FERRO CORP
Form 10-Q
October 25, 2010

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 September 30, 2010

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	
Cleveland, OH	**44114**
(Address of Principal executive offices)	(Zip Code)

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 o	Accelerated filer þ	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 September 30, 2010, there were 86,182,577 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 September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(Dollars in thousands, except per share amounts)			
Net sales	$ 528,564	$ 442,089	$ 1,564,914	$ 1,199,175
Cost of sales	408,268	348,920	1,215,354	985,531
Gross profit	120,296	93,169	349,560	213,644
Selling, general and administrative expenses	74,835	65,918	215,635	196,526
Restructuring and impairment charges	9,570	11,067	44,107	12,156
Other expense (income):				
Interest expense	10,519	17,891	37,196	46,255
Interest earned	(78)	(216)	(542)	(689)
Losses on extinguishment of debt	19,331		19,331	
Foreign currency losses, net	398	104	3,644	3,033
Miscellaneous expense (income), net	7,345	(655)	2,523	199
(Loss) income before income taxes	(1,624)	(940)	27,666	(43,836)
Income tax expense (benefit)	738	(3,749)	23,246	(15,844)
(Loss) income from continuing operations	(2,362)	2,809	4,420	(27,992)
Income (loss) on disposal of discontinued operations, net of income taxes		36		(322)
Net (loss) income	(2,362)	2,845	4,420	(28,314)
Less: Net income attributable to noncontrolling interests	983	728	733	1,712
Net (loss) income attributable to Ferro Corporation	(3,345)	2,117	3,687	(30,026)
Dividends on preferred stock	(165)	(168)	(495)	(538)
Net (loss) income attributable to Ferro Corporation common shareholders	$ (3,510)	$ 1,949	$ 3,192	$ (30,564)
Amounts attributable to Ferro Corporation:				
(Loss) income from continuing operations, net of tax	$ (3,345)	$ 2,081	$ 3,687	$ (29,704)
Income (loss) from discontinued operations, net of tax		36		(322)
	$ (3,345)	$ 2,117	$ 3,687	$ (30,026)

Per common share data								
Basic and diluted income (loss) attributable to Ferro Corporation common shareholders:								
From continuing operations	$	(0.04)	$	0.04	$	0.04	$	(0.68)
From discontinued operations								(0.01)
	$	(0.04)	$	0.04	$	0.04	$	(0.69)
Cash dividends declared	$		$		$		$	0.01

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Consolidated Subsidiaries
Condensed Consolidated Balance Sheets

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 65,356	$ 18,507
Accounts and trade notes receivable, net	334,298	285,638
Inventories	211,892	180,700
Deposits for precious metals		112,434
Deferred income taxes	20,888	19,618
Other receivables	29,583	27,795
Other current assets	9,431	7,180
Total current assets	671,448	651,872
Other assets		
Property, plant and equipment, net	384,471	432,405
Goodwill	216,701	221,044
Amortizable intangible assets, net	12,883	10,610
Deferred income taxes	135,749	133,705
Other non-current assets	73,922	76,719
Total assets	$ 1,495,174	$ 1,526,355
LIABILITIES AND EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	$ 1,646	$ 24,737
Accounts payable	225,774	196,038
Income taxes	16,916	7,241
Accrued payrolls	35,766	20,894
Accrued expenses and other current liabilities	93,127	72,039
Total current liabilities	373,229	320,949
Other liabilities		
Long-term debt, less current portion	323,924	398,720
Postretirement and pension liabilities	198,632	203,743
Deferred income taxes	3,550	1,124
Other non-current liabilities	22,028	31,897
Total liabilities	921,363	956,433
Series A convertible preferred stock (approximates redemption value)	9,427	9,427
Equity		
Ferro Corporation shareholders equity:		
Common stock	93,436	93,436
Paid-in capital	326,333	331,376
Retained earnings	360,320	357,128

Accumulated other comprehensive loss	(59,619)	(60,147)
Common shares in treasury, at cost	(166,662)	(171,567)
Total Ferro Corporation shareholders equity	553,808	550,226
Noncontrolling interests	10,576	10,269
Total equity	564,384	560,495
Total liabilities and equity	$ 1,495,174	$ 1,526,355

See accompanying notes to condensed consolidated financial statements.

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

	Ferro Corporation Shareholders							
	Common Shares in Treasury					Accumulated Other Comprehensive	Non-	
	Shares	Amount	Common Stock	Paid-in Capital	Retained Earnings	Income (Loss)	controlling Interests	Total Equity
	(In thousands)							
Balances at December 31, 2008	8,432	$ (197,524)	$ 52,323	$ 178,420	$ 401,186	$ (98,436)	$ 9,755	$ 345,724
Net (loss) income					(30,026)		1,712	(28,314)
Other comprehensive income (loss), net of tax:								
Foreign currency translation						17,541	(1)	17,540
Postretirement benefit liabilities						163		163
Raw material commodity swaps						577		577
Interest rate swaps						1,527		1,527
Total comprehensive loss								(8,507)
Cash dividends:								
Common					(437)			(437)
Preferred					(199)			(199)
Income tax benefit				1				1
Stock-based compensation transactions	(1,038)	25,610		(21,916)				3,694
Distributions to noncontrolling interests							(2,036)	(2,036)
Balances at September 30, 2009	7,394	$ (171,914)	$ 52,323	$ 156,505	$ 370,524	$ (78,628)	$ 9,430	$ 338,240
Balances at December 31, 2009	7,375	$ (171,567)	$ 93,436	$ 331,376	$ 357,128	$ (60,147)	$ 10,269	$ 560,495
Net income					3,687		733	4,420
Other comprehensive income (loss), net of tax:								
Foreign currency translation						(1,319)	101	(1,218)
						(4,167)		(4,167)

Postretirement benefit liabilities								
Raw material commodity swaps						(107)		(107)
Interest rate swaps						6,121		6,121
Total comprehensive loss								5,049
Cash dividends:								
Preferred					(495)			(495)
Income tax benefit				11				11
Redemption of Convertible Notes				(3,025)				(3,025)
Stock-based compensation transactions	(122)	4,905		(2,029)				2,876
Distributions to noncontrolling interests							(527)	(527)
Balances at September 30, 2010	7,253	$ (166,662)	$ 93,436	$ 326,333	$ 360,320	$ (59,619)	$ 10,576	$ 564,384

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Consolidated Subsidiaries
Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30, 2010	2009
	(Dollars in thousands)	
Cash flows from operating activities		
Net cash provided by (used for) operating activities	$ 180,455	$ (5,769)
Cash flows from investing activities		
Capital expenditures for property, plant and equipment	(27,733)	(30,704)
Proceeds from business combination	5,887	
Proceeds from sale of assets	7,425	104
Dividends received from affiliates	139	169
Net cash used for investing activities	(14,282)	(30,431)
Cash flows from financing activities		
Net (repayments) borrowings under loans payable	(22,500)	29,128
Proceeds from Senior Notes	250,000	
Proceeds from revolving credit facility	23,350	
Proceeds from former revolving credit facility	303,390	561,624
Principal payments on revolving credit facility	(23,350)	
Principal payments on former revolving credit facility	(229,590)	(542,027)
Principal payments on term loan facility	(83,562)	(2,287)
Extinguishment of debt	(326,687)	
Debt issue costs	(10,460)	(9,367)
Cash dividends paid	(495)	(636)
Other financing activities	(788)	748
Net cash (used for) provided by financing activities	(120,692)	37,183
Effect of exchange rate changes on cash and cash equivalents	1,368	3,097
Increase in cash and cash equivalents	46,849	4,080
Cash and cash equivalents at beginning of period	18,507	10,191
Cash and cash equivalents at end of period	$ 65,356	$ 14,271
Cash paid during the period for:		
Interest	$ 30,291	$ 37,985
Income taxes	15,723	8,221

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, 2009. 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. 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 nine months ended September 30, 2010, are not necessarily indicative of the results expected in subsequent quarters or for the full year. We combined the captions for impairment charges and restructuring charges in the prior-period statements of operations to conform the presentation to the current period.

2. Accounting Standards Adopted in the Nine Months Ended September 30, 2010

On January 1, 2010, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-16, *Accounting for Transfers of Financial Assets*, (ASU 2009-16), which is codified in *FASB Accounting Standards Codification™* (ASC) Topic 860, Transfers and Servicing. This pronouncement provides guidance for derecognition of transferred financial assets. Adoption of ASU 2009-16 had no effect on our consolidated financial statements.

On January 1, 2010, we adopted ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, (ASU 2009-17), which is codified in ASC Topic 810, Consolidations. This pronouncement amends the consolidation guidance that applies to variable interest entities. Adoption of ASU 2009-17 did not have a material effect on our consolidated financial statements.

On January 1, 2010, we adopted most of the provisions of ASU 2010-06, *Improving Disclosures About Fair Value Measurements*, (ASU 2010-06), which is codified in ASC Topic 820, Fair Value Measurements, and Topic 715, Compensation Retirement Benefits. The remaining provisions will be effective for our fiscal year that begins January 1, 2011. This pronouncement expands disclosures about fair value measurements. Adoption of ASU 2010-06 did not and will not have a material effect on our consolidated financial statements.

3. Newly Issued Accounting Pronouncements

In October 2009, the FASB issued ASU 2009-13, *Multiple Deliverable Revenue Arrangements*, (ASU 2009-13), which applies to all deliverables in contractual arrangements in which a vendor will perform multiple revenue-generating activities. In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition Milestone Method*, (ASU 2010-17), which defines a milestone and determines when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. These pronouncements are codified in ASC Topic 605, Revenue Recognition, and will be effective for our fiscal year that begins January 1, 2011. These pronouncements may be applied prospectively or retrospectively, and early adoption is permitted. We are evaluating the impact that adoption of ASU 2009-13 and ASU 2010-17 may have on our consolidated financial statements.

4. Inventories
Inventories consisted of the following:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Raw materials	$ 66,875	$ 54,481
Work in process	43,362	37,449
Finished goods	101,655	88,770
Total	$ 211,892	$ 180,700

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 $1.3 million and $0.9 million for the three months ended September 30, 2010 and 2009, respectively, and $3.7 million and $3.4 million for the nine months ended September 30, 2010 and 2009, respectively, and were charged to cost of sales. We had on hand precious metals owned by participants in our precious metals program of $136.9 million at September 30, 2010, and $101.4 million at December 31, 2009, measured at fair value based on market prices for identical assets. In 2009, several participants in our precious metals program renewed their requirement for us to deliver cash collateral to secure our obligations arising under the consignment agreements. At December 31, 2009, we had delivered $112.4 million in cash collateral to those financial institutions. At September 30, 2010, cash collateral required under the consignment agreements was $-0-.

5. Property, Plant and Equipment
Property, plant and equipment is reported net of accumulated depreciation of $610.3 million at September 30, 2010, and $643.9 million at December 31, 2009. Unpaid capital expenditure liabilities, which are noncash investing activities, were $7.1 million at September 30, 2010, and $8.8 million at September 30, 2009.

In the first quarter of 2010, we discontinued manufacturing activities at our Limoges, France, plant, which indicated a possible impairment of the plant s real estate assets. We estimated the fair value of these assets at $4.0 million based upon a third-party purchase offer (a Level 3 measurement within the fair value hierarchy) and recorded $2.2 million of restructuring and impairment charges.

In the second quarter of 2010, we initiated restructuring activities at our Uden, Netherlands, facility. The restructuring action and planned closure of this facility indicated a possible impairment of the facility s property, plant and equipment. We estimated the fair value of these assets primarily based on third-party appraisals (a Level 3 measurement within the fair value hierarchy) and recorded $2.3 million of restructuring and impairment charges.

In the third quarter of 2010, we commenced a plan to sell the property, plant and equipment at our Toccoa, Georgia, facility. The plan to sell this facility indicated a possible impairment of these assets. We estimated the fair value of these assets primarily based on third-party appraisals (a Level 3 measurement within the fair value hierarchy) and recorded $2.2 million of restructuring and impairment charges. We classified these assets as held for sale and measured them at fair value less costs to sell.

In the third quarter of 2010, as part of the restructuring programs initiated in the Netherlands, we sold the property, plant and equipment at our Specialty Plastics facility in Rotterdam, Netherlands. As a result, we recorded a gain of $2.4 million in restructuring and impairment charges. We also sold a portion of the property, plant and equipment at our Uden, Netherlands, facility. As a result, we recorded a loss of $1.7 million in restructuring and impairment charges, classified the remaining assets as held for sale, and measured them at fair value less costs to sell. We estimated the fair value of these assets primarily based on third-party appraisals (a Level 3 measurement within the fair value hierarchy).

At September 30, 2010, we had assets held for sale totaling $9.5 million and classified as other non-current assets. These assets are primarily land and building at our Toccoa, Georgia, facility; the Porcelain Enamel facility in Rotterdam, Netherlands; and the remaining portion of our Uden, Netherlands, facility.

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6. Financing and Long-term Debt

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

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Loans payable to banks	$ 693	$ 5,891
Accounts receivable asset securitization program		17,762
Current portion of long-term debt	953	1,084
Total	$ 1,646	$ 24,737

Long-term debt consisted of the following:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
7.875% Senior Notes	$ 250,000	$
6.50% Convertible Senior Notes, net of unamortized discounts	66,426	156,896
Former revolving credit facility		1,700
Former term loan facility		231,385
Capitalized lease obligations	4,902	5,669
Other notes	3,549	4,154
	324,877	399,804
Less current portion	(953)	(1,084)
Total	$ 323,924	$ 398,720

7.875% Senior Notes

In August 2010, we issued $250 million of 7.875% Senior Notes due 2018 (the Senior Notes). We used portions of the proceeds from the offering to repay all of the remaining term loans and revolving borrowings outstanding under a credit facility originally entered into in 2006 and as amended and restated through November 2009 (the 2009 Amended and Restated Credit Facility). We also used portions of the proceeds from the offering to repurchase the 6.50% Convertible Senior Notes (the Convertible Notes) that were tendered pursuant to a related tender offer. The Senior Notes were issued at par and bear interest at a rate of 7.875% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning February 15, 2011.

The Senior Notes mature on August 15, 2018. We may redeem some or all of the Senior Notes beginning August 15, 2014, at prices ranging from 100% to 103.938% of the principal amount. In addition, through August 15, 2013, we may redeem up to 35% of the Senior Notes at a price equal to 107.875% of the principal amount using proceeds of certain equity offerings. We may also redeem some or all of the Senior Notes prior to August 15, 2014, at a price equal to the principal amount plus a defined Applicable Premium. The definition can be found in the indenture governing the Senior Notes, which was filed as Exhibit 4.1 to our Current Report on Form 8-K dated August 24, 2010. The Senior Notes do not contain any financial covenants. However, the Senior Notes do contain certain affirmative and negative covenants customary for high-yield debt securities, including, without limitation, restrictions on our ability to incur debt, create liens, pay dividends or make other distributions or repurchase our common stock and sell assets outside the ordinary course of business.

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6.50% Convertible Senior Notes

In July 2010, we commenced a cash tender offer to purchase all of our Convertible Notes. In August 2010, we purchased $100.5 million of the Convertible Notes, which were tendered pursuant to the offer. In September 2010, we purchased $0.3 million of the Convertible Notes on the open market. In connection with these transactions, we recognized a loss on extinguishment of debt of $9.4 million consisting of unamortized fees and the difference between the carrying value and the fair value of these notes. At par value, Convertible Notes outstanding totaled $71.7 million at September 30, 2010, and $172.5 million at December 31, 2009.

2009 Amended and Restated Credit Facility

Our 2009 Amended and Restated Credit Facility included a senior term loan facility and a senior revolving credit facility. In June 2010, we made an early principal payment of $50 million on our outstanding term loans and wrote off $1.5 million of related unamortized fees to interest expense. In August 2010, we made another early principal payment of $33.6 million on our outstanding term loans and wrote off $0.8 million of related unamortized fees to interest expense. Also in August 2010, we amended the 2009 Amended and Restated Credit Facility and paid the remaining $147.8 million on our outstanding term loans and the remaining $75.5 million on our outstanding revolving borrowings. We treated the amendment as an extinguishment of the 2009 Amended and Restated Credit Facility and recognized losses on extinguishment of debt of $9.9 million, consisting of unamortized fees related to this facility.

2010 Credit Facility

In August 2010, we entered into the Third Amended and Restated Credit Agreement with a group of lenders for a five-year, $350 million multi-currency senior revolving credit facility (the 2010 Credit Facility). At September 30, 2010, there were no borrowings under this facility. The 2010 Credit Facility matures on August 24, 2015, and is secured by substantially all of Ferro s assets. We are subject to a number of restrictive covenants under this facility. These covenants include requirements for a minimum fixed charge coverage ratio and a maximum leverage ratio. Definitions of the covenants and our required performance can be found in our 2010 Credit Facility, which was filed as Exhibit 10.1 to our Current Report on Form 8-K dated August 24, 2010.

Receivable Sales Programs

We have an asset securitization program for Ferro s U.S. trade accounts receivable. In June 2010, we extended the maturity of that facility through May 2011. We maintain several off balance sheet international programs to sell trade accounts receivable to financial institutions. Ferro had received net proceeds under the international programs of $2.8 million at September 30, 2010, and $10.3 million at December 31, 2009, for outstanding receivables.

7. Financial Instruments

The carrying amounts of the following assets and liabilities meeting the definition of a financial instrument approximate their fair values due to the short period to maturity of the instruments:

- Cash and cash equivalents;
- Notes receivable;
- Deposits;
- Miscellaneous receivables; and
- Short-term loans payable to banks.

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Long-term Debt

The following financial instruments are measured at fair value for disclosure purposes:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
7.875% Senior Notes	$ 250,000	$ 260,000	$	$
6.50% Convertible Senior Notes, net of unamortized discounts	66,426	71,387	156,896	157,191
Former revolving credit facility			1,700	1,747
Former term loan facility			231,385	237,047
Other notes	3,549	2,626	4,154	3,084

The fair values of the Senior Notes and the Convertible Notes are based on the price of the latest trade prior to the end of the period. The fair values of the former revolving credit facility, the former term loan facility, and the other long-term notes are based on the present value of expected future cash flows and assumptions about current interest rates and the creditworthiness of the Company that market participants would use in pricing the debt.

Derivative Instruments

All derivative instruments are recognized as either assets or liabilities at fair value. For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified from accumulated other comprehensive income (AOCI) into earnings when the hedged transaction affects earnings. For derivatives that are not designated as hedges, the gain or loss on the derivative is recognized in current earnings.

Interest rate swaps. To reduce our exposure to interest rate changes on variable-rate debt, we entered into interest rate swap agreements in 2007. These swaps effectively converted $150 million of our former variable-rate term loan facility to a fixed rate through June 2011. These swaps were designated and qualified as cash flow hedges. The fair value of these swaps was based on the present value of expected future cash flows, which reflected assumptions about current interest rates and the creditworthiness of the Company that market participants would use in pricing the swaps. In the third quarter of 2010, in conjunction with repayment of our remaining outstanding term loans, we settled these swaps and reclassified $6.8 million from accumulated other comprehensive income to miscellaneous expense.

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. The fair value of these contracts is based on market prices for comparable contracts. We had foreign currency forward contracts with a notional amount of $192.3 million at September 30, 2010, and $178.9 million at December 31, 2009.

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The following table presents the fair value of derivative instruments on our consolidated balance sheets:

	September 30, 2010	December 31, 2009	Balance Sheet Location
	(Dollars in thousands)		
Derivatives designated as hedging instruments:			
Liability derivatives:			
Interest rate swaps	$	$ (9,516)	Other non-current liabilities
Derivatives not designated as hedging instruments:			
Asset derivatives:			
Foreign currency forward contracts	$ 45	$	Accrued expenses and other current liabilities
		899	Other receivables
Total	$ 45	$ 899	
Liability derivatives:			
Foreign currency forward contracts	$ (4,800)	$	Accrued expenses and other current liabilities
		(176)	Other receivables
Total	$ (4,800)	$ (176)	

The inputs to the valuation techniques used to measure fair value are classified into the following categories:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.
The classifications within the fair value hierarchy of these financial instruments were as follows:

	September 30, 2010				December 31,
	Level 1	Level 2	Level 3	Total	2009
	(Dollars in thousands)				
Assets					
Foreign currency forward contracts	$	$ (4,755)	$	$ (4,755)	$ 723
Liabilities					
Interest rate swaps	$	$	$	$	$ (9,516)

The following table presents the effect of derivative instruments on our consolidated financial performance for the nine months ended September 30:

	Amount of Loss Recognized in OCI	Amount of Loss Reclassified from AOCI into Income	Location of Gain (Loss) Reclassified from

	2010	2009	2010	2009	AOCI into Income
		(Dollars in thousands)			
Derivatives in Cash Flow Hedging Relationships:					
Interest rate swaps			$ (4,885)	$ (5,080)	Interest expense
			(6,849)		Miscellaneous expense
Total	$ (2,218)	$ (2,708)	$ (11,734)	$ (5,080)	

	Amount of Gain (Loss) Recognized in Income 2010	2009	Location of Gain (Loss) in Income
	(Dollars in thousands)		
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward contracts	$ 3,020	$ (12,970)	Foreign currency losses, net

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8. Income Taxes

Income tax expense for the nine months ended September 30, 2010, was $23.2 million, or 84.0% of pre-tax income. In the prior-year period, we recorded an income tax benefit of $15.8 million, or 36.1% of pre-tax loss. The increase in the effective tax rate resulted primarily from a $1.5 million tax charge for the elimination of future tax deductions related to Medicare Part D subsidies as a result of The Patient Protection and Affordable Care Act signed into law in the U.S. during 2010, a charge of $1.8 million for valuation allowances on deferred assets in Italy, a $0.6 million charge to adjust tax expense to reflect actual taxes on 2009 tax returns filed in jurisdictions worldwide, and not recognizing a $10.3 million tax benefit on current losses incurred in jurisdictions with full valuation allowances. Going forward we will continue to monitor both positive and negative evidence in determining whether valuation allowances need to be established or released.

9. Contingent Liabilities

In May 2004, the Company was named in an indirect purchaser class action lawsuit seeking monetary damages and injunctive relief relating to alleged violations of the antitrust laws by the Company and others participating in the plastics additives industry. In August 2005, the Company was named in another indirect purchaser class action. In June 2008, the Company was named in four more indirect purchaser class action lawsuits. All of these cases contain similar allegations. The Company intends to vigorously defend these six civil actions, which are all in their early stages. As a result, the Company cannot determine the outcome of these lawsuits at this time.

There are various other lawsuits and claims pending against the Company and its consolidated subsidiaries. We do not currently expect the ultimate liabilities, if any, and expenses related to such lawsuits and claims to materially affect the consolidated financial position, results of operations, or cash flows of the Company.

10. Retirement Benefits

Information concerning net periodic benefit costs of our U.S. pension plans (including our unfunded nonqualified plans), non-U.S. pension plans, and postretirement health care and life insurance benefit plans for the three months ended September 30 is as follows:

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Benefit Plans	
	2010	2009	2010	2009	2010	2009
			(Dollars in thousands)			
Components of net periodic cost:						
Service cost	$ 3	$ 7	$ 833	$ 1,095	$	$ 4
Interest cost	5,098	5,235	2,387	2,743	607	719
Expected return on plan assets	(4,622)	(3,863)	(1,587)	(1,841)		
Amortization of prior service cost	24	24	(35)	(107)	251	(437)
Net amortization and deferral	2,561	3,845	189	274	(43)	
Curtailment and settlement effects			(180)			
Net periodic benefit cost	$ 3,064	$ 5,248	$ 1,607	$ 2,164	$ 815	$ 286

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Information concerning net periodic benefit costs 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 nine months ended September 30 is as follows:

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Benefit Plans	
	2010	2009	2010	2009	2010	2009
			(Dollars in thousands)			
Components of net periodic cost:						
Service cost	$ 17	$ 22	$ 2,549	$ 3,143	$	$ 11
Interest cost	15,410	15,707	7,639	7,839	1,821	2,158
Expected return on plan assets	(13,604)	(11,590)	(5,245)	(5,254)		
Amortization of prior service cost	72	73	(288)	(305)	(547)	(1,311)
Net amortization and deferral	9,473	11,535	529	780	(129)	
Curtailment and settlement effects			(4,745)			
Net periodic benefit cost	$ 11,368	$ 15,747	$ 439	$ 6,203	$ 1,145	$ 858

In the third quarter of 2010, we recognized $0.7 million of prior service cost amortization related to a temporary change in our postretirement health care benefit plan and a $0.2 million curtailment gain related to our restructuring activities in the Netherlands. In the second quarter of 2010, we recognized a $2.5 million curtailment gain related to our restructuring activities in the Netherlands, a $1.5 million settlement gain related to our restructuring activities in France, and a $0.2 million settlement loss related to the transfer of some pension obligations to another company in Germany. In the first quarter of 2010, we recognized a $0.7 million settlement gain due to the transfer of some pension obligations and related assets to a defined contribution plan in Japan. In addition, the improvement through December 2009 in the valuation of pension investments increased the amount of our expected return on plan assets and lowered the amount of amortization of our unrecognized net actuarial losses.

11. Stock-Based Compensation

On April 30, 2010, our shareholders approved the 2010 Long-Term Incentive Plan (the Plan), which was adopted by the Board of Directors on February 26, 2010, subject to such 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 and aligning their interests with those of its shareholders. The Plan reserves 5,000,000 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.

The 2006 Long-Term Incentive Plan (the Previous Plan) was replaced by the Plan, and no future grants may be made under the Previous Plan. However, any outstanding awards or grants made under the Previous Plan will continue until the end of their specified terms.

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The stock-based compensation transactions in equity consisted of the following for the nine months ended September 30, 2010:

	Common Shares in Treasury		Paid-in
	Shares	Amount	Capital
	(In thousands)		
Stock options	(99)	$ 2,438	$ (932)
Deferred stock units	(34)	832	(355)
Restricted shares	(107)	3,284	(2,579)
Performance shares, net	118	(1,045)	1,233
Directors deferred compensation		(604)	604
Preferred stock conversions			
Total	(122)	$ 4,905	$ (2,029)

12. Restructuring and Cost Reduction Programs

During the first nine months of 2010, we continued several restructuring programs and initiated new programs across a number of our business segments with the objectives of leveraging our global scale, realigning and lowering our cost structure and optimizing capacity utilization. To date, we have made substantial progress on these programs, including exiting manufacturing facilities and eliminating positions.

For the nine months ended September 30, 2010 and 2009, total charges resulting from these activities were $47.4 million and $7.8 million, respectively, of which $3.3 million and $3.9 million, respectively, were recorded in cost of sales as they relate to accelerated depreciation on assets to be disposed, and the remaining $44.1 million and $3.9 million, respectively, were reported as restructuring and impairment charges. Management continues to evaluate our business, and therefore, there may be supplemental provisions for new plan initiatives as well as changes in estimates to amounts previously recorded, as payments are made or actions are completed.

The following restructuring programs had significant activities in the nine months ended September 30, 2010:

Restructuring Program in Limoges, France

In the first quarter of 2009, we initiated restructuring activities at our Color and Glass Performance Materials facility in Limoges, France. We discontinued manufacturing in the first quarter of 2010 and expect to have substantially completed the restructuring activities in 2011, at which time the Limoges site will be closed.

We expect to record pre-tax charges of approximately $33 million related to these actions, including approximately $22 million for employee severance, $6 million in site cleanup and other costs, and $5 million in asset write-offs.

As of December 31, 2009, we had incurred $9.3 million in total charges, of which $0.6 million was recorded in cost of sales as accelerated depreciation on assets to be disposed and the remaining $8.7 million, including $6.9 million for employee severance and $1.8 million in other related costs, was recorded in restructuring and impairment charges.

During the nine months ended September 30, 2010, we incurred $14.8 million in total charges, of which $1.7 million was recorded in cost of sales as accelerated depreciation on assets to be disposed and the remaining $13.1 million, including $10.9 million for employee severance, $2.2 million for asset impairment, and $1.4 million in other exit costs, partially offset by a $1.4 million pension settlement credit, was recorded in restructuring and impairment charges.

Restructuring Program in Castanheira do Ribatejo, Portugal

In March 2010, we initiated restructuring activities at our Castanheira do Ribatejo facility in Portugal. We plan to discontinue by the end of 2010 manufacturing for our Specialty Plastics and portions of our Color and Glass Performance Materials businesses located at this facility. Certain production capacity will be transferred to other European locations.

In September 2010, we initiated additional restructuring activities at our Castanheira do Ribatejo facility in Portugal to discontinue the remaining Color and Glass Performance Materials manufacturing located at this facility. We plan to close the facility by the end of 2010. As of September 30, 2010, we had ceased all manufacturing at this location.

We expect to record pre-tax charges of approximately $22 million related to these actions, including approximately $11 million for employee severance, $6 million in asset write-offs, and $5 million in site cleanup and other costs. During the nine months ended September 30, 2010, we incurred $12.8 million in total charges, of which $0.2 million was recorded in cost of sales as accelerated depreciation on assets to be disposed and the remaining $12.6 million, including $9.4 million for employee severance, $1.7 million for asset impairment, and $1.5 million in other costs, was recorded in restructuring and impairment charges.

Restructuring Program in Rotterdam, Netherlands

In April 2010, we initiated additional restructuring actions to reduce costs related to our European Specialty Plastics manufacturing facility in Rotterdam, Netherlands. As of September 30, 2010, this restructuring program was substantially completed, since the manufacturing operation was consolidated into our existing operations in Almazora, Spain, and the property, plant, and equipment was sold.

In the nine months ended September 30, 2010, we incurred $1.2 million in total charges, of which $0.2 million was recorded in cost of sales as accelerated depreciation on assets to be disposed and the remaining $1.0 million, including $4.9 million for employee severance and $0.9 million for other costs, partially offset by a $2.4 million pension curtailment credit and a $2.4 million gain on sale of the assets, was recorded in restructuring and impairment charges.

Restructuring Program in Uden, Netherlands

In May 2010, after finalizing the consultation process with workers representatives, we initiated restructuring actions to reduce costs related to our European dielectrics manufacturing, which is part of our Electronic Materials business. As a result of this action, dialectics products that were manufactured in Uden, Netherlands, were transferred to other locations and the Uden plant was closed.

We expect to record pre-tax charges of approximately $14 million related to the actions, including approximately $7 million in employee severance, $2 million in site cleanup and other costs, and $5 million in asset write-offs. The restructuring actions are expected to be completed by the end of 2010.

In the nine months ended September 30, 2010, we incurred $12.7 million in total charges, of which $0.2 million was recorded in cost of sales as accelerated depreciation on assets to be disposed and the remaining $12.5 million, including $7.5 million for employee severance, $4.6 million for asset impairment, and $0.6 million for other costs, partially offset by a $0.2 million pension curtailment credit, was recorded in restructuring and impairment charges.

Restructuring Program in Toccoa, Georgia

In the third quarter of 2010, as a continuation of our restructuring activities previous announced in 2008, we commenced a plan to sell the property, plant and equipment at our Color and Glass Performance Materials facility in Toccoa, Georgia. The plan to sell this facility triggered an impairment of the carrying values of these assets. As a result, we recorded a $2.2 million asset impairment in restructuring and impairment charges.

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We have summarized the activities and accruals related to our restructuring and cost reduction programs below:

	Employee Severance	Other Costs	Asset Impairment	Total
	(Dollars in thousands)			
Balance at December 31, 2009	$ 3,081	$ 1,518	$	$ 4,599
Restructuring charges	34,273	(824)	10,658	44,107
Cash payments	(28,840)	(4,293)		(33,133)
Currency translation adjustment	529	49		578
Non-cash items		7,127	(10,658)	(3,531)
Balance at September 30, 2010	$ 9,043	$ 3,577	$	$ 12,620

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.

13. Per Share Amounts from Continuing Operations

Details of the calculation of basic and diluted income (loss) per share are shown below:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Basic income (loss) per share computation				
Net income (loss) attributable to Ferro Corporation common shareholders	$ (3,510)	$ 1,949	$ 3,192	$ (30,564)
Adjustment for (income) loss from discontinued operations		(36)		322
	$ (3,510)	$ 1,913	$ 3,192	$ (30,242)
Weighted-average common shares outstanding	85,805	44,711	85,808	44,593
Basic (loss) income per share from continuing operations attributable to Ferro Corporation common shareholders	$ (0.04)	$ 0.04	$ 0.04	$ (0.68)
Diluted income (loss) per share computation				
Net income (loss) attributable to Ferro Corporation common shareholders	$ (3,510)	$ 1,949	$ 3,192	$ (30,564)
Adjustment for (income) loss from discontinued operations		(36)		322
Plus: Convertible preferred stock				
	$ (3,510)	$ 1,913	$ 3,192	$ (30,242)
Weighted-average common shares outstanding	85,805	44,711	85,808	44,593
Assumed exercise of stock options		265	330	

Assumed satisfaction of deferred stock unit conditions		20	77	
Assumed satisfaction of restricted share conditions			324	
Assumed conversion of convertible notes				
Assumed conversion of convertible preferred stock				
Weighted-average diluted shares outstanding	85,805	44,996	86,539	44,593
Diluted (loss) income per share from continuing operations attributable to Ferro Corporation common shareholders	$ (0.04)	$ 0.04	$ 0.04	$ (0.68)

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14. Comprehensive Income (Loss)

The components of comprehensive income (loss) were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Net (loss) income	$ (2,362)	$ 2,845		