

RPM INTERNATIONAL INC/DE/
Form 10-Q
January 08, 2019

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, 2018,

or

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

For the transition period from _____ to _____.

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

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

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(Address of principal executive offices)

(330) 273-5090

(Registrant's telephone number including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 8, 2019 131,644,681 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, 2018	May 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 226,914	\$244,422
Trade accounts receivable (less allowances of \$53,678 and \$46,344, respectively)	1,013,030	1,113,818
Inventories	879,633	834,461
Prepaid expenses and other current assets	252,634	278,230
Total current assets	2,372,211	2,470,931
Property, Plant and Equipment, at Cost	1,624,380	1,575,875
Allowance for depreciation	(830,753)	(795,569)
Property, plant and equipment, net	793,627	780,306
Other Assets		
Goodwill	1,229,476	1,192,174
Other intangible assets, net of amortization	607,212	584,272
Deferred income taxes	17,849	21,897
Other	218,578	222,242
Total other assets	2,073,115	2,020,585
Total Assets	\$ 5,238,953	\$5,271,822
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 471,268	\$592,281
Current portion of long-term debt	453,874	3,501
Accrued compensation and benefits	133,637	177,106
Accrued losses	22,954	22,132
Other accrued liabilities	217,660	211,706
Total current liabilities	1,299,393	1,006,726
Long-Term Liabilities		
Long-term debt, less current maturities	1,918,868	2,170,643
Other long-term liabilities	370,812	356,892
Deferred income taxes	113,834	104,023
Total long-term liabilities	2,403,514	2,631,558
Commitments and contingencies (Note 14)		
Stockholders' Equity		

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Preferred stock, par value \$0.01; authorized 50,000 shares; none issued	-	-
Common stock, par value \$0.01; authorized 300,000 shares; issued 142,426 and outstanding 133,136 as of November 30, 2018; issued 141,716 and outstanding 133,647 as of May 31, 2018	1,331	1,336
Paid-in capital	976,345	982,067
Treasury stock, at cost	(313,764)	(236,318)
Accumulated other comprehensive (loss)	(501,100)	(459,048)
Retained earnings	1,369,695	1,342,736
Total RPM International Inc. stockholders' equity	1,532,507	1,630,773
Noncontrolling Interest	3,539	2,765
Total equity	1,536,046	1,633,538
Total Liabilities and Stockholders' Equity	\$ 5,238,953	\$5,271,822

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, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Net Sales	\$1,362,531	\$1,315,416	\$2,822,520	\$2,660,810
Cost of Sales	824,562	764,401	1,690,509	1,537,787
Gross Profit	537,969	551,015	1,132,011	1,123,023
Selling, General and Administrative Expenses	430,080	419,599	889,822	814,008
Restructuring Charges	7,724	-	27,800	-
Interest Expense	23,127	26,396	47,533	53,169
Investment Expense (Income), Net	7,033	(3,739)	4,600	(8,192)
Other Expense (Income), Net	3,412	(422)	3,725	(427)
Income Before Income Taxes	66,593	109,181	158,531	264,465
Provision for Income Taxes	17,420	13,323	39,172	51,704
Net Income	49,173	95,858	119,359	212,761
Less: Net (Loss) Income Attributable to Noncontrolling Interests	(51)	395	371	882
Net Income Attributable to RPM International Inc.				
Stockholders	\$49,224	\$95,463	\$118,988	\$211,879
Average Number of Shares of Common Stock Outstanding:				
Basic	131,058	131,163	131,467	131,204
Diluted	131,667	135,592	133,278	135,663
Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic	\$0.37	\$0.72	\$0.90	\$1.59
Diluted	\$0.37	\$0.70	\$0.89	\$1.56
Cash Dividends Declared per Share of Common Stock	\$0.350	\$0.320	\$0.670	\$0.620

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,	November 30,	November 30,	November 30,
	2018	2017	2018	2017
Net Income	\$49,173	\$ 95,858	\$119,359	\$ 212,761
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(12,245)	(8,158)	(52,935)	36,320
Pension and other postretirement benefit liability adjustments (net of tax of \$1,108; \$1,611; \$2,090 and \$2,257, respectively)	3,428	3,066	6,483	3,695
Unrealized (loss) gain on securities and other (net of tax of \$124; \$1,176; \$543 and \$1,027, respectively)	(1,515)	2,549	962	2,471
Unrealized gain (loss) on derivatives	2,349	(2,746)	3,271	(3,140)
Total other comprehensive (loss) income	(7,983)	(5,289)	(42,219)	39,346
Total Comprehensive Income	41,190	90,569	77,140	252,107
Less: Comprehensive Income Attributable to Noncontrolling Interests	40	323	204	841
Comprehensive Income Attributable to RPM International Inc. Stockholders	\$41,150	\$ 90,246	\$76,936	\$ 251,266

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, 2018	November 30, 2017
Cash Flows From Operating Activities:		
Net income	\$ 119,359	\$ 212,761
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	49,589	40,386
Amortization	23,436	23,245
Restructuring charges, net of payments	7,464	-
Fair value adjustments to contingent earnout obligations	1,558	-
Deferred income taxes	(1,400)	(32,276)
Stock-based compensation expense	12,896	14,429
Other non-cash interest expense	1,552	2,843
Realized/unrealized losses (gains) on marketable securities	7,496	(4,897)
Loss on extinguishment of debt	3,051	-
Other	2,349	9
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	92,398	34,136
(Increase) in inventory	(49,020)	(62,923)
(Increase) decrease in prepaid expenses and other current and long-term assets	(942)	3,919
(Decrease) in accounts payable	(117,678)	(95,302)
(Decrease) in accrued compensation and benefits	(41,470)	(45,464)
Increase (decrease) in accrued losses	1,131	(8,490)
Increase in other accrued liabilities	33,422	33,304
Other	3,098	(494)
Cash Provided By Operating Activities	148,289	115,186
Cash Flows From Investing Activities:		
Capital expenditures	(57,775)	(45,295)
Acquisition of businesses, net of cash acquired	(127,848)	(54,647)
Purchase of marketable securities	(13,276)	(96,039)
Proceeds from sales of marketable securities	35,426	58,867
Other	(2,394)	469
Cash (Used For) Investing Activities	(165,867)	(136,645)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	447,843	35,036
Reductions of long-term and short-term debt	(247,440)	(1,535)
Cash dividends	(89,196)	(82,878)
Shares repurchased and shares returned for taxes	(98,458)	(12,125)

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Payments of acquisition-related contingent consideration	(3,531)	(3,359)
Other	(391)	(1,464)
Cash Provided By (Used For) Financing Activities	8,827	(66,325)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(8,757)	5,144
Net Change in Cash and Cash Equivalents	(17,508)	(82,640)
Cash and Cash Equivalents at Beginning of Period	244,422	350,497
Cash and Cash Equivalents at End of Period	\$226,914	\$ 267,857
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the period for:		
Interest	\$49,687	\$ 48,769
Income Taxes	\$25,311	\$ 60,277
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Conversion of Debt to Equity	\$38,239	\$ -

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, 2018 and 2017. 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, 2018.

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

Effective June 1, 2018, we adopted Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” and all the related amendments included within Accounting Standards Codification 606 (“ASC 606”), using the modified retrospective method of adoption. Under the modified retrospective method, comparative periods are not restated. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. As a result of our adoption procedures, we determined that revenue recognition for our broad portfolio of products and services will remain largely unchanged. Accordingly, our adoption of the new standard did not have a material impact on our overall Consolidated Financial Statements. Refer to Note 16, “Revenue,” and Note 17, “Segment Information,” for additional information.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which provides amended guidance for certain aspects of recognition, measurement and disclosure of financial instruments. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods. The main provisions of the standard impact how we account for changes in the fair value of our marketable securities currently classified as available-for-sale. Unrealized gains and losses on available-for-sale equity securities are required to be recognized in earnings rather than in other comprehensive income. Our adoption of the new standard during fiscal 2019 did not have a material effect on our results of operations, financial condition or liquidity. See Note 4, "Marketable Securities," for additional information.

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. In March 2018, the FASB approved an alternative transition method to the modified retrospective approach, which eliminates the requirement to restate prior period financial statements and requires the cumulative effect of the retrospective allocation to be recorded as an adjustment to the opening balance of retained earnings at the date of adoption. We have selected the alternative transition method for adoption, which we will adopt on June 1, 2019 and are still 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.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In August 2018, the SEC issued Final Rule Release No. 33-10532, “Disclosure Update and Simplification,” which makes a number of changes meant to simplify interim disclosures. The new rule requires a presentation of changes in stockholders’ equity and noncontrolling interest in the form of a reconciliation, either as a separate financial statement or in the notes to the financial statements, for the current and comparative year-to-date interim periods. We do not believe that any of the additional elements of this release will have a material impact on our consolidated financial statements. We will adopt the new disclosure requirement beginning with our third quarter Form 10-Q for the period ending February 28, 2019.

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. Our June 1, 2018 adoption of the new guidance, which we applied retrospectively to all periods presented, did not have a material impact 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. We adopted the new guidance as of June 1, 2018 and do not expect this revised guidance to have a material impact 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. Our June 1, 2018 adoption of the new guidance did not have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820), – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,” which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of the update. We do not expect our adoption of this guidance to have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20), Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans,” which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with employers that sponsor defined benefit or other postretirement plans. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted for all entities and the amendments in this update are required to be applied on a retrospective basis to all periods presented.

We are currently reviewing, but adoption of this guidance is not expected to have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, “Intangible—Goodwill and Other- Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” The update makes a number of changes meant to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement), by providing guidance in determining when the arrangement includes a software license. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Our early adoption of this revised guidance as of June 1, 2018 did not have a material impact on our Consolidated Financial Statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 3 — RESTRUCTURING

We record restructuring charges associated with management-approved restructuring plans to either reorganize one or more of our business segments, or to remove duplicative headcount and infrastructure associated with our businesses. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, contract cancellation costs and other costs. Restructuring charges are recorded based upon planned employee termination dates and site closure and consolidation plans. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. We record the short-term portion of our restructuring liability in Other Accrued Liabilities and the long-term portion, if any, in Other Long-Term Liabilities in our Consolidated Balance Sheets.

2020 MAP to Growth

Between May and August 2018, we approved and implemented the initial phases of a multi-year restructuring plan, the 2020 Margin Acceleration Plan (“2020 MAP to Growth”). The initial phases of our plan affected on all of our reportable segments as well as our corporate/nonoperating segment and focused on margin improvement by simplifying business processes; reducing inventory categories and rationalizing SKUs; eliminating underperforming businesses; reducing headcount and working capital; and improving operating efficiency. The majority of the activities included in the initial phases of the restructuring activities have been completed.

During the second quarter ended November 30, 2018, we formally announced the final phases of our 2020 MAP to Growth. This multi-year restructuring is expected to increase operational efficiency while maintaining our entrepreneurial growth culture and will include three additional phases between September 2018 and December 2020. Our execution of the restructuring plan will continue to drive the de-layering and simplification of management and businesses associated with group realignment. We will implement four center-led functional areas including manufacturing and operations; procurement and supply chain; information technology; and accounting and finance.

Our restructuring plan will optimize our manufacturing facilities and will ultimately provide more efficient plant and distribution facilities. In the first phase of the restructuring we are implementing the planned closure of twelve plants and seven warehouses. We also expect to incur additional severance and benefit costs as part of our planned closure of these facilities.

Throughout the additional phases of our MAP to Growth initiative, we will continue to assess and find areas of improvement and cost savings. As such, the final implementation of the aforementioned phases and total expected costs are subject to change. In addition to the announced plan, we have continued to broaden the scope of our MAP to Growth initiative, specifically in consolidation of the general and administrative areas, potential outsourcing, as well as additional future plant closures and consolidations; the estimated costs of which have not yet been finalized. The current total expected costs associated with this plan are outlined in the table below and decreased by approximately \$5.7 million compared to our previous estimate, primarily attributable to a reduction in expected facility closure and other related costs within our industrial segment as well as a reduction in the expected severance charges within our consumer segment. All activities under our 2020 MAP to Growth are anticipated to be completed by the end of calendar year 2020.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A summary of the charges recorded in connection with restructuring by reportable segment during fiscal 2019 is as follows:

(in thousands)	Three Months Ended November 30, 2018	Six Months Ended November 30, 2018	Cumulative Costs to Date	Total Expected Costs
Consumer Segment:				
Severance and benefit costs (a)	\$ 279	\$ 1,830	\$ 7,482	\$ 8,710
Facility closure and other related costs	170	170	5,309	12,445
Other asset write-offs	2	2	2	2
Total Charges	\$ 451	\$ 2,002	\$ 12,793	\$ 21,157
Industrial Segment:				
Severance and benefit costs (b)	\$ 3,407	\$ 9,772	\$ 11,944	\$ 12,396
Facility closure and other related costs	867	1,303	2,347	21,800
Other asset write-offs	149	727	2,097	2,097
Total Charges	\$ 4,423	\$ 11,802	\$ 16,388	\$ 36,293
Specialty Segment:				
Severance and benefit costs (c)	\$ 1,786	\$ 3,933	\$ 3,933	\$ 5,367
Facility closure and other related costs	-	-	-	3,776
Other asset write-offs	3	3	3	3
Total Charges	\$ 1,789	\$ 3,936	\$ 3,936	\$ 9,146
Corporate/Other Segment:				
Severance and benefit costs (d)	\$ 1,061	\$ 10,060	\$ 12,196	\$ 12,657
Total Charges	\$ 1,061	\$ 10,060	\$ 12,196	\$ 12,657
Consolidated:				
Severance and benefit costs	\$ 6,533	\$ 25,595	\$ 35,555	\$ 39,130
Facility closure and other related costs	1,037	1,473	7,656	38,021
Other asset write-offs	154	732	2,102	2,102
Total Charges	\$ 7,724	\$ 27,800	\$ 45,313	\$ 79,253

(a) Current quarter charges include \$0.3 million associated with elimination of 35 positions. Current year charges include \$1.8 million associated with the elimination of 44 positions.

(b) Current quarter charges include \$3.4 million associated with the elimination of 54 positions. Current year charges include \$9.6 million associated with the elimination of 148 positions and \$0.2 million additional charges associated with the prior elimination of one position within the legal function during fiscal 2018.

- (c) Current quarter charges include \$1.8 million associated with the elimination of 60 positions. Current year charges include \$3.9 million associated with the elimination of 107 positions.
- (d) Reflects charges related to the severance of two corporate executives, as well as accelerated vesting of equity awards for two corporate executives, four specialty segment executives and three industrial segment executives in connection with the aforementioned restructuring activities.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A summary of the activity in the restructuring reserves related to our 2020 MAP to Growth is as follows:

(in thousands)	Facility Closure			Total
	Severance and Benefits Costs	and Other Related Costs	Other Asset Write-Offs	
Balance at August 31, 2018	\$ 10,960	\$ 5,364	\$ -	\$ 16,324
Additions charged to expense	6,533	1,037	154	7,724
Cash payments charged against reserve	(6,013)	(1,330)	-	(7,343)
Non-cash charges included above (e)	(1,053)	(2,536)	(154)	(3,743)
Balance at November 30, 2018	\$ 10,427	\$ 2,535	\$ -	\$ 12,962

(in thousands)	Facility Closure			Total
	Severance and Benefits Costs	and Other Related Costs	Other Asset Write-Offs	
Balance at June 1, 2018	\$ 9,957	\$ 6,184	\$ 1,373	\$ 17,514
Additions charged to expense	25,595	1,473	732	27,800
Cash payments charged against reserve	(18,588)	(1,748)	-	(20,336)
Non-cash charges included above (e)	(6,537)	(3,374)	(2,105)	(12,016)
Balance at November 30, 2018	\$ 10,427	\$ 2,535	\$ -	\$ 12,962

(e) Non-cash charges primarily include accelerated vesting of equity awards and asset-write offs.

In connection with our 2020 MAP to Growth, during the second quarter of fiscal 2019, we incurred approximately \$2.6 million and \$1.0 million of inventory-related charges at our industrial and consumer segments, respectively. During the first half of fiscal 2019, we incurred approximately \$7.1 million and \$1.3 million of inventory-related charges at our industrial and consumer segments, respectively. The inventory-related charges are partially offset by a favorable adjustment of approximately \$0.2 million to the previous write-off at our consumer segment. All of the aforementioned inventory-related charges are recorded in cost of sales in our Consolidated Statements of Income. These inventory charges were the result of product line and SKU rationalization initiatives in connection with our overall plan of restructuring.

NOTE 4 — MARKETABLE SECURITIES

The following tables summarize available-for-sale marketable securities held at November 30, 2018 and May 31, 2018 by asset type:

	Available-For-Sale Securities			Fair Value
	Gross	Gross		
	Amortized	Unrealized	Unrealized	(Net Carrying
(In thousands)	Cost	Gains	Losses	Amount)
November 30, 2018				
Fixed maturity:				
U.S. treasury and other government	\$23,292	\$ 26	\$ (535) \$ 22,783
Corporate bonds	411	29	-	440
Total available-for-sale securities	\$23,703	\$ 55	\$ (535) \$ 23,223

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Available-For-Sale Securities			Fair Value
	Gross	Gross		
	Amortized	Unrealized	Unrealized	(Net Carrying
(In thousands)	Cost	Gains	Losses	Amount)
May 31, 2018				
Equity securities:				
Mutual funds - foreign	\$46,123	\$ 1,839	\$ (1,197)	\$ 46,765
Mutual funds - domestic	99,833	727	(2,770)	97,790
Total equity securities	145,956	2,566	(3,967)	144,555
Fixed maturity:				
U.S. treasury and other government	23,562	39	(552)	23,049
Corporate bonds	432	43	(8)	467
Total fixed maturity securities	23,994	82	(560)	23,516
Total	\$169,950	\$ 2,648	\$ (4,527)	\$ 168,071

Marketable securities, included in other current and long-term assets totaling \$7.8 million and \$15.4 million at November 30, 2018, respectively, and included in other current and long-term assets totaling \$97.4 million and \$70.7 million at May 31, 2018, 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 debt 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 investment income, net 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.

During fiscal 2019, we adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities," which requires gains and losses on marketable equity securities to be recognized in earnings rather than in other comprehensive income. Prior to adoption, equity securities were included in our available-for-sale portfolio and unrealized changes in fair value were recognized through other comprehensive (loss) income until realized, at which point we recorded a gain or loss on sale. As of November 30, 2018, we held approximately \$116.7 million in equity securities. Additionally, as of November 30, 2018 and May 31, 2018, we held approximately \$12.0 million and \$9.9 million, respectively, in trading securities in relation to our deferred compensation plan.

Gross realized gains and losses on sales of marketable securities are included in investment (income), net in the Consolidated Statements of Income. Refer to Note 7, "Investment Expense (Income), Net," for further details.

Summarized below are the available-for-sale securities we held at November 30, 2018 and May 31, 2018 that were in an unrealized loss position and that were included in accumulated other comprehensive (loss), aggregated by the length of time the investments had been in that position:

(In thousands)	November 30, 2018		May 31, 2018	
	Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Total investments with unrealized losses	\$20,215	\$ (535)	\$106,253	\$ (4,527)
Unrealized losses with a loss position for less than 12 months	2,646	(19)	68,376	(1,570)
Unrealized losses with a loss position for more than 12 months	17,569	(516)	37,877	(2,957)

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, 2018 were less than 15% below their original cost. From time to time, we may experience significant volatility in

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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. 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, 2018, 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	\$ 7,897	\$ 7,841
One year through five years	11,576	11,282
Six years through ten years	3,294	3,152
After ten years	936	948
	\$ 23,703	\$ 23,223

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.

	Quoted Prices			Fair Value at November 30, 2018
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
Available-for-sale debt securities:				
U.S. Treasury and other government	\$ -	\$ 22,783	\$ -	\$ 22,783
Corporate bonds		440		440
Total available-for-sale debt securities	-	23,223	-	23,223
Trading and other equity securities:				
Mutual funds - foreign		43,940		43,940
Mutual funds - domestic		84,726		84,726
Total trading and other equity securities	-	128,666	-	128,666
Contingent consideration			15,999	15,999
Total	\$ -	\$ 151,889	\$ 15,999	\$ 167,888

	Quoted Prices			Fair Value at May 31, 2018
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
U.S. Treasury and other government	\$ -	\$ 23,049	\$ -	\$ 23,049
Corporate bonds		467		467
Mutual funds - foreign		47,410		47,410
Mutual funds - domestic		107,017		107,017
Contingent consideration			(17,998)	(17,998)
Total	\$ -	\$ 177,943	\$ (17,998)	\$ 159,945

Our investments in available-for-sale debt securities and trading and other equity 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 2019, we paid approximately \$4.7 million for settlements of contingent consideration obligations relating to certain performance milestones that were established in prior periods and achieved during the current period, and recorded an increase in the accrual for approximately \$2.7 million related to fair value adjustments. 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 last year's first half. These amounts are reported in payments of acquisition-related contingent consideration in cash flows from operations and 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, 2018 and May 31, 2018, 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, 2018 and May 31, 2018 are as follows:

(In thousands)	At November 30, 2018	
	Carrying Value	Fair Value
Cash and cash equivalents	\$226,914	\$226,914
Marketable equity securities	116,669	116,669
Marketable debt securities	23,223	23,223
Long-term debt, including current portion	2,372,742	2,313,513

(In thousands)	At May 31, 2018	
	Carrying Value	Fair Value
Cash and cash equivalents	\$244,422	\$244,422
Marketable equity securities	144,555	144,555
Marketable debt securities	23,516	23,516
Long-term debt, including current portion	2,174,144	2,215,458

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 May 31, 2018 the notional amount of the forward contracts held to sell international currencies was \$8.7 million, while there was no amount held at November 30, 2018.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivatives Not Designated as Hedges

At November 30, 2018, we held one foreign currency forward contract 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. The contract has not been designated as a hedge; therefore, the changes in fair value of the derivative 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, 2018 and May 31, 2018, the notional amounts of the forward contract held to purchase foreign currencies was \$15.0 million and \$147.4 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, 2018 and May 31, 2018 are as follows:

(in thousands)		Fair Value	
		November 30,	May 31,
Derivatives Designated as Hedging Instruments	Balance Sheet Location	2018	2018
Assets:			
Foreign Currency Exchange (Cash Flow)	Other Current Assets	\$-	\$133
Cross Currency Swap (Net Investment)	Other Current Assets	3,001	2,580
Cross Currency Swap (Net Investment)	Other Assets (Long-Term)	4,560	1,986
Liabilities:			
Interest Rate Swap (Fair Value)	Other Accrued Liabilities	811	441
Cross Currency Swap (Net Investment)	Other Long-Term Liabilities	4,475	5,293
Interest Rate Swap (Fair Value)	Other Long-Term Liabilities	2,616	2,634

(in thousands)		Fair Value	
		November 30,	May 31,
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	2018	2018
Assets:			
Foreign Currency Exchange	Other Current Assets	\$ 12	\$ 7
Liabilities:			

Foreign Currency Exchange	Other Accrued Liabilities	-	2,985
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NOTE 7 — INVESTMENT EXPENSE (INCOME), NET

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

(In thousands)	Three Months Ended		Six Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Interest (income)	\$(828)	\$(1,297)	\$(1,732)	\$(2,191)
Net loss (gain) on marketable securities	8,520	(2,037)	8,134	(4,897)
Dividend (income)	(659)	(405)	(1,802)	(1,104)
Investment expense (income), net	\$7,033	\$ (3,739)	\$4,600	\$ (8,192)

Net Loss (Gain) on Marketable Securities

During the second quarter of fiscal 2019, we recognized gross realized losses on sales of marketable securities of \$1.0 million and unrealized losses on trading securities of \$1.0 million. For the first half of fiscal 2019, we recognized realized gains and losses on sales of securities of \$0.2 million and \$1.2 million, respectively, and unrealized gains and losses on trading securities of \$0.5 million

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

and \$1.1 million, respectively. During the three and six-month periods ended November 30, 2018, we recognized \$6.5 million in unrealized losses on marketable equity securities as a result of our adoption of ASU 2016-01.

During the second quarter of fiscal 2018, we recognized gross realized gains on sales of marketable securities of \$2.0 million. For the first half of fiscal 2018, we recognized gross realized gains and losses on sales of marketable securities of \$6.1 million and \$1.2 million, respectively.

NOTE 8 — OTHER EXPENSE (INCOME), NET

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

(In thousands)	Three Months Ended		Six Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Royalty expense (income), net	\$63	\$ (178)	\$66	\$ 90
(Income) related to unconsolidated equity affiliates	(48)	(244)	(166)	(517)
Pension non-service costs	346	-	774	-
Loss on extinguishment of debt (a)	3,051	-	3,051	-
Other expense (income), net	\$3,412	\$ (422)	\$3,725	\$ (427)

(a) In connection with the redemption of all of our outstanding 2.25% convertible senior notes in November 2018, we recognized a loss of \$3.1 million, due to the fair value measurement of the instrument on the date of conversion.

NOTE 9 — INCOME TAXES

On December 22, 2017 the Tax Cuts and Jobs Act (“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. Generally, the more significant provisions of the Act that impacted us for the year ended May 31, 2018 included the reduction in the corporate income tax rate from 35% to 21%, the creation of a territorial tax system (with a one-time mandatory tax on previously deferred foreign earnings) and allowance for immediate capital expensing of certain qualified property. The corporate tax rate reduction was effective for RPM as of January 1, 2018 and, accordingly, reduced our fiscal year 2018 federal statutory rate to a blended rate of approximately 29.2%. The significant provisions of the Act which impact us for fiscal 2019 include the full federal statutory rate reduction to 21% and the repeal of the domestic production activities deduction. Also effective for our fiscal 2019 are provisions of the Act that subject us to current U.S. tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries and allows a benefit for foreign-derived intangible income (“FDII”).

Subsequent to the enactment of the Act, the SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Act. SAB 118 provides a measurement period that should not extend beyond one year from the Act's enactment date for companies to complete the applicable accounting under ASC 740. In accordance with SAB 118 and based on the information available as of May 31, 2018, we recorded a net provisional income tax expense of \$7.3 million in accordance with the applicable provisions of the Act. The net provisional income tax expense was comprised of a benefit of \$15.7 million related to the provisional re-measurement of our U.S. deferred tax assets and liabilities at the reduced U.S. corporate tax rates, a provisional expense of \$67.9 million for the transition tax on unremitted earnings from foreign subsidiaries, and a provisional benefit of \$44.9 million for the partial reversal of existing deferred tax liabilities recorded for the estimated tax cost associated with unremitted foreign earnings not considered permanently reinvested.

During the six months ended November 30, 2018, we have not recorded any adjustments to the provisional amounts recorded at May 31, 2018, as a result of the Act, related to the remeasurement of our U.S. deferred balances, the existing deferred tax liabilities recorded for the estimated tax cost associated with unremitted foreign earnings not considered permanently reinvested or for the transition tax on unremitted earnings from foreign subsidiaries. In all cases, we are continuing to compute and refine our estimates as additional analysis is completed, and certain tax attribute data becomes available. In addition, our estimates may also be revised as provisions of the Act are further clarified by taxing authorities.

We have made sufficient progress in our calculation to reasonably estimate the tax impact related to GILTI and FDII for the year ended May 31, 2019 and included it in the estimated annual effective tax rate. The impact of GILTI and FDII was not material for the

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

six months ended November 30, 2018. We will continue to refine our calculations, which may result in changes to the expected impact for fiscal year 2019.

The effective income tax rate of 26.2% for the three-months ended November 30, 2018 compares to an effective income tax rate of 12.2% for the three-month period ended November 30, 2017. The effective tax rate for the three-months ended November 30, 2018 reflects variances from the federal statutory rate of 21% due primarily to the unfavorable impact of state and local taxes, partially offset by a favorable discrete tax adjustment for the excess tax benefits related to equity compensation. The effective income tax rate of 12.2% for the three-months ended November 30, 2017 reflects variances from the pre-tax reform federal statutory rate of 35% due to lower effective tax rates 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, during the three-months ended November 30, 2017 we recorded favorable discrete tax adjustments of \$2.0 million for the excess tax benefits related to equity compensation and \$18.0 million related to the implementation of a foreign legal entity restructuring and corresponding planning strategy.

The effective income tax rate of 24.7% for the six-months ended November 30, 2018 compares to an effective tax rate of 19.6% for the six-months ended November 30, 2017. The effective tax rate for the six-months ended November 30, 2018 reflects variances from the federal statutory rate of 21% due primarily to the unfavorable impact of state and local taxes, partially offset by a favorable discrete tax adjustment of \$4.1 million for the excess tax benefits related to equity compensation. The effective income tax rate of 19.6% for the six-months ended November 30, 2017 reflects variances from the pre-tax reform federal statutory rate of 35% due to lower effective tax rates 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, during the six-months ended November 30, 2017 we recorded favorable discrete tax adjustments of \$3.5 million for the excess tax benefits related to equity compensation, \$18.0 million related to the implementation of a foreign legal entity restructuring and corresponding planning strategy, and \$9.0 million related to foreign tax credit planning.

Our deferred tax liability for unremitted foreign earnings was adjusted to \$19.9 million as of May 31, 2018. The \$19.9 million deferred tax liability represented our estimate of the foreign tax cost associated with our preliminary estimate of \$549.8 million of foreign earnings that are not considered to be permanently reinvested. As of November 30, 2018, the amount of these earnings has changed to approximately \$419.5 million and the deferred tax liability was adjusted to \$19.1 million to reflect the impact of foreign exchange. The reduction to the earnings amounts no longer permanently reinvested is due principally to distributions made during the first quarter of this this fiscal year which were not subject to foreign withholding taxes.

We have not provided for foreign withholding or income taxes on the remaining foreign subsidiaries' undistributed earnings because such earnings have been retained and reinvested by the subsidiaries as of November 30, 2018. Accordingly, no provision has been made for foreign withholding or income taxes, which may become payable if the remaining undistributed earnings of foreign subsidiaries were paid to us as dividends.

NOTE 10 — INVENTORIES

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

	November 30,	May 31,
	2018	2018
(In thousands)		
Raw material and supplies	\$304,108	\$288,201
Finished goods	575,525	546,260
Total Inventory, Net of Reserves	\$879,633	\$834,461

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. As announced on November 28, 2018, our goal is to return \$1.5 billion in capital to stockholders by May 31, 2021 through dividends and share repurchases. As a result, 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 months ended November 30, 2018, we repurchased 1,144,952 shares of our common

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

stock at a cost of approximately \$75.0 million, or an average cost of \$65.50 per share, under this program. During the six months ended November 30, 2018, we repurchased 1,248,398 shares of our common stock at a cost of approximately \$82.0 million, or an average cost of \$65.68 per share, under this program. During the three and six month periods ended November 30, 2017, we did not repurchase any shares of our common stock under this program.

NOTE 12 — EARNINGS PER SHARE

The following table sets forth the reconciliation of the numerator and denominator of basic and diluted earnings per share for the three and six-month periods ended November 30, 2018 and 2017. For the three and six months ended November 30, 2017, and three months ended November 30, 2018, basic and diluted earnings per share were calculated using the two-class method. For the six months ended November 30, 2018, basic earnings per share was calculated using two-class method and diluted earnings per share was calculated using the treasury method.

(In thousands, except per share amounts)	Three Months Ended November 30,		Six Months Ended November 30,	
	2018	2017	2018	2017
Numerator for earnings per share:				
Net income attributable to RPM International Inc.				
stockholders	\$49,224	\$ 95,463	\$118,988	\$ 211,879
Less: Allocation of earnings and dividends to				
participating securities	(460)	(1,313)	(936)	(2,828)
Net income available to common shareholders -				
basic	48,764	94,150	118,052	209,051
Add: Undistributed earnings reallocated to unvested				
shareholders		3		7
Add: Allocation of earnings and dividends to participating securities				
			936	
Add: Income effect of contingently issuable shares				
		1,379		2,756
Net income available to common shareholders -				
diluted	\$48,764	\$ 95,532	\$118,988	\$ 211,814
Denominator for basic and diluted earnings per share:				
Basic weighted average common shares	131,058	131,163	131,467	131,204
Average diluted options and awards	609	514	1,811	544
Additional shares issuable assuming conversion of		3,915		3,915

convertible securities (1)				
Total shares for diluted earnings per share (2)	131,667	135,592	133,278	135,663
Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic Earnings Per Share of Common Stock	\$0.37	\$ 0.72	\$0.90	\$ 1.59
Diluted Earnings Per Share of Common Stock	\$0.37	\$ 0.70	\$0.89	\$ 1.56

- (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. On November 27, 2018, we redeemed all of our 2.25% convertible senior notes due 2020, primarily for cash, but also issued 598,601 shares of RPM common stock in the transaction.
- (2) There were no shares of restricted stock identified as being anti-dilutive for the three or six months ended November 30, 2018. 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. In addition, stock appreciation rights (SARs) totaling 480,000 and 890,000 for the three and six months ended November 30, 2018 and 600,000 for the three and six months ended November 30, 2017, 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, and various postretirement benefit plans. The following tables provide the retirement-related benefit plans' impact on income before income taxes for the three and six months ended November 30, 2018 and 2017:

Pension Benefits (In thousands)	U.S. Plans Three Months Ended		Non-U.S. Plans Three Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Service cost	\$9,382	\$ 9,465	\$1,219	\$ 1,175
Interest cost	5,497	4,379	1,399	1,145
Expected return on plan assets	(8,467)	(8,086)	(2,051)	(1,978)
Amortization of:				
Prior service cost (credit)	29	29	(8)	(6)
Net actuarial losses recognized	3,272	3,618	319	419
Net Periodic Benefit Cost	\$9,713	\$ 9,405	\$878	\$ 755

Postretirement Benefits (In thousands)	U.S. Plans Three Months Ended		Non-U.S. Plans Three Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Service cost	\$ -	\$ -	\$ 392	\$ 311
Interest cost	48	43	291	224
Amortization of:				
Prior service (credit)	(55)	(55)		
Net actuarial (gains) losses recognized	(6)	6	115	79
Net Periodic Benefit (Credit) Cost	\$ (13)	\$ (6)	\$ 798	\$ 614

Pension Benefits (In thousands)	U.S. Plans Six Months Ended		Non-U.S. Plans Six Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Service cost	\$18,764	\$ 18,930	\$2,438	\$ 2,350
Interest cost	10,994	8,758	2,798	2,290
Expected return on plan assets	(16,934)	(16,172)	(4,102)	(3,956)

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Amortization of:

Prior service cost (credit)	58	58	(16)	(12)
Net actuarial losses recognized	6,544	7,236	638	838
Net Periodic Benefit Cost	\$19,426	\$ 18,810	\$1,756	\$ 1,510

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	U.S. Plans		Non-U.S. Plans	
	Six Months Ended		Six Months Ended	
	November 30,	November 30,	November 30,	November 30,
	2018	2017	2018	2017
Postretirement Benefits (In thousands)				
Service cost	\$-	\$ -	\$784	\$ 622
Interest cost	96	86	582	448
Amortization of:				
Prior service (credit)	(110)	(110)	-	-
Net actuarial (gains) losses recognized	(12)	12	230	158
Net Periodic Benefit (Credit) Cost	\$(26)	\$(12)	\$1,596	\$ 1,228

Due to slightly higher discount rates and increased asset values, offset by higher interest cost and lump sum mortality rates, pension expense for fiscal 2019 is comparable to our fiscal 2018 pension expense level. 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, 2018 that we expected to contribute approximately \$1.3 million to our retirement plans in the U.S. and approximately \$8.1 million to plans outside the U.S. during the current fiscal year, and as of November 30, 2018, those amounts remain unchanged.

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, 2018, 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		Six Months Ended	
	November 30,		November 30,	
	2018	2017	2018	2017
	(In thousands)			
Beginning Balance	\$10,585	\$ 15,771	\$11,721	\$ 19,149
Deductions (1)	(6,660)	(6,030)	(13,274)	(14,671)
Provision charged to expense	5,938	4,716	11,416	9,979
Ending Balance	\$9,863	\$ 14,457	\$9,863	\$ 14,457

(1) Primarily claims paid during the year.

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

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

In connection with the foregoing, on September 9, 2016, the SEC filed an enforcement action against us and our General Counsel. We have cooperated with the SEC’s investigation and believe the allegations in the complaint mischaracterize both our and our General Counsel’s actions in connection with the matters related to our quarterly results in fiscal 2013 and are without merit. 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. Formal discovery commenced in January 2018 and is ongoing. 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 previously disclosed case pending against one of our subsidiaries in which both trade secret and trademark infringement had been alleged, during the quarter ended November 30, 2018, we agreed to settle the case for \$6.5 million.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 — EQUITY

The following tables illustrate the components of total equity and comprehensive income for the three and six months ended November 30, 2018 and 2017:

(In thousands)	Total RPM		
	International	Noncontrolling	Total
	Inc. Equity	Interest	Equity
Total Equity at August 31, 2018	\$ 1,610,447	\$ 2,932	\$ 1,613,379
Net income (loss)	49,224	(51)	49,173
Other Comprehensive Income:			
Foreign currency translation adjustments	(12,336)	91	(12,245)
Pension and other postretirement benefit liability			
adjustments, net of tax	3,428		3,428
Unrealized (loss) on securities and other, net of tax	(1,515)		(1,515)
Unrealized gain on derivatives, net of tax	2,349		2,349
Total Other Comprehensive (Loss) Income, net of tax	(8,074)	91	(7,983)
Comprehensive Income	41,150	40	41,190
Dividends paid	(46,482)		(46,482)
Other	797	567	1,364
Shares repurchased and returned for taxes	(2,879)		(2,879)
Share repurchases under repurchase program	(74,998)		(74,998)
Stock based compensation expense - included in SG&A	6,227		6,227
Stock based compensation expense - included in restructuring expense	1,053		1,053
Convertible bond redemption	(2,808)		(2,808)
Total Equity at November 30, 2018	\$ 1,532,507	\$ 3,539	\$ 1,536,046

(In thousands)	Total RPM		
	International	Noncontrolling	Total
	Inc. Equity	Interest	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

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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 Income, 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	Noncontrolling	Total
	Inc. Equity	Interest	Equity
Total equity at May 31, 2018	\$ 1,630,773	\$ 2,765	\$ 1,633,538
Net income	118,988	371	119,359
Other Comprehensive Income:			
Foreign currency translation adjustments	(52,768)	(167)	(52,935)
Pension and other postretirement benefit liability			
adjustments, net of tax	6,483		6,483
Unrealized gain on securities and other, net of tax	962		962
Unrealized gain on derivatives, net of tax	3,271		3,271
Total Other Comprehensive (Loss), net of tax	(42,052)	(167)	(42,219)
Comprehensive Income	76,936	204	77,140
Dividends paid	(89,196)		(89,196)
Other	(2,037)	570	(1,467)
Shares repurchased and returned for taxes	(16,466)		(16,466)
Share repurchases under repurchase program	(81,992)		(81,992)
Stock based compensation expense - included in SG&A	12,896		12,896
Stock based compensation expense - included in restructuring expense	4,401		4,401
Convertible bond redemption	(2,808)		(2,808)
Total Equity at November 30, 2018	\$ 1,532,507	\$ 3,539	\$ 1,536,046

(In thousands)	Total RPM		
	International	Noncontrolling	Total
	Inc. Equity	Interest	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)		