RPM INTERNATIONAL INC/DE/
Form 10-Q
April 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 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 (State or other jurisdiction of incorporation or organization)	02-0642224 (IRS Employer Identification No.)
P.O. BOX 777; 2628 PEARL ROAD; MEDINA, OHIO	44258 (Zip Code)

(Address of principal executive offices)

(330) 273-5090

(Registrant's telephone number including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company.)	Smaller reporting company
Emerging growth company		

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of April 2, 2018 133,729,592 Shares of RPM International Inc. Common Stock were outstanding.

RPM INTERNATIONAL INC. AND SUBSIDIARIES*

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* As used herein, the terms "RPM" and the "Company" refer to RPM International Inc. and its subsidiaries, unless the context indicates otherwise.

PART I. – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	February 28, 2018	May 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 264,386	$ 350,497
Trade accounts receivable (less allowances of $42,244 and $44,138, respectively)	884,295	995,330
Inventories	930,594	788,197
Prepaid expenses and other current assets	278,069	263,412
Total current assets	2,357,344	2,397,436
Property, Plant and Equipment, at Cost	1,570,597	1,484,579
Allowance for depreciation	(797,610)	(741,893)
Property, plant and equipment, net	772,987	742,686
Other Assets		
Goodwill	1,185,890	1,143,913
Other intangible assets, net of amortization	577,861	573,092
Deferred income taxes	21,042	19,793
Other	220,801	213,529
Total other assets	2,005,594	1,950,327
Total Assets	$ 5,135,925	$ 5,090,449
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 433,372	$ 534,718
Current portion of long-term debt	3,767	253,645
Accrued compensation and benefits	139,243	181,084
Accrued losses	21,107	31,735
Other accrued liabilities	324,624	234,212
Total current liabilities	922,113	1,235,394
Long-Term Liabilities		
Long-term debt, less current maturities	2,179,658	1,836,437
Other long-term liabilities	334,913	482,491
Deferred income taxes	63,219	97,427
Total long-term liabilities	2,577,790	2,416,355
Commitments and contingencies (Note 14)		
Stockholders' Equity		

Preferred stock, par value $0.01; authorized 50,000 shares; none issued	-	-
Common stock, par value $0.01; authorized 300,000 shares; issued 141,712 and outstanding 133,730 as of February 28, 2018; issued 141,242 and outstanding 133,563 as of May 31, 2017	1,337	1,336
Paid-in capital	972,187	954,491
Treasury stock, at cost	(233,288)	(218,222)
Accumulated other comprehensive (loss)	(405,734)	(473,986)
Retained earnings	1,298,876	1,172,442
Total RPM International Inc. stockholders' equity	1,633,378	1,436,061
Noncontrolling Interest	2,644	2,639
Total equity	1,636,022	1,438,700
Total Liabilities and Stockholders' Equity	$ 5,135,925	$ 5,090,449

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Net Sales	$1,102,677	$1,022,496	$3,763,487	$3,465,329
Cost of Sales	663,184	593,923	2,200,971	1,963,033
Gross Profit	439,493	428,573	1,562,516	1,502,296
Selling, General and Administrative Expenses	382,972	386,032	1,196,980	1,189,611
Goodwill and Other Intangible Asset Impairments	-	4,900	-	193,198
Interest Expense	27,459	23,769	80,628	69,452
Investment (Income), Net	(5,471)	(3,627)	(13,663)	(9,881)
Other (Income) Expense, Net	(165)	502	(592)	1,301
Income Before Income Taxes	34,698	16,997	299,163	58,615
(Benefit) Provision for Income Taxes	(5,890)	4,313	45,814	2,793
Net Income	40,588	12,684	253,349	55,822
Less: Net Income Attributable to Noncontrolling Interests	361	756	1,243	2,051
Net Income Attributable to RPM International Inc. Stockholders	$40,227	$11,928	$252,106	$53,771
Average Number of Shares of Common Stock Outstanding:				
Basic	131,178	130,677	131,195	130,657
Diluted	131,178	130,677	135,657	130,657
Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic	$0.30	$0.09	$1.90	$0.41
Diluted	$0.30	$0.09	$1.87	$0.41
Cash Dividends Declared per Share of Common Stock	$0.320	$0.300	$0.940	$0.875

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended		Nine Months Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Net Income	$ 40,588	$ 12,684	$ 253,349	$ 55,822
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	31,133	16,576	67,453	(46,919)
Pension and other postretirement benefit liability adjustments (net of tax of $1,319; $1,863; $3,576; $6,626, respectively)	2,279	3,222	5,974	12,516
Unrealized (loss) gain on securities (net of tax of $(1,070); $1,192; $43; $1,968, respectively)	(2,380)	2,577	91	3,286
Unrealized (loss) on derivatives	(2,137)	-	(5,277)	-
Total other comprehensive income (loss)	28,895	22,375	68,241	(31,117)
Total Comprehensive Income	69,483	35,059	321,590	24,705
Less: Comprehensive Income Attributable to Noncontrolling Interests	393	756	1,234	2,051
Comprehensive Income Attributable to RPM International Inc. Stockholders	$ 69,090	$ 34,303	$ 320,356	$ 22,654

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended	
	February 28, 2018	February 28, 2017
Cash Flows From Operating Activities:		
Net income	$ 253,349	$ 55,822
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	61,078	53,343
Amortization	35,123	33,497
Goodwill and other intangible asset impairments	-	193,198
Deferred income taxes	(42,885)	(26,996)
Stock-based compensation expense	17,698	25,005
Other non-cash interest expense	4,275	7,149
Realized (gains) on sales of marketable securities	(6,833)	(5,338)
Other	(71)	136
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	138,942	190,423
(Increase) in inventory	(121,095)	(143,409)
Decrease (increase) in prepaid expenses and other current and long-term assets	14,307	(26,698)
(Decrease) in accounts payable	(112,888)	(95,727)
(Decrease) in accrued compensation and benefits	(45,873)	(50,425)
(Decrease) increase in accrued losses	(11,001)	2,247
(Decrease) in other accrued liabilities	(42,895)	(35,135)
Other	(483)	(3,613)
Cash Provided By Operating Activities	140,748	173,479
Cash Flows From Investing Activities:		
Capital expenditures	(72,769)	(80,110)
Acquisition of businesses, net of cash acquired	(59,991)	(246,874)
Purchase of marketable securities	(139,641)	(36,418)
Proceeds from sales of marketable securities	97,624	36,696
Other	6,766	1,493
Cash (Used For) Investing Activities	(168,011)	(325,213)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	340,106	422,521
Reductions of long-term and short-term debt	(264,051)	(78,654)
Cash dividends	(125,672)	(116,680)
Shares repurchased and returned for taxes	(15,065)	(20,092)
Payments of acquisition-related contingent consideration	(3,825)	(4,206)

Payments to 524(g) trust	-	(102,500)
Other	(1,911)	(2,009)
Cash (Used For) Provided By Financing Activities	(70,418)	98,380
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11,570	(1,002)
Net Change in Cash and Cash Equivalents	(86,111)	(54,356)
Cash and Cash Equivalents at Beginning of Period	350,497	265,152
Cash and Cash Equivalents at End of Period	$264,386	$ 210,796

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

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the U.S. (“GAAP”) for interim financial information and the instructions to Form 10-Q. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three and nine month periods ended February 28, 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, 2017.

Our financial statements include all of our majority-owned subsidiaries. We account for our investments in less-than-majority-owned joint ventures, for which we have the ability to exercise significant influence, under the equity method. Effects of transactions between related companies are eliminated in consolidation.

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

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

NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

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

Under the original issuance, the new standard would have applied to annual periods beginning after December 15, 2016, including interim periods therein. However, in August 2015, the FASB issued ASU 2015-14, which extends the standard effective date by one year and includes an option to apply the standard on the original effective date. The provisions of this ASU may be applied retrospectively to each prior reporting period presented, or on a modified retrospective basis by recognizing a cumulative catch-up transition amount at the date of initial application. We have selected the modified retrospective transition method, which we will apply upon adoption of the standard as of June 1, 2018.

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

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which increases lease transparency and comparability among organizations. Under the new standard, lessees will be required to recognize all assets and liabilities arising from leases on the balance sheet, with the exception of leases with a term of 12 months or less, which permits a lessee to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The new standard requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. We are currently evaluating the impact this guidance will have on our Consolidated Financial Statements. At a minimum, total assets and total liabilities will increase in the period the ASU is adopted. At February 28, 2018, our total undiscounted future minimum payments outstanding for operating lease obligations approximated $276.0 million.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently reviewing the impact this guidance will have on our Consolidated Financial Statements.

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

NOTE 3 — GOODWILL AND OTHER INTANGIBLE ASSETS

During the three and nine month periods ended February 28, 2017, we recorded impairment charges related to a reduction of the carrying value of goodwill and other intangible assets totaling $4.9 million and $193.2 million, respectively. All of the charges were recorded by our consumer reportable segment. The goodwill impairment loss incurred during fiscal 2017 totaled $140.5 million, and the impairment losses for other intangible assets, totaling $52.6 million, related to formulae for $15.3 million; customer-related intangibles for $30.1 million; other intangibles for $0.2 million and indefinite-lived trademarks for $7.0 million.

Total accumulated goodwill impairment losses were $156.3 million and $155.4 million at February 28, 2018 and 2017, which comprise the goodwill impairment loss incurred during fiscal 2017 as well as a $14.9 million goodwill impairment loss recorded by our industrial reportable segment during fiscal 2009.

The gross amount of other intangible asset accumulated impairment losses were $53.6 million and $53.2 million at February 28, 2018 and 2017, which comprise the other intangible asset impairment loss incurred during fiscal 2017 as well as a $0.6 million other intangible asset impairment loss recorded by our industrial reportable segment during fiscal 2009.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 — MARKETABLE SECURITIES

The following tables summarize marketable securities held at February 28, 2018 and May 31, 2017 by asset type:

	Available-For-Sale Securities			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
February 28, 2018				
Equity securities:				
Stocks - domestic	$1,235	$ 76	$ -	$ 1,311
Mutual funds - foreign	45,397	3,229	(299)	48,327
Mutual funds - domestic	106,443	1,874	(2,938)	105,379
Total equity securities	153,075	5,179	(3,237)	155,017
Fixed maturity:				
U.S. treasury and other government	22,773	29	(593)	22,209
Corporate bonds	532	49	(7)	574
Total fixed maturity securities	23,305	78	(600)	22,783
Total	$176,380	$ 5,257	$ (3,837)	$ 177,800

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

Marketable securities, included in other current and long-term assets totaling $95.9 million and $81.9 million at February 28, 2018, respectively, and included in other current and long-term assets totaling $89.5 million and $75.0 million at May 31, 2017, respectively, are composed of available-for-sale securities and are reported at fair value. We carry a portion of our marketable securities portfolio in long-term assets since they are generally held for the settlement of our general and product liability insurance claims processed through our wholly owned captive insurance subsidiaries.

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

Gross realized gains on sales of investments were $2.6 million and $1.7 million for the quarters ended February 28, 2018 and 2017, respectively. During the third quarter of fiscal 2018 and 2017, we recognized gross realized losses on sales of investments of $0.7 million and $0.1 million, respectively.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Gross realized gains on sales of investments were $8.6 million and $6.4 million for the nine months ended February 28, 2018 and 2017, respectively. During the first nine months of fiscal 2018 and 2017, we recognized gross realized losses on sales of investments of $1.8 million and $1.1 million, respectively. During the first nine months of fiscal 2017, we recognized losses of approximately $0.4 million for securities deemed to have other-than-temporary impairments, while there were no such losses during the first nine months of fiscal 2018. These amounts are included in investment (income), net in the Consolidated Statements of Income.

Summarized below are the securities we held at February 28, 2018 and May 31, 2017 that were in an unrealized loss position and that were included in accumulated other comprehensive (loss), aggregated by the length of time the investments had been in that position:

	February 28, 2018		May 31, 2017	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Total investments with unrealized losses	$93,287	$ (3,837)	$59,987	$ (3,505)
Unrealized losses with a loss position for less than 12 months	56,775	(795)	40,854	(2,983)
Unrealized losses with a loss position for more than 12 months	36,512	(3,042)	19,133	(522)

We have reviewed all of the securities included in the table above and have concluded that we have the ability and intent to hold these investments until their cost can be recovered, based upon the severity and duration of the decline. Therefore, we did not recognize any other-than-temporary impairment losses on these investments. The unrealized losses generally relate to investments whose fair values at February 28, 2018 were less than 15% below their original cost. From time to time, we may experience significant volatility in general economic and market conditions. If we were to experience unrealized losses that were to continue for longer periods of time, or arise to more significant levels of unrealized losses within our portfolio of investments in marketable securities in the future, we may recognize additional other-than-temporary impairment losses. Such potential losses could have a material impact on our results of operations in any given reporting period. As such, we continue to closely evaluate the status of our investments and our ability and intent to hold these investments.

The net carrying values of debt securities at February 28, 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	$ 4,894	$ 4,856
One year through five years	14,180	13,825

Six years through ten years	3,137	2,977
After ten years	1,094	1,125
	$ 23,305	$ 22,783

NOTE 5 — FAIR VALUE MEASUREMENTS

Financial instruments recorded in the balance sheet include cash and cash equivalents, trade accounts receivable, marketable securities, notes and accounts payable, and debt.

An allowance for anticipated uncollectible trade receivable amounts is established using a combination of specifically identified accounts to be reserved, and a reserve covering trends in collectibility. These estimates are based on an analysis of trends in collectibility and past experience, but are primarily made up of individual account balances identified as doubtful based on specific facts and conditions. Receivable losses are charged against the allowance when we confirm uncollectibility.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The valuation techniques utilized for establishing the fair values of assets and liabilities are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect management's market assumptions. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value, as follows:

Level 1 Inputs — Quoted prices for identical instruments in active markets.

Level 2 Inputs — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs — Instruments with primarily unobservable value drivers.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at February 28, 2018
U.S. Treasury and other government	$ -	$ 22,209	$ -	$ 22,209
Corporate bonds		574		574
Stocks - domestic	1,311			1,311
Mutual funds - foreign		48,327		48,327
Mutual funds - domestic		105,379		105,379
Contingent consideration			(14,653)	(14,653)
Total	$ 1,311	$ 176,489	$	