FERRO CORP
Form 10-Q
April 29, 2015
Table of Contents

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 March 31, 2015

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 March 31, 2015, there were 87,258,582 shares of Ferro Common Stock, par value $1.00, outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
Item 1. Financial Statements (Unaudited)	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures about Market Risk	31
Item 4. Controls and Procedures	32
PART II	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	33
Item 4. Mine Safety Disclosures	33
Item 5. Other Information	33
Item 6. Exhibits	33

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands, except per share amounts)	
Net sales	$ 262,772	$ 280,727
Cost of sales	192,137	205,774
Gross profit	70,635	74,953
Selling, general and administrative expenses	49,456	51,369
Restructuring and impairment charges	509	4,350
Other expense (income):		
Interest expense	3,150	4,511
Interest earned	(37)	(15)
Foreign currency losses, net	1,728	1,346
Miscellaneous expense, net	399	762
Income before income taxes	15,430	12,630
Income tax expense	2,459	2,482
Income from continuing operations	12,971	10,148
(Loss) income from discontinued operations, net of taxes	(3,956)	6,584
Net income	9,015	16,732
Less: Net loss attributable to noncontrolling interests	(1,955)	(472)
Net income attributable to Ferro Corporation common shareholders	$ 10,970	$ 17,204
Earnings (loss) per share attributable to Ferro Corporation common shareholders:		
Basic earnings (loss):		
Continuing operations	$ 0.17	$ 0.12
Discontinued operations	(0.05)	0.08
	$ 0.12	$ 0.20

Diluted earnings (loss):		
Continuing operations	$ 0.17	$ 0.12
Discontinued operations	(0.04)	0.08
	$ 0.13	$ 0.20

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive (Loss) Income

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Net income	$ 9,015	$ 16,732
Other comprehensive (loss) income, net of tax:		
Foreign currency translation loss	(37,796)	(350)
Postretirement benefit liabilities gain (loss)	16	(36)
Other comprehensive loss, net of tax	(37,780)	(386)
Total comprehensive (loss) income	(28,765)	16,346
Less: Comprehensive loss attributable to noncontrolling interests	(3,093)	(652)
Comprehensive (loss) income attributable to Ferro Corporation	$ (25,672)	$ 16,998

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Ferro Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 105,175	$ 140,500
Accounts receivable, net	231,482	236,749
Inventories	153,334	158,368
Deferred income taxes	7,886	7,532
Other receivables	22,729	25,635
Other current assets	16,980	17,912
Current assets held-for-sale	19,575	27,087
Total current assets	557,161	613,783
Other assets		
Property, plant and equipment, net	193,138	212,642
Goodwill	91,562	93,733
Intangible assets, net	57,092	57,309
Deferred income taxes	33,592	39,712
Other non-current assets	59,949	60,982
Non-current assets held-for-sale	24,810	18,737
Total assets	$ 1,017,304	$ 1,096,898
LIABILITIES AND EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	$ 6,097	$ 8,382
Accounts payable	126,017	129,236
Accrued payrolls	22,296	36,051
Accrued expenses and other current liabilities	40,550	53,133
Current liabilities held-for-sale	6,930	10,016
Total current liabilities	201,890	236,818
Other liabilities		
Long-term debt, less current portion	302,178	303,629
Postretirement and pension liabilities	157,397	167,772
Other non-current liabilities	44,365	50,359
Non-current liabilities held-for-sale	2,180	2,304
Total liabilities	708,010	760,882
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; 87.3 million and 87.0 million shares outstanding at March 31, 2015, and December 31, 2014, respectively		
Paid-in capital	311,888	317,404
Retained earnings	82,377	71,407
Accumulated other comprehensive loss	(58,447)	(21,805)
Common shares in treasury, at cost	(128,499)	(136,058)
Total Ferro Corporation shareholders’ equity	300,755	324,384
Noncontrolling interests	8,539	11,632
Total equity	309,294	336,016
Total liabilities and equity	$ 1,017,304	$ 1,096,898

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

	Ferro Corporation Shareholders							
	Common Shares in Treasury					Accumulated		
			Common	Paid-in	Retained Earnings	Other Comprehensive Income	Non-controlling	Total
	Shares	Amount	Stock	Capital	(Deficit)	(Loss)	Interests	Equity
	(Dollars in thousands)							
Balances at December 31, 2013	6,730	$ (143,802)	$ 93,436	$ 318,055	$ (14,664)	$ 8,493	$ 12,325	$ 273,843
Net income (loss)	—	—	—	—	17,204	—	(472)	16,732
Other comprehensive loss	—	—	—	—	—	(206)	(180)	(386)
Stock-based compensation transactions	(219)	5,703	—	(2,823)	—	—	—	2,880
Distributions to noncontrolling interests	—	—	—	—	—	—	(206)	(206)
Balances at March 31, 2014	6,511	(138,099)	93,436	315,232	2,540	8,287	11,467	292,863
Balances at December 31, 2014	6,445	(136,058)	93,436	317,404	71,407	(21,805)	11,632	336,016
Net income (loss)	—	—	—	—	10,970	—	(1,955)	9,015
Other comprehensive loss	—	—	—	—	—	(36,642)	(1,138)	(37,780)
Stock-based compensation transactions	(269)	7,559	—	(5,516)	—	—	—	2,043
Balances at March 31, 2015	6,176	$ (128,499)	$ 93,436	$ 311,888	$ 82,377	$ (58,447)	$ 8,539	$ 309,294

See accompanying notes to condensed consolidated financial statements.

6

Table of Contents

Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Cash flows from operating activities		
Net cash used in operating activities	$ (10,269)	$ (22,240)
Cash flows from investing activities		
Capital expenditures for property, plant and equipment and other long lived assets	(14,879)	(12,163)
Proceeds from sale of assets	91	652
Acquisition of TherMark	(5,479)	—
Net cash used in investing activities	(20,267)	(11,511)
Cash flows from financing activities		
Net (repayments) borrowings under loans payable (1)	(2,567)	523
Proceeds from revolving credit facility	—	155,301
Principal payments on term loan facility	(750)	—
Principal payments on revolving credit facility	—	(109,008)
Other financing activities	769	(221)
Net cash (used in) provided by financing activities	(2,548)	46,595
Effect of exchange rate changes on cash and cash equivalents	(2,241)	(84)
(Decrease) increase in cash and cash equivalents	(35,325)	12,760
Cash and cash equivalents at beginning of period	140,500	28,328
Cash and cash equivalents at end of period	$ 105,175	$ 41,088
Cash paid during the period for:		
Interest	$ 3,409	$ 10,870
Income taxes	$ 6,141	$ 941

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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, 2014.

The Company owns 51% of an operating affiliate in Venezuela that is a consolidated subsidiary of Ferro. During the first quarter of 2015, the Ministry of Economy, Finance, and Public Banking, and the Central Bank of Venezuela published a new exchange rate, the Foreign Exchange Marginal System ("SIMADI"). We concluded in March 2015 that SIMADI was the most relevant exchange mechanism available, and began using SIMADI to translate the local currency financial statements. As a result of the revaluation, we recognized a $1.9 million foreign currency loss and a $2.6 million loss due to lower of cost or market charges against our inventory, prior to the adjustment for losses allocated to our noncontrolling interest partner, which is recorded within Foreign currency losses, net and Cost of sales, respectively, within our condensed consolidated statement of operations for the three months ended March 31, 2015. We had $1.0 million of assets and $1.0 million of liabilities that are included in the condensed consolidated balance sheet at March 31, 2015.

In the first quarter of 2014, the Venezuelan government expanded and introduced alternative market mechanisms for monetary exchange between the local currency, the Bolivar, and the United States Dollar. As a result of changes in the political and economic environment in the country, we began to remeasure the monetary assets and liabilities of the entity utilizing the most relevant exchange mechanism available, which we concluded to be SICAD I in the first quarter of 2014. The impact of the remeasurement in the first quarter of 2014, prior to adjustment for losses allocated to our noncontrolling interest partner was a loss of $1.6 million, which is recorded within Foreign currency losses, net within our condensed consolidated statement of operations for the three months ended March 31, 2014.

During the second quarter of 2014, substantially all of the assets and liabilities of the Specialty Plastics and Polymer Additives reportable segments were classified as held-for-sale. As further discussed in Note 3, the Specialty Plastics sale closed on July 1, 2014, and the North America-based Polymer Additives sale closed on December 19, 2014. Therefore, the Specialty Plastics and North America-based Polymer Additives operating results, net of tax, have been classified as discontinued operations for the three months ended March 31, 2014. We have classified the Europe-based Polymer Additives assets and liabilities as held-for-sale in the accompanying condensed consolidated

balance sheets 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 months ended March 31, 2015, are not necessarily indicative of the results expected in subsequent quarters or for the full year ending December 31, 2015.

2. Recent Accounting Pronouncements

Accounting Standards Adopted in the period ended March 31, 2015

On January 1, 2015, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which is codified in ASC Topic 205, Presentation of Financial Statements, and ASC Topic 360, Property, Plant, and Equipment. This pronouncement changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has

Table of Contents

(or will have) a major effect on an entity's operations and financial results, and changes the criteria and enhances disclosures for reporting discontinued operations. The adoption of this pronouncement did not have a material effect on our condensed consolidated financial statements.

On January 1, 2015, we adopted FASB ASU No. 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. The adoption of this pronouncement did not have a material effect on our condensed consolidated financial statements.

On January 1, 2015, we adopted FASB ASU No. 2014-18, Accounting for Identifiable Intangible Assets in a Business Combination. ASU 2014-18 is an accounting alternative which applies when an entity is required to recognize or otherwise consider the fair value of intangible assets as a result of specific transaction. The adoption of this pronouncement did not have a material effect on our condensed consolidated financial statements.

New Accounting Standards

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, 2016. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items: Subtopic 225-20. ASU 2015-01 eliminates the concept of extraordinary items. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. ASU 2015-01 may be applied prospectively or retrospectively to all prior periods presented in the financial statements. We do not expect the adoption of this pronouncement will have a material effect on our condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis: Topic 810. This pronouncement makes amendments to the current consolidation guidance. ASU 2015-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. ASU 2015-02 may be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or may be applied retrospectively. We do not expect the adoption of this pronouncement will have a material effect on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest: Subtopic 835-30: Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 makes amendments to the presentation of debt issuance costs. This pronouncement is effective for financial statements issued for fiscal years, and interim periods within

those fiscal years, beginning after December 15, 2015. Early adoption is permitted. ASU 2015-03 should by applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

Table of Contents

3. Discontinued Operations

During the third quarter of 2014, we sold substantially all of the assets related to our Specialty Plastics business for a cash purchase price of $91.0 million. The transaction resulted in net proceeds of $88.3 million after expenses, and a gain of approximately $54.9 million. We have classified the Specialty Plastics operating results, net of income tax, as discontinued operations for the three months ended March 31, 2014.

During the second quarter of 2014, we commenced a process to market for sale all of the assets within our Polymer Additives business. We determined that the criteria to classify these assets as held-for-sale under ASC Topic 360, Property, Plant and Equipment, have been met. For purposes of applying the guidance within ASC 360, the assets have been categorized into two disposal groups: (1) our Europe-based Polymer Additives assets, including the Antwerp, Belgium dibenzoates manufacturing assets, and related Polymer Additives European headquarters and lab facilities and (2) the remainder of the Polymer Additives assets, our North America-based Polymer Additives business. During the fourth quarter of 2014, we sold substantially all of the assets related to our North America-based Polymer Additives business for a cash purchase price of $153.5 million. The transaction resulted in net proceeds of $149.5 million after expenses, and a gain of approximately $72.7 million. We have classified the operating results, net of income tax, as discontinued operations for the three months ended March 31, 2014. We have classified the Europe-based Polymer Additives assets and liabilities as held-for-sale in the accompanying condensed consolidated balance sheets 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.

The table below summarizes results for Polymer Additives and Specialty Plastics, for the three months ended March 31, 2015 and 2014, 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 March 31,	
	2015	2014
	(Dollars in thousands)	
Net sales	$ 11,899	$ 111,009
Cost of sales	14,555	96,487
Gross profit	(2,656)	14,522
Selling, general and administrative expenses	1,219	6,207
Restructuring and impairment charges	—	2
Interest expense	113	1,372
Miscellaneous (income) expense, net	(32)	106

(Loss) income from discontinued operations before income taxes	(3,956)	6,835
Income tax expense	—	251
(Loss) income from discontinued operations, net of taxes	$ (3,956)	$ 6,584

The following table summarizes the assets and liabilities which are classified as held-for-sale at March 31, 2015, and December 31, 2014:

Table of Contents

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Accounts receivable, net	$ 6,392	$ 5,959
Inventories	10,176	19,217
Other current assets	3,007	1,911
Current assets held-for-sale	19,575	27,087
Property, plant and equipment, net	24,311	18,174
Other non-current assets	499	563
Total assets held-for-sale	44,385	45,824
Accounts payable	5,703	8,181
Accrued expenses and other current liabilities	1,227	1,835
Current liabilities held-for-sale	6,930	10,016
Other non-current liabilities	2,180	2,304
Total liabilities held-for-sale	$ 9,110	$ 12,320

4. Acquisitions

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 at March 31, 2015. The purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company.

During the fourth quarter of 2014, Ferro Coatings Italy S.R.L., a 100% owned subsidiary of Ferro, acquired 100% of the outstanding common shares and voting interest of Vetriceramici S.p.A. (“Vetriceramici”) for a purchase price of €87.2 million in cash, or $108.9 million, based on the exchange rate on the closing date of December 1, 2014. Vetriceramici is an Italian manufacturing, marketing and distribution group that offers a range of products (principally ceramic glazes, frits, inks and screen printing bases) to its customers for the production of ceramic tiles, with some diversification in the glass sector. Vetriceramici currently has manufacturing facilities in Italy and Mexico, a mixing plant in Poland and research and development and sales offices in Italy and Turkey. We expect to achieve synergies and cost reductions by eliminating redundant processes and facilities. At March 31, 2015, the purchase price allocation is still subject to further adjustment until all information is fully evaluated by the Company.

5. Inventories

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Raw materials	$ 44,671	$ 46,605
Work in process	31,334	32,356
Finished goods	77,329	79,407
Total inventories	$ 153,334	$ 158,368

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 each of the three months ended March 31, 2015 and 2014. We had on hand precious metals owned by participants in our precious metals consignment program of $30.1 million at March 31, 2015, and $26.6 million at December 31, 2014, measured at fair value based on market prices for identical assets and net of credits.

Table of Contents

6. Property, Plant and Equipment

Property, plant and equipment is reported net of accumulated depreciation of $428.7 million at March 31, 2015, and $442.4 million at December 31, 2014. Unpaid capital expenditure liabilities, which are non-cash investing activities, were $4.0 million at March 31, 2015, and $5.6 million at March 31, 2014.

The following table presents information about the Company's impairment charges on assets that were measured on a fair value basis for the three months ended March 31, 2015 and for the year ended December 31, 2014. The table also indicates the fair value hierarchy of the valuation techniques used by the Company to determine the fair value:

	Fair Value Measurements Using				Total
Description	Level 1	Level 2	Level 3	Total	(Losses)
	(Dollars in thousands)				
March 31, 2015					
Assets held for sale	$ —	$ —	$ 39,170	$ 39,170	$ —
December 31, 2014					
Assets held for sale	$ —	$ —	$ 37,400	$ 37,400	$ (21,566)

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.

7. Debt

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

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Loans payable	$ 2,169	$ 4,284
Current portion of long-term debt	3,928	4,098
Loans payable and current portion of long-term debt	$ 6,097	$ 8,382

Long-term debt consisted of the following:

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Term loan facility	$ 298,500	$ 299,250
Capital lease obligations	4,498	4,973
Other notes	3,108	3,504
Total long-term debt	306,106	307,727
Current portion of long-term debt	(3,928)	(4,098)
Long-term debt, less current portion	$ 302,178	$ 303,629

New Credit Facility

On July 31, 2014, the Company entered into a new credit facility (the “New Credit Facility”) with a group of lenders to refinance the majority of its then outstanding debt. The New Credit Facility consists of a $200 million secured revolving line of credit with a term of five years and a $300 million secured term loan facility with a term of seven years. Principal payments on the term loan facility are payable commencing with December 31, 2014 of $0.75 million quarterly, with the remaining balance due on the maturity date. The New Credit Facility replaces the prior $250 million revolving credit facility and provided funding to repurchase the 7.875%

Table of Contents

Senior Notes. Subject to certain conditions, the Company can request up to $200 million of additional commitments under the New Credit Facility, though the lenders are not required to provide such additional commitments. In addition, up to $100 million of the revolving line of credit will be available to certain of the Company's subsidiaries in the form of revolving loans denominated in Euros.

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

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

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

At March 31, 2015, the Company had borrowed $298.5 million under the term loan facility at an annual rate of 4.0%. There were no additional borrowings available under the term loan facility.

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

- The base rate will be the highest of (i) the federal funds rate plus 0.50%, (ii) PNC's prime rate or (iii) the daily LIBOR rate plus 1.00%.
- The applicable margin for base rate loans will vary between 1.50% and 2.00%.
- The LIBOR rate will be set as quoted by Bloomberg for U.S. Dollars.
- The applicable margin for LIBOR Rate Loans will vary between 2.50% and 3.00%.
- For LIBOR rate loans, the Company may choose to set the duration on individual borrowings for periods of one, two, three or six months, with the interest rate based on the applicable LIBOR rate for the corresponding duration.

At March 31, 2015, there were no borrowings under the revolving credit line. After reductions for outstanding letters of credit secured by these facilities, we had $195.1 million of additional borrowings available at March 31, 2015.

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

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

If an event of default occurs, all amounts outstanding under the New Credit Facility may be accelerated and become immediately due and payable. At March 31, 2015, we were in compliance with the covenants of the New 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 $12.6 million and $10.8 million at March 31, 2015 and December 31,

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Table of Contents

2014, respectively. The unused portions of these lines provided additional liquidity of $10.8 million at March 31, 2015, and $9.3 million at December 31, 2014.

8. Financial Instruments

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

	March 31, 2015				
	Carrying	Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Cash and cash equivalents	$ 105,175	$ 105,175	$ 105,175	$ —	$ —
Loans payable	(2,169)	(2,169)	—	(2,169)	—
Term loan facility	(298,500)	(310,235)	—	(310,235)	—
Other long-term notes payable	(3,108)	(2,538)	—	(2,538)	—
Foreign currency forward contracts, net	1,703	1,703	—	1,703	—

	December 31, 2014				
	Carrying	Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Cash and cash equivalents	$ 140,500	$ 140,500	$ 140,500	$ —	$ —
Loans payable	(4,284)	(4,284)	—	(4,284)	—
Term loan facility	(299,250)	(310,453)	—	(310,453)	—
Other long-term notes payable	(3,504)	(2,861)	—	(2,861)	—
Foreign currency forward contracts, net	713	713	—	713	—

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 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.

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 $1.7 million and $1.3 million in the three months ended March 31, 2015 and 2014, 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. We recognized net gains of $1.6 million and $2.4 million in the three months ended March 31, 2015, and 2014, respectively, arising from the change in fair value of our financial instruments, which offset the related net gains and losses on international trade transactions. The fair values of these contracts are based on market prices for comparable contracts. The notional amount of foreign currency forward contracts was $99.6 million at March 31, 2015, and $145.9 million at December 31, 2014.

The following table presents the effect on our condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014, respectively, of our foreign currency forward contracts:

Table of Contents

	Amount of Gain Recognized in Earnings Three Months Ended March 31,		Location of Gain in Earnings
	2015	2014	
	(Dollars in thousands)		
Foreign currency forward contracts	$ 1,645	$ 2,402	Foreign currency Losses, net

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

	March 31, 2015	December 31, 2014	Balance Sheet Location
	(Dollars in thousands)		
Asset derivatives:			
Foreign currency forward contracts	$ 1,750	$ 1,599	Other current assets
Liability derivatives:			
Foreign currency forward contracts	$ (47)	$ (886)	Accrued expenses and other current liabilities

9. Income Taxes

During the first three months of 2015, income tax expense was $2.5 million or 15.9% of pre-tax income, compared with $2.5 million, or 19.7% 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 and the net impact of the amount 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 attributes. Additionally, during the first quarter of 2015, the Company released a portion of its valuation allowance as a result of a first quarter acquisition, which resulted in a lower effective tax rate for the quarter.

10. Contingent Liabilities

We have recorded environmental liabilities of $9.0 million at March 31, 2015, and $10.1 million at December 31, 2014, for costs associated with the remediation of certain of our properties that have been contaminated. The balance at March 31, 2015, and December 31, 2014, was primarily comprised of liabilities related to a non-operating facility in Brazil, and for retained environmental obligations related to a site in the United States that was part of the sale of our North American and Asian metal powders product lines in 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 $7.1 million liability at March 31, 2015, and a $6.9 million liability at December 31, 2014.

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.

11. 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 March 31, 2015 and 2014, respectively, follow:

Table of Contents

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Benefit Plans	
	Three Months Ended March 31,					
	2015	2014	2015	2014	2015	2014
	(Dollars in thousands)					
Service cost	$ 5	$ 5	$ 391	$ 451	$ —	$ —
Interest cost	4,697	4,924	923	1,301	242	301
Expected return on plan assets	(7,291)	(7,034)	(674)	(797)	—	—
Amortization of prior service cost (credit)	3	3	15	15	—	(26)
Net periodic benefit (credit) cost	$ (2,586)	$ (2,102)	$ 655	$ 970	$ 242	$ 275

Net periodic benefit (credit) for our U.S. pension plans for the three months ended March 31, 2015, increased from the effects of larger plan asset balances resulting in increased expected returns in addition to the effect of a lower discount rate. Net periodic benefit cost for our non-U.S. pension plans decreased primarily due to the change in the discount rate. Net periodic benefit cost for our postretirement health care and life insurance benefit plans did not change significantly compared with the prior year.

12. Stock-Based Compensation

On May 22, 2013, our shareholders approved the 2013 Omnibus Incentive Plan (the "Plan"), which was adopted by the Board of Directors on February 22, 2013, subject to shareholder approval. The Plan's purpose is to promote the Company's long-term financial interests and growth by attracting, retaining and motivating high quality key employees and directors, motivating such employees and directors to achieve the Company's short- and long-range performance goals and objectives, thereby aligning their interests with those of its shareholders. The Plan reserves 4,400,000 shares of common stock to be issued for grants of several different types of long-term incentives including stock options, stock appreciation rights, restricted shares, performance shares, other common stock based awards, and dividend equivalent rights.

In the first quarter of 2015, our Board of Directors granted 0.2 million stock options, 0.2 million performance share units and 0.1 million deferred stock units under the Plan.

We estimate the fair value of each stock option on the date of grant using the Black-Scholes option pricing model. The following table details the weighted-average grant-date fair values and the assumptions used for estimating the fair values of stock option grants made during the three months ended March 31, 2015:

	Stock Options
Weighted-average grant-date fair value	$ 8.53
Expected life, in years	6.0
Risk-free interest rate	1.9 %
Expected volatility	80.1 %

The weighted average grant date fair value of our performance share units was $12.97. We measure the fair value of performance share units based on the closing market price of our common stock on the date of the grant. These shares are currently expensed at target and are evaluated each reporting period for likelihood of achieving the performance criteria.

We measure the fair value of deferred stock units based on the closing market price of our common stock on the date of the grant. The weighted-average fair value per unit for grants made during the three months ended March 31, 2015, was $12.33.

We recognized stock-based compensation expense of $2.1 million for the three months ended March 31, 2015, and $3.7 million for the three months ended March 31, 2014. At March 31, 2015, unearned compensation cost related to the unvested portion of all stock-based awards was approximately $10.7 million and is expected to be recognized over the remaining vesting period of the respective grants, through the first quarter of 2018.

Table of Contents

13. Restructuring and Cost Reduction Programs

In 2013, we initiated a Global Cost Reduction Program that was designed to address 3 key areas of the company - (1) business realignment, (2) operational efficiency and (3) corporate and back office functions. Business realignment was targeted at right-sizing our commercial management organizations globally. The operational efficiency component of the program was designed to improve the efficiency of our plant operations and supply chain. The corporate and back office initiative is principally comprised of work that we are doing with our strategic partners in the areas of finance and accounting and information technology outsourcing, and procurement. The cumulative charges incurred to date associated with these programs are $40.5 million. Total costs related to the program expected to be incurred are approximately $40.5 million. Total restructuring charges were $0.4 million and $4.4 million for the three months ended March 31, 2015 and March 31, 2014, respectively.

The activities and accruals related to our restructuring and cost reduction programs are summarized below:

	Employee Severance	Other Costs	Asset Impairment	Total
	(Dollars in thousands)			
Balances at December 31, 2014	$ 519	$ 937	$ —	$ 1,456
Restructuring charges	271	118	—	389
Cash payments	(659)	(487)	—	(1,146)
Non-cash items	(18)	(42)	—	(60)
Balances at March 31, 2015	$ 113	$ 526	$ —	$ 639

We expect to make cash payments to settle the remaining liability for employee termination benefits and other costs over the next twelve months, except where legal or contractual restrictions prevent us from doing so.

14. Earnings Per Share

Details of the calculation of basic and diluted earnings per share are shown below:

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands, except per share amounts)	
Basic earnings per share computation:		
Net income attributable to Ferro Corporation common shareholders	$ 10,970	$ 17,204
Adjustment for loss (income) from discontinued operations	3,956	(6,584)
Total	$ 14,926	$ 10,620
Weighted-average common shares outstanding	87,114	86,778
Basic earnings per share from continuing operations attributable to Ferro Corporation common shareholders	$ 0.17	$ 0.12
Diluted earnings per share computation:		
Net income attributable to Ferro Corporation common shareholders	$ 10,970	$ 17,204
Adjustment for loss (income) from discontinued operations	3,956	(6,584)
Total	$ 14,926	$ 10,620
Weighted-average common shares outstanding	87,114	86,778
Assumed exercise of stock options	422	454
Assumed satisfaction of deferred stock unit conditions	—	72
Assumed satisfaction of restricted stock unit conditions	236	179
Assumed satisfaction of performance stock unit conditions	526	507
Weighted-average diluted shares outstanding	88,298	87,990
Diluted earnings per share from continuing operations attributable to Ferro Corporation common shareholders	$ 0.17	$ 0.12

Table of Contents

The number of anti-dilutive or unearned shares was 1.5 million for the three months ended March 31, 2015, and 1.4 million for the three months ended March 31, 2014. These shares were excluded from the calculation of diluted earnings per share due to their anti-dilutive impact.

15. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component, net of tax, were as follows:

	Three Months Ended			
	Postretirement Benefit Liability Adjustments	Translation Adjustments	Other Adjustments	Total
	(Dollars in thousands)			
Balances at December 31, 2013	$ 1,942	$ 6,621	$ (70)	$ 8,493
Other comprehensive loss before reclassifications	—	(170)	—	(170)
Amounts reclassified from accumulated other comprehensive loss	(36)	—	—	(36)
Net current period other comprehensive loss	(36)	(170)	—	(206)
Balances at March 31, 2014	1,906	6,451	(70)	8,287
Balances at December 31, 2014	888	(22,623)	(70)	(21,805)
Other comprehensive loss before reclassifications	—	(36,658)	—	(36,658)
Amounts reclassified from accumulated other comprehensive income	16	—	—	16
Net current period other comprehensive loss	16	(36,658)	—	(36,642)
Balances at March 31, 2015	$ 904	$ (59,281)	$ (70)	$ (58,447)

16. Reporting for Segments

As discussed in Note 3, substantially all of the assets and liabilities of the Polymer Additives and the Specialty Plastics reportable segments were sold during 2014 and are included in discontinued operations in the condensed

consolidated statement of operations for the three months ended March 31, 2014. The retained assets and operations of the Specialty Plastics reportable segment, which includes the manufacturing facilities in Edison, New Jersey, and Venezuela, are reflected within our Pigments, Powders and Oxides and Performance Coatings reportable segments, respectively. All periods presented reflect these changes to the composition of our reportable segments.

Net sales to external customers by segment are presented in the table below. Sales between segments were not material.

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Performance Coatings	$ 136,786	$ 145,160
Performance Colors and Glass	99,464	103,370
Pigments, Powders and Oxides	26,522	32,197
Total net sales	$ 262,772	$ 280,727

Each segment’s gross profit and reconciliations to income before income taxes are presented in the table below:

Table of Contents

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Performance Coatings	$ 28,875	$ 33,417
Performance Colors and Glass	34,489	34,372
Pigments, Powders and Oxides	7,854	7,542
Other cost of sales	(583)	(378)
Total gross profit	70,635	74,953
Selling, general and administrative expenses	49,456	51,369
Restructuring and impairment charges		