RPM INTERNATIONAL INC/DE/
Form 10-Q
October 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended August 31, 2013,

or

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

For the transition period from to .

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

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

(330) 273-5090

(Registrant s telephone number including area code)

Not Applicable

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ 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 þ		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 þ.

As of October 4, 2013

132,945,182 Shares of RPM International Inc. Common Stock were outstanding.

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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.

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PART I. FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	August 31, 2013 *(Unaudited)*	May 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	$ 204,903	$ 343,554
Trade accounts receivable (less allowances of $29,082 and $28,904, respectively)	861,920	787,517
Inventories	572,148	548,680
Deferred income taxes	38,427	36,565
Prepaid expenses and other current assets	172,410	169,956
Total current assets	1,849,808	1,886,272
Property, Plant and Equipment, at Cost	1,126,641	1,128,123
Allowance for depreciation and amortization	(641,494)	(635,760)
Property, plant and equipment, net	485,147	492,363
Other Assets		
Goodwill	1,108,387	1,113,831
Other intangible assets, net of amortization	461,717	459,613
Other	158,067	163,447
Total other assets	1,728,171	1,736,891
Total Assets	$ 4,063,126	$ 4,115,526
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 394,138	$ 478,185
Current portion of long-term debt	4,537	4,521
Accrued compensation and benefits	108,248	154,844
Accrued loss reserves	26,966	27,591
Other accrued liabilities	226,287	262,889
Total current liabilities	760,176	928,030
Long-Term Liabilities		
Long-term debt, less current maturities	1,419,607	1,369,176
Other long-term liabilities	423,321	417,160
Deferred income taxes	36,295	46,227
Total long-term liabilities	1,879,223	1,832,563

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 137,457 and outstanding 132,923 as of August 2013; issued 136,913 and outstanding 132,596 as of May 2013	1,329	1,326
Paid-in capital	770,726	763,505
Treasury stock, at cost	(76,497)	(72,494)
Accumulated other comprehensive (loss)	(174,909)	(159,253)
Retained earnings	741,035	667,774
Total RPM International Inc. stockholders equity	1,261,684	1,200,858
Noncontrolling interest	162,043	154,075
Total Equity	1,423,727	1,354,933
Total Liabilities and Stockholders Equity	$ 4,063,126	$ 4,115,526

The accompanying notes to Consolidated Financial Statements are an integral part of these statements.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended August 31, 2013	Three Months Ended August 31, 2012
Net Sales	$ 1,164,674	$ 1,046,714
Cost of Sales	665,602	612,834
Gross Profit	499,072	433,880
Selling, General and Administrative Expenses	335,459	310,940
Interest Expense	20,725	18,430
Investment (Income), Net	(3,894)	(6,974)
Other (Income) Expense, Net	(434)	39,422
Income Before Income Taxes	147,216	72,062
Provision for Income Taxes	40,327	34,195
Net Income	106,889	37,867
Less: Net Income Attributable to Noncontrolling Interests	3,791	3,954
Net Income Attributable to RPM International Inc. Stockholders	$ 103,098	$ 33,913
Average Number of Shares of Common Stock Outstanding:		
Basic	129,344	128,805
Diluted	130,294	129,570
Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders		
Basic	$ 0.78	$ 0.26
Diluted	$ 0.77	$ 0.26
Cash Dividends Declared per Share of Common Stock	$ 0.225	$ 0.215

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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended	
	August 31, 2013	**August 31, 2012**
Net Income	$ 106,889	$ 37,867
Other Comprehensive Income, Net of Tax:		
Foreign Currency Translation Adjustments	(13,414)	39,230
Pension and Other Postretirement Benefit Liability Adjustments (Net of Tax of $1,586 and $757, respectively)	2,924	1,206
Unrealized (Loss) on Securities (Net of Tax Benefit of $815 and $636, respectively)	(1,439)	(352)
Unrealized Gain on Derivatives (Net of Tax of $45 and $71, respectively)	109	187
Total Other Comprehensive (Loss) Income	(11,820)	40,271
Total Comprehensive Income	95,069	78,138
Less: Comprehensive Income Attributable to Noncontrolling Interests	7,627	13,033
Comprehensive Income Attributable to RPM International Inc. Stockholders	**$ 87,442**	**$ 65,105**

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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Quarter Ended	
	August 31, 2013	August 31, 2012
Cash Flows From Operating Activities:		
Net income	**$ 106,889**	**$ 37,867**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,431	13,330
Amortization	7,882	6,735
Impairment on investment in Kemrock		40,273
Deferred income taxes	(11,505)	1,874
Stock-based compensation expense	4,826	3,873
Other	(701)	(442)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
(Increase) decrease in receivables	(76,455)	7,162
(Increase) in inventory	(23,439)	(24,650)
(Increase) decrease in prepaid expenses and other current and long-term assets	(7,201)	554
(Decrease) in accounts payable	(83,264)	(54,226)
(Decrease) in accrued compensation and benefits	(46,001)	(56,362)
(Decrease) in accrued loss reserves	(499)	(118)
Increase in other accrued liabilities	47,701	53,198
(Decrease) in contingent payment	(61,894)	
Other	(232)	(11,334)
Cash (Used For) Provided By Operating Activities	**(129,462)**	**17,734**
Cash Flows From Investing Activities:		
Capital expenditures	(10,696)	(12,702)
Acquisition of businesses, net of cash acquired	(12,328)	(141,203)
Purchase of marketable securities	(20,152)	(55,744)
Proceeds from sales of marketable securities	17,786	51,172
Other	3,092	15,403
Cash (Used For) Investing Activities	**(22,298)**	**(143,074)**
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	53,218	147,547
Reductions of long-term and short-term debt	(1,936)	(63,193)
Cash dividends	(29,836)	(28,281)
Repurchase of stock	(4,004)	(260)
Other	(2,388)	803
Cash Provided By Financing Activities	**15,054**	**56,616**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(1,945)**	**10,138**
Net Change in Cash and Cash Equivalents	**(138,651)**	**(58,586)**

Cash and Cash Equivalents at Beginning of Period	**343,554**	**315,968**
Cash and Cash Equivalents at End of Period	**$ 204,903**	**$ 257,382**

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

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2013

(Unaudited)

NOTE 1 CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION

Our financial statements include all of our majority-owned subsidiaries, except for certain subsidiaries that were deconsolidated on May 31, 2010 (please refer to Note 3). 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, except for certain subsidiaries that were deconsolidated, are eliminated in consolidation.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by Generally Accepted Accounting Principles in the U.S. (GAAP) for complete financial statements. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three-month periods ended August 31, 2013 and 2012. 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, 2013.

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 prior year amounts to conform to the current year presentation.

NOTE 2 INVESTMENT IN KEMROCK INDUSTRIES AND EXPORTS LTD.

Beginning with our fiscal year ended May 31, 2007, we began purchasing shares of Kemrock Industries and Exports Limited (Kemrock) common stock. By May 31, 2011, we had acquired a total of approximately 3.2 million shares of Kemrock common stock, for an accumulated cost approximating $24.2 million, which represented approximately 18% of Kemrock s outstanding shares at that time. Our investment in Kemrock common stock had been classified in other long-term assets on our balance sheet and included with available-for-sale securities, which are carried at fair value based on quoted market prices.

During fiscal 2012, we increased our ownership in Kemrock to over 20% of Kemrock s outstanding shares of common stock and changed our accounting for this investment to the equity method. Additionally, during fiscal 2012, we entered into three other, separate agreements with Kemrock. First, we agreed to loan Kemrock $15.0 million, which was to be repaid in cash, or alternatively, goods and commercial materials, no later than September 15, 2012. The loan was classified as a note receivable and was

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

included in prepaid and other current assets in our Consolidated Balance Sheet. Second, we entered into a global depository receipt (GDR) Purchase Agreement with Kemrock, whereby we purchased 693,072 GDRs of Kemrock for an aggregate purchase price of approximately $7.2 million. The GDRs were included in our investment in Kemrock, which had a carrying value at the end of fiscal 2012 of $42.2 million, and were classified as other long-term assets in our Consolidated Balance Sheet. Lastly, during fiscal 2012 we invested $22.7 million in 5.5% convertible bonds issued by Kemrock. Our investment in Kemrock s convertible bonds was accounted for as an available-for-sale security and was classified in other long-term assets in our Consolidated Balance Sheet. The convertible feature embedded in the convertible bonds is accounted for as a derivative under the guidance in ASC 815, Derivatives and Hedging.

At the time of our investment in Kemrock s convertible bonds, Kemrock was in the midst of major capital expansion for new projects and upcoming technologies, and there were no indications of any adverse business, economic, competitive, or market factors. However, on August 8, 2012, the price of Kemrock s common stock plunged below our carrying value, declining by approximately 40% from its May 31, 2012 per share price of 531.0 rupees. We later learned that the dramatic drop in Kemrock s stock price was related to Kemrock s announcement of declining sales and income, a liquidity problem at Kemrock that stemmed from its explosive growth, combined with the overall tightening of lending practices of banks and credit markets in India. At that time, we also learned that Kemrock was in the process of renegotiating its credit agreements with its banks. Compounding these difficulties for Kemrock was the deterioration in the exchange rate of the Indian rupee against the U.S. dollar and euro, which had a negative impact on Kemrock s gross profit margin and cash flow as Kemrock procures the majority of its raw material supplies outside of India, but sells its products in Indian rupees. The market value of shares of Kemrock common stock continued to decline significantly, and dropped from 531.0 rupees per share as of May 31, 2012 to 56.70 rupees per share as of November 30, 2012; the majority of which began to occur during the month of August 2012. By the end of our fiscal year ended May 31, 2013, the market value of shares of Kemrock common stock had continued its decline to 43.85 rupees per share.

We account for our equity method investment in Kemrock under ASC 323, Investments Equity Method and Joint Ventures. As outlined in ASC 323-10-35-32, a decline in the quoted market price below the carrying amount, when combined with other evidence of a loss in value, may be indicative of a loss in value that is other than temporary. Acting upon the premise that a write-down may be required, we considered all available evidence to evaluate the realizable value of our equity investment, including the decline in the market price of shares of Kemrock stock, the financial condition and near term prospects of Kemrock, and the overall economic situation in India. As a result of these factors, we determined that it was appropriate to record an impairment loss during the three months ended August 31, 2012 of approximately $32.1 million on our equity method investment and a loss of $5.0 million for the amount deemed uncollectible on our then-outstanding $10.0 million loan to Kemrock. As the value of the embedded conversion derivative is directly correlated to the market value of Kemrock stock, we wrote-down the embedded conversion feature derivative and recorded an approximate $8.2 million charge to earnings during the three months ended August 31, 2012. The investment losses were classified in other (income) expense, net and the loss recorded on the loan was included in selling, general and administrative expense in our Consolidated Statements of Income. By the end of our fiscal year ended May 31, 2013, we wrote-down our entire equity- method investment in Kemrock for $42.2 million, the full value of the embedded conversion feature for $9.0 million and the full value of our convertible debt investment for $13.7 million.

NOTE 3 DECONSOLIDATION OF SPECIALTY PRODUCTS HOLDING CORP. (SPHC)

On May 31, 2010, Bondex International, Inc. (Bondex) and its parent, SPHC, filed Chapter 11 reorganization proceedings in the United States Bankruptcy Court for the District of Delaware. SPHC is our wholly owned subsidiary. In accordance with ASC 810, when a subsidiary becomes subject to the control of a government,

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

court, administrator, or regulator, deconsolidation of that subsidiary is generally required. We therefore deconsolidated SPHC and its subsidiaries from our balance sheet as of May 31, 2010, and eliminated the results of SPHC s operations from our results of operations beginning on that date. We believe we have no responsibility for liabilities of SPHC and Bondex. As a result of the Chapter 11 reorganization proceedings, on a prospective basis we will continue to account for our investment in SPHC under the cost method.

We had a net receivable from SPHC at May 31, 2010, that we expect may change before the bankruptcy proceedings have been finalized. The potential change relates to our indemnification of an insurer on appeal bonds pertaining to Bondex s appeal of two asbestos cases that had been underway prior to the bankruptcy filing, neither of which are material in amount. During our fiscal 2012, one of the appeal bonds was satisfied, and during fiscal 2013, the remaining appeal bond was satisfied. Included in the net amount due from SPHC are receivables and payables, which we concluded we have the right to report as a net amount based on several factors, including the fact that all amounts are determinable, the balances are due to and from our subsidiaries, and we have been given reasonable assurance that netting the applicable receivables and payables would remain legally enforceable. We analyzed our net investment in SPHC as of May 31, 2010, which included a review of our advances to SPHC, an assessment of the collectibility of our net receivables due from SPHC, and a computation of the gain to be recorded upon deconsolidation based on the carrying amount of our investment in SPHC. In accordance with GAAP, the gain on deconsolidation related to the carrying amount of net assets of SPHC at May 31, 2010, was calculated in accordance with ASC 810-10-40-5, as follows:

a) the aggregate of (1) the fair value of consideration received, (2) the fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated, and (3) the carrying amount of any noncontrolling interest in the former subsidiary; less

b) the carrying amount of the former subsidiary s assets and liabilities.

In determining the carrying value of any retained noncontrolling investment in SPHC at the date of deconsolidation we considered several factors, including analyses of cash flows combined with various assumptions relating to the future performance of this entity and a discounted value of SPHC s recorded asbestos-related contingent obligations based on information available to us as of the date of deconsolidation. The discounted cash flow approach relies primarily on Level 3 unobservable inputs, whereby expected future cash flows are discounted using a rate that includes assumptions regarding an entity s average cost of debt and equity, incorporates expected future cash flows based on internal business plans, and applies certain assumptions about risk and uncertainties due to the bankruptcy filing. Our estimates are based upon assumptions we believe to be reasonable, but which by nature are uncertain and unpredictable. As a result of this analysis, we determined that the carrying value of our retained interest in SPHC approximated zero.

As a result of the combined analyses of each of the components of our net investment in SPHC, we recorded a net loss of approximately $7.9 million, which was reflected in Other Expense, Net, during the fourth fiscal quarter of the year ended May 31, 2010. No changes have been made to these amounts through August 31, 2013.

NOTE 4 NEW ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB further amended the disclosure requirements for comprehensive income. The update requires companies to disclose items reclassified out of accumulated other comprehensive income and into net income in a single location either in the notes to the consolidated financial statements or parenthetically on the face of the Statements of Operations. The change is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, and is to be applied prospectively. Our adoption of these provisions on June 1, 2013 did not affect our consolidated results of operations, financial condition or liquidity.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENT (INCOME) EXPENSE, NET

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

	Three Months Ended	
(In thousands)	**August 31, 2013**	**August 31, 2012**
Interest (income)	$ (1,503)	$ (2,295)
(Gain) on sale of marketable securities	(2,197)	(4,584)
Other-than-temporary impairment on securities	51	113
Dividend (income)	(245)	(208)
Investment (income) expense, net	$ (3,894)	$ (6,974)

NOTE 6 OTHER EXPENSE (INCOME), NET

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

	Three Months Ended	
(In thousands)	**August 31, 2013**	**August 31, 2012**
Royalty expense (income), net	$ 318	$ (294)
Loss on Kemrock conversion option		8,183
(Income) loss related to unconsolidated equity affiliates	(752)	31,533
Other expense (income), net	$ (434)	$ 39,422

NOTE 7 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 month periods ended August 31, 2013:

	U.S. Plans		Non-U.S. Plans	
	Three Months Ended		Three Months Ended	
Pension Benefits	**August 31, 2013**	**August 31, 2012**	**August 31, 2013**	**August 31, 2012**
	(In thousands)			

Service cost	$ 6,764	$ 6,488	$ 1,109	$ 1,050
Interest cost	4,510	4,060	1,800	1,769
Expected return on plan assets	(5,190)	(4,358)	(2,095)	(1,846)
Amortization of:				
Prior service cost	83	87	1	2
Net actuarial losses recognized	3,306	4,222	623	692
Net Periodic Benefit Cost	$ 9,473	$ 10,499	$ 1,438	$ 1,667

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Postretirement Benefits	U.S. Plans Three Months Ended August 31, 2013	August 31, 2012	Non-U.S. Plans Three Months Ended August 31, 2013	August 31, 2012
	(In thousands)			
Service cost	$	$	$ 327	$ 288
Interest cost	81	88	317	289
Amortization of:				
Prior service (credit)	(22)	(22)		
Net actuarial (gains) losses recognized	(29)	4	133	114
Net Periodic Benefit Cost	$ 30	$ 70	$ 777	$ 691

We previously disclosed in our financial statements for the fiscal year ended May 31, 2013 that we expected to contribute approximately $27.4 million to our retirement plans in the U.S. and approximately $7.4 million to plans outside the U.S. during the current fiscal year. As of August 31, 2013, this has not changed.

We have determined that our postretirement medical plan provides prescription drug benefits that will qualify for the federal subsidy provided by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. For all groups of retirees, we have assumed that the subsidy will continue indefinitely.

NOTE 8 INCOME TAXES

The effective income tax rate was 27.4% for the three months ended August 31, 2013 compared to an effective income tax rate of 47.5% for the three months ended August 31, 2012.

For the three months ended August 31, 2013 and August 31, 2012, the effective tax rates reflect variances from the 35% federal statutory rate primarily due to lower effective tax rates of certain of our foreign subsidiaries, the favorable impact of certain foreign operations on our U.S. taxes, the research and development tax credit, the benefit of the domestic manufacturing deduction and for the three months ended August 31, 2013, the impact of lower valuation allowances on foreign tax credit carryforwards. These favorable variances from the statutory tax rate were offset by the net impact of valuation allowances associated with certain foreign net operating losses, state and local income taxes, non-deductible business operating expenses, and for the three months ended August 31, 2012, the impact of increases to valuation allowances for both foreign tax credit carryfowards and loss carryforwards on our investment in Kemrock.

Furthermore, for the three month period ended August 31, 2013, the effective tax rate includes a discrete benefit related to the recognition of a foreign deferred income tax asset resulting from the merger of certain foreign subsidiaries. This benefit was partially offset by the impact of the enactment of a Canadian tax law change, Canada Bill C-48, Technical Tax Amendments Act, 2012 (Bill C-48), which was effective as of June 26, 2013.

As of August 31, 2013, we had unrecognized tax benefits of approximately $15.0 million, of which approximately $14.1 million would impact the effective tax rate, if recognized. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. At August 31, 2013 the accrual for interest and penalties was $5.8 million. These amounts increased from the prior year balances primarily due to additions for prior year positions related to the retroactive impact of Bill C-48. Unrecognized tax benefits, including interest and penalties, have been classified as other long-term liabilities unless expected to be paid in one year. We do not anticipate any significant changes to the total unrecognized tax benefits within the next 12 months.

We, or our subsidiaries, file income tax returns in the U.S. and in various state, local and foreign jurisdictions. During the year ended May 31, 2013 we settled U.S. federal examinations of fiscal years 2009 and 2010. During

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the first quarter of fiscal 2014 we settled a U.S. federal examination of fiscal year 2011 and were notified by the Internal Revenue Service that they will perform a limited scope examination of fiscal year 2012. In addition, with limited exceptions, we, or our subsidiaries, are generally subject to state and local or non-U.S. income tax examinations by tax authorities for the fiscal years 2006 through 2013.

We are currently under examination, or have been notified of an upcoming tax examination, for various Non-U.S. and U.S. jurisdictions. Although it is possible that certain tax examinations could be resolved during the next 12 months, the timing and outcomes are uncertain.

As of August 31, 2013, we have determined, based on the available evidence, that it is uncertain whether we will be able to recognize certain deferred tax assets. Therefore, we intend to maintain the tax valuation allowances recorded at August 31, 2013 for those deferred tax assets until sufficient positive evidence (for example, cumulative positive foreign earnings or additional foreign source income) exists to support their reversal. These valuation allowances relate to U.S. foreign tax credit carryforwards, capital loss carryforwards, unrealized losses on securities, certain foreign net operating losses and net foreign deferred tax assets.

NOTE 9 EARNINGS PER SHARE

The following table sets forth the reconciliation of the numerator and denominator of basic and diluted earnings per share, as calculated using the two-class method, for the three month periods ended August 31, 2013 and 2012:

	Three Months Ended August 31,	
(In thousands, except per share amounts)	**2013**	**2012**
Numerator for earnings per share:		
Net income attributable to RPM International Inc. stockholders	$ 103,098	$ 33,913
Less: Allocation of earnings and dividends to participating securities	(2,285)	(642)
Net income available to common shareholders basic	100,813	33,271
Add: Undistributed earnings reallocated to unvested shareholders	12	1
Net income available to common shareholders diluted	$ 100,825	$ 33,272
Denominator for basic and diluted earnings per share:		
Basic weighted average common shares	129,344	128,805
Average diluted options	950	765
Total shares for diluted earnings per share	130,294	129,570
Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders:		
Basic	$ 0.78	$ 0.26
Diluted (1)	$ 0.77	$ 0.26

(1) For the quarters ended August 31, 2013 and 2012, approximately 3,097,000 and 2,954,000 shares of stock, respectively, granted under stock-based compensation plans were excluded from the calculation of diluted earnings per share, as the effect would have been anti-dilutive.

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 INVENTORIES

Inventories were composed of the following major classes:

	August 31, 2013	May 31, 2013
	(In thousands)	
Raw material and supplies	$ 190,910	$ 185,590
Finished goods	381,238	363,090
Total Inventory	$ 572,148	$ 548,680

NOTE 11 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, and contract cancellation 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.

Fiscal 2013 Plans

In May 2013, we approved a restructuring plan for one of our consumer operating segments designed to eliminate duplicative processes and overhead and to exit certain processes and product lines. This restructuring plan allows management to refocus its attention on faster growing brands within the consumer operating segment. In connection with this plan, we recorded aggregate charges of approximately $15.6 million, of which approximately $8.2 million relates to the elimination of 133 positions and approximately $7.4 million results from the shutdown of 2 manufacturing facilities. These actions are expected to be completed during the first seven months of fiscal 2014. In addition, there were approximately $3.9 million of inventory markdowns, which are reflected in Cost of Sales in our Consolidated Statements of Income.

Additionally, one of our industrial operating businesses adopted a restructuring plan designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and stockholders. We estimate that this plan will eliminate approximately 34 positions and severance payments will be made generally through the end of fiscal 2014. In connection with the plan, we recorded aggregate charges of approximately $4.5 million, all of which relates to workforce reductions.

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

(In thousands)	Long-Lived Asset Charges	Employee Severance	Site Preparation and	Total

			Equipment Relocation	
Balance at May 31, 2013	$ 4,729	$ 12,656	$ 397	$ 17,782
Charge to expense		128		128
Cash payments		(1,416)		(1,416)
Noncash and foreign exchange impacts	123	165	10	298
Balance at August 31, 2013	$ 4,852	$ 11,533	$ 407	$ 16,792

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 MARKETABLE SECURITIES

The following tables summarize marketable securities held at August 31, 2013 and May 31, 2013 by asset type:

	Available-For-Sale Securities			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value (Net Carrying Amount)**
August 31, 2013				
Equity securities:				
Stocks foreign	$ 1,090	$ 367	$ (47)	$ 1,410
Stocks domestic	30,931	4,749	(488)	35,192
Mutual funds foreign	26,348	2,018	(148)	28,218
Mutual funds domestic	27,835	233	(1,340)	26,728
Total equity securities	86,204	7,367	(2,023)	91,548
Fixed maturity:				
U.S. treasury and other government	20,386	166	(341)	20,211
Corporate bonds	1,714	192	(1)	1,905
Foreign bonds	37	3		40
Mortgage-backed securities	88	58		146
Total fixed maturity securities	22,225	419	(342)	22,302
Total	$ 108,429	$ 7,786	$ (2,365)	$ 113,850

	Available-For-Sale Securities			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value (Net Carrying Amount)**
May 31, 2013				
Equity securities:				
Stocks foreign	$ 1,090	$ 244	$	$ 1,334
Stocks domestic	24,492	5,265	(392)	29,365
Mutual funds foreign	18,328	1,901	(7)	20,222
Mutual funds domestic	39,184	679	(492)	39,371
Total equity securities	83,094	8,089	(891)	90,292
Fixed maturity:				

U.S. treasury and other government	20,528	247	(139)	20,636
Corporate bonds	1,724	244		1,968
Foreign bonds	37	4		41
Mortgage-backed securities	100	60	(4)	156
Total fixed maturity securities	22,389	555	(143)	22,801
Total	$ 105,483	$ 8,644	$ (1,034)	$ 113,093

Marketable securities, included in other current and long-term assets totaling $52.0 million and $61.9 million at August 31, 2013, respectively, and included in other current and long-term assets totaling $49.1 million and $64.0 million at May 31, 2013, 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.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Gross gains realized on sales of investments were $2.2 million for the quarter ended August 31, 2013. Gross gains and losses realized on sales of investments were $5.0 million and $0.4 million, respectively, for the quarter ended August 31, 2012. During the three months ended August 31, 2013 and 2012, we recognized losses of approximately $0.1 million for securities deemed to have other-than-temporary impairments. These amounts are included in investment expense (income), net in the Consolidated Statements of Income.

Summarized below are the securities we held at August 31, 2013 and May 31, 2013 that were in an unrealized loss position and that were included in accumulated other comprehensive income, aggregated by the length of time the investments had been in that position:

	August 31, 2013		**May 31, 2013**	
(In thousands)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Total investments with unrealized losses	$ 48,861	$ (2,365)	$ 36,582	$ (1,034)
Unrealized losses with a loss position for less than 12 months	46,046	(2,277)	36,327	(956)
Unrealized losses with a loss position for more than 12 months	2,815	(88)	255	(78)

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. Unrealized losses at August 31, 2013 were generally related to the lower levels of volatility in valuations over the last several months for a portion of our portfolio of investments in marketable securities. The unrealized losses generally relate to investments whose fair values at August 31, 2013 were less than 15% below their original cost or have been in a loss position for less than six consecutive months. From time to time, we may experience significant volatility in general economic and market conditions. If we were to experience unrealized losses that were to continue for longer periods of time, or arise to more significant levels of unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The net carrying values of debt securities at August 31, 2013, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(In thousands)	**Amortized Cost**	**Fair Value**
Due:		
Less than one year	$ 3,081	$ 3,093
One year through five years	13,043	13,100
Six years through ten years	4,439	4,322
After ten years	1,662	1,787
	$ 22,225	$ 22,302

NOTE 13 FAIR VALUE MEASUREMENTS

Financial instruments recorded on 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 collectability and past experience, but are primarily made up of individual account balances identified as doubtful based on specific facts and conditions. Receivable losses are charged against the allowance when we confirm uncollectibility.

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

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.

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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 August 31, 2013
U.S. Treasury and other government	$	$ 20,211	$	$ 20,211
Foreign bonds		40		40
Mortgage-backed securities		146		146
Corporate bonds		1,905		1,905
Stocks foreign	1,410			1,410
Stocks domestic	35,192			35,192
Mutual funds foreign		28,218		28,218
Mutual funds domestic		26,728		26,728
Foreign currency forward contract		1,687		1,687
Cross-currency swap		(12,708)		(12,708)
Contingent consideration			(68,050)	(68,050)
Total	$ 36,602	$ 66,227	$ (68,050)	$ 34,779

(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, 2013
U.S. Treasury and other government	$	$ 20,636	$	$ 20,636
Foreign bonds		41		41
Mortgage-backed securities		156		156
Corporate bonds		1,968		1,968
Stocks foreign	1,334			1,334
Stocks domestic	29,365			29,365
Mutual funds foreign		20,222		20,222
Mutual funds domestic		39,371		39,371
Foreign currency forward contract		(4,751)		(4,751)
Cross-currency swap		(10,048)		(10,048)
Contingent consideration			(64,500)	(64,500)
Total	$ 30,699	$ 67,595	$ (64,500)	$ 33,794

Our marketable securities are composed of mainly 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.

Our cross-currency swap is a liability that has a fair value of $12.7 million at August 31, 2013, that was originally designed to fix our interest and principal payments in euros for the life of our unsecured 6.70% senior notes due November 1, 2015, which resulted in an effective euro fixed-rate borrowing of 5.31%. The basis for determining the rates for this swap included three legs at the inception of the agreement: the U.S. dollar (USD)

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fixed rate to a USD floating rate; the euro floating to euro fixed rate; and the dollar to euro basis fixed rate at inception. Therefore, we essentially exchanged fixed payments denominated in USD for fixed payments denominated in euros, paying fixed euros at 5.31% and receiving fixed USD at 6.70%. The ultimate payments are based on the notional principal amounts of $150 million and approximately 125 million euros. There will be an exchange of the notional amounts at maturity. The rates included in this swap are based upon observable market data, but are not quoted market prices, and therefore, the cross-currency swap is considered a Level 2 liability on the fair value hierarchy. Additionally, this cross-currency swap has been designated as a hedging instrument, and is classified as other long-term liabilities in our Consolidated Balance Sheets.

At August 31, 2013, we had a foreign currency forward contract with a fair value of approximately $1.7 million, which is classified in other current assets in our Consolidated Balance Sheets. At May 31, 2013, we had a foreign currency forward contract with a fair value of $4.8 million, which is classified as 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.

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 August 31, 2013 and May 31, 2013, 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 August 31, 2013 and May 31, 2013 are as follows:

	At August 31, 2013	
(In thousands)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 204,903	$ 204,903
Marketable equity securities	91,548	91,548
Marketable debt securities	22,302	22,302
Long-term debt, including current portion	1,424,144	1,504,714

	At May 31, 2013	
(In thousands)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 343,554	$ 343,554
Marketable equity securities	90,292	90,292
Marketable debt securities	22,801	22,801

Long-term debt, including current portion	1,373,697	1,501,850

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RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14 REORGANIZATION PROCEEDINGS OF CERTAIN SUBSIDIARIES

General Prior to May 31, 2010, Bondex and SPHC were defendants in various asbestos-related bodily injury lawsuits filed in various state courts. These cases generally sought unspecified damages for asbestos-related diseases based on alleged exposures to asbestos-containing products.

On May 31, 2010, Bondex and its parent, SPHC, filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. SPHC is also the parent company for various operating companies that are not part of the reorganization filing, including Chemical Specialties Manufacturing Corp.; Day-Glo Color Corp.; Dryvit Holdings, Inc.; Guardian Protection Products Inc.; Kop-Coat Inc.; TCI, Inc. and RPM Wood Finishes Group, Inc. SPHC and Bondex (the filing entities) took this action in an effort to permanently and comprehensively resolve all pending and future asbestos-related liability claims associated with Bondex and SPHC-related products. As a result of the filing, all Bondex and SPHC asbestos personal injury lawsuits have been stayed due to the imposition of an automatic stay applicable in bankruptcy cases, with the exception of the cases referenced in Note 3 with respect to which the stay was lifted. In addition, at the request of SPHC and Bondex, the bankruptcy court has entered orders staying all claims against RPM International Inc. and its affiliates that are derivative of the asbestos claims against SPHC and Bondex.

Through the Chapter 11 proceedings, the filing entities are seeking to formulate a consensual plan of reorganization pursuant to Section 524(g) of the Bankruptcy Code. That contemplated plan of reorganization would establish a trust to which all present and future asbestos claims against the debtors would be channeled, and which would provide compensation to the asbestos claimants based upon factors set forth in trust distribution procedures provided for by the plan of reorganization. We would hope to have any channeling order issued by the bankruptcy court in connection with such a plan of reorganization also protect ourselves as well as other non-filing affiliates of the debtors, so that all future SPHC-related and Bondex-related asbestos claims must proceed against the trust and cannot be asserted against us or other non-filing affiliates. The ultimate ability to achieve such a consensual plan of reorganization on such terms, however, depends on numerous factors, and no assurance can be provided that such a plan of reorganization with these terms will, in fact, be achieved.

In January 2013, a hearing to estimate the aggregate current and future asbestos liabilities of the filing entities was conducted before Judge Judith K. Fitzgerald in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court). In May 2013, the Bankruptcy Court issued an opinion estimating the current and future asbestos claims associated with Bondex and SPHC at approximately $1.17 billion. The estimation hearing represents one step in the legal process in helping to determine the appropriate amount of funding for a 524(g) asbestos trust. Bondex and SPHC firmly believe that the ruling substantially overstates the amount of their liability and is not supported by the facts or the law. The debtors have filed an appeal of the decision and are seeking certification of the appeal directly to the United States Court of Appeals for the Third Circuit, thereby bypassing review by the United States District Court for the District of Delaware. We have also separately filed an appeal. The asbestos claimants and the future claims representative have moved to dismiss the appeals, arguing that the estimation order is not a final, appealable order. Bondex, SPHC and we believe that the order is final and appealable, and that, even if it were not, the appeal should be treated as a motion to appeal, which should be granted. Assuming that the motion to dismiss the appeal is not granted, it is anticipated that the appeal process could take an additional two to three years. That time period could be shorter if the appeal is certified to and heard directly by the United States Court of Appeals for the Third Circuit.

Prior to the bankruptcy filing, the filing entities had litigated and, on many occasions, settled asbestos-related products liability claims brought against them. The debtors paid $92.6 million during the year ended May 31, 2010, prior to the bankruptcy filing, in connection with the litigation and settlement of asbestos claims, $42.6 million of which consisted of defense costs. With the exception of the appeal bonds described in Note 3, no

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

claims have been paid since the bankruptcy filing and it is not contemplated that any claims will be paid until a plan of reorganization is confirmed and an asbestos trust is established and operating.

Prior to the Chapter 11 bankruptcy filing, we recorded asbestos-related contingent liabilities that included estimations of future costs. Such estimates by their nature are subject to many uncertainties that may change over time, including (i) the ultimate number of claims filed; (ii) the amounts required to resolve both currently known and future unknown claims; (iii) the amount of insurance, if any, available to cover such claims, including the outcome of coverage litigation against the filing entities third-party insurers; (iv) future earnings and cash flow of the filing entities; (v) the impact of bankruptcies of other companies whose share of liability may be imposed on the filing entities under certain state liability laws; (vi) the unpredictable aspects of the litigation process including a changing trial docket and the jurisdictions in which trials are scheduled; (vii) the outcome of any such trials, including potential judgments or jury verdicts, as a result of the strategy of Bondex and SPHC to take selective cases to verdict; (viii) the lack of specific information in many cases concerning exposure to products for which Bondex, SPHC, or another of our subsidiaries is allegedly responsible, and the claimants alleged diseases resulting from such exposure; (ix) potential changes in applicable federal and/or state tort liability law; and (x) the potential impact of various proposed structured settlement transactions. All these factors may have a material effect upon future asbestos-related liability estimates.

As a result of their bankruptcy filing, SPHC and Bondex are precluded from paying dividends to shareholders and from making payments on any pre-bankruptcy filing accounts or notes payable that are due and owing to any other entity within the RPM group of companies (the Pre-Petition Intercompany Payables) or other pre-petition creditors during the pendency of the bankruptcy case, without the Bankruptcy Court s approval. Moreover, no assurances can be given that any of the Pre-Petition Intercompany Payables will ever be paid or otherwise satisfied.

When SPHC emerges from the jurisdiction of the Bankruptcy Court, the subsequent accounting will be determined based upon the applicable circumstances and facts at such time, including the terms of any plan of reorganization.

SPHC has assessed its liquidity position as a result of the bankruptcy filing and believes that it can continue to fund its and its subsidiaries operating activities and meet its debt and capital requirements for the foreseeable future.

Historical Asbestos Liability Reserve In fiscal 2006, management retained Crawford & Winiarski (C&W), an independent, third-party consulting firm with expertise in the area of asbestos valuation work, to assist it in calculating an estimate of Bondex s liability for unasserted-potential-future-asbestos-related claims. C&W s methodology to project Bondex s liability for unasserted-potential-future-asbestos-related claims included an analysis of: (a) a widely accepted forecast of the population likely to have been exposed to asbestos; (b) epidemiological studies estimating the number of people likely to develop asbestos-related diseases; (c) the historical rate at which mesothelioma incidences resulted in the payment of claims by Bondex; (d) the historical settlement averages to value the projected number of future compensable mesothelioma claims; (e) the historical ratio of mesothelioma-related indemnity payments to non-mesothelioma indemnity payments; and (f) the historical defense costs and their relationship with total indemnity payments. Based upon the results of this analysis, Bondex recorded an accrued liability for asbestos claims through 2016 as of May 31, 2006 of $421.3 million. This amount was calculated on a pretax basis and was not discounted for the time value of money.

During the fiscal year ended May 31, 2008, the ten-year asbestos liability established as of May 31, 2006 was reviewed and evaluated. As part of that process, the credibility of epidemiological studies of Bondex s mesothelioma claims, first introduced to management by C&W some two-and-one-half years earlier, was

All Other Fees				
Total	$	656,444	$	508,910

Audit Fees include fees and related expenses for professional services rendered in connection with audits of our annual financial statements and the financial statements of our subsidiaries, reviews of our unaudited quarterly financial information, reporting on the effectiveness of our internal controls over financial reporting and reviews and consultation regarding financial accounting and reporting matters. This category also includes fees for services that generally only the auditor responsibly can provide, such as statutory audits, comfort letters, consents, and assistance with review of our filings with the SEC.

Audit-Related Fees include fees and related expenses for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements that are not Audit Fees.

Tax Fees include fees and related expenses billed for tax compliance services and federal and state tax advice and planning.

All Other Fees include fees and related expenses for products and services that are not Audit Fees, Audit-Related Fees or Tax Fees.

Our Audit Committee has considered all fees provided by the independent auditors to us and concluded this involvement is compatible with maintaining the auditors independence.

Representatives of BDO USA, LLP will be present at the Company s 2018 annual meeting of stockholders, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

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PART IV

ITEM 15. EXHIBITS.

(a) Financial Statements

Consolidated Financial Statements are included in our Annual Report on Form 10-K filed with the Commission on March 12, 2018.

(b) Exhibits

Exhibit Number	Exhibit Description
31.1	Rule 13a-14(a) Certification of Principal Executive Officer.*
31.2	Rule 13a-14(a) Certification of Principal Financial Officer.*

* Filed herewith

(c) Financial Statement Schedules omitted

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ASHFORD INC.	
Date: April 30, 2018	By:	/s/ Monty J. Bennett Monty J. Bennett Chief Executive Officer