GLOBE SPECIALTY METALS INC
Form 10-Q
February 10, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

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

For the quarterly period ended December 31, 2013

Commission File Number 001-34420

Globe Specialty Metals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-2055624
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Penn Plaza
250 West 34th Street, Suite 4125
New York, NY 10119
(Address of principal executive offices, including zip code)

(212) 798-8122
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $0.0001 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

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 þ 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

As of February 5, 2014, the registrant had 74,414,018 shares of common stock outstanding.

Globe Specialty Metals, Inc.

PART I

Item 1. Financial Statements

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GLOBE SPECIALTY METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
December 31, 2013 and June 30, 2013
(In thousands, except share and per share amounts)
(Unaudited)

	December 31, 2013	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 158,564	169,676
Accounts receivable, net of allowance for doubtful accounts of $823 and $793 at December 31, 2013 and June 30, 2013, respectively	70,341	83,816
Inventories	88,562	101,197
Deferred tax assets	17,877	11,504
Prepaid expenses and other current assets	14,165	26,338
Total current assets	349,509	392,531
Property, plant, and equipment, net of accumulated depreciation, depletion and amortization	460,180	422,447
Deferred tax assets	125	125
Goodwill	43,343	43,177
Other intangible assets	477	477
Investments in unconsolidated affiliates	5,973	5,973
Other assets	4,385	6,893
Total assets	$ 863,992	871,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 40,832	41,039
Short-term debt	15	284
Revolving credit agreements	9,000	9,000
Stock compensation accrual	38,400	17,530
Accrued expenses and other current liabilities	42,783	31,356
Total current liabilities	131,030	99,209
Long-term liabilities:		
Revolving credit agreements	100,000	130,250
Deferred tax liabilities	45,541	37,375
Other long-term liabilities	52,712	58,709
Total liabilities	329,283	325,543
Commitments and contingencies (note 11)		
Stockholders' equity:		
Common stock, $0.0001 par value. Authorized, 150,000,000 shares; issued, 75,593,454 and 75,588,986 shares at December 31, 2013 and June 30, 2013, respectively	8	8
Additional paid-in capital	397,415	399,234

Retained earnings	66,893	70,628
Accumulated other comprehensive loss	(6,191)	(4,918)
Treasury stock at cost 697,678 and 282,437 shares at December 31, 2013 and June 30, 2013, respectively	(7,287)	(4)
Total Globe Specialty Metals, Inc. stockholders' equity	450,838	464,948
Noncontrolling interest	83,871	81,132
Total stockholders' equity	534,709	546,080
Total liabilities and stockholders' equity	$ 863,992	871,623

See accompanying notes to condensed consolidated financial statements.

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GLOBE SPECIALTY METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Income Statements
Three and six months ended December 31, 2013 and 2012
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Net sales	$ 178,406	179,940	$ 351,400	380,648
Cost of goods sold	150,713	148,331	302,993	316,971
Selling, general, and administrative expenses	26,499	9,053	51,637	46,773
Contract acquisition cost	14,400	—	14,400	—
Curtailment gain	(5,831)	—	(5,831)	—
Operating (loss) income	(7,375)	22,556	(11,799)	16,904
Other income (expense):				
Gain on remeasurement of equity investment	—	1,707	—	1,707
Bargain purchase gain	22,243	—	22,243	—
Interest income	4	217	132	388
Interest expense, net of capitalized interest	(1,050)	(1,826)	(5,928)	(3,342)
Foreign exchange loss	(728)	(1,632)	(1,109)	(1,087)
Other (expense) income	(3)	(13)	18	102
Income before (benefit from) provision for income taxes	13,091	21,009	3,557	14,672
(Benefit from) provision for income taxes	(3,207)	5,373	(5,916)	4,104
Net income	16,298	15,636	9,473	10,568
Income attributable to noncontrolling interest, net of tax	(2,825)	(568)	(2,852)	(1,205)
Net income attributable to Globe Specialty Metals, Inc.	$ 13,473	15,068	$ 6,621	9,363
Weighted average shares outstanding:				
Basic	75,267	75,174	75,289	75,112
Diluted	75,388	75,247	75,377	75,275
Earnings per common share:				
Basic	$ 0.18	0.20	$ 0.09	0.12
Diluted	0.18	0.20	0.09	0.12
Cash dividends declared per common share	0.07	0.19	0.14	0.25

See accompanying notes to condensed consolidated financial statements.

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GLOBE SPECIALTY METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income
Three and six months ended December 31, 2013 and 2012
(In thousands)
(Unaudited)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Net income	$16,298	15,636	$ 9,473	10,568
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(2,588)	(660)	(1,454)	1,565
Pension liability adjustment, net of tax expense of $18	68	—	68	—
Unrealized loss on available for sale securitites, net of tax	—	—	—	(1)
Total other comprehensive (loss) income	(2,520)	(660)	(1,386)	1,564
Comprehensive income	13,778	14,976	8,087	12,132
Comprehensive income (loss) attributable to noncontrolling interest	2,138	(28)	2,739	1,721
Comprehensive income attributable to Globe Specialty Metals, Inc.	$11,640	15,004	$ 5,348	10,411

See accompanying notes to condensed consolidated financial statements.

GLOBE SPECIALTY METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders' Equity
Six months ended December 31, 2013 and 2012
(In thousands)
(Unaudited)

	Globe Specialty Metals, Inc. Stockholders' Equity							
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock at Cost	Noncontrolling Interest	Total Stockholders' Equity
Balance at June 30, 2013	75,589	$ 8	399,234	70,628	(4,918)	(4)	81,132	546,080
Share-based compensation	4	—	(1,819)	—	—	—	—	(1,819)
Share repurchase	—	—	—	—	—	(7,283)	—	(7,283)
Cash dividend	—	—	—	(10,356)	—	—	—	(10,356)
Comprehensive income (loss)	—	—	—	6,621	(1,273)	—	2,739	8,087
Balance at December 31, 2013	75,593	$ 8	397,415	66,893	(6,191)	(7,287)	83,871	534,709
Balance at June 30, 2012	75,332	$ 8	405,675	119,863	(6,840)	(4)	85,097	603,799
Share-based compensation	2	—	(8,027)	—	—	—	—	(8,027)
Stock option exercises	250	—	1,000	—	—	—	—	1,000
Cash dividend	—	—	—	(18,794)	—	—	—	(18,794)
Comprehensive income	—	—	—	9,363	1,048	—	1,721	12,132
Balance at December 31, 2012	75,584	$ 8	398,648	110,432	(5,792)	(4)	86,818	590,110

See accompanying notes to condensed consolidated financial statements.

GLOBE SPECIALTY METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
Six months ended December 31, 2013 and 2012
(In thousands)
(Unaudited)

	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Cash flows from operating activities:		
Net income	$ 9,473	10,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,972	22,423
Depletion	715	810
Share-based compensation	(1,819)	(8,027)
Gain on remeasurement of equity investment	—	(1,707)
Curtailment gain	(5,831)	—
Bargain purchase gain	(22,243)	—
Amortization of deferred financing fees	3,577	400
Deferred taxes	(9,935)	(7,422)
Amortization of customer contract liabilities	(3,366)	(2,874)
Accretion	129	128
Changes in operating assets and liabilities:		
Accounts receivable, net	13,661	7,924
Inventories	14,275	(24,188)
Prepaid expenses and other current assets	12,015	3,777
Accounts payable	2,513	(2,411)
Accrued expenses and other current liabilities	22,188	13,821
Other	4,637	(466)
Net cash provided by operating activities	61,961	12,756
Cash flows from investing activities:		
Capital expenditures	(18,064)	(18,204)
Acquisition of businesses, net of cash acquired of $200 and $3,656, respectively	(3,800)	(844)
Net cash used in investing activities	(21,864)	(19,048)
Cash flows from financing activities:		
Repayments of short-term debt	(269)	—
Borrowings under revolving credit agreements	131,400	20,391
Repayments under revolving credit agreements	(161,650)	(8,228)
Dividend payment	(10,356)	(18,794)
Debt issuance costs	(1,080)	—
Proceeds from stock option exercises	—	1,000

Purchase of treasury shares	(7,283)	—
Other financing activities	(1,263)	(1,275)
Net cash used in financing activities	(50,501)	(6,906)
Effect of exchange rate changes on cash and cash equivalents	(708)	(1,351)
Net decrease in cash and cash equivalents	(11,112)	(14,549)
Cash and cash equivalents at beginning of period	169,676	178,010
Cash and cash equivalents at end of period	$158,564	163,461
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 1,859	2,414
Cash (refunded) paid for income taxes, net of refunds totaling $4,310 and $87, respectively	(3,536)	11,651

See accompanying notes to condensed consolidated financial statements.

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GLOBE SPECIALTY METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
Three and six months ended December 31, 2013 and 2012
(Dollars in thousands, except share and per share amounts)
(Unaudited)

(1) Organization and Business Operations

Globe Specialty Metals, Inc. and subsidiaries (the Company, we, or our) is among the world's largest producers of silicon metal and silicon-based alloys, important ingredients in a variety of industrial and consumer products. The Company's customers include major silicone chemical, aluminum and steel manufacturers, auto companies and their suppliers, ductile iron foundries, manufacturers of photovoltaic solar cells and computer chips, and concrete producers.

(2) Summary of Significant Accounting Policies

a. Basis of Presentation

In the opinion of the Company's management, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) of the results for the interim periods presented and such adjustments are of a normal, recurring nature. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013. There have been no material changes to the Company's significant accounting policies during the six months ended December 31, 2013.

b. Use of Estimates

The Company prepares its condensed consolidated financial statements in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. The Company based its estimates and judgments on historical experience, known or expected trends and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

c. Revenue Recognition

Revenue is recognized when title, ownership, and risk of loss pass to the customer, all of which occurs when products are delivered to the Company's customers or when products are picked up by a customer or a customer's carrier. Written sales terms, including the selling price, are determined at the time of shipment or delivery. We have not experienced credit issues with our customers.

d. Exploration Costs

Costs incurred to maintain current production capacity at a mine and exploration expenditures are charged to operating costs as incurred, including costs related to drilling and study costs incurred.

e. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) amended its accounting guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The provisions of the guidance were effective as of the beginning of our 2013 fiscal year. Accordingly, we have presented the components of net income and other comprehensive income for the three and six months ended December 31, 2013 and December 31, 2012 as two separate but consecutive statements. In February 2013, the FASB issued guidance that would require an entity to provide enhanced footnote disclosures to explain the effect of reclassification adjustments on other comprehensive income by component and provide tabular disclosure in the footnotes showing the effect of items reclassified from accumulated other comprehensive income on the line items of net income. The provisions of the guidance were effective as of the beginning of our 2014 fiscal year. We have adopted this standard during the current fiscal year. The adoption of this standard did not have any material effect on our consolidated financial condition or results of operations during the current periods.

(3) Business Combinations and Divestitures

Siltech:

On November 21, 2013, the Company purchased 100% of the outstanding shares of Silicon Technology (Pty) Ltd. (Siltech) for $4,000. The Company paid for the acquisition from available cash. Siltech is a silicon-based alloy producer in South Africa with an annual production capacity of approximately 45,000 metric tons. The acquisition was made to increase the Company's current silicon-based alloy capacity by approximately 30% and its strategic location will enable the Company to supplement its existing facility to service the large and improving European, Asian and Middle Eastern markets. The Siltech facility was in an idled status when purchased. The Company intends to restart operations at the facility in the second half of calendar year 2014, and the capital expenditures necessary to restart operations are estimated to be $5,000.

The Siltech acquisition was recorded as a business combination under Accounting Standards Codification 805 ("ASC 805"), Business Combinations, with identifiable assets acquired and liabilities assumed provisionally recorded at their estimated fair values on the acquisition date while costs associated with the acquisition are expensed as incurred. The Company utilized the services of third-party valuation consultants, along with estimates and assumptions provided by the Company, to estimate the initial fair value of the net assets acquired. The third-party valuation consultants utilized several appraisal methodologies including income, market and cost approaches to estimate the fair value of the identifiable net assets acquired.

Based on the preliminary purchase price allocation, the following table summarizes the estimated preliminary fair value amounts of the assets acquired and liabilities assumed at the date of acquisition:

Net assets acquired:

	Amount
Current assets	$ 2,298
Property, plant and equipment	46,500
Accounts payable	(317)
Accrued expenses	(10,478)
Deferred tax liabilities	(11,760)
Gain on bargain purchase	(22,243)
Cash consideration paid	$ 4,000

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The preliminary fair value of the identifiable net assets acquired of approximately $26,243 exceeded the purchase price of $4,000, resulting in a gain on bargain purchase of $22,243, which was recorded in the condensed consolidated income statement for the period ended December 31, 2013. ASC 805 requires that when the fair value of the net assets acquired exceeds the purchase price, resulting in a bargain purchase of a business, the acquirer must reassess the reasonableness of the values assigned to all of the net assets acquired, liabilities assumed and consideration transferred. The Company performed such reassessment and initially concluded that the preliminary values assigned for the Siltech acquisition are reasonable.

The gain on bargain purchase was primarily attributable to the fact that Siltech was considered an ancillary business to the seller (Siltech being the seller’s only silicon-based alloys operation), coupled with the previous weaker silicon-based alloys pricing in the marketplace driven by end-user demand (which resulted in the idling of the facility by the seller in 2013).

The initial accounting for the business combination is not complete because the evaluation necessary to assess the fair values of the net assets acquired is still in process. The primary areas that are not yet finalized relate to completion of the third-party appraisal of the property, plant and equipment acquired and the liabilities assumed. The Company is reviewing the valuation and confirming the results to determine the final purchase price allocations during the measurement period. The provisional amounts are subject to revision until the evaluations are completed to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date. Any changes to the fair value assessments will affect the gain on bargain purchase. Therefore, the final purchase price allocations may differ significantly from what is reflected in these condensed consolidated financial statements.

Pro forma results of operations and other disclosures for the Siltech acquisition have not been presented as they are not material in relation to the Company’s reported results.

Step Acquisition:

On December 20, 2012, the Company closed its stock purchase of the remaining 50% interest in an existing equity investment. The total purchase price was $5,000, of which $4,500 was financed using cash on hand and the remaining $500 is subject to the finalization of the working capital settlement. The Company recognized a gain of approximately $1,655 on the fair value remeasurement (based on the transaction price) of its existing 50% equity investment. The Company finalized the purchase price allocation in December 2013, recorded $3,371 of goodwill in connection with the acquisition and was assigned to the GMI operating segment.

(4) Inventories

Inventories comprise the following:

	December 31, 2013	June 30, 2013
Finished goods	$ 33,333	35,015
Work in process	6,059	4,133
Raw materials	33,932	47,919
Parts and supplies	15,238	14,130
Total	$ 88,562	101,197

At December 31, 2013, $81,151 in inventory is valued using the first-in, first-out method and $7,411 using the average cost method. At June 30, 2013, $93,320 in inventory is valued using the first-in, first-out method and $7,877 using the average cost method.

(5) Property, Plant, and Equipment

Property, plant, and equipment, net, comprise the following:

	December 31, 2013	June 30, 2013
Land, land improvements, and land use rights	$ 13,681	9,085
Building and improvements	91,747	87,486
Machinery and equipment	210,363	196,915
Furnaces	239,476	202,444
Mineral reserves	55,843	55,843
Mine development	5,106	4,863
Other	11,952	11,279
Construction in progress	6,347	6,786
Property, plant, and equipment, gross	634,515	574,701
Less accumulated depreciation, depletion and amortization	(174,335)	(152,254)
Property, plant, and equipment, net	$ 460,180	422,447

Depreciation, depletion and amortization expense for the three and six months ended December 31, 2013 was $11,400 and $22,687, of which $11,132 and $22,150 is recorded in cost of goods sold and $268 and $537 is recorded in selling, general, and administrative expenses, respectively. Depreciation, depletion and amortization expense for the three and six months ended December 31, 2012 was $11,550 and $23,233, of which $11,367 and $22,869 is recorded in cost of goods sold and $183 and $364 is recorded in selling, general, and administrative expenses, respectively.

Capitalized interest for both the three and six months ended December 31, 2013 was $103. Capitalized interest for both the three and six months ended December 31, 2012 was $0.

Mineral reserves are recorded at fair value at the date of acquisition. Mineral reserves are included in “Property, plant and equipment, net of accumulated depreciation, depletion and amortization” on the consolidated balance sheets. Depletion of mineral reserves is computed using the units-of-production method utilizing only proven and probable reserves (as adjusted for recoverability factors) in the depletion base.

(6) Goodwill and Other Intangibles

Goodwill and other intangibles presented below have been allocated to the Company’s operating segments.

a. Goodwill

Changes in the carrying amount of goodwill, by reportable segment, during the six months ended December 31, 2013 are as follows:

	GMI	Globe Metales	Solsil	Other	Total
Goodwill	$ 34,734	14,313	57,656	7,260	113,963
Accumulated impairment loss	—	(6,000)	(57,656)	(7,130)	(70,786)
Balance at June 30, 2013	34,734	8,313	—	130	43,177
Goodwill	34,734	14,313	57,656	7,260	113,963
Accumulated impairment loss	—	(6,000)	(57,656)	(7,130)	(70,786)
Purchase price allocation adjustments	166	—	—	—	166
Balance at December 31, 2013	$ 34,900	8,313	—	130	43,343

b. Other Intangible Assets

There were no changes in the value of the Company's indefinite lived intangible assets during the six months ended December 31, 2013 and 2012.

(7) Debt

a. Short-Term Debt

Short-term debt comprises the following:

	Outstanding Balance	Weighted Average Interest Rate	Unused Credit Line
December 31, 2013:			
Type debt:			
Export financing	$ —	NA	$ 9,555
Other	15	7.00%	—
Total	$ 15		$ 9,555
June 30, 2013:			
Type debt:			
Export financing	$ —	NA	$ 9,690
Other	284	7.00%	—
Total	$ 284		$ 9,690

Export Financing Agreements – The Company's Argentine subsidiary maintains various short-term export financing agreements. Generally, these arrangements are for periods ranging between seven and eleven months, and require the Company to pledge as collateral certain export receivable.

b. Revolving Credit Agreements

A summary of the Company's revolving credit agreements at December 31, 2013 is as follows:

	Outstanding Balance	Weighted Average Interest Rate	Unused Commitment	Total Commitment
Revolving multi-currency credit facility	$ 100,000	1.67%	$ 199,060	300,000
Revolving credit agreement	—	5.00%	14,585	14,585
Revolving credit facility	9,000	2.32%	11,000	20,000

On August 20, 2013, the Company entered into a $300,000 five-year revolving multi-currency credit facility, which includes a $10,000 sublimit for swing line loans and a $25,000 sublimit letter of credit facility. The credit facility refinanced existing debt under the revolving multi-currency credit agreement dated May 31, 2012 and closing costs. The credit facility currently provides up to an additional $199,060 of borrowing capacity as of December 31, 2013. At the Company's election, the credit facility may be increased by an amount up to $150,000 in the aggregate; such increase may be in the form of term loans or increases in the revolving credit line, subject to lender commitments and certain conditions as described in the credit agreement. The agreement contains provisions for adding domestic and foreign subsidiaries of the Company as additional borrowers under the credit facility. The agreement terminates on August 20, 2018 and requires no scheduled prepayments before that date. The Company classifies borrowings under this credit facility as long-term liabilities.

Interest on borrowings under the multi-currency credit facility is payable, at the Company's election, at either (a) a base rate (the higher of (i) the U.S. federal funds rate plus 0.50% per annum, (ii) the Administrative Agent's prime rate or (iii) a Eurocurrency Rate for loans with a one month interest period plus 1.00% per annum plus a margin ranging from 0.50% to 1.50% per annum (such margin determined by reference to the leverage ratio set forth in the credit agreement), or (b) the Eurocurrency Rate plus a margin ranging from 1.50% to 2.50% per annum (such margin determined by reference to the leverage ratio set forth in the credit agreement). Certain commitment fees are also payable under the credit agreement. The credit agreement contains various covenants. They include, among others, a maximum net debt to earnings before income tax, depreciation and amortization ratio and a minimum interest coverage ratio. The credit facility is guaranteed by certain of the Company's domestic subsidiaries (the "Guarantors"). Borrowings under the credit agreement are collateralized by the assets of the Company and the Guarantors, including certain real property, equipment, accounts receivable, inventory and the stock of certain of the Company's and the Guarantors' subsidiaries. The Company was in compliance with the loan covenants at December 31, 2013.

At December 31, 2013, there was a $100,000 balance outstanding on the revolving multi-currency credit facility. The total commitment outstanding on this credit facility includes $640 outstanding letters of credit associated with landlord guarantees and $300 outstanding letters of credit associated with economic development.

On May 31, 2012, the Company entered into a credit agreement which provided for a $300,000 five-year revolving multi-currency credit facility. Outstanding balances on this revolving credit facility were paid down and refinanced with the new revolving multi-currency credit facility the Company entered into on August 20, 2013.

On October 1, 2010, the Company entered into a revolving credit facility, which was amended on March 5, 2012 and further amended on June 30, 2013. The amended agreement provides for a $20,000 revolving credit facility. Total borrowings under this revolving credit facility were $9,000 at December 31, 2013. Interest on advances under the revolving credit facility accrues at LIBOR plus an applicable margin percentage or, at the Company's option, prime plus an applicable margin percentage. The credit facility is subject to certain restrictive and financial covenants, which include limits on additional debt, a maximum ratio of debt to earnings before interest, taxes, depreciation and amortization and a minimum net worth. The Company was in compliance with the loan covenants at December 31, 2013. The Company classifies borrowings under this revolving credit facility as current liabilities as the arrangement is payable in full upon the earlier of 10 business days following written demand by the lender or the agreement's expiration on December 31, 2014.

The Company's subsidiary, Quebec Silicon, entered into a revolving credit agreement dated October 1, 2010, amended on November 23, 2011 and further amended and restated on September 20, 2012, which provides for up to $15,000 Canadian Dollars to fund Quebec Silicon's working capital requirements. Funding under the revolving credit agreement is available upon request at any time, up to the full amount of the unused credit commitment and subject to continued compliance with the terms of the agreement. Interest on borrowings under the credit agreement is payable at a variable rate of Canadian prime plus 2.00% (5.00% at December 31, 2013), payable quarterly. The credit agreement expires on September 20, 2015, and may be terminated earlier, at the lender's discretion subject to certain change in ownership conditions being met. All of Quebec Silicon's assets, properties and revenues have been pledged as security for Quebec Silicon's obligations under the revolving credit agreement. As of December 31, 2013, there was no outstanding balance under the facility.

c. Fair Value of Debt

The recorded carrying values of our debt balances approximate fair value given our debt is at variable rates tied to market indicators or is short-term in nature.

(8) Derivative Instruments

The Company enters into derivative instruments to hedge certain interest rate, currency, and commodity price risks. The Company does not engage in interest rate, currency, or commodity speculation, and no derivatives are held for trading purposes. All derivatives are accounted for using mark-to-market accounting. The Company believes it is not practical to designate its derivative instruments as hedging instruments as defined under ASC Subtopic 815-10, Derivatives and Hedging (ASC 815). Accordingly, the Company adjusts its derivative financial instruments to current market value through the condensed consolidated income statement based on the fair value of the agreement as of period end. Although not designated as hedged items as defined under ASC 815, these derivative instruments serve to significantly offset the Company's interest rate, currency, and commodity risks. Gains or losses from these transactions offset gains or losses on the assets, liabilities, or transactions being hedged. No credit loss is anticipated as the counterparties to these agreements are major financial institutions that are highly rated.

Interest Rate Risk:

The Company is exposed to market risk from changes in interest rates on certain of its short-term and long-term debt obligations. The Company currently has no interest rate derivatives to reduce exposure to interest rate fluctuations.

Foreign Currency Risk:

The Company is exposed to market risk arising from changes in currency exchange rates as a result of its operations outside the United States, principally in Argentina, China and Canada. A portion of the Company's net sales generated from its non-U.S. operations is denominated in currencies other than the U.S. dollar. Most of the Company's operating costs for its non-U.S. operations are denominated in local currencies, principally the Canadian dollar, Argentine peso and the Chinese renminbi. Consequently, the translated U.S. dollar value of the Company's non-U.S. dollar net sales, and related accounts receivable balances, and its operating costs are subject to currency exchange rate fluctuations. Derivative instruments are not used extensively to manage this risk. At December 31, 2013, the Company had no outstanding foreign exchange forward and option contracts.

Commodity Price Risk:

The Company is exposed to price risk for certain raw materials and energy used in its production process. The raw materials and energy that the Company uses are largely commodities subject to price volatility caused by changes in global supply and demand and governmental controls. Derivative financial instruments are not used extensively to manage the Company's exposure to fluctuations in the cost of commodity products used in its operations. The Company attempts to reduce the impact of increases in its raw material and energy costs by negotiating long-term contracts and through the acquisition of companies or assets for the purpose of increasing its access to raw materials with favorable pricing terms.

In October 2010, the Company entered into a power hedge agreement on an 87,600 MWh notional amount of electricity for power required by our Niagara Falls, New York plant not supplied by the facility's long-term power contract over the term of the hedge agreement. The notional amount decreased equally per month from the agreement's July 1, 2012 effective date through its expiration on June 30, 2013. Under this power agreement, the Company fixed the power rate at $39.95 per MWh over the life of the contract.

The effect of the Company's derivative instruments on the condensed consolidated income statement is summarized in the following table:

	Loss Recognized During the Three Months Ended December 31,		(Loss) Gain Recognized During the Six Months Ended December 31,		Location of (Loss) Gain
	2013	2012	2013	2012	
Foreign exchange forward and option contracts	(176)	(275)	(603)	(204)	Foreign exchange loss
Power hedges	—	(80)	—	181	Cost of goods sold

The fair values of the Company's derivative instruments at December 31, 2013 are summarized in note 15 (Fair Value Measurements). The Company held no foreign exchange option contracts or power hedges at December 31, 2013.

(9) Benefit Plans

a. Defined Benefit Retirement Plan

The Company's subsidiary, Globe Metallurgical Inc. (GMI), sponsors three noncontributory defined benefit pension plans covering certain domestic employees. These plans were frozen in 2003. The Company's subsidiary, Core Metals, sponsors a noncontributory defined benefit pension plan covering certain domestic employees. This plan was closed to new participants in April 2009. The Company's subsidiary, Quebec Silicon, sponsors a contributory defined benefit pension plan.

The components of net periodic pension expense for the Company's defined benefit pension plans are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Interest cost	$ 762	799	$ 1,528	1,609
Service cost	293	599	902	1,208
Expected return on plan assets	(680)	(636)	(1,361)	(1,266)
Amortization of net loss	313	332	627	769
Net periodic pension expense	$ 688	1,094	$ 1,696	2,320

The Company expects to make required and discretionary contributions of approximately $2,808 to the plans for the fiscal year ending June 30, 2014, of which $1,604 has been contributed through December 31, 2013.

The active unionized employee members of the bargaining unit of Quebec Silicon who, prior to January 1, 2014, participated in the defined benefit pension plan and/or the defined contribution plan will participate in the RRFS-FTQ beginning January 1, 2014. Membership in the defined benefit pension plan will be frozen as of December 31, 2013. No new members may join the defined pension benefit plan as of January 1, 2014. However, the defined benefit pension plan will be maintained in effect. The benefit formula under the defined benefit pension plan for pensionable service after January 1, 2014 will be 0.01% of final average compensation up to the final average maximum pensionable earnings plus 0.012% of final average compensation in excess of the final average maximum pensionable earnings, multiplied by the years and months of completed service pensionable.

b. Defined Postretirement Benefit Plan

The Company’s subsidiary, Quebec Silicon, sponsors a postretirement benefit plan for certain employees, based on length of service and remuneration. Postretirement benefits consist of a group insurance plan covering plan members for life insurance, disability, hospital, medical, and dental benefits.

On December 27, 2013, the Communications, Energy and Paper Workers Union of Canada (“CEP”) ratified a new collective bargaining agreement, which resulted in a curtailment pertaining to the closure of the postretirement benefit plan for union employees retiring after January 31, 2016. The Company remeasured the benefit obligations reflecting the curtailment which resulted in a curtailment gain of $5,831. The curtailment gain is included in operating (loss) income.

(10) Income Taxes

The provision for income taxes is based on the current estimate of the annual effective tax rate, adjusted as necessary for quarterly events. In accordance with ASC Topic 740, Income Taxes — Accounting for Income Taxes in Interim Periods, the Company’s quarterly effective tax rate does not reflect a benefit associated with losses related to certain foreign subsidiaries. The effective tax rates for the six months ended December 31, 2013 and 2012 were based on our forecasted annualized effective tax rates, adjusted for discrete items that occurred within the respective periods.

The Company’s effective tax rate for the six months ended December 31, 2013 was a tax benefit of 166.3% compared to a tax expense of 28.0% for the six months ended December 31, 2012. The decrease in the effective tax rate is primarily due to the gain on bargain purchase recorded in connection with the acquisition of Siltech (see note 3), on which no tax has been provided. The estimated annual effective tax expense rate excluding discrete items is 36.6% for the six months ended December 31, 2013.

The Company maintains valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. In determining whether a valuation allowance is warranted, the Company evaluates factors such as prior earnings history, expected future earnings, carry back and carry forward periods, and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset. During the six months ended December 31, 2013, the Company’s net valuation allowances increased by $517, primarily due to the establishment of additional valuation allowances against net operating losses (NOLs) in our foreign jurisdictions where it is more likely than not the NOLs will not be utilized.

The Company files a consolidated U.S. income tax return and tax returns in various state and local jurisdictions. Our subsidiaries also file tax returns in various foreign jurisdictions. The Company’s principal jurisdictions include the U.S., Argentina, Canada, Poland, and China. A number of years may elapse before a tax return is audited and finally resolved. The open tax years subject to examination varies depending on the tax jurisdiction. The Company’s major taxing jurisdictions and the related open tax years subject to examination are as follows: the U.S. from 2010 to present, Canada from 2012 to present, Argentina from 2008 to present, and China from 2008 to present.

The Company regularly evaluates its tax positions for additional unrecognized tax benefits and associated interest and penalties, if applicable. There are many factors that are considered when evaluating these tax positions including: interpretation of tax laws, recent tax litigation on a position, past audit or examination history, and subjective estimates and assumptions that have been deemed reasonable by management. However, if management's estimates are not representative of actual outcomes, the Company's results could be materially impacted. There were no material changes in the Company's uncertain tax positions during the six months ended December 31, 2013.

(11) Commitments and Contingencies

a. Legal Contingencies

The Company is subject to various lawsuits, investigations, claims, and proceedings that arise in the normal course of business, including, but not limited to, employment, commercial, environmental, safety, and health matters, as well as claims associated with its historical acquisitions and divestitures. Although it is not presently possible to determine the outcome of these matters, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

b. Environmental Contingencies

It is the Company's policy to accrue for costs associated with environmental assessments, remedial efforts, or other environmental liabilities when it becomes probable that a liability has been incurred and the costs can be reasonably estimated. When a liability for environmental remediation is recorded, such amounts will be recorded without giving effect to any possible future recoveries. At December 31, 2013, there are no significant liabilities recorded for environmental contingencies. With respect to the cost for ongoing environmental compliance, including maintenance and monitoring, such costs are expensed as incurred unless there is a long-term monitoring agreement with a governmental agency, in which case a liability is established at the inception of the agreement.

c. Employee Contracts

As of December 31, 2013, there are 437 employees that are covered by union agreements expiring within one year.

d. Contract Acquisition Cost

During the quarter ended December 31, 2013, the Company acquired a supply arrangement that resulted in a payment of $14,400, which impacted operating income for the period.

e. Contractual Obligations

The Company has minimum power charges that are enforceable and legally binding, and do not represent total anticipated purchases. Minimum charge requirements expire after providing one year notice of contract cancellation. The annual minimum charge for the fiscal year ending June 30, 2014 and for each of the four subsequent years is approximately $15,817. The Company has outstanding purchase obligations with suppliers for raw materials in the normal course of business. These purchase obligation amounts represent only those items which are based on annual agreements that are enforceable and legally binding, and do not represent total anticipated purchases. The purchase obligation for the fiscal year ending June 30, 2014 is approximately $24,855.

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