FERRO CORP
Form 10-Q
August 04, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

or

o **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 of Corporation)	(IRS Employer Identification No.)
1000 Lakeside Avenue	**44114**
Cleveland, OH	(Zip Code)
(Address of Principal executive offices)	

216-641-8580
(Telephone Number)

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 þ NO o

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 o NO o

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

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

At July 31, 2009, there were 44,950,184 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 Consolidated Subsidiaries
Condensed Consolidated Statements of Operations

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
	(Dollars in thousands, except per share amounts)			
Net sales	$ 399,277	$ 631,976	$ 757,086	$ 1,222,814
Cost of sales	334,048	513,002	636,611	994,575
Gross profit	65,229	118,974	120,475	228,239
Selling, general and administrative expenses	62,480	79,724	130,608	157,300
Restructuring charges	(309)	9,031	1,089	13,238
Other expense (income):				
Interest expense	17,190	12,768	28,364	26,323
Interest earned	(205)	(142)	(473)	(271)
Foreign currency losses (gains), net	1,100	650	2,929	(891)
Miscellaneous expense, net	321	1,554	854	2,994
(Loss) income before income taxes	(15,348)	15,389	(42,896)	29,546
Income tax (benefit) expense	(4,276)	7,188	(12,095)	13,414
(Loss) income from continuing operations	(11,072)	8,201	(30,801)	16,132
Income from discontinued operations, net of income taxes		1,683		3,327
(Loss) gain on disposal of discontinued operations, net of income taxes	(116)	9	(358)	(16)
Net (loss) income	(11,188)	9,893	(31,159)	19,443
Less: Net income attributable to noncontrolling interests	620	528	984	938
Net (loss) income attributable to Ferro Corporation	(11,808)	9,365	(32,143)	18,505
Dividends on preferred stock	(199)	(223)	(370)	(450)
Net (loss) income attributable to Ferro Corporation common shareholders	$ (12,007)	$ 9,142	$ (32,513)	$ 18,055
Amounts attributable to Ferro Corporation:				
(Loss) income from continuing operations, net of tax	$ (11,692)	$ 7,673	$ (31,785)	$ 15,194
(Loss) income from discontinued operations, net of tax	(116)	1,692	(358)	3,311
	$ (11,808)	$ 9,365	$ (32,143)	$ 18,505

Per common share data

Basic and diluted (loss) earnings attributable to Ferro Corporation common shareholders:								
From continuing operations	$	(0.27)	$	0.17	$	(0.72)	$	0.34
From discontinued operations		0.00		0.04		(0.01)		0.08
	$	(0.27)	$	0.21	$	(0.73)	$	0.42
Cash dividends declared	$	0.00	$	0.145	$	0.01	$	0.29

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Consolidated Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2009	December 31, 2008
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,492	$ 10,191
Accounts and trade notes receivable, net	292,617	296,423
Inventories	179,541	256,411
Deposits for precious metals	80,426	
Deferred income taxes	18,492	19,167
Other receivables	47,509	58,391
Other current assets	9,780	8,306
Total current assets	645,857	648,889
Other assets		
Property, plant and equipment, net	444,084	456,549
Goodwill	230,628	229,665
Amortizable intangible assets, net	11,265	11,753
Deferred income taxes	132,241	134,361
Other non-current assets	67,442	62,900
Total assets	$ 1,531,517	$ 1,544,117
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	$ 37,979	$ 8,883
Accounts payable	188,172	232,113
Income taxes	9,310	14,361
Accrued payrolls	17,448	18,695
Accrued expenses and other current liabilities	65,813	83,012
Total current liabilities	318,722	357,064
Other liabilities		
Long-term debt, less current portion	612,768	561,613
Postretirement and pension liabilities	226,431	221,110
Deferred income taxes	7,524	13,011
Other non-current liabilities	32,148	34,047
Total liabilities	1,197,593	1,186,845
Series A convertible preferred stock (approximates redemption value)	9,660	11,548
Shareholders equity		
Ferro Corporation shareholders equity:		
Common stock	52,323	52,323
Paid-in capital	156,126	178,420
Retained earnings	368,407	401,186

Accumulated other comprehensive loss	(90,114)	(98,436)
Common shares in treasury, at cost	(171,938)	(197,524)
Total Ferro Corporation shareholders equity	314,804	335,969
Noncontrolling interests	9,460	9,755
Total equity	324,264	345,724
Total liabilities and shareholders equity	$ 1,531,517	$ 1,544,117

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Consolidated Subsidiaries
Condensed Consolidated Statement of Shareholders Equity and Comprehensive Income (Loss)

	Ferro Corporation Shareholders							
	Common Shares in Treasury Shares	Common Shares in Treasury Amount	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (a)	Non-controlling Interests	Total Equity
	(In thousands, except per share data)							
Balances at December 31, 2007	8,753	$ (202,855)	$ 52,323	$ 166,391	$ 468,190	$ (7,765)	$ 9,896	$ 486,180
Net income					18,505		938	19,443
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustment						21,247	284	21,531
Postretirement benefit liability adjustments						(414)		(414)
Raw material commodity swap adjustments						455		455
Interest rate swap adjustments						606		606
Total comprehensive income								41,621
Cash dividends:								
Common					(12,586)			(12,586)
Preferred					(450)			(450)
Income tax expense				21				21
Stock-based compensation transactions	(149)	2,331		(444)				1,887
Distributions to noncontrolling interests							(1,130)	(1,130)
Adjustment to initially apply FAS No. 158 as of January 1, 2008					(505)	366		(139)

Balances at June 30, 2008	8,604	$ (200,524)	$ 52,323	$ 165,968	$ 473,154	$ 14,495	$ 9,988	$ 515,404
Balances at December 31, 2008	8,432	$ (197,524)	$ 52,323	$ 178,420	$ 401,186	$ (98,436)	$ 9,755	$ 345,724
Net (loss) income					(32,143)		984	(31,159)
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustment						4,977	(4)	4,973
Postretirement benefit liability adjustments						661		661
Raw material commodity swap adjustments						559		559
Interest rate swap adjustments						2,125		2,125
Total comprehensive loss								(22,841)
Cash dividends:								
Common					(437)			(437)
Preferred					(199)			(199)
Income tax expense				1				1
Stock-based compensation transactions	(1,059)	25,586		(22,295)				3,291
Distributions to noncontrolling interests							(1,275)	(1,275)
Balances at June 30, 2009	7,373	$ (171,938)	$ 52,323	$ 156,126	$ 368,407	$ (90,114)	$ 9,460	$ 324,264

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Consolidated Subsidiaries
Condensed Consolidated Statements of Cash Flows

	Six months ended June 30,	
	2009	2008
	(Dollars in thousands)	
Cash flows from operating activities		
Net (loss) income	$ (31,159)	$ 19,443
Depreciation and amortization	41,353	36,575
Precious metals deposits	(80,426)	
Accounts and trade notes receivable	3,743	(19,184)
Inventories	75,512	(41,832)
Accounts payable	(37,894)	9,735
Other changes in current assets and liabilities, net	(15,781)	15,672
Other adjustments, net	4,527	(14,057)
Net cash (used for) provided by continuing operations	(40,125)	6,352
Net cash (used for) provided by discontinued operations	(361)	341
Net cash (used for) provided by operating activities	(40,486)	6,693
Cash flows from investing activities		
Capital expenditures for property, plant and equipment of continuing operations	(22,969)	(32,997)
Capital expenditures for property, plant and equipment of discontinued operations		(1,575)
Proceeds from sale of assets and businesses	72	646
Net cash used for investing activities	(22,897)	(33,926)
Cash flows from financing activities		
Net borrowings under short-term facilities	28,945	3,478
Proceeds from revolving credit facility	434,624	430,347
Principal payments on revolving credit facility	(384,727)	(380,074)
Principal payments on term loan facility	(1,525)	(7,927)
Debt issue costs	(9,367)	
Cash dividends paid	(636)	(13,036)
Other financing activities	2,135	(4,238)
Net cash provided by financing activities	69,449	28,550
Effect of exchange rate changes on cash and cash equivalents	1,235	48
Increase in cash and cash equivalents	7,301	1,365
Cash and cash equivalents at beginning of period	10,191	12,025
Cash and cash equivalents at end of period	$ 17,492	$ 13,390
Cash paid during the period for:		
Interest	$ 25,792	$ 26,493
Income taxes	$ 5,635	$ 5,243

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Consolidated Subsidiaries
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

Ferro Corporation (Ferro, we, us or the Company) prepared these unaudited condensed consolidated financial statements of Ferro Corporation and its consolidated subsidiaries in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and, therefore, 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, 2008. The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the timing and amount of assets, liabilities, equity, revenues and expenses reported and disclosed. Actual amounts could differ from our estimates, resulting in changes in revenues or costs that could have a material impact on the Company s results of operations, financial position, or cash flows. In our opinion, we made all adjustments that are necessary for a fair presentation, and those adjustments are of a normal recurring nature unless otherwise noted. Due to differing business conditions, our various initiatives, and some seasonality, the results for the three and six months ended June 30, 2009, are not necessarily indicative of the results expected in subsequent quarters or for the full year. We evaluated subsequent events through August 4, 2009, when the financial statements were issued.

2. Accounting Standards Adopted in the Six Months Ended June 30, 2009

On January 1, 2009, we adopted Financial Accounting Standards Board (FASB) Statement No. 141(R), *Business Combinations*, (FAS No. 141(R)) and FASB Staff Position (FSP) No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise From Contingencies*. These statements require more acquired assets and assumed liabilities to be measured at fair value as of the acquisition date, liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period, and all acquisition-related costs in preacquisition periods to be expensed. We will apply these standards to any business combination beginning in 2009 and therefore, adoption of these standards did not have an effect on our consolidated financial statements.

On January 1, 2009, we adopted Emerging Issues Task Force (EITF) Issue No. 08-7, *Accounting for Defensive Intangible Assets*, (EITF No. 08-7). This pronouncement requires us to prospectively account for an acquired defensive asset as a separate unit of accounting and assign it a useful life based on the period during which the asset would diminish in value. With our adoption of FAS No. 141(R) also on January 1, 2009, we will assign an acquired defensive asset a fair value based on what a willing market participant would pay for such an asset and amortize it over the time period that a market participant would derive cash flows from the asset. Impairment testing will be performed on defensive assets with finite lives under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and those with infinite lives under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (FAS No. 142). We will apply this standard to any business combination or any acquisition of a defensive asset beginning in 2009 and therefore, the adoption of EITF No. 08-7 did not have an effect on our consolidated financial statements.

On January 1, 2009, we adopted FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP No. FAS 142-3). This pronouncement prospectively amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142. We amended our policies to establish the useful life of intangible assets considering the period of expected cash flows to be received from the intangible asset based on the expected use of the asset and our historical experience in renewing or extending similar arrangements. In the absence of that experience, we consider the assumptions that market participants would use about renewal or extension consistent with the highest and best use of the asset by market participants. Annually, we will disclose our accounting policy for costs incurred to extend or renew recognized intangible assets and the weighted-average period prior to the next renewal or extension by major intangible class. Adoption of FSP No. FAS 142-3 did not have a material effect on our consolidated financial statements.

On January 1, 2009, we adopted FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*, (FAS No. 160). Under this statement, noncontrolling interests (e.g., minority interests) in subsidiaries are measured initially at fair value and classified as a separate component of equity and the amount of net income attributable to noncontrolling interests is included in consolidated net income. FAS No. 160 requires entities to apply the measurement requirements prospectively and to apply the presentation and disclosure requirements retrospectively to comparative financial statements. As a result, we classified minority interests in consolidated subsidiaries of $9.5 million at June 30, 2009, and $9.8 million at December 31, 2008, in equity, and included net income attributable to minority interests of $0.6 million and $0.5 million for the three months ended June 30, 2009 and 2008, respectively, and $1.0 million and $0.9 million for the six months ended June 30, 2009 and 2008, respectively, in consolidated net income.

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On January 1, 2009, we adopted FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. This Statement requires enhanced disclosures about an entity s derivative and hedging activities and encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The additional disclosures about our derivative and hedging activities did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, (FSP No. APB 14-1). This pronouncement specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. APB 14-1 is to be applied retrospectively. As a result, the carrying value of the liability component of the 6.50% Convertible Senior Notes was reduced by $17.4 million and $19.0 million at June 30, 2009, and December 31, 2008, respectively. Related deferred tax liabilities were increased by $7.0 million and $7.0 million, paid-in capital was increased by $12.4 million and $12.4 million and retained earnings was decreased by $1.7 million and $0.7 million at June 30, 2009, and December 31, 2008, respectively. Loss from continuing operations was increased by $0.5 million and 1.0 million, net loss was increased by $0.5 million and $1.0 million, and basic and diluted loss per share was increased by $0.01 and $0.02 for the three and six months ended June 30, 2009, respectively.

On January 1, 2009, we adopted EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity s Own Stock*, (EITF No. 07-5), which supersedes EITF No. 01-6, *The Meaning of Indexed to a Company s Own Sto*