

FERRO CORP  
Form 10-Q  
December 19, 2006

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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 September 30, 2006**

**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**

**(State of Corporation)**

**34-0217820**

**(IRS Employer Identification No.)**

**1000 Lakeside Avenue**

**Cleveland, OH**

**(Address of Principal executive offices)**

**44114**

**(Zip Code)**

**216-641-8580**

**(Telephone Number)**

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

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

Accelerated filer

Non-accelerated filer

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

At November 30, 2006, there were 42,801,687 shares of Ferro Common Stock, par value \$1.00, outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)  
Ferro Corporation and Consolidated Subsidiaries  
Condensed Consolidated Statements of Income**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands, except per share amounts)</b>			
<b>Net sales</b>	\$ 500,573	\$ 466,116	\$ 1,544,218	\$ 1,424,416
Cost of sales	401,923	371,705	1,226,771	1,132,581
Selling, general and administrative expenses	74,116	75,267	231,955	237,622
Other expense (income):				
Interest expense	16,818	12,156	48,155	34,862
Foreign currency transactions, net	166	53	706	1,039
Miscellaneous (income) expense, net	(543)	(5,176)	329	(5,219)
<b>Income before taxes</b>	<b>8,093</b>	<b>12,111</b>	<b>36,302</b>	<b>23,531</b>
Income tax expense	2,663	4,929	11,943	7,689
<b>Income from continuing operations</b>	<b>5,430</b>	<b>7,182</b>	<b>24,359</b>	<b>15,842</b>
Gain (loss) on disposal of discontinued operations, net of tax	62	(332)	(405)	(551)
<b>Net income</b>	<b>5,492</b>	<b>6,850</b>	<b>23,954</b>	<b>15,291</b>
Dividends on preferred stock	310	367	955	1,129
<b>Net income available to common shareholders</b>	<b>\$ 5,182</b>	<b>\$ 6,483</b>	<b>\$ 22,999</b>	<b>\$ 14,162</b>
<b>Per common share data</b>				
Basic earnings (loss):				
From continuing operations	\$ 0.12	\$ 0.16	\$ 0.55	\$ 0.34
From discontinued operations	0.00	(0.01)	(0.01)	(0.01)
	\$ 0.12	\$ 0.15	\$ 0.54	\$ 0.33
Diluted earnings (loss):				
From continuing operations	\$ 0.12	\$ 0.16	\$ 0.55	\$ 0.34
From discontinued operations	0.00	(0.01)	(0.01)	(0.01)
	\$ 0.12	\$ 0.15	\$ 0.54	\$ 0.33
Dividends	\$ 0.145	\$ 0.145	\$ 0.435	\$ 0.435

See accompanying notes to Condensed Consolidated Financial Statements



**Table of Contents****Ferro Corporation and Consolidated Subsidiaries  
Condensed Consolidated Balance Sheets**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 10,616	\$ 17,413
Accounts and trade notes receivable, net	214,560	182,390
Notes receivable	29,752	112,744
Inventories	254,189	215,257
Deposits for precious metals	93,250	19,000
Deferred income taxes	42,453	40,732
Other current assets	24,169	23,183
<b>Total current assets</b>	<b>668,989</b>	<b>610,719</b>
Property, plant & equipment, net	524,533	531,139
Intangibles, net	411,115	410,666
Deferred income taxes	61,748	61,130
Other non-current assets	85,731	54,890
<b>Total assets</b>	<b>\$ 1,752,116</b>	<b>\$ 1,668,544</b>
<b>LIABILITIES and SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Loans payable and current portion of long-term debt	\$ 7,087	\$ 7,555
Accounts payable	232,001	236,282
Income taxes	6,420	5,474
Accrued payrolls	34,486	25,112
Accrued expenses and other current liabilities	88,363	92,461
<b>Total current liabilities</b>	<b>368,357</b>	<b>366,884</b>
Long-term debt, less current portion	612,738	546,168
Post-retirement and pension liabilities	201,073	230,320
Deferred income taxes	19,706	14,002
Other non-current liabilities	26,002	22,611
<b>Total liabilities</b>	<b>1,227,876</b>	<b>1,179,985</b>
Series A convertible preferred stock	17,424	20,468
<b>Shareholders equity</b>	<b>506,816</b>	<b>468,091</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,752,116</b>	<b>\$ 1,668,544</b>

See accompanying notes to Condensed Consolidated Financial Statements



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

	<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>	
<b>Cash flows from operating activities</b>		
Net cash provided by continuing operations	\$ 15,772	\$ 15,512
Net cash used for discontinued operations	(867)	(1,097)
<b>Net cash provided by operating activities</b>	14,905	14,415
<b>Cash flows from investing activities</b>		
Capital expenditures for plant and equipment	(33,602)	(29,183)
Acquisitions, net of cash acquired		(1,908)
Proceeds from sale of assets and businesses	6,430	747
Cash investment in Ferro Finance Corporation	(25,000)	
Other investing activities	(105)	(51)
<b>Net cash used for investing activities</b>	(52,277)	(30,395)
<b>Cash flows from financing activities</b>		
Net payments under short term facilities	(468)	(3,211)
Proceeds from former revolving credit facility	461,900	668,767
Proceeds from revolving credit facility	504,300	
Proceeds from term loan facility	250,000	
Principal payments on former revolving credit facility	(648,000)	(624,391)
Principal payments on revolving credit facility	(346,600)	
Extinguishment of debentures	(155,000)	
Debt issue costs paid	(15,804)	
Cash dividends paid	(19,439)	(19,541)
Other financing activities	(112)	(1,454)
<b>Net cash provided by (used for) financing activities</b>	30,777	20,170
Effect of exchange rate changes on cash	(202)	(288)
<b>Increase (decrease) in cash and cash equivalents</b>	(6,797)	3,902
Cash and cash equivalents at beginning of period	17,413	13,939
<b>Cash and cash equivalents at end of period</b>	\$ 10,616	\$ 17,841
Cash paid during the period for:		
Interest	\$ 48,710	\$ 34,514
Income taxes	\$ 8,607	\$ 6,791

See accompanying notes to Condensed Consolidated Financial Statements



**Table of Contents****Ferro Corporation and Consolidated Subsidiaries****Notes to Condensed Consolidated Financial Statements****1. Basis of presentation**

These unaudited condensed consolidated financial statements of Ferro Corporation and its consolidated subsidiaries ( Company ) have been prepared 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 notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Actual amounts could differ from these estimates. In the opinion of management, all adjustments that are necessary for a fair presentation have been made and are of a normal recurring nature unless otherwise noted. Due to differing business conditions, various Company initiatives, and some seasonality, the results for the three and nine months ended September 30, 2006, are not necessarily indicative of the results expected in subsequent quarters or for the full year.

**2. Accounting pronouncements adopted in the nine months ended September 30, 2006**

Before January 1, 2006, the Company accounted for stock-based compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, as permitted by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (FAS No. 123). Accordingly, the Company recognized no compensation expense, because under the award plans the stock option exercise price may not be less than the per share fair market value of the Company s stock on the date of grant.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment , (FAS No. 123R). This statement requires the Company to recognize over the requisite service periods compensation costs for the estimated grant-date fair value of stock-based awards that are expected to ultimately vest and to adjust expected vesting rates to actual results as these become known.

The Company s condensed consolidated financial statements as of and for the three and nine months ended September 30, 2006, reflect the impact of FAS No. 123R, and, in accordance with the modified prospective transition method, the condensed consolidated financial statements for the prior periods do not include the impact of FAS No. 123R. Under the modified prospective transition method, the Company has recognized compensation expense that includes (a) compensation cost for all stock-based compensation granted, but not yet vested, as of the date of adoption, and (b) compensation cost for all stock-based compensation granted on or subsequent to adoption.

The adoption of FAS No. 123R reduced pre-tax income from continuing operations by \$0.8 million and \$2.3 million and net income by \$0.5 million and \$1.5 million for the three and nine months ended September 30, 2006, respectively. The adoption of FAS No. 123R also reduced basic and diluted earnings per share by \$0.01 and \$0.03 for the three and nine months ended September 30, 2006, respectively, and required the classification of realized tax benefits, related to the excess of the deductible compensation cost over the amount recognized, as a financing activity rather than as an operating activity in the condensed consolidated statement of cash flows.

The following table contains pro forma disclosures regarding the effect on the Company s net income and basic and diluted earnings per share for the three and nine months ended September 30, 2005, had the Company applied a fair value method of accounting for stock-based compensation in accordance with FAS No. 123.

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	<b>Three months ended September 30, 2005</b>	<b>Nine months ended September 30, 2005</b>
	<b>(Dollars in thousands, except per share amounts)</b>	
Income available to common shareholders from continuing operations as reported	\$ 6,815	\$ 14,713
Add: Stock-based employee compensation expense included in reported income, net of tax	36	107
Deduct: Total stock-based employee compensation expense determined under fair value methods for all awards, net of tax	(859)	(2,492)
 Income available to common shareholders from continuing operations pro forma	 \$ 5,992	 \$ 12,328
 Basic earnings per share from continuing operations as reported	 \$ 0.16	 \$ 0.34
Basic earnings per share from continuing operations pro forma	\$ 0.14	\$ 0.29
 Diluted earnings per share from continuing operations as reported	 \$ 0.16	 \$ 0.34
Diluted earnings per share from continuing operations pro forma	\$ 0.14	\$ 0.29

There was no impact on pro forma expense from discontinued operations for the periods presented.

For the purpose of computing pro forma net income, the fair value of stock options was estimated at their grant date using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics that are not present in the Company's option grants. If the model permitted consideration of the unique characteristics of employee stock options, the resulting estimate of the fair value of the stock options could be different and would likely be lower.

**3. Newly issued accounting pronouncement**

In September 2006, the FASB issued 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). This statement will require the Company to:

Recognize the overfunded or underfunded status of defined benefit post retirement plans as an asset or liability in its consolidated balance sheets and to recognize changes in that funded status through comprehensive income in the year in which the changes occur;

Recognize as a component of other comprehensive income, net of tax, the actuarial gains or losses and prior service costs or benefits that arise during the period but are not recognized as components of net periodic cost;

Measure defined benefit plan assets and obligations as of the balance sheet date; and

Disclose additional information concerning the delayed recognition of actuarial gains or losses and prior service costs or benefits.

The Company will be required to adopt the recognition and disclosure provisions of FAS No. 158 as of December 31, 2006. Upon adoption of the recognition provisions of FAS No. 158, the Company anticipates adjustments to increase the accrued benefit liability by approximately \$26.0 million and increase the accumulated other comprehensive loss, net of tax, by approximately \$16.9 million.

The Company will be required to adopt the measurement provisions of FAS No. 158 as of December 31, 2008. The Company is currently evaluating the requirements of the measurement provisions of FAS No. 158 and has not yet determined the impact, if any, this may have on its consolidated financial statements.

**4. Shareholders equity**

Comprehensive income (loss) represents net income adjusted for foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gain (loss) adjustments associated with investments in marketable equity securities that are available for sale. Comprehensive income was \$4.5 million and \$7.2 million for the three months ended September 30, 2006 and 2005, respectively. Comprehensive income (loss) was \$52.8 million and \$(14.4) million for the nine months ended September 30, 2006 and 2005, respectively. Accumulated other comprehensive loss at September 30, 2006, and December 31, 2005, was \$87.1 million and \$116.0 million, respectively.

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Transactions involving benefit plans increased shareholders' equity by \$0.4 million and \$0.4 million for the three months ended September 30, 2006 and 2005, respectively, and by \$5.3 million and \$3.2 million for the nine months ended September 30, 2006 and 2005, respectively.

**5. Inventories**

Inventories are comprised of the following:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Dollars in thousands)</b>	
Raw materials	\$ 78,235	\$ 62,488
Work in process	43,037	34,122
Finished goods	147,346	133,060
FIFO cost (approximates replacement cost)	268,618	229,670
LIFO reserve	(14,429)	(14,413)
Total	\$ 254,189	\$ 215,257

**6. Financing and long-term debt**

Long-term debt consists of the following:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Dollars in thousands)</b>	
\$200,000 Senior notes, 9.125%, due 2009 (a)	\$ 199,182	\$ 198,909
\$25,000 Debentures, 7.625%, due 2013 (a)		24,877
\$25,000 Debentures, 7.375%, due 2015 (a)		24,965
\$50,000 Debentures, 8.0%, due 2025 (a)		49,550
\$55,000 Debentures, 7.125%, due 2028 (a)		54,532
Revolving credit facility	157,700	
Term loan facility	250,000	
Prior revolving credit facility		186,100
Capitalized lease obligations	6,795	7,364
Other notes	1,303	1,560
	614,980	547,857
Less current portion	2,242	1,689
Total	\$ 612,738	\$ 546,168

(a) Net of  
unamortized  
discounts

**Revolving Credit and Term Loan Facilities**

In March 2006, the Company accepted a commitment from a syndicate of lenders to underwrite a \$700 million credit facility (the New Credit Facility) and, in June 2006, finalized the agreement. The New Credit Facility is

comprised of a five year, \$250 million multi-currency senior revolving credit facility and a six year, \$450 million senior delayed-draw term loan facility. Under the terms of the New Credit Facility, the Company can request that the revolving credit facility be increased by \$50 million at no additional fee. At September 30, 2006, the Company had borrowed \$157.7 million under the revolving credit facility and \$250.0 million under the term loan facility.

The New Credit Facility was entered into to replace the prior revolving credit facility that was scheduled to expire in September 2006. In addition, the financing, through the term loan facility, provided capital resources sufficient to refinance the \$200 million of senior notes and \$155 million of debentures that could have become immediately due and payable due to defaults associated with the Company's delayed Securities and Exchange Commission ( SEC ) financial filings for 2005. Because one of the purposes of the term loan facility is to fund the potential acceleration of the senior notes and debentures, the term facility contains certain restrictions including, but not limited to, the following:

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\$355 million of the facility is reserved to repay the senior notes and debentures;

\$95 million of the facility is immediately available for refunding indebtedness other than the senior notes and debentures;

The Company may access up to \$55 million of the \$355 million reserved to repay the senior notes and debentures if these obligations have not already been paid in full and no event of default for these obligations exists and is continuing; and

The Company may draw on the delayed-draw facility for up to one year with any unused commitment under the term facility terminating on June 6, 2007.

At the close of the New Credit Facility in June 2006, the Company drew \$95 million of the term loan facility to partially repay the old revolving credit facility. In addition, during the third quarter of 2006, the Company drew down another \$155 million of the term loan facility to repay \$155 million of outstanding debentures, as bondholders accelerated payment on these obligations due to the previously mentioned 2005 SEC financial reporting delays. See further discussion under *Senior Notes and Debentures* below. The Company is required to make quarterly principal payments equal to 0.25% of the amount borrowed under the term loan facility beginning no later than July 2007.

The New Credit Facility bears interest at a rate equal to, at the Company's option, either (1) LIBOR or (2) the Alternate Base Rate which is the higher of the Prime Rate and the Federal Funds Effective Rate plus 0.5%; plus, in each case, applicable margins. For the revolving credit facility, the applicable margin is based on the Company's index debt rating. At September 30, 2006, the average interest rate was 8.6% for revolving credit borrowings and 8.7% for term loan borrowings. At December 31, 2005 the average interest rate for borrowings against the prior revolving credit facility was 6.4%.

The New Credit Facility is secured by substantially all of the Company's assets, including the assets and 100% of the shares of the Company's material domestic subsidiaries and 65% of the shares of the Company's first tier foreign subsidiaries, but excluding trade receivables sold pursuant to the Company's accounts receivable sales programs. These liens are shared with the holders of the Company's senior notes, as required under the respective indenture. The New Credit Facility contains customary operating covenants that limit the Company's ability to engage in certain activities, including limitations on additional loans and investments; creation of additional liens; prepayments, redemptions and repurchases of debt; and mergers, acquisitions and asset sales. The Company is also subject to customary financial covenants including a leverage ratio and a fixed charge coverage ratio. Additional covenants of the New Credit Facility require the Company to file its 2006 Forms 10-Q by December 29, 2006. Failure to satisfy certain of these covenants, either immediately or after a brief period allowing the company to satisfy the covenant, would result in an event of default. If any event of default should occur and be continuing and a waiver not have been obtained, the obligations under the New Credit Facility may become immediately due and payable at the option of providers of more than 50% of the credit facility commitment.

*Senior Notes and Debentures*

At September 30, 2006, the Company had \$200.0 million principal amount outstanding under senior notes, which had an estimated fair market value of \$205.5 million. Fair market value represents a third party's indicative bid prices for these obligations. The Company's senior credit rating was B+ by Standard & Poor's Rating Group (S&P) at September 30, 2006. In March 2006, Moody's Investor Service, Inc. (Moody's) assigned a rating of B1 and then withdrew its ratings. Moody's cited the absence of audited financials for a sustained period of time and the concern that there may be additional delays in receiving audited financial statements for 2005. Moody's also noted that the Company's business profile is consistent with a rating in the Ba category, according to Moody's rating methodology for the chemical industry. Moody's indicated it could reassign ratings to the Company once it has filed audited financials for 2004 and 2005 with the SEC.

The indentures under which the senior notes and the debentures were issued contain operating covenants that limit the Company's ability to engage in certain activities, including limitations on consolidations, mergers, and transfers of assets; and sale and leaseback transactions. The indentures contain cross-default provisions with other debt obligations

that exceed \$10 million of principal outstanding. In addition, the terms of the indentures require, among other things, the Company to file with the Trustee copies of its annual reports on Form 10-K, quarterly reports on Form 10-Q and an Officers Certificate relating to the Company's compliance with the terms of the indentures within 120 days after the end of its fiscal year. The Company has been in default on these reporting requirements since it delayed filing its Form 10-Q for the second quarter of 2004 due to the restatement of its 2003 and first quarter 2004 results. As the Company anticipated and planned for, in March and April 2006, the Company received notices of default from a holder and the Trustee of the senior notes and debentures of which \$355 million was outstanding. The notices of default related only to reporting requirements and the related Officers

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Certificate. Under the terms of the indentures, the Company had 90 days from the notices of default in which to cure the deficiencies identified in the notices of default or obtain waivers, or events of default would have occurred and the holders of the senior notes or debentures or the Trustee could declare the principal immediately due and payable. At the end of these periods, the deficiencies had not been cured and waivers had not been obtained. During July and August 2006, the bondholders accelerated the payment of the principal amount of the debentures, of which \$155 million was outstanding, and the Company financed the accelerated repayments by use of the aforementioned \$450 million term loan facility.

As of the date of this filing, the \$200 million senior notes currently remain outstanding, although they could be declared immediately due and payable. In the event of an acceleration, the Company believes it has sufficient liquidity resources to fully satisfy any potential acceleration. In addition, the senior notes are redeemable at the option of the Company at any time for the principal amount of the senior notes then outstanding plus the sum of any accrued but unpaid interest and the present value of any remaining scheduled interest payments. The senior notes are redeemable at the option of the holders only upon a change in control of the Company combined with a rating by either Moody's or S&P below investment grade as defined in the indenture. Currently, the rating by S&P of the senior notes is below investment grade.

*Asset Securitization Program*

The Company has a \$100 million program to sell (securitize), on an ongoing basis, a pool of its U.S. trade accounts receivable. This program, which extends to June 2009, serves to accelerate cash collections of the Company's trade accounts receivable at favorable financing costs and helps manage the Company's liquidity requirements. Under this program, certain of the Company's trade accounts receivable are sold to Ferro Finance Corporation (FFC), a wholly-owned unconsolidated qualified special purpose entity (QSPE), as defined by Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, (FAS No. 140). In June 2006, the Company amended the program to cure a default resulting from a credit rating downgrade, to modify the reporting requirements to more closely match those in the New Credit Facility, and to extend the program to June 2009.

The program contains operating covenants that limit FFC's ability to engage in certain activities, including limitations on debt, creation of additional liens, mergers, and use of proceeds to acquire equity. The program also requires FFC and the Company to provide certain periodic reports relating to financial statements and the status of trade account receivables and limits their ability to make certain changes in receivable collection practices. In addition, FFC is subject to a financial covenant relating to maintaining a minimum tangible net worth. To meet this requirement, the Company invested an additional \$25 million in the equity of FFC in June 2006. The program is subject to customary events of termination, including non-performance, deterioration in the quality of the account receivable pool, and cross-default provisions with the Company's \$700 million credit facility and other debt obligations with principal outstanding of at least \$5 million. If an event of termination occurs and is not cured, the program may be terminated or a third party may be selected to act as administrator in collecting FFC's account receivables.

FFC finances its acquisition of trade receivable assets by issuing beneficial interests in qualifying receivables to multi-seller receivables securitization companies (commercial paper conduits). FFC and the commercial paper conduits have no recourse to the Company's other assets for failure of debtors to pay when due as the assets transferred are legally isolated in accordance with the bankruptcy laws of the United States. Under FAS No. 140 and FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, the trade receivables sold are not reflected in the Company's consolidated balance sheet as the receivables have been de-recognized with an appropriate accounting loss recognized in the Company's consolidated statements of income. Accounts receivable sold to FFC during the nine months ended September 30, 2006 and 2005, amounted to \$769.6 million and \$709.2 million, respectively. Cash proceeds from FFC during the nine months ended September 30, 2006 and 2005, were \$852.0 million and \$697.4 million, respectively.

The Company holds a note receivable from FFC to the extent that cash proceeds from the sales of accounts receivable to FFC have not yet been received by the Company. The Company, on a monthly basis, measures the fair value of the note receivable using management's best estimate of FFC's ability to pay based on the undiscounted



expected future cash collections on the outstanding accounts receivable sold. Actual cash collections may differ from these estimates and would directly affect the fair value of the note receivable. The note receivable balance was \$29.4 million as of September 30, 2006, and \$111.9 million as of December 31, 2005.

The Company on behalf of FFC and the commercial paper conduits provides normal collection and administration services with respect to the trade accounts receivable. In accordance with FAS No. 140, no servicing asset or liability is

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reflected on the Company's consolidated balance sheet. Accounts receivable collected and remitted to FFC and the commercial paper conduits during the nine months ended September 30, 2006 and 2005, totaled \$763.5 million and \$700.9 million, respectively.

*Liquidity*

The Company's level of debt and debt service requirements could have important consequences to its business operations and uses of cash flows. In addition, a reduction in overall demand for the Company's products could adversely affect cash flows. At September 30, 2006, the Company had a \$250 million revolving credit facility of which \$74.1 million was available. This liquidity, along with liquidity from other financing arrangements, available cash flows from operations, and asset sales, should allow the Company to meet its funding requirements and other commitments.

**7. Earnings per share computation**

Information concerning the calculation of basic and diluted earnings per share is shown below:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except per share amounts)</b>			
<b>Basic earnings per share computation:</b>				
Net income available to common shareholders	\$ 5,182	\$ 6,483	\$ 22,999	\$ 14,162
Add back: (Gain) loss from discontinued operations	(62)	332	405	551
	\$ 5,120	\$ 6,815	\$ 23,404	\$ 14,713
Weighted-average common shares outstanding	42,397	42,325	42,394	42,300
Basic earnings per share from continuing operations	\$ 0.12	\$ 0.16	\$ 0.55	\$ 0.34
<b>Diluted earnings per share computation:</b>				
Net income available to common shareholders	\$ 5,182	\$ 6,483	\$ 22,999	\$ 14,162
Add back: (Gain) loss from discontinued operations	(62)	332	405	551
Plus: Convertible preferred stock				
	\$ 5,120	\$ 6,815	\$ 23,404	\$ 14,713
Weighted-average common shares outstanding	42,397	42,325	42,394	42,300
Assumed conversion of convertible preferred stock				
Assumed satisfaction of performance share conditions	26		17	
Assumed exercise of stock options		51		44
Weighted-average diluted shares outstanding	42,423	42,376	42,411	42,344
Diluted earnings per share from continuing operations	\$ 0.12	\$ 0.16	\$ 0.55	\$ 0.34

The convertible preferred shares were anti-dilutive for the three and nine months ended September 30, 2006 and 2005, and thus not included in the diluted shares outstanding. The stock options were anti-dilutive for the three and

nine months ended September 30, 2006, and thus not included in the diluted shares outstanding.

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**8. Restructuring and cost reduction programs**

The following table summarizes the activities relating to the Company's reserves for restructuring and cost reduction programs: