FERRO CORP
Form 10-Q
November 02, 2016
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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, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________

Commission File 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, 2016, there were 83,385,550 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,	
	2016	2015	2016	2015
	(Dollars in thousands, except per share amounts)			
Net sales	$ 288,527	$ 279,365	$ 863,955	$ 810,351
Cost of sales	199,546	202,337	592,372	585,048
Gross profit	88,981	77,028	271,583	225,303
Selling, general and administrative expenses	55,588	48,417	166,105	150,568
Restructuring and impairment charges	26	3,844	1,694	5,469
Other expense (income):				
Interest expense	5,304	3,877	15,579	10,137
Interest earned	(214)	(97)	(414)	(191)
Foreign currency losses, net	867	1,203	2,867	5,758
Miscellaneous expense (income), net	705	467	(2,079)	705
Income before income taxes	26,705	19,317	87,831	52,857
Income tax expense	6,157	3,792	22,659	11,930
Income from continuing operations	20,548	15,525	65,172	40,927
(Loss) from discontinued operations, net of income taxes	(29,222)	(19,086)	(64,464)	(28,688)
Net (loss) income	(8,674)	(3,561)	708	12,239
Less: Net income (loss) attributable to noncontrolling interests	210	498	589	(1,271)
Net (loss) income attributable to Ferro Corporation common shareholders	$ (8,884)	$ (4,059)	$ 119	$ 13,510
Earnings (loss) per share attributable to Ferro Corporation common shareholders:				
Basic earnings (loss):				
Continuing operations	$ 0.24	$ 0.17	$ 0.78	$ 0.48
Discontinued operations	(0.35)	(0.22)	(0.77)	(0.33)
	$ (0.11)	$ (0.05)	$ 0.01	$ 0.15
Diluted earnings (loss):				
Continuing operations	$ 0.24	$ 0.17	$ 0.77	$ 0.48
Discontinued operations	(0.35)	(0.22)	(0.77)	(0.32)

$ (0.11)	$ (0.05)	$ —	$ 0.16

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Net (loss) income	$ (8,674)	$ (3,561)	$ 708	$ 12,239
Other comprehensive income (loss), net of income tax:				
Foreign currency translation income (loss)	1,565	(5,301)	(3,382)	(33,690)
Reclassification adjustment for foreign currency translation included in net (loss) income	1,115	—	1,115	—
Postretirement benefit liabilities (loss) gain	(2)	(4)	293	(6)
Other comprehensive income (loss), net of income tax	2,678	(5,305)	(1,974)	(33,696)
Total comprehensive (loss)	(5,996)	(8,866)	(1,266)	(21,457)
Less: Comprehensive income (loss) attributable to noncontrolling interests	191	376	450	(2,532)
Comprehensive (loss) attributable to Ferro Corporation	$ (6,187)	$ (9,242)	$ (1,716)	$ (18,925)

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 40,556	$ 58,380
Accounts receivable, net	282,827	231,970
Inventories	211,261	184,854
Deferred income taxes	—	12,088
Other receivables	36,360	34,088
Other current assets	8,013	15,695
Current assets held-for-sale	—	16,215
Total current assets	579,017	553,290
Other assets		
Property, plant and equipment, net	249,497	260,429
Goodwill	142,880	145,669
Intangible assets, net	112,021	106,633
Deferred income taxes	99,326	87,385
Other non-current assets	50,247	48,767
Non-current assets held-for-sale	—	23,178
Total assets	$ 1,232,988	$ 1,225,351
LIABILITIES AND EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	$ 10,221	$ 7,446
Accounts payable	123,325	120,380
Accrued payrolls	32,255	28,584
Accrued expenses and other current liabilities	60,708	54,664
Current liabilities held-for-sale	—	7,156
Total current liabilities	226,509	218,230
Other liabilities		
Long-term debt, less current portion	477,100	466,108
Postretirement and pension liabilities	147,682	148,249
Other non-current liabilities	65,533	66,990
Non-current liabilities held-for-sale	—	1,493
Total liabilities	916,824	901,070
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; 83.4 million and 84.0 million shares outstanding at September 30, 2016, and December 31, 2015, respectively		
Paid-in capital	304,839	314,854
Retained earnings	135,626	135,507
Accumulated other comprehensive loss	(63,153)	(61,318)
Common shares in treasury, at cost	(162,354)	(166,020)
Total Ferro Corporation shareholders' equity	308,394	316,459
Noncontrolling interests	7,770	7,822
Total equity	316,164	324,281
Total liabilities and equity	$ 1,232,988	$ 1,225,351

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	Accumulated Other Comprehensive (Loss)	Non-controlling Interests	Total Equity
	(Dollars in thousands)							
Balances at December 31, 2014	6,445	$ (136,058)	$ 93,436	$ 317,404	$ 71,407	$ (21,805)	$ 11,632	$ 336,016
Net income (loss)	—	—	—	—	13,510	—	(1,271)	12,239
Other comprehensive (loss)	—	—	—	—	—	(32,435)	(1,261)	(33,696)
Purchase of treasury stock	580	(6,998)	—	—	—	—	—	(6,998)
Stock-based compensation transactions	(290)	8,352	—	(2,801)	—	—	—	5,551
Distributions to noncontrolling interests	—	—	—	—	—	—	(868)	(868)
Balances at September 30, 2015	6,735	(134,704)	93,436	314,603	84,917	(54,240)	8,232	312,244
Balances at December 31, 2015	9,431	(166,020)	93,436	314,854	135,507	(61,318)	7,822	324,281
Net income	—	—	—	—	119	—	589	708
Other comprehensive (loss)	—	—	—	—	—	(1,835)	(139)	(1,974)
Purchase of treasury stock	1,175	(11,429)	—	—	—	—	—	(11,429)
Stock-based compensation transactions	(556)	15,095	—	(10,015)	—	—	—	5,080
Distributions to noncontrolling	—	—	—	—	—	—	(502)	(502)

interests								
Balances at September 30, 2016	10,050	$ (162,354)	$ 93,436	$ 304,839	$ 135,626	$ (63,153)	$ 7,770	$ 316,164

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, 2016	2015
	(Dollars in thousands)	
Cash flows from operating activities		
Net cash provided by operating activities	$ 6,742	$ 31,498
Cash flows from investing activities		
Capital expenditures for property, plant and equipment and other long lived assets	(18,217)	(36,251)
Proceeds from sale of assets	3,598	144
Business acquisitions, net of cash acquired	(11,417)	(166,997)
Net cash (used in) investing activities	(26,036)	(203,104)
Cash flows from financing activities		
Net borrowings under loans payable	2,606	1,791
Proceeds from revolving credit facility	212,906	146,773
Principal payments on revolving credit facility	(149,696)	(30,737)
Principal payments on term loan facility	(52,250)	(2,250)
Payment of debt issuance costs	(661)	—
Purchase of treasury stock	(11,429)	(6,998)
Other financing activities	416	(1,160)
Net cash provided by financing activities	1,892	107,419
Effect of exchange rate changes on cash and cash equivalents	(422)	(6,820)
(Decrease) in cash and cash equivalents	(17,824)	(71,007)
Cash and cash equivalents at beginning of period	58,380	140,500
Cash and cash equivalents at end of period	$ 40,556	$ 69,493
Cash paid during the period for:		
Interest	$ 15,032	$ 11,141
Income taxes	$ 12,929	$ 17,504

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, 2015.

The Company owned 51% of an operating affiliate in Venezuela that was a consolidated subsidiary of Ferro. During the fourth quarter of 2015, we sold our interest in the operating affiliate in Venezuela for a cash purchase price of $0.5 million.

During the second quarter of 2014, all of the assets and liabilities of the Europe-based Polymer Additives business were classified as held-for-sale. As further discussed in Note 3, in the third quarter of 2016, we completed the disposition of the Europe-based Polymer Additives business and have classified the related operating results, net of income tax, as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented.

Operating results for the three and nine months ended September 30, 2016, are not necessarily indicative of the results expected in subsequent quarters or for the full year ending December 31, 2016.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes: Topic 740: Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent in a classified statement of financial position. During the second quarter of 2016, we elected to prospectively adopt ASU 2015-17, thus reclassifying current deferred tax assets to noncurrent on the accompanying condensed consolidated balance sheets. The prior reporting period was not retrospectively adjusted. Other than this reclassification, the adoption of ASU 2015-17 did not have an impact on the Company's condensed consolidated financial statements.

New Accounting Standards

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow: Topic 230: Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 is intended to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. This pronouncement is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Topic 718: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This pronouncement is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases: Topic 842. ASU 2016-02 requires companies to recognize a lease liability and asset on the balance sheet for operating leases with a term greater than one year. This pronouncement is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

In May 2014, the FASB issued 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, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

No other new accounting pronouncements issued or with effective dates during fiscal 2016 had or are expected to have a material impact of the Company's condensed consolidated financial statements.

3. Discontinued Operations

During the second quarter of 2014, we commenced a process to market for sale all of the assets within our Europe-based Polymer Additives business, including the Antwerp, Belgium dibenzoates manufacturing assets, and related Polymer Additives European headquarters and lab facilities. We determined that the criteria to classify these assets as held-for-sale under ASC Topic 360, Property, Plant and Equipment, were met. On August 22, 2016, the Company completed the disposition of the Europe-based Polymer Additives business to Plahoma Two AG, an affiliate of the LIVIA Group. The Company made a capital contribution of €12 million (approximately $13.6 million) to its subsidiaries that owned the assets prior to the close of the sale. In August 2016, prior to the sale, an impairment charge of $26.8 million was recorded under ASC Topic 360 Property, Plant and Equipment. The charge was calculated as the difference of the executed transaction price and the carrying value of the assets. The impairment charge included $1.1 million associated with the reclassification of foreign currency translation loss from Accumulated other comprehensive loss (Note 17). The Europe-based Polymer Additives operating results, net of income tax, are classified as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented and the assets and liabilities are classified as held-for-sale in the accompanying condensed consolidated balance sheets at December 31, 2015 as the criteria to do so under ASC Topic 360, Property, Plant and Equipment were met as the respective periods.

The table below summarizes results for the Europe-based Polymer Additives assets, for the three and nine months ended September 30, 2016 and 2015, which are reflected in our condensed consolidated statements of operations as discontinued operations. Interest expense has been allocated to the discontinued operations based on the ratio of net assets of each business to consolidated net assets excluding debt.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Net sales	$ 3,831	$ 7,493	$ 18,481	$ 27,229
Cost of sales	5,654	13,231	28,473	39,689
Gross loss	(1,823)	(5,738)	(9,992)	(12,460)
Selling, general and administrative expenses	588	1,156	3,094	3,384
Restructuring and impairment charges	26,843	11,792	50,902	11,792
Interest expense	49	237	325	557
Miscellaneous (income) expense	(4)	163	(392)	495
(Loss) from discontinued operations before income taxes	(29,299)	(19,086)	(63,921)	(28,688)
Income tax (benefit) expense	(77)	—	543	—
(Loss) from discontinued operations, net of income taxes	$ (29,222)	$ (19,086)	$ (64,464)	$ (28,688)

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The following table summarizes the assets and liabilities that are classified as held-for-sale at September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Accounts receivable, net	$ —	$ 4,028
Inventories	—	9,733
Other current assets	—	2,454
Current assets held-for-sale	—	16,215
Property, plant and equipment, net	—	22,973
Other non-current assets	—	205
Total assets held-for-sale	$ —	$ 39,393
Accounts payable	$ —	$ 5,736
Accrued expenses and other current liabilities	—	1,420
Current liabilities held-for-sale	—	7,156
Other non-current liabilities	—	1,493
Total liabilities held-for-sale	$ —	$ 8,649

4. Acquisitions

Delta Performance Products

On August 1, 2016, the Company acquired certain assets of Delta Performance Products, LLC, for a cash purchase price of $4.4 million. The Company preliminarily recorded $3.2 million of amortizable intangible assets, $1.8 million of goodwill, $1.2 million of a deferred tax liability related to the amortizable intangible assets, and $0.6 million of net working capital on the condensed consolidated balance sheet.

Pinturas

On June 1, 2016, the Company acquired 100% of the equity of privately held Pinturas Benicarló, S.L. (“Pinturas”) for €16.5 million in cash (approximately $18.4 million). The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management. As of September 30, 2016, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $8.5 million of amortizable intangible assets, $3.8 million of goodwill, $0.7 million of personal and real property, $2.6 million of a deferred tax liability related to the amortizable intangible assets, and $8.0 million of net working capital on the condensed consolidated balance sheet.

Ferer

On January 5, 2016, the Company completed the purchase of 100% of the equity of privately held Istanbul-based Ferer Dis Ticaret Ve Kimyasallar Anonim Sirketi A.S. (“Ferer”) on a cash-free and debt-free basis for approximately $9.4 million in cash, subject to customary working capital and other adjustments. The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management. As of September 30, 2016, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $3.3 million of amortizable intangible assets, $4.5 million of goodwill, $0.6 million of personal and real property, $0.7 million of a deferred tax liability related to the amortizable intangible assets, and $1.7 million of net working capital on the condensed consolidated balance sheet.

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Al Salomi

On November 17, 2015, the Company acquired 100% of the equity of Egypt-based tile coatings manufacturer Al Salomi for Frits and Glazes ("Al Salomi") for Egyptian Pound ("EGP") 307 million (approximately $38.2 million), including the assumption of debt. The acquired business contributed net sales of $6.2 million and $18.2 million for the three and nine months ended September 30, 2016 and net income attributable to Ferro Corporation of $0.6 million and $2.8 million for the three and nine months ended September 30, 2016.

The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management. As of September 30, 2016, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $15.0 million of amortizable intangible assets, $14.3 million of goodwill, $10.7 million of personal and real property, $4.8 million of a deferred tax liability related to the amortizable intangible assets, and $3.0 million of net working capital on the condensed consolidated balance sheet.

Nubiola

On July 7, 2015, the Company acquired the entire share capital of Corporación Química Vhem, S.L., Dibon USA, LLC and Ivory Corporation, S.A. (together with their direct and indirect subsidiaries, "Nubiola") on a cash-free and debt-free basis for €167 million (approximately $184.2 million). The acquisition was funded with excess cash and borrowings under the Company's existing revolving credit facility. See Note 8 for additional detail on the revolving credit facility. During the second quarter of 2016, the Company finalized a purchase price adjustment for the settlement of an escrow that reduced the fair value of net assets acquired to $168.1 million. As a result of the purchase price adjustment, the carrying amount of goodwill decreased by $11.7 million, amortizable intangible assets decreased $6.4 million and the related deferred tax liability decreased $1.9 million. The impact of the change on the condensed consolidated statements of operations was not material.

The information included herein has been prepared based on the allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management.

The following table summarizes the purchase price allocations:

	July 7, 2015 (Dollars in thousands)
Net working capital (1)	$ 46,642
Cash and equivalents	19,966

Personal property	39,444
Real property	28,510
Intangible assets	26,757
Other assets and liabilities	(20,733)
Goodwill	27,498
Net assets acquired	$ 168,084

(1) Net working capital is defined as current assets, less cash, less current liabilities.

The acquired business contributed net sales of $33.0 million and $97.2 million for the three and nine months ended September 30, 2016, and net income attributable to Ferro Corporation of $7.2 million and $21.4 million for the three and nine months ended September 30, 2016.

The fair value of the receivables acquired is $24.5 million, with a gross contractual amount of $25.2 million. The Company recorded acquired intangible assets subject to amortization of $21.1 million, which is comprised of $5.4 million of customer relationships and $15.7 million of technology/know-how, which will be amortized over 20 years and 15 years, respectively. The Company recorded acquired indefinite-lived intangible assets of $5.6 million related to trade names and trademarks. Goodwill is

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calculated as the excess of the purchase price over the fair values of the assets acquired and the liabilities assumed in the acquisition and is a result of anticipated synergies. Goodwill is not deductible for tax purposes.

The following unaudited pro forma information represents the consolidated results of the Company as if the Nubiola acquisition occurred as of January 1, 2015:

	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(unaudited) (In thousands, except per share amounts)	
Net sales	$ 279,365	$ 902,092
Net income attributable to Ferro Corporation common shareholders	$ 17,731	$ 48,658
Net earnings per share attributable to Ferro Corporation common shareholders - Basic	$ 0.20	$ 0.55
Net earnings per share attributable to Ferro Corporation common shareholders - Diluted	$ 0.20	$ 0.55

The unaudited pro forma information has been adjusted with the respect to certain aspects of the acquisition to reflect the following:

· Additional depreciation and amortization expenses that would have been recognized assuming fair value adjustments to the existing Nubiola assets acquired, including intangible assets and fixed assets.
· Elimination of revenue and cost of goods sold for sales from Nubiola to the Company, which would be eliminated as intercompany transactions for Nubiola and the Company on a consolidated basis.
· Increased interest expense due to additional borrowings to fund the acquisition.
· Acquisition-related costs, which were included in the Company's results.
· Adjustments for the income tax effect of the pro forma adjustments related to the acquisition.

Thermark

In February 2015, the Company acquired TherMark Holdings, Inc., a leader in laser marking technology, for a cash purchase price of $5.5 million. The Company recorded $4.6 million of amortizable intangible assets, $2.5 million of goodwill, $1.7 million of a deferred tax liability related to the amortizable intangible assets, and $0.1 million of net working capital on the condensed consolidated balance sheet.

5. Inventories

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Raw materials	$ 63,754	$ 56,291
Work in process	35,895	33,099
Finished goods	111,612	95,464
Total inventories	$ 211,261	$ 184,854

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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 for the three months ended September 30, 2016 and 2015, and were $0.6 million for the nine months ended September 30, 2016 and 2015. We had on-hand precious metals owned by participants in our precious metals consignment program of $26.8 million at September 30, 2016, and $20.5 million at December 31, 2015, measured at fair value based on market prices for identical assets and net of credits.

6. Property, Plant and Equipment

Property, plant and equipment is reported net of accumulated depreciation of $447.0 million at September 30, 2016, and $421.3 million at December 31, 2015. Unpaid capital expenditure liabilities, which are non-cash investing activities, were $2.4 million at September 30, 2016, and $3.4 million at September 30, 2015.

As discussed in Note 3 - Discontinued Operations, our Europe-based Polymer Additives assets have been classified as held-for-sale under ASC Topic 360, Property, Plant and Equipment until the ultimate sale of the business in August 2016. As such, at each historical reporting date, 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 was less than the carrying value during the first quarter of 2016, resulting in an impairment charge of $24.1 million, representing the remaining carrying value of long-lived assets at that reporting date. During the third quarter of 2016, prior to the sale, an impairment charge of $26.8 million, representing net working capital, was recorded under ASC Topic 360 Property, Plant and Equipment. The impairment charges of $26.8 million and $50.9 million are included in Loss from discontinued operations, net of income taxes in our condensed consolidated statements of operations for the three and nine months ended September 30, 2016, respectively.

During the third quarter of 2015, we recorded an impairment charge of $11.8 million, which represented additional capital expenditures related to the construction of the facility. The impairment charge of $11.8 million is included in Loss from discontinued operations, net of income taxes in our condensed consolidated statements of operations for the three and nine months ended September 30, 2015.

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, 2016, and for the year ended December 31, 2015. The table also indicates the level within the fair value hierarchy of the valuation techniques used by the Company to determine the fair value:

Description	Fair Value Measurements Using Level 1	Level 2	Level 3	Total	Total (Losses)
	(Dollars in thousands)				
September 30, 2016					
Assets held for sale	$ —	$ —	$ —	$ —	$ (50,902)
December 31, 2015					
Assets held for sale	$ —	$ —	$ 33,711	$ 33,711	$ (11,792)

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.

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7. Goodwill and Other Intangible Assets

Details and activity in the Company's goodwill by segment follow:

	Performance Coatings	Pigments, Powders and Oxides		Performance Colors and Glass		Total
	(Dollars in thousands)					
Goodwill, net at December 31, 2015	$ 43,484	$ 48,794		$ 53,391		$ 145,669
Acquisitions	—	(9,825)	(3), (4)	8,286	(1), (2)	(1,539)
Foreign currency adjustments	(1,010)	156		(396)		(1,250)
Goodwill, net at September 30, 2016	$ 42,474	$ 39,125		$ 61,281		$ 142,880

(1) During the first quarter of 2016, the Company recorded goodwill related to the Ferer acquisition. Refer to Note 4 for additional details.
(2) During the second quarter of 2016, the Company recorded goodwill related to the Pinturas acquisition. Refer to Note 4 for additional details.
(3) During the second quarter of 2016, the Company recorded a purchase price adjustment within the measurement period for goodwill related to the Nubiola acquisition. Refer to Note 4 for additional details.
(4) During the third quarter of 2016, the Company recorded goodwill related to the Delta Performance Products acquisition. Refer to Note 4 for additional details.

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Goodwill, gross	$ 188,149	$ 190,938
Accumulated impairment losses	(45,269)	(45,269)
Goodwill, net	$ 142,880	$ 145,669

Goodwill is calculated as the excess of the purchase price over the estimated fair values of the assets acquired and the liabilities assumed in the acquisition.

Goodwill is tested for impairment at the reporting unit level on an annual basis in the fourth quarter and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

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Amortizable intangible assets consisted of the following:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Gross amortizable intangible assets:		
Patents	$ 5,251	$ 5,229
Land rights	4,865	4,947
Technology/know-how and other	83,213	66,558
Customer relationships	55,044	46,320
Total gross amortizable intangible assets	148,373	123,054
Accumulated amortization:		
Patents	(5,040)	(4,880)
Land rights	(2,719)	(2,671)
Technology/know-how and other	(33,911)	(16,473)
Customer relationships	(4,269)	(2,234)
Total accumulated amortization	(45,939)	(26,258)
Amortizable intangible assets, net	$ 102,434	$ 96,796

Indefinite-lived intangible assets consisted of the following:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Indefinite-lived intangibles assets:		
Trade names and trademarks	$ 9,587	$ 9,837

8. Debt

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

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Loans payable	$ 6,033	$ 2,749
Current portion of long-term debt	4,188	4,697
Loans payable and current portion of long-term debt	$ 10,221	$ 7,446

Long-term debt consisted of the following:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Term loan facility, net of unamortized issuance costs	$ 240,078	$ 291,717
Revolving credit facility	233,210	170,000
Capital lease obligations	3,839	4,478
Other notes	4,161	4,610
Total long-term debt	481,288	470,805
Current portion of long-term debt	(4,188)	(4,697)
Long-term debt, less current portion	$ 477,100	$ 466,108

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Credit Facility

On July 31, 2014, the Company entered into a credit facility (the “Credit Facility”) with a group of lenders to refinance the majority of its then outstanding debt. The Credit Facility consisted 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. On January 25, 2016, the Company amended the Credit Facility by entering into the Incremental Assumption Agreement (the “Incremental Agreement”) to increase the revolving line of credit commitment amount from $200 million to $300 million. The Company then used a portion of the increase in the revolving line of credit to repay $50 million of the term loan facility. The Credit Facility was amended and a portion of the outstanding term loan was repaid to increase the amount of total liquidity available under the Credit Facility and reduce the total cost of borrowings. On August 29, 2016, the Company amended the Credit Facility by entering into the Second Incremental Assumption Agreement (the “Second Incremental Agreement”) to increase the revolving line of credit commitment amount to $400 million. The increase in the revolving line of credit commitment will be used for general corporate purposes, including acquisitions.

Principal payments on the term loan facility of $0.75 million quarterly, are payable commencing December 31, 2014, with the remaining balance due on the maturity date. At September 30, 2016, after taking into account all prior quarterly payments and the $50 million prepayment that was made in January 2016, the Company had borrowed $244.0 million under the term loan facility at an annual rate of 4.0%. There are no additional borrowings available under the term loan facility.

Certain of the Company’s U.S. subsidiaries have guaranteed the Company’s obligations under the 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) syndication agent’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.

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.

- The base rate will be the highest of (i) the federal funds rate plus 0.50%, (ii) syndication agent’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.

At September 30, 2016, the Company had borrowed $233.2 million under the revolving credit facilities at an annual weighted average interest rate of 3.5%. The borrowing on the revolving credit facilities was used to fund the acquisitions, the share repurchase programs, and for other general business purposes. After reductions for outstanding letters of credit secured by these facilities, we had $162.4 million of additional borrowings available under the revolving credit facilities at September 30, 2016.

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The 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 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 Credit Facility may be accelerated and become immediately due and payable. At September 30, 2016, we were in compliance with the covenants of the Credit Facility.

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 $32.9 million and $8.0 million at September 30, 2016 and December 31, 2015, respectively. The unused portions of these lines provided additional liquidity of $28.8 million at September 30, 2016, and $7.3 million at December 31, 2015.

9. 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, 2016				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Cash and cash equivalents	$ 40,556	$ 40,556	$ 40,556	$ —	$ —
Loans payable	(6,033)	(6,033)	—	(6,033)	—
Term loan facility(1)	(240,078)	(249,255)	—	(249,255)	—
Revolving credit facility	(233,210)	(235,825)	—	(235,825)	—
Other long-term notes payable	(4,161)	(3,571)	—	(3,571)	—
Foreign currency forward contracts, net	468	468	—	468	—

	December 31, 2015				
	Carrying	Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Cash and cash equivalents	$ 58,380	$ 58,380	$ 58,380	$ —	$ —
Loans payable	(2,749)	(2,749)	—	(2,749)	—
Term loan facility(1)	(291,717)	(297,552)	—	(297,552)	—
Revolving credit facility	(170,000)	(169,019)	—	(169,019)	—
Other long-term notes payable	(4,610)	(3,956)	—	(3,956)	—
Foreign currency forward contracts, net	(1,207)	(1,207)	—	(1,207)	—

(1) The carrying value of the term loan facility is net of unamortized debt issuance costs.

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 term loan facility, the revolving credit facility and other long-term notes payable 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.

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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 losses, net in the condensed consolidated statements of operations. We recognized net foreign currency losses of $0.9 million and $2.9 million in the three and nine months ended September 30, 2016, respectively, and net foreign currency losses of $1.2 million and $5.8 million in the three and nine months ended September 30, 2015, respectively, which is 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. The net foreign currency loss of $5.8 million for the nine months ended September 30, 2015, includes a loss on a foreign currency contract related to the Euro denominated purchase of Nubiola of $2.7 million. We recognized net losses of $1.2 million and $5.8 million in the three and nine months ended September 30, 2016, respectively, and net losses of $2.3 million and $1.0 million in the three and nine months ended September 30, 2015, 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 $243.3 million at September 30, 2016, and $338.4 million at December 31, 2015.

The following table presents the effect on our condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015, respectively, of our foreign currency forward contracts:

	Amount of (Loss) Recognized in Earnings Three Months Ended September 30,		
	2016	2015	Location of (Loss) in Earnings
	(Dollars in thousands)		
Foreign currency forward contracts	$ (1,163)	$ (2,279)	Foreign currency losses, net

	Amount of (Loss) Recognized in Earnings Nine Months Ended September 30,		
	2016	2015	Location of (Loss) in Earnings

	(Dollars in thousands)		
Foreign currency forward contracts	$ (5,848)	$ (951)	Foreign currency losses, net

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

	September 30, 2016	December 31, 2015	Balance Sheet Location
	(Dollars in thousands)		
Asset derivatives:			
Foreign currency forward contracts	$ 733	$ 913	Other current assets
Liability derivatives:			
Foreign currency forward contracts	$ (265)	$ (2,120)	Accrued expenses and other current liabilities

10. Income Taxes

Income tax expense for the nine months ended September 30, 2016, was $22.7 million, or 25.8% of pre-tax income, compared with $11.9 million, or 22.6% of pre-tax income in the prior-year same period. The tax expense, as a percentage of pre-tax income, is lower than the U.S. federal statutory income tax rate of 35% primarily as a result of foreign statutory rate differences. Through the third quarter of 2015, tax expense was further lowered as a result of pre-tax losses in jurisdictions for which no tax benefit is recognized in proportion to the amount of pre-tax income in jurisdictions with no tax expense due to the utilization of fully valued tax

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attributes. Additionally, during the third quarter of 2015, the Company made a tax payment to a foreign tax jurisdiction for the ability to deduct specific intangible items in the future which resulted in the accounting for the net benefit in the period.

11. Contingent Liabilities

We have recorded environmental liabilities of $7.6 million at September 30, 2016, and $7.4 million at December 31, 2015, for costs associated with the remediation of certain of our properties that have been contaminated. The liability at September 30, 2016, and December 31, 2015, was primarily 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 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 liability of $8.5 million and a $7.8 million at September 30, 2016, and December 31, 2015, respectively.

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.

12. Retirement Benefits

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, 2016 and 2015, respectively, follow:

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Benefit Plans	
	Three Months Ended September 30,					
	2016	2015	2016	2015	2016	2015
	(Dollars in thousands)					
Service cost	$ 4	$ 5	$ 346	$ 385	$ —	$ —
Interest cost	3,937	4,697	914	926	236	242
Expected return on plan assets	(4,935)	(7,291)	(493)	(683)	—	—

Amortization of prior service cost	3	3	12	17	—	—
Net periodic benefit (credit) cost	$ (991)	$ (2,586)	$ 779	$ 645	$ 236	$ 242

Net periodic benefit (credit) cost for the nine months ended September 30, 2016 and 2015, respectively, follow:

U.S. Pension Plans		Non-U.S. Pension Plans		Other Benefit Plans	
Nine Months Ended September 30,					
2016	2015	2016	2015	2016	2015