contingent consideration	(4,130)	(1,631)
Other	(1,365)	270
Cash (Used For) Financing Activities	(98,981)	(97,938)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6,148)	(12,815)
Net Change in Cash and Cash Equivalents	(59,245)	15,898
Cash and Cash Equivalents at Beginning of Period	265,152	174,711
Cash and Cash Equivalents at End of Period	$205,907	$190,609

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, 2016 and 2015. 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.

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.

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 have 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 a discrete income tax benefit of $10.4 million for excess tax benefits generated during the three months ended August 31, 2016 and $0.9 million during the three months ended November 30, 2016 in the consolidated statements of income. 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.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill, by reportable segment, for the six months ended November 30, 2016 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	31,434			31,434
Impairment			(140,686)	(140,686)
Translation adjustments	(12,631)	(1,766)	(10,218)	(24,615)
Balance as of November 30, 2016	$494,158	$170,002	$421,603	$1,085,763

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 three and six months ended November 30, 2016, we recognized $140.7 million of preliminary goodwill impairment losses, which was recorded by our consumer reportable segment. At November 30, 2016, accumulated impairment losses totaled $155.6 million.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other intangible assets as of November 30, 2016 consist of the following major classes:

	November 30, 2016			
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Impairment Charge	Net Carrying Amount
Amortized intangible assets				
Formulae	$216,760	$ (123,977)	$ (15,364)	$ 77,419
Customer-related intangibles	322,229	(108,072)	(30,176)	183,981
Trademarks/names	27,808	(13,919)		13,889
Other	37,154	(19,723)	(198)	17,233
Total Amortized Intangibles	603,951	(265,691)	(45,738)	292,522
Indefinite-lived intangible assets				
Trademarks/names	230,721		(2,045)	228,676
Total Other Intangible Assets	$834,672	$ (265,691)	$ (47,783)	$ 521,198

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 six months ended November 30, 2016, we recorded preliminary other intangible asset impairment losses of approximately $47.8 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 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.

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 $140.7 million, no goodwill remains on the Kirker balance sheets as of November 30, 2016. We are not able to finalize our goodwill impairment assessment until such time as we finalize our fair value determinations, which we expect to complete during our third fiscal quarter ending February 28, 2017. At that time, we will record the necessary adjustments, if any, to our preliminary goodwill impairment charge recorded in the current quarter.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 preliminary 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 preliminary 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. Based upon our review of the fair value hierarchy, the inputs used in these fair value measurements were considered Level 3 inputs. 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 third fiscal quarter ending February 28, 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 November 30, 2016 and May 31, 2016 by asset type:

	Available-For-Sale Securities			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
November 30, 2016				
Equity securities:				
Stocks – foreign	$5,699	$ 229	$ (323)	$ 5,605
Stocks – domestic	31,050	2,086	(1,325)	31,811

Mutual funds – foreign	34,419	920	(3,204)	32,135
Mutual funds – domestic	62,572	1,393	(2,938)	61,027
Total equity securities	133,740	4,628	(7,790)	130,578
Fixed maturity:				
U.S. treasury and other government	22,235	76	(295)	22,016
Corporate bonds	774	104	(8)	870
Total fixed maturity securities	23,009	180	(303)	22,886
Total	$156,749	$ 4,808	$ (8,093)	$ 153,464

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Available-For-Sale Securities			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
May 31, 2016				
Equity securities:				
Stocks – foreign	$5,051	$ 439	$ (247)	$ 5,243
Stocks – domestic	27,717	3,831	(911)	30,637
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 $78.9 million and $74.6 million at November 30, 2016, 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 income (loss) within stockholders' equity. Other-than-temporary declines in market value from original cost are reflected in operating income in the period in which the unrealized losses are deemed other than temporary. In order to determine whether other-than-temporary declines in market value have occurred, the duration of the decline in value and our ability to hold the investment are considered in conjunction with an evaluation of the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related market value.

Gross gains realized on sales of investments were $1.9 million and $2.1 million for the quarters ended November 30, 2016 and 2015, respectively. During the second quarter of fiscal 2017 and 2016, we recognized gross realized losses on sales of investments of $0.8 million and $0.1 million, respectively. During the second quarter of fiscal 2017 and 2016, we recognized losses of approximately $0.2 million and $2.5 million for securities deemed to have other-than-temporary impairments. These amounts are included in investment (income), net in the Consolidated Statements of Income.

Gross gains realized on sales of investments were $4.7 million and $4.6 million for the six months ended November 30, 2016 and 2015, respectively. During the first six months of fiscal 2017 and 2016, we recognized gross realized losses on sales of investments of $1.0 million and $0.2 million, respectively. During the first six months of fiscal 2017 and 2016, we recognized losses of approximately $0.4 million and $2.5 million, respectively, for securities deemed to have other-than-temporary impairments.

Summarized below are the securities we held at November 30, 2016 and May 31, 2016 that were in an unrealized loss position and that were included in accumulated other comprehensive income (loss), aggregated by the length of time the investments had been in that position:

	November 30, 2016		May 31, 2016	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Total investments with unrealized losses	$99,283	$ (8,093)	$89,360	$ (10,182)
Unrealized losses with a loss position for less than 12 months	35,039	(1,925)	41,762	(4,856)
Unrealized losses with a loss position for more than 12 months	64,244	(6,168)	47,598	(5,326)

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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, 2016 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, 2016, 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	$ 6,157	$ 6,127
One year through five years	12,606	12,486
Six years through ten years	3,140	3,079
After ten years	1,106	1,194
	$ 23,009	$ 22,886

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.

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.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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, 2016
U.S. Treasury and other government	$ -	$ 22,016	$ -	$ 22,016
Corporate bonds		870		870
Stocks - foreign	5,605			5,605
Stocks - domestic	31,811			31,811
Cash and cash equivalents	1,328			1,328
Mutual funds - foreign		32,135		32,135
Mutual funds - domestic		61,027		61,027
Foreign currency forward contract		(100)		(100)
Contingent consideration			(7,640)	(7,640)
Total	$ 38,744	$ 115,948	$ (7,640)	$ 147,052

(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, 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.

At November 30, 2016, we had a foreign currency forward contract with a fair value of approximately $0.1 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. 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 paid approximately $4.1 million for settlements of contingent consideration obligations relating to certain

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 November 30, 2016 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 November 30, 2016 and May 31, 2016 are as follows:

	At November 30, 2016	
(In thousands)	Carrying Value	Fair Value
Cash and cash equivalents	$205,907	$205,907
Marketable equity securities	130,578	130,578
Marketable debt securities	22,886	22,886
Long-term debt, including current portion	1,638,847	1,904,270

	At May 31, 2016	
(In thousands)	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:

	Three Months Ended November 30,		Six Months Ended November 30,	
(In thousands)	2016	2015	2016	2015
Interest (income)	$(1,093)	$(1,218)	$(2,233)	$(2,582)
(Gain) on sale of marketable securities	(1,114)	(2,042)	(3,698)	(4,418)
Other-than-temporary impairment on securities	217	2,472	403	2,472
Dividend (income)	(426)	(312)	(726)	(640)

Investment (income), net	$(2,416)	$(1,100)	$(6,254)	$(5,168)

NOTE 7 - OTHER EXPENSE (INCOME), NET

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(In thousands)	2016	2015	2016	2015
Royalty expense, net	$581	$174	$1,336	$163
(Income) related to unconsolidated equity affiliates	(324)	(473)	(537)	(951)
Other expense (income), net	$257	$(299)	$799	$(788)

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 — INCOME TAXES

The effective income tax benefit rate was 34.3% for the three months ended November 30, 2016 compared to an effective income tax expense rate of 30.0% for the three months ended November 30, 2015. The effective income tax benefit rate was 3.7% for the six months ended November 30, 2016 compared to an effective income tax expense rate of 29.7% for the six months ended November 30, 2015.

The effective tax rate for the three and six months ended November 30, 2016 and 2015 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, as a result of our current year early adoption of ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”, we recorded a $10.4 million discrete tax benefit during the three months ended August 31, 2016 and an additional $0.9 million discrete tax benefit for the three months ended November 30, 2016, for excess tax benefits related to equity compensation. Please see Note 2, “New Accounting Pronouncements,” for additional discussion regarding our adoption of the standard.

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 November 30, 2016, the amount of undistributed earnings that may be repatriated and the corresponding deferred tax liability has been adjusted to $368.8 million and $95.3 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 November 30, 2016. 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:

	November 30, 2016	May 31, 2016
(In thousands)		
Raw material and supplies	$237,231	$227,900
Finished goods	524,936	457,918
Total Inventory, Net of Reserves	$762,167	$685,818

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 six months ended November 30, 2016, we did not repurchase any shares of our common stock under this program. During the three and six months ended November 30, 2015, we repurchased approximately 100,000 shares and 400,000 shares of our common stock under this program, respectively. These shares of common stock were repurchased during the prior year second quarter and six month period for approximately $4.4 million and $17.2 million, respectively.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11 — 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, 2015, the two-class method was used to compute basic earnings per share, while the treasury stock method was utilized for the purpose of computing diluted earnings per share, as that method resulted in the most-dilutive earnings per share.

	Three Months Ended November 30,		Six Months Ended November 30,	
(In thousands, except per share amounts)	2016	2015	2016	2015
Numerator for earnings per share:				
Net income (loss) attributable to RPM International Inc. stockholders	$(70,926)	$83,433	$41,843	$183,248
Less: Allocation of earnings and dividends to participating securities		(1,571)	(621)	(3,068)
Net income (loss) available to common shareholders – basic	(70,926)	81,862	41,222	180,180
Add: Undistributed earnings reallocated to unvested shareholders				
Reverse: Allocation of earnings and dividends to participating securities		1,571		3,068
Add: Income effect of contingently issuable shares		1,354		2,706
Net income (loss) available to common shareholders – diluted	$(70,926)	$84,787	$41,222	$185,954
Denominator for basic and diluted earnings per share:				
Basic weighted average common shares	130,695	129,398	130,647	129,723
Average diluted options		3,453		3,466
Additional shares issuable assuming conversion of convertible securities (1)		3,883		3,883
Total shares for diluted earnings per share (2)	130,695	136,734	130,647	137,072
Earnings (Loss) Per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic Earnings (Loss) Per Share of Common Stock	$(0.54)	$0.63	$0.32	$1.39

Diluted Earnings (Loss) Per Share of Common Stock	$(0.54)	$0.62	$0.32	$1.36

(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 1,169,393 and 919,918 for the three and six months ended November 30, 2015, 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 six months ended November 30, 2016. In addition, stock appreciation rights (SARs) totaling 1,400,000 for the three and six months ended November 30, 2015 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 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 six month periods ended November 30, 2016 and 2015:

	U.S. Plans		Non-U.S. Plans	
	Three Months Ended		Three Months Ended	
Pension Benefits	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
(In thousands)				
Service cost	$9,401	$ 8,202	$1,127	$ 1,067
Interest cost	4,331	4,499	1,224	1,323
Expected return on plan assets	(6,252)	(6,437)	(1,886)	(1,983)
Amortization of:				
Prior service cost	54	58		
Net actuarial losses recognized	5,540	4,190	573	457
Settlement				91
Net Periodic Benefit Cost	$13,074	$ 10,512	$1,038	$ 955

	U.S. Plans		Non-U.S. Plans	
	Three Months Ended		Three Months Ended	
Postretirement Benefits	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
(In thousands)				
Service cost	$ -	$ -	$ 284	$ 281
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)	$ 566	$ 563

	U.S. Plans		Non-U.S. Plans	
	Six Months Ended		Six Months Ended	
Pension Benefits	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
(In thousands)				
Service cost	$18,802	$ 16,404	$2,254	$ 2,134
Interest cost	8,662	8,998	2,448	2,646
Expected return on plan assets	(12,504)	(12,874)	(3,772)	(3,966)

Amortization of:				
Prior service cost	108	116	-	-
Net actuarial losses recognized	11,080	8,380	1,146	914
Settlement	-	-	-	91
Net Periodic Benefit Cost	$26,148	$ 21,024	$2,076	$ 1,819

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Postretirement Benefits	U.S. Plans Six Months Ended November 30, 2016	U.S. Plans Six Months Ended November 30, 2015	Non-U.S. Plans Six Months Ended November 30, 2016	Non-U.S. Plans Six Months Ended November 30, 2015
(In thousands)				
Service cost	$-	$ -	$568	$ 562
Interest cost	114	118	444	442
Amortization of:				
Prior service (credit)	(116)	(124)	-	-
Net actuarial (gains) losses recognized	-	-	120	122
Net Periodic Benefit Cost	$(2)	$ (6)	$1,132	$ 1,126

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 November 30, 2016, 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 November 30, 2016, 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 November 30,		Six Months Ended November 30,	
	2016	2015	2016	2015
	(In thousands)			
Beginning Balance	$15,233	$10,112	$13,314	$11,663
Deductions (1)	(5,942)	(4,890)	(8,432)	(9,550)
Provision charged to expense	6,663	4,218	11,072	7,327
Ending Balance	$15,954	$9,440	$15,954	$9,440

(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 investigations, and determined that it was appropriate to restate our financial results for the first, second and third quarters of fiscal 2013. These restatements had no impact on our audited financial statements for the fiscal years ended May 31, 2013 or 2014. The audit committee’s investigation concluded that there was no intentional misconduct on the part of any of our officers.

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.

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. Insurance coverage discussions are ongoing. Based on our current understanding of the claim, and given the ongoing insurance coverage discussions, we have determined that it is reasonably possible that we may incur a loss related to this claim, 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.

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. Upon final court approval, 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 November 30, 2016 and 2015:

(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 income (loss)	(70,926)	670	(70,256)
Other Comprehensive Income:			
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 Income (Loss)	(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 August 31, 2015	$ 1,294,402	$ 2,620	$ 1,297,022
Net income	83,433	716	84,149
Other Comprehensive Income:			
Foreign currency translation adjustments	(53,814)		(53,814)
Pension and other postretirement benefit liability adjustments, net of tax	3,640		3,640
Unrealized gain on securities, net of tax	369		369
Total Other Comprehensive (Loss), net of tax	(49,805)	-	(49,805)
Comprehensive Income	33,628	716	34,344
Dividends paid	(36,642)		(36,642)

Other noncontrolling interest activity		(1,373)	(1,373)
Shares repurchased and returned for taxes	(9,944)		(9,944)
Stock based compensation expense	8,817		8,817
Total Equity at November 30, 2015	$ 1,290,261	$ 1,963	$ 1,292,224

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 six months ended November 30, 2016 and 2015:

(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 Income (Loss)	(11,649)	1,295	(10,354)
Dividends paid	(76,604)		(76,604)
Other noncontrolling interest activity		(1,806)	(1,806)
Shares repurchased and returned for taxes	(19,663)		(19,663)
Stock based compensation expense	17,013		17,013
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, 2015	$ 1,291,392	$ 2,073	$ 1,293,465
Net income	183,248	1,263	184,511
Other Comprehensive Income:			
Foreign currency translation adjustments	(84,420)		(84,420)
Pension and other postretirement benefit liability adjustments, net of tax	7,800		7,800
Unrealized (loss) on securities, net of tax	(6,715)		(6,715)
Total Other Comprehensive (Loss), net of tax	(83,335)	-	(83,335)
Comprehensive Income	99,913	1,263	101,176
Dividends paid	(71,276)		(71,276)
Other noncontrolling interest activity		(1,373)	(1,373)
Shares repurchased and returned for taxes	(45,292)		(45,292)

Stock based compensation expense	15,524		15,524
Total Equity at November 30, 2015	$ 1,290,261	$ 1,963	$ 1,292,224

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. Further, the impact of the change on net sales and income before income taxes for our industrial and specialty reportable segments for the three and six months ended November 30, 2015 was less than 10%. Information for all periods presented has been recast to reflect this change.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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.

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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		Six Months Ended	
	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
	(In thousands)			
Net Sales				
Industrial Segment	$633,429	$ 623,305	$1,309,269	$ 1,300,413
Specialty Segment	183,567	173,625	359,903	343,486
Consumer Segment				