FERRO CORP
Form 10-Q
November 05, 2008

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

(**Mark One)**

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

**For the quarterly period ended September 30, 2008**

**or**

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

**For the transition period from __________ to __________**

**Commission File Number 1-584**

**FERRO CORPORATION**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Ohio** | **34-0217820** |
| (State of Corporation) | (IRS Employer Identification No.) |
| **1000 Lakeside Avenue** | **44114** |
| **Cleveland, OH** | (Zip Code) |
| (Address of Principal executive offices) | |

**216-641-8580**
(Telephone Number)

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

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

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

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

At October 31, 2008, there were 43,743,117 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 Income**

| | Three months ended September 30, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| | (Dollars in thousands, except per share amounts) | | | |
| **Net sales** | $ 608,588 | $ 550,701 | $ 1,866,240 | $ 1,634,064 |
| Cost of sales | 494,577 | 450,553 | 1,515,526 | 1,319,609 |
| Gross profit | 114,011 | 100,148 | 350,714 | 314,455 |
| Selling, general and administrative expenses | 78,274 | 71,069 | 238,122 | 234,212 |
| Restructuring charges | 9,042 | 5,826 | 22,280 | 7,689 |
| Other expense (income): | | | | |
| Interest expense | 12,497 | 14,488 | 39,740 | 46,220 |
| Interest earned | (213) | (271) | (484) | (1,425) |
| Loss on extinguishment of debt | 5,531 | | 5,531 | |
| Foreign currency losses (gains), net | 1,660 | (10) | 769 | 924 |
| Miscellaneous expense (income), net | 727 | (13) | 4,659 | (399) |
| **Income before taxes** | 6,493 | 9,059 | 40,097 | 27,234 |
| Income tax expense | 1,605 | 3,472 | 16,688 | 10,814 |
| **Income from continuing operations** | 4,888 | 5,587 | 23,409 | 16,420 |
| Loss from discontinued operations, net of tax | 57 | 2 | 73 | 216 |
| **Net income** | 4,831 | 5,585 | 23,336 | 16,204 |
| Dividends on preferred stock | 225 | 252 | 675 | 797 |
| **Net income available to common shareholders** | $ 4,606 | $ 5,333 | $ 22,661 | $ 15,407 |
| **Per common share data** | | | | |
| Basic earnings: | | | | |
| From continuing operations | $ 0.11 | $ 0.12 | $ 0.53 | $ 0.36 |
| From discontinued operations | 0.00 | 0.00 | 0.00 | 0.00 |
| | $ 0.11 | $ 0.12 | $ 0.53 | $ 0.36 |
| Diluted earnings: | | | | |
| From continuing operations | $ 0.11 | $ 0.12 | $ 0.52 | $ 0.36 |
| From discontinued operations | 0.00 | 0.00 | 0.00 | 0.00 |
| | $ 0.11 | $ 0.12 | $ 0.52 | $ 0.36 |
| Cash dividends declared | $ 0.145 | $ 0.145 | $ 0.435 | $ 0.435 |

See accompanying notes to condensed consolidated financial statements.

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**Ferro Corporation and Consolidated Subsidiaries**
**Condensed Consolidated Balance Sheets**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 14,524 | $ 12,025 |
| Accounts and trade notes receivable, net | 253,183 | 245,369 |
| Note receivable from Ferro Finance Corporation | 29,708 | 29,577 |
| Inventories | 306,254 | 262,799 |
| Deferred income taxes | 23,549 | 15,764 |
| Other receivables | 52,500 | 33,419 |
| Other current assets | 7,412 | 8,239 |
| Total current assets | 687,130 | 607,192 |
| **Other assets** | | |
| Property, plant and equipment, net | 506,382 | 519,959 |
| Goodwill | 290,088 | 291,070 |
| Amortizable intangible assets, net | 11,899 | 9,071 |
| Deferred income taxes | 99,210 | 100,935 |
| Other non-current assets | 112,581 | 110,033 |
| Total assets | $ 1,707,290 | $ 1,638,260 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **Current liabilities** | | |
| Loans payable and current portion of long-term debt | $ 7,372 | $ 5,444 |
| Accounts payable | 263,189 | 269,591 |
| Income taxes | 23,926 | |
| Accrued payrolls | 33,286 | 26,415 |
| Accrued expenses and other current liabilities | 90,235 | 108,882 |
| Total current liabilities | 418,008 | 410,332 |
| **Other liabilities** | | |
| Long-term debt, less current portion | 601,997 | 520,645 |
| Postretirement and pension liabilities | 130,151 | 140,988 |
| Deferred income taxes | 9,416 | 9,848 |
| Other non-current liabilities | 53,068 | 56,644 |
| Total liabilities | 1,212,640 | 1,138,457 |
| Minority interests | 10,318 | 9,896 |
| Series A convertible preferred stock (approximates redemption value) | 12,517 | 13,623 |
| **Shareholders equity** | | |
| Common stock | 52,323 | 52,323 |
| Paid-in capital | 167,105 | 166,391 |

| | | |
|---|---|---|
| Retained earnings | 471,463 | 468,190 |
| Accumulated other comprehensive loss | (18,827) | (7,765) |
| Common shares in treasury, at cost | (200,249) | (202,855) |
| Total shareholders equity | 471,815 | 476,284 |
| Total liabilities and shareholders equity | $ 1,707,290 | $ 1,638,260 |

See accompanying notes to condensed consolidated financial statements.

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**Ferro Corporation and Consolidated Subsidiaries**
**Condensed Consolidated Statement of Shareholders Equity and Comprehensive Income**

| | Common Shares in Treasury Shares | Common Shares in Treasury Amount | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Share-holders Equity |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| **Balances at December 31, 2007** | 8,753 | $ (202,855) | $ 52,323 | $ 166,391 | $ 468,190 | $ (7,765) | $ 476,284 |
| Net income | | | | | 23,336 | | 23,336 |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Foreign currency translation adjustments | | | | | | (15,014) | (15,014) |
| Postretirement benefit liability adjustments | | | | | | 2,676 | 2,676 |
| Raw material commodity swap adjustments | | | | | | 454 | 454 |
| Interest rate swap adjustments | | | | | | 456 | 456 |
| Total comprehensive income | | | | | | | 11,908 |
| Cash dividends: | | | | | | | |
| Common | | | | | (18,883) | | (18,883) |
| Preferred | | | | | (675) | | (675) |
| Income tax benefits | | | | 32 | | | 32 |
| Stock-based compensation transactions | (173) | 2,606 | | 682 | | | 3,288 |
| Adjustment to initially apply FAS No. 158 as of January 1, 2008 | | | | | (505) | 366 | (139) |
| **Balances at September 30, 2008** | 8,580 | $ (200,249) | $ 52,323 | $ 167,105 | $ 471,463 | $ (18,827) | $ 471,815 |

See accompanying notes to condensed consolidated financial statements.

**Ferro Corporation and Consolidated Subsidiaries**
**Condensed Consolidated Statements of Cash Flows**

| | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **Cash flows from operating activities** | | |
| Net income | $ 23,336 | $ 16,204 |
| Depreciation and amortization | 57,770 | 63,825 |
| Precious metals deposits | | 70,073 |
| Accounts and trade notes receivable, inventories, and accounts payable | (66,426) | 13,696 |
| Note receivable from Ferro Finance Corporation | (131) | (6,804) |
| Other changes in current assets and liabilities, net | (3,106) | (27,964) |
| Other adjustments, net | (9,532) | (7,701) |
| Net cash provided by continuing operations | 1,911 | 121,329 |
| Net cash used for discontinued operations | (73) | (48) |
| Net cash provided by operating activities | 1,838 | 121,281 |
| **Cash flows from investing activities** | | |
| Capital expenditures for property, plant and equipment | (51,805) | (43,247) |
| Expenditures for other assets | (3,400) | |
| Proceeds from sale of assets and businesses | 586 | 2,704 |
| Dividends received from affiliates | 336 | 551 |
| Net cash used for investing activities | (54,283) | (39,992) |
| **Cash flows from financing activities** | | |
| Net borrowings (repayments) under short-term facilities | 2,102 | (740) |
| Proceeds from convertible notes | 172,500 | |
| Proceeds from revolving credit facility | 756,440 | 592,167 |
| Proceeds from term loan facility | | 55,000 |
| Extinguishment of 9 1/8% notes | (205,269) | |
| Principal payments on revolving credit facility | (638,227) | (700,864) |
| Principal payments on term loan facility | (8,689) | (2,287) |
| Debt issue costs paid | (5,462) | (1,783) |
| Proceeds from exercise of stock options | 58 | 9,217 |
| Cash dividends paid | (19,558) | (19,570) |
| Other financing activities | 1,464 | (4,442) |
| Net cash provided by (used for) financing activities | 55,359 | (73,302) |
| Effect of exchange rate changes on cash and cash equivalents | (415) | 849 |
| **Increase in cash and cash equivalents** | 2,499 | 8,836 |
| Cash and cash equivalents at beginning of period | 12,025 | 16,985 |
| **Cash and cash equivalents at end of period** | $ 14,524 | $ 25,821 |

| | | | | |
|---|---|---|---|---|
| Cash paid during the period for: | | | | |
| Interest | $ | 46,247 | $ | 46,925 |
| Income taxes | $ | 8,379 | $ | 11,387 |

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, 2007. The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the timing and amount of assets, liabilities, equity, revenues and expenses reported and disclosed. Actual amounts could differ from our estimates, resulting in changes in revenues or costs that could have a material impact on the Company s results of operations, financial position, or cash flows. In our opinion, we made all adjustments that are necessary for a fair presentation, and those adjustments are of a normal recurring nature unless otherwise noted. Due to differing business conditions, our various initiatives, and some seasonality, the results for the three and nine months ended September 30, 2008, are not necessarily indicative of the results expected in subsequent quarters or for the full year.

**2. Accounting Standards Adopted in the Nine Months Ended September 30, 2008**

On January 1, 2008, we adopted FASB Statement No. 157, *Fair Value Measurements*, ( FAS No. 157 ), FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13*, ( FSP No. FAS 157-1 ), and FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, ( FSP No. FAS 157-2 ). Effective July 1, 2008, we also adopted FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active*, ( FSP No. FAS 157-3 ). FAS No. 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements, but does not require any new fair value measurements. FSP No. FAS 157-1 excludes FASB Statement No. 13, *Accounting for Leases*, ( FAS No. 13 ) as well as other accounting pronouncements that address fair value measurement on lease classification or measurement under FAS No. 13 from the scope of FAS No. 157. FSP No. FAS 157-2 delays the effective date of FAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP No. FAS 157-3 amends FAS No. 157 to give an example of how to determine the fair value of a financial asset in an inactive market, but does not change the fair value measurement principles of FAS No. 157. The portions of these pronouncements that were not delayed were adopted prospectively, and their adoption reduced the disclosed fair value of our borrowings under the revolving credit and term loan facilities and reduced the carrying value of our interest rate swaps. We are currently evaluating the impact on our consolidated financial statements of adopting the deferred portions of these pronouncements on January 1, 2009.

On January 1, 2008, we adopted the measurement provisions of FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, ( FAS No. 158 ). The measurement provisions require companies to measure defined benefit plan assets and obligations as of the annual balance sheet date. Previously, we used September 30 as the measurement date for U.S. pension and other postretirement benefits. We have elected to use the September 30, 2007, measurement of assets and benefit obligations to calculate the fiscal year 2008 expense. Expense for the gap period from September 30 to December 31 is recognized as of January 1, 2008, as a charge of $0.5 million, net of tax, to retained earnings and a credit of $0.4 million, net of tax, to accumulated other comprehensive income.

On January 1, 2008, we adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, ( FAS No. 159 ). This statement permits us to choose, at specified election dates, to measure eligible items at fair value (the fair value option ). For items for which the fair value option has been elected, we would report unrealized gains and losses in earnings at each subsequent reporting date and recognize up-front costs and fees in earnings as incurred. We have not elected to measure any eligible items at fair value, and we do not have any current plans to do so. Therefore, adoption of FAS No. 159 did not have an effect on our consolidated financial statements.

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On January 1, 2008, we adopted Emerging Issues Task Force Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*, ( EITF No. 06-11 ). EITF No. 06-11 requires that the income tax benefit from dividends that are charged to retained earnings and paid to employees for nonvested equity shares be recognized as an increase to paid-in capital. Previously, we recognized this income tax benefit as an increase to retained earnings. Beginning in 2008, we report this income tax benefit as an increase to paid-in capital.

**3. Newly Issued Accounting Pronouncements**

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations*, ( FAS No. 141(R) ) and Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*, ( FAS No. 160 ). These statements change the way that companies account for business combinations and noncontrolling interests (e.g., minority interests). Both standards are to be applied prospectively for fiscal years beginning after December 15, 2008. However, FAS No. 160 requires entities to apply the presentation and disclosure requirements retrospectively to comparative financial statements. In 2009, we will retrospectively reclassify the amount of minority interests in consolidated subsidiaries to equity and separately report the amount of net income or loss attributable to minority interests.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, ( FAS No. 161). This Statement requires enhanced disclosures about an entity s derivative and hedging activities. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We do not expect the adoption of FAS No. 161 to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, ( FSP No. FAS 142-3 ). This pronouncement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP No. FAS 142-3 is to be applied prospectively and is effective for financial statements issued for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating its effect on our financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, ( FSP No. APB 14-1 ). This pronouncement specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. APB 14-1 is to be applied retrospectively and is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. If this pronouncement had been applied at September 30, 2008, the carrying value of the liability component of the 6.50% Convertible Senior Notes would have been approximately $152.7 million, including $0.4 million of imputed interest, and the carrying value of the equity component would have been approximately $19.6 million, net of $0.6 million of allocated third-party transaction costs.

**4. Inventories**

Inventories consisted of the following:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| Raw materials | $ 94,975 | $ 74,659 |
| Work in process | 50,639 | 41,640 |
| Finished goods | 160,640 | 146,500 |
| Total | $ 306,254 | $ 262,799 |

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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 $1.1 million and $0.8 million for the three months ended September 30, 2008 and 2007, respectively, and $3.4 million and $2.8 million for the nine months ended September 30, 2008 and 2007, respectively, and were charged to cost of sales. We had on hand $125.8 million at September 30, 2008, and $148.3 million at December 31, 2007, of precious metals owned by financial institutions, measured at fair value based on market prices for identical assets.

**5. Property, Plant and Equipment**

Property, plant and equipment is reported net of accumulated depreciation of $668.0 million at September 30, 2008, and $713.5 million at December 31, 2007.

**6. Financing and Long-term Debt**

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

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| Loans payable to banks | $ 3,128 | $ 954 |
| Current portion of long-term debt | 4,244 | 4,490 |
| Total | $ 7,372 | $ 5,444 |

Long-term debt consisted of the following:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| $172.5 million 6.50% Convertible Senior Notes | $ 172,500 | $ |
| $200 million 9 1/8% Senior Notes, net of unamortized discounts | | 199,636 |
| Revolving credit facility | 132,070 | 13,857 |
| Term loan facility | 293,261 | 301,950 |
| Capitalized lease obligations | 7,863 | 8,924 |
| Other notes | 547 | 768 |
| | 606,241 | 525,135 |
| Less current portion | (4,244) | (4,490) |
| Total | $ 601,997 | $ 520,645 |

***Credit Rating***

At September 30, 2008, the Company s corporate credit rating was B1, with a positive outlook, by Moody s Investor Services, Inc. and B+, with a stable outlook, by Standard & Poor s Rating Group.

***6.50% Convertible Senior Notes***

In August 2008, Ferro issued $172.5 million of 6.50% Convertible Senior Notes due 2013 (the Convertible Notes ). The proceeds from the offering, along with available cash, including borrowings under Ferro s revolving credit facility, were used to purchase all of Ferro s outstanding 9 1/8% Senior Notes. The Convertible Notes bear interest at a rate of 6.5% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on February 15, 2009. The Convertible Notes mature on August 15, 2013.

The Convertible Notes are convertible, under certain circumstances, using a net share settlement process, into a combination of cash and shares of Ferro s common stock. The initial base conversion price of the Convertible Notes is approximately $32.34, based on the initial base conversion rate of 30.9253 shares of common stock per $1,000 principal amount of Convertible Notes. Upon conversion of a Convertible Note, the holder will receive cash equal to the principal amount of the Convertible Note and shares of common stock to the extent the Convertible Note s conversion value exceeds the principal amount. In addition, upon certain circumstances, Ferro will increase the applicable conversion rate for a holder who elects to convert its Convertible Notes. The number of additional shares of common stock is determined pursuant to a specified formula, which is dependent on the Company s stock price at the time of conversion. Ferro may be required to repurchase the Convertible Notes if Ferro is involved in certain types of corporate transactions or other events constituting a fundamental change.

***9 1/8% Senior Notes***

In June 2008, Ferro commenced a cash tender offer to purchase any and all of its outstanding $200 million aggregate principal amount of 9 1/8% Senior Notes due 2009 (the 9 1/8% Notes ). In August and September, we purchased all of the 9 1/8% Notes for $205.3 million, including call premiums and tender costs, and recorded a loss of $5.5 million, including unamortized discounts and fees. We financed the purchase of the 9 1/8% Notes and related costs from the issuance of the Convertible Notes, along with available cash, including borrowings under Ferro s revolving credit facility.

***Revolving Credit and Term Loan Facilities***

In 2006, we entered into an agreement with a group of lenders for a $700 million credit facility, consisting of a multi-currency senior revolving credit facility and a senior term loan facility. In 2007, we cancelled the unused portion of the term loan facility and amended the credit facility (the Amended Credit Facility ). At September 30, 2008, the Amended Credit Facility consisted of a $300 million revolving credit facility, which matures in 2011, and a $305 million term loan facility, which matures in 2012. As part of the agreement, we can request an increase of $50 million in the revolving credit facility. We had $159.3 million at September 30, 2008, and $277.5 million at December 31, 2007, available under the revolving credit facility, after reductions for standby letters of credit secured by this facility.

In 2007, we began making periodic principal payments on the term loans. We are required to make minimum quarterly principal payments of $0.8 million from July 2008 to July 2011. During the last year of the loan s life, we are required to repay the remaining balance of the term loans in four quarterly installments. Currently, those last four payments will be $71.0 million each. In addition to the minimum quarterly payments, each April we may be required to make an additional principal payment. The amount of this additional payment is dependent on the Company s leverage and certain cash flow metrics. Any additional payment that is required reduces, on a dollar-for-dollar basis, the amount due in the last four quarterly payments. In April 2008, we made an additional principal payment of $6.4 million.

The interest rates under the Amended Credit Facility are equal to the sum of (A) either (1) LIBOR or (2) the higher of the Federal Funds Rate plus 0.5% or the Prime Rate and (B) for the revolving credit facility, a variable margin based on the Company s leverage, or for the term loan facility, a fixed margin. As part of the 2007 amendments, $175 million of borrowings under the term loan facility were restricted to using three-month LIBOR in determining their interest rates. This change was made in connection with interest rate swap agreements executed in 2007. These swap agreements effectively fixed the interest rate through June 2011 on $150 million of borrowings under the term loan facility. The average interest rate for revolving credit borrowings was 4.4% at September 30, 2008, and 6.5% at Decembe