FERRO CORP
Form 10-Q
July 25, 2018
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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 June 30, 2018

or

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

Commission File 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, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by checkmark 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 Act). YES NO

At June 30, 2018, there were 84,137,477 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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(Dollars in thousands, except per share amounts)			
Net sales	$ 416,239	$ 348,632	$ 821,771	$ 669,187
Cost of sales	289,594	240,290	576,440	462,051
Gross profit	126,645	108,342	245,331	207,136
Selling, general and administrative expenses	70,124	62,981	143,216	122,427
Restructuring and impairment charges	3,768	3,224	7,874	6,242
Other expense (income):				
Interest expense	8,200	6,449	16,162	12,673
Interest earned	(186)	(175)	(387)	(355)
Foreign currency losses, net	2,660	4,868	4,500	4,554
Loss on extinguishment of debt	3,226	—	3,226	3,905
Miscellaneous (income) expense, net	(1,372)	1,071	(597)	(1,493)
Income before income taxes	40,225	29,924	71,337	59,183
Income tax expense	10,364	8,695	17,878	15,833
Net income	29,861	21,229	53,459	43,350
Less: Net income attributable to noncontrolling interests	193	204	400	427
Net income attributable to Ferro Corporation common shareholders	$ 29,668	$ 21,025	$ 53,059	$ 42,923
Earnings per share attributable to Ferro Corporation common shareholders:				
Basic earnings per share	$ 0.35	$ 0.25	$ 0.63	$ 0.51
Diluted earnings per share	$ 0.35	$ 0.25	$ 0.62	$ 0.50

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net income	$ 29,861	$ 21,229	$ 53,459	$ 43,350
Other comprehensive income, net of income tax:				
Foreign currency translation (loss) income	(30,315)	13,866	(24,528)	21,077
Cash flow hedging instruments, unrealized (loss) gain	(1,336)	—	(22)	—
Postretirement benefit liabilities (loss) gain	10	16	17	12
Other comprehensive (loss) income, net of income tax	(31,641)	13,882	(24,533)	21,089
Total comprehensive (loss) income	(1,780)	35,111	28,926	64,439
Less: Comprehensive (loss) income attributable to noncontrolling interests	(114)	280	221	543
Comprehensive (loss) income attributable to Ferro Corporation	$ (1,666)	$ 34,831	$ 28,705	$ 63,896

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 44,886	$ 63,551
Accounts receivable, net	395,858	354,416
Inventories	381,763	324,180
Other receivables	66,519	67,137
Other current assets	25,765	16,448
Total current assets	914,791	825,732
Other assets		
Property, plant and equipment, net	334,997	321,742
Goodwill	199,172	195,369
Intangible assets, net	179,154	187,616
Deferred income taxes	109,404	108,025
Other non-current assets	36,294	43,718
Total assets	$ 1,773,812	$ 1,682,202
LIABILITIES AND EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	$ 25,739	$ 25,136
Accounts payable	201,380	211,711
Accrued payrolls	39,904	48,201
Accrued expenses and other current liabilities	75,114	70,151
Total current liabilities	342,137	355,199
Other liabilities		
Long-term debt, less current portion	815,015	726,491
Postretirement and pension liabilities	161,179	166,680
Other non-current liabilities	71,769	77,152
Total liabilities	1,390,100	1,325,522
Equity		
Ferro Corporation shareholders' equity:		
Common stock, par value $1 per share; 300.0 million shares authorized; 93.4 million shares issued; 84.1 million and 84.0 million shares outstanding at June 30, 2018, and December 31, 2017, respectively	93,436	93,436
Paid-in capital	296,242	302,158
Retained earnings	228,944	171,744
Accumulated other comprehensive loss	(99,822)	(75,468)

Common shares in treasury, at cost	(144,172)	(147,056)
Total Ferro Corporation shareholders' equity	374,628	344,814
Noncontrolling interests	9,084	11,866
Total equity	383,712	356,680
Total liabilities and equity	$ 1,773,812	$ 1,682,202

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
	(In thousands)							
Balances at December 31, 2016	9,996	$ (160,936)	$ 93,436	$ 306,566	$ 114,690	$ (106,643)	$ 7,919	$ 255,032
Net income	—	—	—	—	42,923	—	427	43,350
Other comprehensive income	—	—	—	—	—	20,973	116	21,089
Stock-based compensation transactions	(255)	6,656	—	(2,761)	—	—	—	3,895
Distributions to noncontrolling interests	—	—	—	—	—	—	(474)	(474)
Balances at June 30, 2017	9,741	(154,280)	93,436	303,805	157,613	(85,670)	7,988	322,892
Balances at December 31, 2017	9,386	(147,056)	93,436	302,158	171,744	(75,468)	11,866	356,680
Net income	—	—	—	—	53,059	—	400	53,459
Other comprehensive loss	—	—	—	—	—	(24,354)	(179)	(24,533)
Purchase of treasury stock	287	(6,014)	—	—	—	—	—	(6,014)
Stock-based compensation transactions	(376)	8,898	—	(6,705)	—	—	—	2,193
Change in ownership interest	—	—	—	789	—	—	(2,228)	(1,439)
Distributions to noncontrolling	—	—	—	—	—	—	(775)	(775)

interests								
Adjustment for accounting standards update 2016-16	—	—	—	—	4,141	—	—	4,141
Balances at June 30, 2018	9,297	$ (144,172)	$ 93,436	$ 296,242	$ 228,944	$ (99,822)	$ 9,084	$ 383,712

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2018	2017
	(Dollars in thousands)	
Cash flows from operating activities		
Net cash (used in) provided by operating activities	$ (37,675)	$ 14,705
Cash flows from investing activities		
Capital expenditures for property, plant and equipment and other long lived assets	(43,569)	(16,894)
Business acquisitions, net of cash acquired	(4,920)	(14,752)
Other investing activities	31	145
Net cash used in investing activities	(48,458)	(31,501)
Cash flows from financing activities		
Net (repayments) under loans payable	(1,828)	(5,645)
Proceeds from revolving credit facility - 2014 Credit Facility	—	15,628
Principal payments on revolving credit facility - 2014 Credit Facility	—	(327,183)
Proceeds from term loan facility - Credit Facility	—	623,827
Principal payments on term loan facility - 2014 Credit Facility	—	(243,250)
Principal payments on term loan facility - Credit Facility	(304,060)	(1,596)
Principal payments on term loan facility - Amended Credit Facility	(2,050)	—
Proceeds from revolving credit facility - Credit Facility	134,950	—
Principal payments on revolving credit facility - Credit Facility	(212,950)	—
Proceeds from revolving credit facility - Amended Credit Facility	580	—
Proceeds from term loan facility - Amended Credit Facility	466,075	—
Payment of debt issuance costs	(3,466)	(12,927)
Acquisition related contingent consideration payment	(348)	—
Purchase of treasury stock	(6,014)	—
Other financing activities	(2,387)	(930)
Net cash provided by financing activities	68,502	47,924
Effect of exchange rate changes on cash and cash equivalents	(1,034)	2,156
(Decrease) increase in cash and cash equivalents	(18,665)	33,284
Cash and cash equivalents at beginning of period	63,551	45,582
Cash and cash equivalents at end of period	$ 44,886	$ 78,866
Cash paid during the period for:		
Interest	$ 16,450	$ 14,714
Income taxes	$ 14,378	$ 9,513

See accompanying notes to condensed consolidated financial statements.

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, 2017.

We produce our products primarily in the Europe-Middle East ("EMEA") region, the United States, the Asia Pacific region, and Latin America.

Operating results for the three and six months ended June 30, 2018, are not necessarily indicative of the results expected in subsequent quarters or for the full year ending December 31, 2018.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

On April 1, 2018, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 provides guidance to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The adoption of this ASU did not have an impact to the opening balance of Retained earnings. We will apply the guidance of this ASU to applicable transactions after the adoption date.

On April 1, 2018, we adopted FASB ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2018-03 provides targeted improvements to address certain aspects of recognition, measurement presentation, and disclosure of financial instruments. The adoption of ASU 2018-03 did not have a material impact on the Company's condensed consolidated financial statements.

On January 1, 2018, we adopted FASB ASU 2017-09, Compensation – Stock Compensation: (Topic 718): Scope of Modification Accounting. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This new guidance would only impact our consolidated financial statements if, in the future, we modified the terms of any of our share-based awards. We will apply the guidance of this ASU to applicable transactions after the adoption date. The adoption of ASU 2017-09 did not have a material impact on the Company’s condensed consolidated financial statements.

On January 1, 2018, we adopted FASB ASU 2017-07, Compensation – Retirement Benefits: (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs. ASU 2017-07 requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered during the period. The other components of net benefit costs are to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This ASU also allows only the service cost component of net benefit costs to be eligible for capitalization. We adopted this new standard using the retrospective approach for the presentation of the service cost component and the other components of the net periodic pension (credit) cost and net periodic postretirement benefit cost in the income statement. This resulted in the reclassification of income of $0.5 million and $1.0 million from Selling, general and administrative expenses to Other income, expense, net in our condensed consolidated statement of operations for the three and six months ended June 30, 2017, respectively. The Company used a practical expedient where the amount disclosed in our Retirement Benefits footnote for the prior

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year comparative period was the basis for the estimation for applying the retrospective presentation requirements. Other than this reclassification, the adoption of ASU 2017-07 did not have an impact on the Company's condensed consolidated financial statements.

On January 1, 2018, we adopted FASB ASU 2017-01, Business Combinations: (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 is intended to clarify the definition of a business with the objective of adding guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions (or dispositions) of assets or businesses. We will apply the guidance of this ASU to applicable transactions after the adoption date. The adoption of ASU 2017-01 did not have a material impact on the Company's condensed consolidated financial statements.

On January 1, 2018, we adopted FASB ASU 2016-16, Income Taxes: (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory and requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. We adopted this new standard using the modified retrospective method. The impact of adopting this guidance on the Company's condensed consolidated financial statements resulted in an increase to Retained earnings of $4.1 million and Deferred income taxes of $4.7 million and a decrease to Other receivables of $0.6 million for the year ended June 30, 2018.

On January 1, 2018, we adopted FASB 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. Adoption of ASU 2016-15 did not have a material effect on our condensed consolidated financial statements.

On January 1, 2018, we adopted FASB ASU 2014-09, Revenue from Contracts with Customers: (Topic 606) ("ASC 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 require significant judgment. We have completed our assessment and review of specific contracts and have adopted this new standard using the modified retrospective method with no impact to the opening Retained earnings balance. We expect the impact of the adoption of this new standard will not have a material effect on our consolidated financial statements on an ongoing basis.

New Accounting Standards

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 allows a reclassification from Accumulated Other Comprehensive (Loss) Income to Retained Earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and requires certain disclosures about stranded tax effects. This pronouncement is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company is in the process of assessing the impact that the adoption of this ASU will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 is intended to simplify the subsequent measurement of goodwill by eliminating Step 2 from the current goodwill impairment test. This pronouncement is effective for the annual or any interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019. The Company is in the process of assessing the impact that the adoption of this ASU will have on our consolidated financial statements.

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. The Company is in the process of assessing the impact the adoption of this ASU will have on our consolidated financial statements.

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No other new accounting pronouncements issued had, or are expected to have, a material impact on the Company's consolidated financial statements.

3. Revenue

Revenue Recognition

Under ASC 606, revenues are recognized when control of the promised goods is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods. In order to achieve that core principle, the Company applies the following five-step approach: 1) identify the contract with a customer, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when a performance obligation is satisfied.

The Company considers confirmed customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts, from an accounting perspective, with customers. Under our standard contracts, the only performance obligation is the delivery of manufactured goods and the performance obligation is satisfied at a point in time, when the Company transfers control of the manufactured goods. The Company may receive orders for products to be delivered over multiple dates that may extend across several reporting periods. The Company invoices for each order and recognizes revenue for each distinct product upon shipment, once transfer of control has occurred. Payment terms are standard for the industry and jurisdiction in which we operate. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment, to determine the net consideration to which the Company expects to be entitled. Discounts or rebates are specifically stated in customer contracts or invoices, and are recorded as a reduction of revenue in the period the related revenue is recognized. The product price as specified on the customer confirmed orders is considered the standalone selling price. The Company allocates the transaction price to each distinct product based on its relative standalone selling price. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which generally occurs at shipment. We review all material contracts to determine transfer of control based upon the business practices and legal requirements of each country.

The amount of shipping and handling fees invoiced to our customers at the time our product is shipped is included in net sales as we are the principle in those activities. Sales, valued-added and other taxes collected from our customers and remitted to governmental authorities are excluded from net sales.

There were no changes in amounts previously reported in the Company's condensed consolidated financial statements due to adopting ASC 606.

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Revenues disaggregated by geography and reportable segment for the three months ended June 30, 2018, follow:

	EMEA	United States	Asia Pacific	Latin America	Total
	(Dollars in thousands)				
Performance Coatings	$ 126,133	$ 11,715	$ 29,129	$ 26,472	$ 193,449
Performance Colors and Glass	63,675	38,504	18,063	5,785	126,027
Color Solutions	36,227	41,272	10,532	8,732	96,763
Total net sales	$ 226,035	$ 91,491	$ 57,724	$ 40,989	$ 416,239

Revenues disaggregated by geography and reportable segment for the three months ended June 30, 2017, follow:

	EMEA	United States	Asia Pacific	Latin America	Total
	(Dollars in thousands)				
Performance Coatings	$ 88,814	$ 11,604	$ 23,089	$ 28,239	$ 151,746
Performance Colors and Glass	47,592	37,832	15,796	5,417	106,637
Color Solutions	34,961	39,179	8,775	7,334	90,249
Total net sales	$ 171,367	$ 88,615	$ 47,660	$ 40,990	$ 348,632

Revenues disaggregated by geography and reportable segment for the six months ended June 30, 2018, follow:

	EMEA	United States	Asia Pacific	Latin America	Total

	(Dollars in thousands)				
Performance Coatings	$ 245,249	$ 24,534	$ 55,076	$ 53,238	$ 378,097
Performance Colors and Glass	125,019	75,595	34,578	11,340	246,532
Color Solutions	76,710	82,898	20,470	17,064	197,142
Total net sales	$ 446,978	$ 183,027	$ 110,124	$ 81,642	$ 821,771

Revenues disaggregated by geography and reportable segment for the six months ended June 30, 2017, follow:

	EMEA	United States	Asia Pacific	Latin America	Total
	(Dollars in thousands)				
Performance Coatings	$ 157,973	$ 22,362	$ 44,406	$ 53,570	$ 278,311
Performance Colors and Glass	92,178	76,936	30,429	10,612	210,155
Color Solutions	70,138	77,696	17,034	15,853	180,721
Total net sales	$ 320,289	$ 176,994	$ 91,869	$ 80,035	$ 669,187

Practical Expedients and Exemptions

All material contracts have an original duration of one year or less and, as such, the Company uses the practical expedient applicable to such contracts, and has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period, or when the Company expects to recognize this revenue.

When the period of time between the transfer of control of the goods and the time the customer pays for the goods is one year or less, the Company uses the practical expedient allowed by ASC 606 that provides relief from adjusting the amount of promised consideration for the effects of a financing component.

We generally expense sales commissions when incurred because the amortization period is one year or less. These costs are recorded within Selling, general and administrative expenses.

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4. Acquisitions

PT Ferro Materials Utama

On June 29, 2018, the Company acquired 66% of the equity interests in PT Ferro Materials Utama ("FMU") for $2.7 million in cash, in addition to the forgiveness of debt of $9.2 million, bringing our total ownership to 100%. The Company previously recorded its investment in FMU as an equity method investment, and following this transaction, the Company fully consolidates FMU. Due to the change of control that occurred, the Company recorded a gain on purchase of $2.6 million, which is recorded in Miscellaneous (income), expense net, related to the difference between the Company's carrying value and fair value of the previously held equity method investment during the second quarter of 2018.

Endeka Group

On November 1, 2017, the Company acquired 100% of the equity interests of Endeka Group ("Endeka"), a global producer of high-value coatings and key raw materials for the ceramic tile market, for €72.8 million (approximately $84.8 million), including the assumption of debt of €13.1 million (approximately $15.3 million). The Company incurred acquisition costs for the six months ended June 30, 2018, of $0.5 million, which is included in Selling, general and administrative expenses in our condensed consolidated statements of operations. The acquired business contributed net sales of $30.5 million and $61.2 million for the three and six months ended June 30, 2018, respectively, and net income attributable to Ferro Corporation of $4.8 million and $8.8 million for the three and six months ended June 30, 2018, respectively.

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. During the first half of 2018, the Company adjusted the net working capital on the opening balance sheet and as such, the carrying amount of the personal and real property decreased $4.1 million. As of June 30, 2018, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $44.1 million of net working capital, $24.1 million of deferred tax assets, $17.7 million of personal and real property and $1.1 million of noncontrolling interest on the condensed consolidated balance sheet.

Gardenia Quimica S.A.

On August 3, 2017, the Company acquired a majority interest in Gardenia Quimica S.A. ("Gardenia") for $3.0 million. The Company previously owned 46% of Gardenia and recorded it as an equity method investment. Following this transaction, the Company owned 83.5% and fully consolidates Gardenia. Due to the change of control that occurred, the Company recorded a gain on purchase of $2.6 million related to the difference between the Company's carrying value and fair value of the previously held equity method investment during the third quarter of 2017. On March 1, 2018, the Company acquired the remaining equity interest in Gardenia for $1.4 million.

Dip Tech Ltd.

On August 2, 2017, the Company acquired 100% of the equity interests of Dip Tech Ltd. ("Dip-Tech"), a leading provider of digital printing solutions for glass coatings, for $77.0 million. Dip-Tech is headquartered in Kfar Saba, Israel. The purchase price consideration consisted of cash paid at closing of $60.1 million, net of the net working capital adjustment, and contingent consideration of $16.9 million. The Company incurred acquisition costs for the six months ended June 30, 2018, of $0.1 million, which is included in Selling, general and administrative expenses in our condensed consolidated statements of operations. The acquired business contributed net sales of $7.0 million and $10.9 million for the three and six months ended June 30, 2018, respectively, and net loss attributable to Ferro Corporation of $1.6 million and $4.0 million for the three and six months ended June 30, 2018, respectively. The net loss attributable to Ferro Corporation was driven by the amortization of acquired intangible asset amortization costs of $1.0 million and $2.0 million for the three and six months ended June 30, 2018, respectively. Dip-Tech incurred research and development costs of $1.8 million and $3.3 million for the three and six months ended June 30, 2018, respectively.

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

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who performed independent valuations using discounted cash flow and comparative market approaches, and estimates made by management. As of June 30, 2018, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $41.2 million of amortizable intangible assets, $33.5 million of goodwill, $7.2 million of a deferred tax liability, $5.1 million of indefinite-lived intangible assets, $3.2 million of personal and real property and $1.2 million of net working capital on the condensed consolidated balance sheet.

Smalti per Ceramiche, s.r.l

On April 24, 2017, the Company acquired 100% of the equity interests of S.P.C. Group s.r.l., and 100% of the equity interests of Smalti per Ceramiche, s.r.l. (“SPC”), for €18.7 million (approximately $20.3 million), including the assumption of debt of €5.7 million (approximately $6.2 million). SPC is a high-end tile coatings manufacturer based in Italy focused on fast-growing specialty products. SPC’s products, strong technology, design capabilities, and customer-centric business model are complementary to our Performance Coatings segment, and position us for continued growth in the high-end tile markets.

The information included herein has been prepared based on the allocation of the purchase price using 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 Company recorded $6.1 million of personal and real property, $6.0 million of amortizable intangible assets, $5.2 million of goodwill, $5.0 million of net working capital and $2.0 million of a deferred tax liability on the condensed consolidated balance sheet.

5. Inventories

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Raw materials	$ 135,595	$ 112,300
Work in process	58,591	39,454
Finished goods	187,577	172,426
Total inventories	$ 381,763	$ 324,180

In the production of some of our products, we use precious metals, 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 $0.4 million and $0.3 million for the three months ended June 30, 2018 and 2017, respectively, and were $0.8 million and $0.5 million for the six months ended June 30, 2018 and 2017, respectively. We had on-hand precious metals owned by participants in our precious metals consignment program of $44.1 million at June 30, 2018, and $37.7 million at December 31, 2017, measured at fair value based on market prices for identical assets.

6. Property, Plant and Equipment

Property, plant and equipment is reported net of accumulated depreciation of $515.1 million at June 30, 2018, and $502.9 million at December 31, 2017. Unpaid capital expenditure liabilities, which are non-cash investing activities, were $3.8 million at June 30, 2018, and $3.8 million at June 30, 2017.

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7. Goodwill and Other Intangible Assets

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

	Performance Coatings		Color Solutions	Performance Colors and Glass		Total
	(Dollars in thousands)					
Goodwill, net at December 31, 2017	$ 38,236		$ 42,535	$ 114,598		$ 195,369
Acquisitions	5,140	(2)	—	1,291	(1)	6,431
Foreign currency adjustments	(1,348)		(445)	(835)		(2,628)
Goodwill, net at June 30, 2018	$ 42,028		$ 42,090	$ 115,054		$ 199,172

(1) During the first quarter of 2018, the Company recorded a purchase price adjustment within the measurement period for goodwill related to the Dip-Tech acquisition.

(2) During the second quarter of 2018, the Company recorded goodwill related to the FMU acquisition.

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Goodwill, gross	$ 257,639	$ 253,836
Accumulated impairment	(58,467)	(58,467)
Goodwill, net	$ 199,172	$ 195,369

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. As of June 30, 2018, the Company is not aware of any events or circumstances that occurred which would require a goodwill impairment test.

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Amortizable intangible assets consisted of the following:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Gross amortizable intangible assets:		
Patents	$ 5,210	$ 5,279
Land rights	4,893	4,947
Technology/know-how and other	127,765	131,070
Customer relationships	92,493	93,500
Total gross amortizable intangible assets	230,361	234,796
Accumulated amortization:		
Patents	(5,149)	(5,226)
Land rights	(2,912)	(2,883)
Technology/know-how and other	(46,580)	(45,214)
Customer relationships	(13,447)	(11,114)
Total accumulated amortization	(68,088)	(64,437)
Amortizable intangible assets, net	$ 162,273	$ 170,359

Indefinite-lived intangible assets consisted of the following:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Indefinite-lived intangibles assets:		
Trade names and trademarks	$ 16,881	$ 17,257

8. Debt

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

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Loans payable	$ 16,494	$ 16,360
Current portion of long-term debt	9,245	8,776
Loans payable and current portion of long-term debt	$ 25,739	$ 25,136

Long-term debt consisted of the following:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Term loan facility, net of unamortized issuance costs, maturing 2024(1)	$ 812,665	$ 645,242
Revolving credit facility	580	78,000
Capital lease obligations	4,425	4,913
Other notes	6,590	7,112

Total long-term debt	824,260	735,267
Current portion of long-term debt	(9,245)	(8,776)
Long-term debt, less current portion	$ 815,015	$ 726,491

(1) The carrying value of the term loan facility, maturing 2024, is net of unamortized debt issuance costs of $5.3 million at June 30, 2018, and $7.5 million at December 31, 2017.

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Amended Credit Facility

On April 25, 2018 the Company entered into an amendment (the "Amended Credit Facility") to its existing credit facility (the "Credit Facility") which Amended Credit Facility (a) provided a new revolving facility (the "2018 Revolving Facility"), which replaced the Company's existing revolving facility, (b) repriced the ("Tranche B-1 Loans"), (c) provided new tranches of term loans ("Tranche B-2 Loans" and "Tranche B-3 Loans") denominated in U.S. dollars borrowed by the Company's existing credit facility and will be used for ongoing working capital requirements and general corporate purposes. The ("Tranche B-2 Loans") are borrowed by the Company and the ("Tranche B-3 Loans") are borrowed on a joint and several basis by Ferro GmbH and Ferro Europe Holdings LLC.

The Amended Credit Facility consists of a $500 million secured revolving line of credit with a maturity of February 2023, a $355 million secured term loan facility with a maturity of February 2024, a $235 million secured term loan facility with a maturity of February 2024 and a $230 million secured term loan facility with a maturity of February 2024. The term loans are payable in equal quarterly installments in an amount equal to 0.25% of the original principal amount of the term loans, with the remaining balance due on the maturity date thereof. In addition, the Company is required, on an annual basis, to make a prepayment in an amount equal to a portion of the Company's excess cash flow, as calculated pursuant to the Amended Credit Facility, which prepayment will be applied first to the term loans until they are paid in full, and then to the revolving loans.

Subject to the satisfaction of certain conditions, the Company can request additional commitments under the revolving line of credit or term loans in the aggregate principal amount of up to $250 million to the extent that existing or new lenders agree to provide such additional commitments and/or term loans. The Company can also raise certain additional debt or credit facilities subject to satisfaction of certain covenant levels.

Certain of the Company's U.S. subsidiaries have guaranteed the Company's obligations under the Amended 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 certain of the Company's U.S. subsidiaries and 65% of the stock of certain of the Company's direct foreign subsidiaries. The Tranche B-3 Loans are guaranteed by the Company, the U.S. subsidiary guarantors and a cross-guaranty by the borrowers of the Tranche B-3 Loans, and are secured by the collateral securing the revolving loans and the other term loans, in addition to a pledge of the equity interests of Ferro GmbH.

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

- The base rate for term loans will be the highest of (i) the federal funds rate plus 0.50%, (ii) syndication agent's prime rate, (iii) the daily LIBOR rate plus 1.00% or (iv) 0.00%. The applicable margin for base rate loans is 1.25%.
- The LIBOR rate for term loans shall not be less than 0.0% and the applicable margin for LIBOR rate term loans is 2.25%.
- For LIBOR rate term 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 June 30, 2018, the Company had borrowed $354.1 million under the Tranche B-1 Loans at an interest rate of 4.58%, $234.4 million under the Tranche B-2 Loans at an interest rate of 4.58%, and $229.4 million under the Tranche B-3 Loans at an interest rate of 4.58%. At June 30, 2018, there were no additional borrowings available under the Tranche B-1 Loans, Tranche B-2 Loans and Tranche B-3 Loans.

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, in both cases, an applicable variable margin. The variable margin will be based on the ratio of (a) the Company's total consolidated net 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 for revolving loans will be the highest of (i) the federal funds rate plus 0.50%, (ii) syndication agent's prime rate, (iii) the daily LIBOR rate plus 1.00% or (iv) 0.00%. The applicable margin for base rate loans will vary between 0.50% to 1.50%.

- The LIBOR rate for revolving loans shall not be less than 0% and the applicable margin for LIBOR rate revolving loans will vary between 1.50% and 2.50%.
- For LIBOR rate revolving 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 June 30, 2018, there were $0.6 million borrowings under the revolving credit line at an interest rate of 4.09%. After reductions for outstanding letters of credit secured by these facilities, we had $494.8 million of additional borrowings available under the revolving credit facilities at June 30, 2018.

The Amended 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 Amended 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 2018 Revolving Facility, the Company is subject to a financial covenant regarding the Company's maximum leverage ratio. If an event of default occurs, all amounts outstanding under the Amended Credit Facility agreement may be accelerated and become immediately due and payable. At June 30, 2018, we were in compliance with the covenants of the Amended Credit Facility.

Credit Facility

On February 14, 2017, the Company entered into a credit facility (the "Credit Facility") with a group of lenders to refinance its then outstanding credit facility debt and to provide liquidity for ongoing working capital requirements and general corporate purposes. The Credit Facility consisted of a $400 million secured revolving line of credit with a term of five years, a $357.5 million secured term loan facility with a term of seven years and a €250 million secured Euro term loan facility with a term of seven years. For discussion of the Company's Credit Facility, refer to Note 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

In conjunction with the refinancing of the Credit Facility, we recorded a charge of $3.2 million in connection with the write-off of unamortized issuance costs, which is recorded within Loss on extinguishment of debt in our condensed consolidated statement of operations for the three and six months ended June 30, 2018.

2014 Credit Facility

In 2014, the Company entered into a credit facility that was amended on January 25, 2016, and August 29, 2016, resulting in a $400 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 from the original issuance date (the "2014 Credit Facility") with a group of lenders that was replaced on February 14, 2017, by the Credit Facility (as defined above). For discussion of the Company's Previous Credit Facility, refer to Note 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

In conjunction with the refinancing of the Previous Credit Facility, we recorded a charge of $3.9 million in connection with the write-off of unamortized issuance costs, which is recorded within Loss on extinguishment of debt in our condensed consolidated statement of operations for the six months ended June 30, 2017.

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 $43.3 million and $64.5 million at June 30, 2018, and December 31, 2017, respectively. The unused portions of these lines provided additional liquidity of $21.1 million at June 30, 2018, and $39.4 million at December 31, 2017.

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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:

	June 30, 2018				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Cash and cash equivalents	$ 44,886	$ 44,886	$ 44,886	$ —	$ —
Loans payable	(16,494)	(16,494)	—	(16,494)	—
Term loan facility, maturing 2024(1)	(812,665)	(807,468)	—	(807,468)	—
Revolving credit facility, maturing 2023	(580)	(573)	—	(573)	—
Other long-term notes payable	(6,590)	(4,073)	—	(4,073)	—
Cross currency swaps	10,820	10,820	—	10,820	—
Interest rate swaps	(1,610)	(1,610)	—	(1,610)	—
Foreign currency forward contracts, net	2,860	2,860	—	2,860	—

December 31, 2017