FERRO CORP
Form 10-Q
October 27, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

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 Number 1-584

FERRO CORPORATION

(Exact name of registrant as specified in its charter)

Ohio	34-0217820
(State or other jurisdiction of	(I.R.S. Employer Identification No.)
incorporation or organization)	
6060 Parkland Boulevard	44124
Suite 250	(Zip Code)
Mayfield Heights, OH	
(Address of principal executive offices)	
216-875-5600	
(Registrant's telephone number, including area code)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

At September 30, 2014, there were 86,985,899 shares of Ferro Common Stock, par value $1.00, outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share amounts)			
Net sales	$ 275,754	$ 298,083	$ 850,698	$ 912,738
Cost of sales	202,950	225,980	624,487	701,740
Gross profit	72,804	72,103	226,211	210,998
Selling, general and administrative expenses	51,716	52,589	152,345	165,471
Restructuring and impairment charges	1,521	3,562	7,829	26,086
Other expense (income):				
Interest expense	3,635	5,039	12,819	15,343
Interest earned	(23)	(48)	(52)	(171)
Loss on extinguishment of debt	14,352	—	14,352	—
Foreign currency (gains) losses, net	(330)	1,305	1,043	4,086
Miscellaneous (income) expense, net	(180)	(470)	4,038	(10,178)
Income before income taxes	2,113	10,126	33,837	10,361
Income tax expense	4,680	312	12,347	3,559
(Loss) income from continuing operations	(2,567)	9,814	21,490	6,802
Income from discontinued operations, net of taxes	50,124	3,230	53,188	4,780
Net income	47,557	13,044	74,678	11,582
Less: Net income attributable to noncontrolling interests	92	392	49	177
Net income attributable to Ferro Corporation common shareholders	$ 47,465	$ 12,652	$ 74,629	$ 11,405
(Loss) earnings per share attributable to Ferro Corporation common shareholders:				
Basic (loss) earnings:				
Continuing operations	$ (0.03)	$ 0.11	$ 0.25	$ 0.08
Discontinued operations	0.58	0.04	0.61	0.06
	$ 0.55	$ 0.15	$ 0.86	$ 0.14
Diluted (loss) earnings:				
Continuing operations	$ (0.03)	$ 0.11	$ 0.24	$ 0.08

Discontinued operations	0.58	0.04	0.60	0.05
	$ 0.55	$ 0.15	$ 0.84	$ 0.13

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Net income	$ 47,557	$ 13,044	$ 74,678	$ 11,582
Other comprehensive (loss) income, net of tax:				
Foreign currency translation (loss) gain	(12,242)	4,226	(12,732)	(3,820)
Postretirement benefit liabilities loss	(44)	(34)	(94)	(171)
Other comprehensive (loss) income, net of tax	(12,286)	4,192	(12,826)	(3,991)
Total comprehensive income	35,271	17,236	61,852	7,591
Less: Comprehensive income (loss) attributable to noncontrolling interests	159	415	(391)	323
Comprehensive income attributable to Ferro Corporation	$ 35,112	$ 16,821	$ 62,243	$ 7,268

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 95,286	$ 28,328
Accounts receivable, net	229,942	238,278
Inventories	157,764	144,780
Deferred income taxes	6,775	6,511
Other receivables	20,600	19,963
Other current assets	22,527	16,214
Current assets held-for-sale	86,480	101,315
Total current assets	619,374	555,389
Other assets		
Property, plant and equipment, net	201,820	225,255
Goodwill	62,443	63,473
Amortizable intangible assets, net	17,710	13,027
Deferred income taxes	17,793	19,283
Other non-current assets	61,139	59,663
Non-current assets held-for-sale	54,530	72,102
Total assets	$ 1,034,809	$ 1,008,192
LIABILITIES AND EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	$ 8,402	$ 44,729
Accounts payable	134,937	120,641
Accrued payrolls	34,313	42,320
Accrued expenses and other current liabilities	66,504	66,026
Current liabilities held-for-sale	30,303	40,015
Total current liabilities	274,459	313,731
Other liabilities		
Long-term debt, less current portion	300,772	267,469
Postretirement and pension liabilities	85,174	119,600
Other non-current liabilities	30,393	30,656
Non-current liabilities held-for-sale	2,863	2,893
Total liabilities	693,661	734,349
Equity		
Ferro Corporation shareholders' equity:		
	93,436	93,436

Common stock, par value $1 per share; 300.0 million shares authorized; 93.4 million shares issued; 86.9 million and 86.7 million shares outstanding at September 30, 2014, and December 31, 2013, respectively		
Paid-in capital	316,133	318,055
Retained earnings (deficit)	59,965	(14,664)
Accumulated other comprehensive (loss) income	(3,893)	8,493
Common shares in treasury, at cost	(136,221)	(143,802)
Total Ferro Corporation shareholders' equity	329,420	261,518
Noncontrolling interests	11,728	12,325
Total equity	341,148	273,843
Total liabilities and equity	$ 1,034,809	$ 1,008,192

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

	Ferro Corporation Shareholders Common Shares in Treasury							
	Shares	Amount	Common Stock	Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
	(In thousands)							
Balances at December 31, 2012	6,962	$ (151,605)	$ 93,436	$ 321,652	$ (86,606)	$ 16,650	$ 13,147	$ 206,674
Net income	—	—	—	—	11,405	—	177	11,582
Other comprehensive (loss) income	—	—	—	—	—	(4,137)	146	(3,991)
Stock-based compensation transactions	(129)	3,997	—	(1,436)	—	—	—	2,561
Distributions to noncontrolling interests	—	—	—	—	—	—	(125)	(125)
Balances at September 30, 2013	6,833	(147,608)	93,436	320,216	(75,201)	12,513	13,345	216,701
Balances at December 31, 2013	6,730	(143,802)	93,436	318,055	(14,664)	8,493	12,325	273,843
Net income	—	—	—	—	74,629	—	49	74,678
Other comprehensive loss	—	—	—	—	—	(12,386)	(440)	(12,826)
Stock-based compensation transactions	—	7,581	—	(1,922)	—	—	—	5,659
Distributions to noncontrolling interests	—	—	—	—	—	—	(206)	(206)
Balances at September 30,	6,730	$ (136,221)	$ 93,436	$ 316,133	$ 59,965	$ (3,893)	$ 11,728	$ 341,148

2014

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in thousands)	
Cash flows from operating activities		
Net cash provided by operating activities	$ 41,900	$ 3,003
Cash flows from investing activities		
Capital expenditures for property, plant and equipment and other long lived assets	(40,996)	(21,187)
Proceeds from sale of businesses, net	88,337	16,912
Proceeds from sale of assets	5,911	16,034
Acquisition of Turkey commercial assets	(6,726)	—
Other investing activities	—	1,119
Net cash provided by investing activities	46,526	12,878
Cash flows from financing activities		
Net (repayments) borrowings under loans payable (1)	(42,529)	9,223
Proceeds from revolving credit facility	377,844	368,317
Proceeds from term loan facility	300,000	—
Principal payments on revolving credit facility	(387,049)	(351,404)
Extinguishment of convertible senior notes	—	(35,066)
Repayment of 7.875% Senior Notes	(260,451)	—
Payment of debt issuance costs	(6,834)	—
Other financing activities	54	(734)
Net cash used for financing activities	(18,965)	(9,664)
Effect of exchange rate changes on cash and cash equivalents	(2,503)	60
Increase in cash and cash equivalents	66,958	6,277
Cash and cash equivalents at beginning of period	28,328	29,576
Cash and cash equivalents at end of period	$ 95,286	$ 35,853
Cash paid during the period for:		
Interest	$ 23,863	$ 25,484
Income taxes	$ 4,329	$ 2,905

(1) Includes cash flows related to our domestic accounts receivable program, international accounts receivable sales programs as well as loans payable to banks.

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Ferro Corporation (“Ferro,” “we,” “us” or “the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, the instructions to Form 10-Q, and Article 10 of Regulation S-X. These statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013.

The Company owns 51% of an operating affiliate in Venezuela that is accounted for as a fully consolidated subsidiary of Ferro and had $7.8 million of assets and $3.2 million of liabilities that are included in the condensed consolidated balance sheets at September 30, 2014. In the first quarter of 2014, the Venezuelan government expanded and introduced alternative market mechanisms for monetary exchange between the local currency, the Bolivar, and the United States Dollar. As a result of changes in the political and economic environment in the country, we began to remeasure the monetary assets and liabilities of the entity utilizing the most relevant exchange mechanism available. The impact of the remeasurement in the first quarter of 2014, prior to adjustment for losses allocated to our noncontrolling interest partner was a loss of $1.6 million, which is recorded within foreign currency (gains) losses, net within our condensed consolidated statement of operations for the nine months ended September 30, 2014. In the event that other markets become more relevant in future periods, additional losses or gains on remeasurement could occur.

During the second quarter of 2014, substantially all of the assets and liabilities of the Specialty Plastics and Polymer Additives reportable segments were classified as held-for-sale in the accompanying condensed consolidated balance sheets. As further discussed in Note 4, the Specialty Plastics sale closed on July 1, 2014. Therefore, the Specialty Plastics and Polymer Additives operating results, net of tax, and assets and liabilities have been classified as discontinued operations in the accompanying condensed consolidated statements of operations, balance sheets and these notes for all periods presented. Refer to Note 12 for further details.

Operating results for the three and nine months ended September 30, 2014, are not necessarily indicative of the results expected in subsequent quarters or for the full year ending December 31, 2014.

2. Recent Accounting Pronouncements

Accounting Standards Adopted in the period ended September 30, 2014

On January 1, 2014, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2013-05, Parent's Accounting for the Cumulative Translation Adjustments upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investments in a Foreign Entity, which is codified in ASC Topic 830, Foreign Currency Matters. This pronouncement clarifies the application of Subtopic 810-10, Consolidation—Overall, and Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, related to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a foreign entity, and the treatment of business combinations achieved in stages involving a foreign entity. The adoption of this pronouncement did not have a material effect on our condensed consolidated financial statements.

New Accounting Standards

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which is codified in ASC Topic 205, Presentation of Financial Statements, and ASC Topic 360, Property, Plant, and Equipment. This pronouncement changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results, and

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changes the criteria and enhances disclosures for reporting discontinued operations. The pronouncement is to be applied prospectively, and is effective for our fiscal year that begins January 1, 2015. We do not expect that the adoption of this pronouncement will have a material effect on our consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, “Revenue from Contracts with Customers: Topic 606”. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. This standard is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The Company is in the process of assessing the impact the adoption of this ASU will have on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” ASU 2014-12 requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. The Company is in the process of determining the impact of this ASU on our consolidated financial statements.

3. Inventories

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
Raw materials	$ 44,990	$ 45,542
Work in process	32,960	29,436
Finished goods	79,814	69,802
Total inventories	$ 157,764	$ 144,780

In the production of some of our products, we use precious metals, some of which we obtain from financial institutions under consignment agreements with terms of one year or less. The financial institutions retain ownership of the precious metals and charge us fees based on the amounts we consign. These fees were $0.2 million and $0.7 million for the three months ended September 30, 2014 and 2013, respectively, and were $0.7 million and $2.5 million for the nine months ended September 30, 2014 and 2013, respectively. We had on hand precious metals owned by participants in our precious metals consignment program of $25.3 million at September 30, 2014, and $30.8 million at December 31, 2013, measured at fair value based on market prices for identical assets and net of credits.

4. Property, Plant and Equipment

Property, plant and equipment is reported net of accumulated depreciation of $415.1 million at September 30, 2014, and $408.5 million at December 31, 2013. The December 31, 2013, amount has been adjusted to appropriately reflect all balances that are classified as held-for-sale as of September 30, 2014. Unpaid capital expenditure liabilities, which are non-cash investing activities, were $7.9 million at September 30, 2014, and $6.6 million at September 30, 2013.

During the first quarter of 2013, we sold assets related to our solar pastes product line. The consideration for the assets sold was $10.9 million, and resulted in a gain on the transaction of $9.0 million which is included within miscellaneous (income) expense, net within the condensed consolidated statement of operations for the nine months ended September 30, 2013.

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During the fourth quarter of 2013, we tested certain property, plant and equipment held for use for impairment under ASC Topic 360, Property, Plant and Equipment. Triggered by a change in expected use of one of our Performance Coatings operating facilities in Suzhou, China in the fourth quarter of 2013, we performed the two step impairment analysis as prescribed by ASC Topic 360. As that analysis indicated that the carrying value of those assets was no longer recoverable, we estimated the fair value of the assets within the asset group using adjusted market prices for similar assets, a Level 3 classification in the fair value hierarchy. As a result of the analysis, assets held for use with a carrying value of $20.5 million were written down to $13.0 million. The impairment charge of $7.5 million is included in restructuring and impairment charges in our statements of operations for the year-ended December 31, 2013.

During the second quarter of 2014, we sold non-operating real estate assets located in South Plainfield, New Jersey and in Criciuma, Brazil for gains of $1.2 million and $0.4 million, respectively. The gains on sale were offset by losses associated with the write-off of tenant improvements and the loss on sale of our corporate related real estate of $1.3 million and $3.5 million, respectively. The net loss of $3.3 million related to these transactions is recorded in miscellaneous (income) expense, net within our condensed consolidated statements of operations for the nine months ended September 30, 2014.

As further discussed in Note 12 - Discontinued Operations, during the second quarter of 2014, the assets located at our Antwerp, Belgium manufacturing facility were classified as held-for-sale under ASC Topic 360, Property, Plant and Equipment. As such, these assets were tested for impairment comparing the fair value of the assets less costs to sell to the carrying value. The fair value was determined using both the market approach and income approach, utilizing Level 3 measurements within the fair value hierarchy, which indicated the fair value less costs to sell is less than the carrying value. As a result of the analysis, assets held-for-sale with a carrying value of $61.5 million were written down to $47.1 million. During the third quarter of 2014, we recorded an impairment charge of approximately $7.2 million, which represents the additional capital expenditures during the quarter related to the construction of the facility. The additional reduction in fair value from $47.1 million in the prior period to $38.3 million at September 30, 2014 is attributable to the change in operational working capital during the period. The impairment charges of $7.2 million and $21.6 million are included in income from discontinued operations, net of taxes in our condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.

The following table presents information about the Company's impairment charges on assets that were measured on a fair value basis for the nine months ended September 30, 2014 and for the year ended December 31, 2013. The table also indicates the fair value hierarchy of the valuation techniques used by the Company to determine the fair value:

	Fair Value Measurements Using				Total
Description	Level 1	Level 2	Level 3	Total	(Losses)

	(Dollars in thousands)				
September 30, 2014					
Assets held for sale	$ —	$ —	$ 38,302	$ 38,302	$ (21,566)
December 31, 2013					—
Assets held for use	$ —	$ —	$ 13,000	$ 13,000	$ (7,484)

The inputs to the valuation techniques used to measure fair value are classified into the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table provides quantitative information about the significant unobservable inputs used by the Company to determine the fair value of non-recurring items (in thousands):

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Quantitative Information about Level 3 Fair Value Measurements

	Fair Value	Valuation Technique	Unobservable input	Range
September 30, 2014				
Impairment of assets held for sale	$ 38,302	Discounted Cash Flow	Discount Rate	15% - 20%
		Market Comparable	Market Comparable Values	N/A
December 31, 2013				
Impairment of assets held for use	$ 13,000	Income Capitalization	Market Capitalization Rate	10%
		Market Comparable (A)	Market Comparable Values	N/A

(A) Fair value measurements based on adjusted market prices were developed by a third-party source using comparable sales values adjusted for the date of sale, age, condition, size, location, physical characteristics and circumstances influencing the sale, subject to the Company's corroboration for reasonableness. The Company does not have access to certain unobservable inputs used by this third party to determine the estimated fair value.

5. Debt

Loans payable and current portion of long-term debt consisted of the following:

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
Loans payable	$ 4,221	$ 2,561
Domestic accounts receivable asset securitization program	—	41,000
Current portion of long-term debt	4,181	1,168
Loans payable and current portion of long-term debt	$ 8,402	$ 44,729

Long-term debt consisted of the following:

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
7.875% Senior Notes	$ —	$ 250,000
Revolving credit facility	—	9,204
Term loan facility	300,000	—
Capital lease obligations	4,453	5,816
Other notes	500	3,617
Total long-term debt	304,953	268,637
Current portion of long-term debt	(4,181)	(1,168)
Long-term debt, less current portion	$ 300,772	$ 267,469

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Receivable Sales Programs

We had an asset securitization program for Ferro's U.S. trade accounts receivable where we sold undivided variable percentage interests in our domestic receivables to various purchasers, and could obtain up to $50 million in the form of cash or letters of credit. Advances received under this program were accounted for as borrowings secured by the receivables and are included in net cash provided by financing activities. The purchasers had no recourse to Ferro's other assets for failure of payment of the receivables as a result of the lack of creditworthiness, or financial inability to pay, of the related obligor. In May 2014, the program expired and amounts outstanding were repaid at that time.

In 2011, we entered into several international programs to sell with recourse trade accounts receivable to financial institutions. Advances received under these programs are accounted for as borrowings secured by the receivables and included in net cash provided by financing activities. During the fourth quarter of 2013, the international factoring programs expired and were not renewed.

New Credit Facility

On July 31, 2014, the Company entered into a new credit facility (the "New Credit Facility") with a group of lenders to refinance the majority of its then outstanding debt. The New Credit Facility consists of a $200 million secured revolving line of credit with a term of five years and a $300 million secured term loan facility with a term of seven years. The New Credit Facility replaces the prior $250 million revolving credit facility (described below) and provided funding to repurchase the 7.875% Senior Notes (described below). Subject to certain conditions, the Company can request up to $200 million of additional commitments under the New Credit Facility, though the lenders are not required to provide such additional commitments. In addition, up to $100 million of the revolving line of credit will be available to certain of the Company's subsidiaries in the form of revolving loans denominated in Euros.

Certain of the Company's U.S. subsidiaries have guaranteed the Company's obligations under the New Credit Facility and such obligations are secured by (a) substantially all of the personal property of the Company and the U.S. subsidiary guarantors and (b) a pledge of 100% of the stock of most of the Company's U.S. subsidiaries and 65% of most of the stock of the Company's first tier foreign subsidiaries.

Interest Rate – Term Loan: The interest rates applicable to the term loans will be, at the Company's option, equal to either a base rate or a London Interbank Offered Rate ("LIBOR") rate plus, in both cases, an applicable margin.

- The base rate will be the highest of (i) the federal funds rate plus 0.50%, (ii) PNC's prime rate or (iii) the daily LIBOR rate plus 1.00%.
- The applicable margin for base rate loans is 2.25%.
- The LIBOR rate will be set as quoted by Bloomberg and shall not be less than 0.75%.
- The applicable margin for LIBOR rate loans is 3.25%.
- For LIBOR rate loans, the Company may choose to set the duration on individual borrowings for periods of one, two, three or six months, with the interest rate based on the applicable LIBOR rate for the corresponding duration.

At September 30, 2014, the Company had borrowed $300 million under the term loan facility at an annual rate of 4.0%. There were no additional borrowings available under the term loan facility.

Interest Rate – Revolving Credit Line: The interest rates applicable to loans under the revolving credit line will be, at the Company's option, equal to either a base rate or a LIBOR rate plus an applicable variable margin. The variable margin will be based on the ratio of (a) the Company's total consolidated debt outstanding at such time to (b) the Company's consolidated EBITDA computed for the period of four consecutive fiscal quarters most recently ended.

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The base rate will be the highest of (i) the federal funds rate plus 0.50%, (ii) PNC's prime rate or (iii) the daily LIBOR rate plus 1.00%.

- The applicable margin for base rate loans will vary between 1.50% and 2.00%.
- The LIBOR rate will be set as quoted by Bloomberg for U.S. Dollars.
- The applicable margin for LIBOR Rate Loans will vary between 2.50% and 3.00%.
- For LIBOR rate loans, the Company may choose to set the duration on individual borrowings for periods of one, two, three or six months, with the interest rate based on the applicable LIBOR rate for the corresponding duration.

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At September 30, 2014, there were no borrowings under the revolving credit line. After reductions for outstanding letters of credit secured by these facilities, we had $194.7 million of additional borrowings available at September 30, 2014.

The New Credit Facility contains customary restrictive covenants including, but not limited to, limitations on use of loan proceeds, limitations on the Company's ability to pay dividends and repurchase stock, limitations on acquisitions and dispositions and limitations on certain types of investments. The New Credit Facility also contains standard provisions relating to conditions of borrowing and customary events of default, including the non-payment of obligations by the Company and the bankruptcy of the Company.

Specific to the revolving credit facility, the Company is subject to financial covenants regarding the Company's outstanding net indebtedness and interest coverage ratios.

If an event of default occurs, all amounts outstanding under the New Credit Facility may be accelerated and become immediately due and payable. At September 30, 2014, we were in compliance with the covenants of the New Credit Facility.

7.875% Senior Notes

In 2010, we issued $250 million of 7.875% Senior Notes due 2018 (the "Senior Notes"). The Senior Notes were issued at par and bore interest at a rate of 7.875% per year, payable semi-annually in arrears on February 15 and August 15 of each year. In July 2014, the Company commenced a tender offer for any and all of its outstanding Senior Notes at a price of $1,043 per $1,000 principal amount of Senior Notes. Approximately $143 million of the Senior Notes were purchased through the tender offer and the remaining $107 million were redeemed in the third quarter of 2014, at prices ranging from 100% to 103.938% of the principal amount, in accordance with the debt agreement. The redemption utilized proceeds from our new credit facility, as discussed above, and the proceeds from the sale of the Specialty Plastics business, as discussed in Note 4.

In conjunction with the redemption of the Senior Notes, we recorded a charge of $13.5 million, which is comprised of a repurchase premium of $10.5 million and the write-off of unamortized issuance costs of $3.0 million. This charge is included within loss on extinguishment of debt in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.

Revolving Credit Facility

In 2010, we entered into the Third Amended and Restated Credit Agreement with a group of lenders for a five-year, $350 million multi-currency senior revolving credit facility (the "2010 Credit Facility"), which was amended in March of 2013 (the "2013 Amended Credit Facility") to provide additional operating flexibility. In August 2014, the 2013 Amended Credit Facility was terminated and repaid, using proceeds from the new credit facility, as discussed above. In conjunction with the termination, the Company recorded a charge of $0.9 million related to the write-off of unamortized issuance costs, which is included within loss on extinguishment of debt in our condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.

Other Financing Arrangements

We maintain other lines of credit to provide global flexibility for our short-term liquidity requirements. These facilities are uncommitted lines for our international operations and totaled $12.6 million and $17.1 million at September 30, 2014 and December 31, 2013, respectively. The unused portions of these lines provided additional liquidity of $10.6 million at September 30, 2014, and $10.1 million at December 31, 2013.

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6. Financial Instruments

The following financial instrument assets (liabilities) are presented at their respective carrying amount, fair value and classification within the fair value hierarchy:

	September 30, 2014				
	Carrying	Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Cash and cash equivalents	$ 95,286	$ 95,286	$ 95,286	$ —	$ —
Loans payable	(4,221)	(4,221)	—	(4,221)	—
Term loan facility	(300,000)	(303,504)	—	(303,504)	—
Other long-term notes payable	(4,681)	(3,867)	—	(3,867)	—
Foreign currency forward contracts, net	7,808	7,808	—	7,808	—

	December 31, 2013				
	Carrying	Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Cash and cash equivalents	$ 28,328	$ 28,328	$ 28,328	$ —	$ —
Loans payable	(43,561)	(43,561)	—	(43,561)	—
7.875% Senior Notes	(250,000)	(266,250)	(266,250)	—	—
Revolving credit facility	(9,204)	(9,496)	—	(9,496)	—
Other long-term notes payable	(3,617)	(2,988)	—	(2,988)	—
Foreign currency forward contracts, net	(2,255)	(2,255)	—	(2,255)	—

The fair values of cash and cash equivalents are based on the fair values of identical assets. The fair values of loans payable are based on the present value of expected future cash flows and approximate their carrying amounts due to the short periods to maturity. The fair values of the revolving credit facility and the term loan facility are based on the present value of expected future cash flows and interest rates that would be currently available to the company for issuance of similar types of debt instruments with similar terms and remaining maturities adjusted for the Company's non-performance risk.

Foreign currency forward contracts. We manage foreign currency risks principally by entering into forward contracts to mitigate the impact of currency fluctuations on transactions. These forward contracts are not formally designated as

hedges. Gains and losses on these foreign currency forward contracts are netted with gains and losses from currency fluctuations on transactions arising from international trade and reported as foreign currency (gains) losses, net in the condensed consolidated statements of operations. We recognized net foreign currency gains of $0.3 million and net foreign currency losses of $1.0 million in the three and nine months ended September 30, 2014, respectively, which are primarily comprised of the foreign exchange impact on transactions in countries where it is not economically feasible for us to enter into hedging arrangements and hedging inefficiencies, such as timing of transactions. We recognized net gains of $8.7 million and net gains of $11.0 million in the three and nine months ended September 30, 2014, respectively, arising from the change in fair value of our financial instruments, which offset the related net gains and losses on international trade transactions. The fair values of these contracts are based on market prices for comparable contracts. The notional amount of foreign currency forward contracts was $259.5 million at September 30, 2014, and $244.9 million at December 31, 2013.

The following table presents the effect on our condensed consolidated statements of operations for the three months ended September 30, 2014 and 2013, respectively, of our foreign currency forward contracts:

	Amount of Gain (Loss) Recognized in Earnings Three Months Ended September 30,		Location of Gain (Loss) in Earnings
	2014	2013	
	(Dollars in thousands)		
Foreign currency forward contracts	$ 8,660	$ (2,652)	Foreign currency (gains) losses, net

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The following table presents the effect on our condensed consolidated statements of operations for the nine months ended September 30, 2014 and 2013, respectively, of our foreign currency forward contracts:

	Amount of Gain (Loss) Recognized in Earnings Nine Months Ended September 30,		Location of Gain (Loss) in Earnings
	2014	2013	
	(Dollars in thousands)		
Foreign currency forward contracts	$ 10,967	$ (6,652)	Foreign currency (gains) losses, net

The following table presents the fair values on our condensed consolidated balance sheets of foreign currency forward contracts:

	September 30, 2014	December 31, 2013	Balance Sheet Location
	(Dollars in thousands)		
Asset derivatives:			
Foreign currency forward contracts	$ 8,050	$ 186	Other current assets
Liability derivatives:			
Foreign currency forward contracts	$ (242)	$ (2,441)	Accrued expenses and other current liabilities

7. Income Taxes

During the first nine months of 2014, income tax expense related to continuing operations was $12.3 million, compared with $3.6 million in the prior-year same period. The 2014 and 2013 year-to-date income tax expense related to continuing operations compared to pre-tax income from continuing operations was not significantly different than that which would have resulted from applying the Company's statutory income tax rate.

8. Contingent Liabilities

We have recorded environmental liabilities of $9.4 million at September 30, 2014, and $9.7 million at December 31, 2013, for costs associated with the remediation of certain of our properties that have been contaminated. The balance at September 30, 2014, and December 31, 2013, was primarily comprised of liabilities related to a non-operating facility in Brazil, and for retained environmental obligations related to a site in the United States that was part of the sale of our North American and Asian metal powders product lines in the fourth quarter of 2013. The costs include legal and consulting fees, site studies, the design and implementation of remediation plans, post-remediation monitoring and related activities. The ultimate liability could be affected by numerous uncertainties, including the extent of contamination found, the required period of monitoring and the ultimate cost of required remediation.

In the fourth quarter of 2013, the Supreme Court in Argentina ruled unfavorably related to certain export taxes associated with a divested operation. As a result of this ruling, we have recorded a $6.8 million liability as of September 30, 2014, and December 31, 2013.

There are various lawsuits and claims pending against the Company and its consolidated subsidiaries. We do not currently expect the resolution of these lawsuits and claims to materially affect the consolidated financial position, results of operations, or cash flows of the Company.

9. Retirement Benefits

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Net periodic benefit (credit) cost of our U.S. pension plans (including our unfunded nonqualified plans), non-U.S. pension plans, and postretirement health care and life insurance benefit plans for the three months ended September 30, 2014 and 2013, respectively, follow:

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Benefit Plans	
	Three Months Ended September 30,					
	2014	2013	2014	2013	2014	2013
	(Dollars in thousands)					
Service cost	$ 5	$ 4	$ 443	$ 519	$ —	$ —
Interest cost	4,924	4,485	1,259	1,224	301	285
Expected return on plan assets	(7,034)	(6,181)	(776)	(742)	—	—
Amortization of prior service cost (credit)	3	3	15	7	(26)	(29)
Net periodic benefit (credit) cost	$ (2,102)	$ (1,689)	$ 941	$ 1,008	$ 275	$ 256

Net periodic benefit (credit) cost for the nine months ended Balance at September 30, 2014 and 2013, respectively, follow:

U.S. Pension Plans		Non-U.S. Pension Plans	Other Benefit Plans
Nine Months Ended September 30,			
2014	2013	2014	