FERRO CORP
Form 10-Q
July 27, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

or

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

Commission File Number 1-584

FERRO CORPORATION

(Exact name of registrant as specified in its charter)

Ohio	34-0217820
(State or other jurisdiction of	(I.R.S. Employer Identification No.)
incorporation or organization)	
6060 Parkland Boulevard	44124
Suite 250	(Zip Code)
Mayfield Heights, OH	
(Address of principal executive offices)	
216-875-5600	
(Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

At June 30, 2016, there were 83,228,350 shares of Ferro Common Stock, par value $1.00, outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in thousands, except per share amounts)			
Net sales	$ 297,977	$ 268,214	$ 575,428	$ 530,986
Cost of sales	199,604	190,574	392,826	382,711
Gross profit	98,373	77,640	182,602	148,275
Selling, general and administrative expenses	57,871	52,695	110,517	102,151
Restructuring and impairment charges	787	1,116	1,668	1,625
Other expense (income):				
Interest expense	5,428	3,110	10,275	6,260
Interest earned	(115)	(57)	(200)	(94)
Foreign currency losses, net	389	2,827	2,000	4,555
Miscellaneous expense (income), net	669	(161)	(2,784)	238
Income before income taxes	33,344	18,110	61,126	33,540
Income tax expense	8,484	5,679	16,502	8,138
Income from continuing operations	24,860	12,431	44,624	25,402
(Loss) from discontinued operations, net of income taxes	(5,748)	(5,646)	(35,242)	(9,602)
Net income	19,112	6,785	9,382	15,800
Less: Net income (loss) attributable to noncontrolling interests	143	186	379	(1,769)
Net income attributable to Ferro Corporation common shareholders	$ 18,969	$ 6,599	$ 9,003	$ 17,569
Earnings (loss) per share attributable to Ferro Corporation common shareholders:				
Basic earnings (loss):				
Continuing operations	$ 0.30	$ 0.14	$ 0.53	$ 0.31
Discontinued operations	(0.07)	(0.06)	(0.42)	(0.11)
	$ 0.23	$ 0.08	$ 0.11	$ 0.20
Diluted earnings (loss):				
Continuing operations	$ 0.29	$ 0.14	$ 0.53	$ 0.31
Discontinued operations	(0.07)	(0.06)	(0.42)	(0.11)
	$ 0.22	$ 0.08	$ 0.11	$ 0.20

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Net income	$ 19,112	$ 6,785	$ 9,382	$ 15,800
Other comprehensive income (loss), net of income tax:				
Foreign currency translation (loss) income	(3,269)	9,407	(4,947)	(28,389)
Postretirement benefit liabilities gain (loss)	27	(18)	295	(2)
Other comprehensive (loss) income, net of income tax	(3,242)	9,389	(4,652)	(28,391)
Total comprehensive income (loss)	15,870	16,174	4,730	(12,591)
Less: Comprehensive (loss) income attributable to noncontrolling interests	(9)	185	259	(2,908)
Comprehensive income (loss) attributable to Ferro Corporation	$ 15,879	$ 15,989	$ 4,471	$ (9,683)

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2016	December 31, 2015
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 49,416	$ 58,380
Accounts receivable, net	278,931	231,970
Inventories	207,299	184,854
Deferred income taxes	—	12,088
Other receivables	32,008	34,088
Other current assets	15,479	15,695
Current assets held-for-sale	18,648	16,215
Total current assets	601,781	553,290
Other assets		
Property, plant and equipment, net	252,548	260,429
Goodwill	141,162	145,669
Intangible assets, net	110,493	106,633
Deferred income taxes	100,126	87,385
Other non-current assets	48,206	48,767
Non-current assets held-for-sale	370	23,178
Total assets	$ 1,254,686	$ 1,225,351
LIABILITIES AND EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	$ 10,451	$ 7,446
Accounts payable	129,946	120,380
Accrued payrolls	28,713	28,584
Accrued expenses and other current liabilities	60,525	54,664
Current liabilities held-for-sale	4,165	7,156
Total current liabilities	233,800	218,230
Other liabilities		
Long-term debt, less current portion	485,436	466,108
Postretirement and pension liabilities	147,820	148,249
Other non-current liabilities	65,080	66,990
Non-current liabilities held-for-sale	1,643	1,493
Total liabilities	933,779	901,070
Equity		
Ferro Corporation shareholders' equity:		
	93,436	93,436

Common stock, par value $1 per share; 300.0 million shares authorized; 93.4 million shares issued; 83.2 million and 84.0 million shares outstanding at June 30, 2016, and December 31, 2015, respectively		
Paid-in capital	307,059	314,854
Retained earnings	144,510	135,507
Accumulated other comprehensive loss	(65,850)	(61,318)
Common shares in treasury, at cost	(166,329)	(166,020)
Total Ferro Corporation shareholders' equity	312,826	316,459
Noncontrolling interests	8,081	7,822
Total equity	320,907	324,281
Total liabilities and equity	$ 1,254,686	$ 1,225,351

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

	Ferro Corporation Shareholders Common Shares in Treasury							
	Shares	Amount	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Non-controlling Interests	Total Equity
	(Dollars in thousands)							
Balances at December 31, 2014	6,445	$ (136,058)	$ 93,436	$ 317,404	$ 71,407	$ (21,805)	$ 11,632	$ 336,016
Net income (loss)	—	—	—	—	17,569	—	(1,769)	15,800
Other comprehensive (loss)	—	—	—	—	—	(27,252)	(1,139)	(28,391)
Stock-based compensation transactions	(280)	8,003	—	(3,310)	—	—	—	4,693
Balances at June 30, 2015	6,165	(128,055)	93,436	314,094	88,976	(49,057)	8,724	328,118
Balances at December 31, 2015	9,431	(166,020)	93,436	314,854	135,507	(61,318)	7,822	324,281
Net income	—	—	—	—	9,003	—	379	9,382
Other comprehensive (loss)	—	—	—	—	—	(4,532)	(120)	(4,652)
Purchase of treasury stock	1,175	(11,429)	—	—	—	—	—	(11,429)
Stock-based compensation transactions	(399)	11,120	—	(7,795)	—	—	—	3,325
Balances at June 30, 2016	10,207	$ (166,329)	$ 93,436	$ 307,059	$ 144,510	$ (65,850)	$ 8,081	$ 320,907

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2016	2015
	(Dollars in thousands)	
Cash flows from operating activities		
Net cash (used in) provided by operating activities	$ (1,975)	$ 3,934
Cash flows from investing activities		
Capital expenditures for property, plant and equipment and other long lived assets	(14,044)	(26,554)
Proceeds from sale of assets	3,597	125
Business acquisitions, net of cash acquired	(6,639)	(5,479)
Net cash (used in) investing activities	(17,086)	(31,908)
Cash flows from financing activities		
Net borrowings (repayments) under loans payable	3,031	(931)
Proceeds from revolving credit facility	163,516	105,000
Principal payments on revolving credit facility	(92,706)	—
Principal payments on term loan facility	(51,500)	(1,500)
Payment of debt issuance costs	(301)	—
Purchase of treasury stock	(11,429)	—
Other financing activities	211	(181)
Net cash provided by financing activities	10,822	102,388
Effect of exchange rate changes on cash and cash equivalents	(725)	(3,501)
(Decrease) increase in cash and cash equivalents	(8,964)	70,913
Cash and cash equivalents at beginning of period	58,380	140,500
Cash and cash equivalents at end of period	$ 49,416	$ 211,413
Cash paid during the period for:		
Interest	$ 9,283	$ 7,045
Income taxes	$ 7,432	$ 9,482

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Ferro Corporation (“Ferro,” “we,” “us” or “the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, the instructions to Form 10-Q, and Article 10 of Regulation S-X. These statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

The Company owned 51% of an operating affiliate in Venezuela that was a consolidated subsidiary of Ferro. During the fourth quarter of 2015, we sold our interest in the operating affiliate in Venezuela for a cash purchase price of $0.5 million. During the first quarter of 2015, the Ministry of Economy, Finance, and Public Banking, and the Central Bank of Venezuela published a new exchange rate, the Foreign Exchange Marginal System (“SIMADI”). We concluded in March 2015 that SIMADI was the most relevant exchange mechanism available, and began using SIMADI to translate the local currency financial statements. As a result of the revaluation, we recognized a $1.9 million foreign currency loss and a $2.6 million loss due to lower of cost or market charges against our inventory, prior to the adjustment for losses allocated to our noncontrolling interest partner, which is recorded within Foreign currency losses, net and Cost of sales, respectively, within our condensed consolidated statement of operations for the six months ended June 30, 2015.

During the second quarter of 2014, substantially all of the assets and liabilities of the Europe-based Polymer Additives business were classified as held-for-sale. As further discussed in Note 3, we have classified the assets and liabilities as held-for-sale in the accompanying condensed consolidated balance sheets and have classified the related operating results, net of income tax, as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented.

Operating results for the three and six months ended June 30, 2016, are not necessarily indicative of the results expected in subsequent quarters or for the full year ending December 31, 2016.

2. Recent Accounting Pronouncements

Accounting Standards Adopted in the period ended June 30, 2016

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes: Topic 740: Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent in a classified statement of financial position. During the second quarter of 2016, we elected to prospectively adopt ASU 2015-17, thus reclassifying current deferred tax assets to noncurrent on the accompanying condensed consolidated balance sheets as of June 30, 2016. The prior reporting period was not retrospectively adjusted. Other than this reclassification, the adoption of ASU 2015-17 did not have an impact on the Company's condensed consolidated financial statements.

New Accounting Standards

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Topic 718: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This pronouncement is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases: Topic 842. ASU 2016-02 requires companies to recognize a lease liability and asset on the balance sheet for operating leases with a term greater than one year. This pronouncement is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is in the process of assessing the impact the adoption of this ASU will have on our condensed consolidated financial statements.

No other new accounting pronouncements issued or with effective dates during fiscal 2016 had or are expected to have a material impact of the Company's condensed consolidated financial statements.

3. Discontinued Operations

During the second quarter of 2014, we commenced a process to market for sale all of the assets within our Europe-based Polymer Additives business, including the Antwerp, Belgium dibenzoates manufacturing assets, and related Polymer Additives European headquarters and lab facilities. We determined that the criteria to classify these assets as held-for-sale under ASC Topic 360, Property, Plant and Equipment, have been met. We have classified the Europe-based Polymer Additives assets and liabilities as held-for-sale in the accompanying condensed consolidated balance sheets and have classified the related operating results, net of income tax, as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented. We expect resolution with respect to these assets during the third quarter, which could result in additional impairment charges and other related expenses of $25 million to $30 million. Additional impairment of the asset group's net working capital would be recognized upon disposition.

The table below summarizes results for the Europe-based Polymer Additives assets, for the three and six months ended June 30, 2016 and 2015, which are reflected in our condensed consolidated statements of operations as discontinued operations. Interest expense has been allocated to the discontinued operations based on the ratio of net assets of each business to consolidated net assets excluding debt.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Net sales	$ 6,900	$ 7,837	$ 14,650	$ 19,736
Cost of sales	10,789	11,903	22,819	26,458
Gross loss	(3,889)	(4,066)	(8,169)	(6,722)
Selling, general and administrative expenses	1,502	1,009	2,505	2,228
Restructuring and impairment charges	—	—	24,059	—
Interest expense	40	206	276	319
Miscellaneous expense (income)	30	365	(387)	333
(Loss) from discontinued operations before income taxes	(5,461)	(5,646)	(34,622)	(9,602)
Income tax expense	287	—	620	—
(Loss) from discontinued operations, net of income taxes	$ (5,748)	$ (5,646)	$ (35,242)	$ (9,602)

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The following table summarizes the assets and liabilities which are classified as held-for-sale at June 30, 2016, and December 31, 2015:

	June 30, 2016	December 31, 2015
	(Dollars in thousands)	
Accounts receivable, net	$ 3,857	$ 4,028
Inventories	11,066	9,733
Other current assets	3,725	2,454
Current assets held-for-sale	18,648	16,215
Property, plant and equipment, net	—	22,973
Other non-current assets	370	205
Total assets held-for-sale	$ 19,018	$ 39,393
Accounts payable	$ 3,514	$ 5,736
Accrued expenses and other current liabilities	651	1,420
Current liabilities held-for-sale	4,165	7,156
Other non-current liabilities	1,643	1,493
Total liabilities held-for-sale	$ 5,808	$ 8,649

Included within non-current assets are deferred tax assets of $37.8 million at June 30, 2016, and $25.0 million at December 31, 2015, which are fully reserved for at both periods.

4. Acquisitions

Pinturas

On June 1, 2016, the Company acquired 100% of the equity of privately held Pinturas Benicarló, S.L. (“Pinturas”) for €16.2 million in cash (approximately $18.0 million). The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management. As of June 30, 2016, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $8.5 million of amortizable intangible assets, $3.8 million of goodwill, $0.7 million of personal and real property, $2.6 million of a deferred tax liability related to the amortizable intangible assets, and $7.6 million of net working capital on the condensed consolidated balance sheet.

Ferer

On January 5, 2016, the Company completed the purchase of 100% of the equity of privately held Istanbul-based Ferer Dis Ticaret Ve Kimyasallar Anonim Sirketi A.S. (“Ferer”) on a cash-free and debt-free basis for approximately $9.4 million in cash, subject to customary working capital and other adjustments. The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management. As of June 30, 2016, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $3.3 million of amortizable intangible assets, $4.5 million of goodwill, $0.6 million of personal and real property, $0.7 million of a deferred tax liability related to the amortizable intangible assets, and $1.7 million of net working capital on the condensed consolidated balance sheet.

Al Salomi

On November 17, 2015, the Company acquired 100% of the equity of Egypt-based tile coatings manufacturer Al Salomi for Frits and Glazes (“Al Salomi”) for EGP 307 million (approximately $38.2 million), including the assumption of debt. The acquired business

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contributed net sales of $6.4 million and $12.0 million for the three and six months ended June 30, 2016 and net income attributable to Ferro Corporation of $1.6 million and $2.2 million for the three and six months ended June 30, 2016.

The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management. As of June 30, 2016, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company. The Company preliminarily recorded $15.0 million of amortizable intangible assets, $14.3 million of goodwill, $10.7 million of personal and real property, $4.8 million of a deferred tax liability related to the amortizable intangible assets, and $3.0 million of net working capital on the condensed consolidated balance sheet.

Nubiola

On July 7, 2015, the Company acquired the entire share capital of Corporación Química Vhem, S.L., Dibon USA, LLC and Ivory Corporation, S.A. (together with their direct and indirect subsidiaries, "Nubiola") on a cash-free and debt-free basis for €167 million (approximately $184.2 million). The acquisition was funded with excess cash and borrowings under the Company's existing revolving credit facility. See Note 8 for additional detail on the revolving credit facility. During the second quarter of 2016, the Company had a purchase price adjustment due to the settlement of an escrow that reduced the fair value of net assets acquired to $168.1 million. As a result of the purchase price adjustment, the carrying amount of goodwill decreased by $11.7 million, intangibles decreased $6.4 million and the related deferred tax liability decreased $1.9 million. The impact of the change on the condensed consolidated statements of operations was not material. Nubiola is a worldwide producer of specialty inorganic pigments and the world's largest producer of Ultramarine Blue. Nubiola also produces specialty Iron Oxides, Chrome Oxide Greens and Corrosion Inhibitors. Nubiola has production facilities in Spain, Colombia, Romania, and India and a joint venture in China.

The information included herein has been prepared based on the preliminary allocation of the purchase price using estimates of the fair value and useful lives of the assets acquired and liabilities assumed, which were determined with the assistance of third parties who performed independent valuations using discounted cash flow and comparative market approaches and estimates made by management. As of June 30, 2016, the purchase price allocation is subject to further adjustment until all information is fully evaluated by the Company.

The following table summarizes the preliminary purchase price allocations:

	June 30, 2016 (Dollars in thousands)
Net working capital (1)	$ 46,642
Cash and equivalents	19,966

Personal property	39,444
Real property	28,510
Intangible assets	26,757
Other assets and liabilities	(20,733)
Goodwill	27,498
Net assets acquired	$ 168,084

(1) Net working capital is defined as current assets, less cash, less current liabilities, and includes an estimate of potential transactional adjustments.

The acquired business contributed net sales of $30.8 million and $64.2 million for the three and six months ended June 30, 2016 and net income attributable to Ferro Corporation of $9.0 million and $14.2 million for the three and six months ended June 30, 2016.

The estimated fair value of the receivables acquired is $24.5 million, with a gross contractual amount of $25.2 million. The Company preliminarily recorded acquired intangible assets subject to amortization of $21.1 million, which is comprised of $5.4 million of customer relationships and $15.7 million of technology/know-how, which will be amortized over 20 years and 15 years, respectively. The Company preliminarily recorded acquired indefinite-lived intangible assets of $5.6 million related to trade names and trademarks. Goodwill is calculated as the excess of the purchase price over the estimated fair values of the assets acquired and the

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liabilities assumed in the acquisition and is a result of anticipated synergies. Goodwill is not expected to be deductible for tax purposes.

The following unaudited pro froma information represents the consolidated results of the Company as if the Nubiola acquisition occurred as of January 1, 2014:

	Three months ended June 30, 2015	Six months ended June 30, 2015
	(unaudited)	
	(In thousands, except per share amounts)	
Net sales	$ 326,905	$ 622,727
Net income attributable to Ferro Corporation common shareholders	$ 14,666	$ 30,927
Net earnings per share attributable to Ferro Corporation common shareholders - Basic	$ 0.17	$ 0.35
Net earnings per share attributable to Ferro Corporation common shareholders - Diluted	$ 0.17	$ 0.35

The unaudited pro forma information has been adjusted with the respect to certain aspects of the acquisition to reflect the following:

- Additional depreciation and amortization expenses that would have been recognized assuming fair value adjustments to the existing Nubiola assets acquired, including intangible assets and fixed assets.
- Elimination of revenue and cost of goods sold for sales from Nubiola to the Company, which would be eliminated as intercompany transactions for Nubiola and the Company on a consolidated basis.
- Increased interest expense due to additional borrowings to fund the acquisition.
- Acquisition-related costs, which were included in the Company's results.
- Adjustments for the income tax effect of the pro forma adjustments related to the acquisition.

Thermark

In February 2015, the Company acquired TherMark Holdings, Inc., a leader in laser marking technology, for a cash purchase price of $5.5 million. The Company recorded $4.6 million of amortizable intangible assets, $2.5 million of goodwill, $1.7 million of a deferred tax liability related to the amortizable intangible assets, and $0.1 million of net working capital on the condensed consolidated balance sheet.

5. Inventories

	June 30, 2016	December 31, 2015
	(Dollars in thousands)	
Raw materials	$ 62,518	$ 56,291
Work in process	34,890	33,099
Finished goods	109,891	95,464
Total inventories	$ 207,299	$ 184,854

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In the production of some of our products, we use precious metals, some of which we obtain from financial institutions under consignment agreements with terms of one year or less. The financial institutions retain ownership of the precious metals and charge us fees based on the amounts we consign. These fees were $0.2 million for the three months ended June 30, 2016 and 2015, and were $0.4 million for the six months ended June 30, 2016 and 2015. We had on-hand precious metals owned by participants in our precious metals consignment program of $26.6 million at June 30, 2016, and $20.5 million at December 31, 2015, measured at fair value based on market prices for identical assets and net of credits.

6. Property, Plant and Equipment

Property, plant and equipment is reported net of accumulated depreciation of $437.0 million at June 30, 2016, and $421.3 million at December 31, 2015. Unpaid capital expenditure liabilities, which are non-cash investing activities, were $2.1 million at June 30, 2016, and $3.8 million at June 30, 2015.

As discussed in Note 3 - Discontinued Operations, during the second quarter of 2014, our Europe-based Polymer Additives assets were classified as held-for-sale under ASC Topic 360, Property, Plant and Equipment. As such, at each reporting date, these assets are tested for impairment comparing the fair value of the assets less costs to sell to the carrying value. The fair value was determined using both the market approach and income approach, utilizing Level 3 measurements within the fair value hierarchy, which indicated the fair value less costs to sell was less than the carrying value during the first quarter of 2016, resulting in an impairment charge of $24.1 million during the six months ended June 30, 2016. The impairment charge of $24.1 million, representing the remaining carrying value of long-lived assets, is included in Loss from discontinued operations, net of income taxes in our condensed consolidated statements of operations for the six months ended June 30, 2016.

The following table presents information about the Company's impairment charges on assets that were measured on a fair value basis for the six months ended June 30, 2016, and for the year ended December 31, 2015. The table also indicates the level within the fair value hierarchy of the valuation techniques used by the Company to determine the fair value:

	Fair Value Measurements Using				Total
Description	Level 1	Level 2	Level 3	Total	(Losses)
	(Dollars in thousands)				
June 30, 2016					
Assets held for sale	$ —	$ —	$ 13,210	$ 13,210	$ (24,059)

December 31, 2015					
Assets held for sale	$ —	$ —	$ 33,711	$ 33,711	$ (11,792)

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.

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7. Goodwill and Other Intangible Assets

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

	Performance Coatings	Pigments, Powders and Oxides		Performance Colors and Glass		Total
	(Dollars in thousands)					
December 31, 2015						
Gross goodwill	$ 88,753	$ 48,794		$ 53,391		$ 190,938
Accumulated impairment losses	(45,269)	—		—		(45,269)
	43,484	48,794		53,391		145,669
Acquisitions	—	(11,653)	(3)	8,286	(1), (2)	(3,367)
Foreign currency adjustments	(1,278)	179		(41)		(1,140)
June 30, 2016						
Gross goodwill	87,475	37,320		61,636		186,431
Accumulated impairment losses	(45,269)	—		—		(45,269)
	$ 42,206	$ 37,320		$ 61,636		$ 141,162

(1) During the first quarter of 2016, the Company recorded goodwill related to the Ferer acquisition. Refer to Note 4 for additional details.
(2) During the second quarter of 2016, the Company recorded goodwill related to the Pinturas acquisition. Refer to Note 4 for additional details.
(3) During the second quarter of 2016, the Company recorded a purchase price adjustment within the measurement period for goodwill related to the Nubiola acquisition. Refer to Note 4 for additional details.

Goodwill is calculated as the excess of the purchase price over the estimated fair values of the assets acquired and the liabilities assumed in the acquisition.

Goodwill is tested for impairment at the reporting unit level on an annual basis in the fourth quarter and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As of June 30, 2016, the Company is not aware of any events or circumstances that occurred which would require a goodwill impairment test.

Amortizable intangible assets consisted of the following:

	June 30, 2016	December 31, 2015
	(Dollars in thousands)	

Gross amortizable intangible assets:		
Patents	$ 5,238	$ 5,229
Land rights	4,875	4,947
Technology/know-how and other	82,387	66,558
Customer relationships	51,842	46,320
Total gross amortizable intangible assets	144,342	123,054
Accumulated amortization:		
Patents	(4,986)	(4,880)
Land rights	(2,697)	(2,671)
Technology/know-how and other	(32,166)	(16,473)
Customer relationships	(3,480)	(2,234)
Total accumulated amortization		