EASTMAN CHEMICAL CO
Form 10-Q
April 30, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2013
	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 1-12626

EASTMAN CHEMICAL COMPANY
(Exact name of registrant as specified in its charter)

Delaware	62-1539359
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

200 South Wilcox Drive	
Kingsport, Tennessee	37662
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (423) 229-2000

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 [X] 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 [X] 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.

Large accelerated filer	[X]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding at March 31, 2013
Common Stock, par value $0.01 per share	154,844,956

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

	First Three Months	
(Dollars in millions, except per share amounts)	2013	2012
Sales	$2,307	$1,821
Cost of sales	1,691	1,390
Gross profit	616	431
Selling, general and administrative expenses	171	126
Research and development expenses	49	41
Asset impairments and restructuring charges	3	—
Operating earnings	393	264
Net interest expense	47	19
Other charges (income), net	1	—
Earnings from continuing operations before income taxes	345	245
Provision for income taxes from continuing operations	97	85
Earnings from continuing operations	248	160
Loss from disposal of discontinued operations, net of tax	—	(1)
Net earnings	$248	$159
Less: Net earnings attributable to noncontrolling interest	1	1
Net earnings attributable to Eastman	$247	$158
Amounts attributable to Eastman stockholders		
Earnings from continuing operations, net of tax	$247	$159
Loss from discontinued operations, net of tax	—	(1)
Net earnings attributable to Eastman stockholders	$247	$158
Basic earnings per share attributable to Eastman		
Basic earnings per share attributable to Eastman	$1.60	$1.15
Diluted earnings per share attributable to Eastman		
Earnings from continuing operations	$1.57	$1.13
Loss from discontinued operations	—	(0.01)
Diluted earnings per share attributable to Eastman	$1.57	$1.12

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS (continued)

(Dollars in millions, except per share amounts)	First Three Months 2013	2012
Comprehensive Income		
Net earnings including noncontrolling interest	$248	$159
Other comprehensive income (loss), net of tax		
Change in cumulative translation adjustment	(50)	15
Defined benefit pension and other postretirement benefit plans:		
Amortization of unrecognized prior service credits included in net periodic costs	(4)	(5)
Derivatives and hedging:		
Unrealized gain during period	14	10
Reclassification adjustment for gains included in net income	2	(5)
Total other comprehensive income (loss), net of tax	(38)	15
Comprehensive income including noncontrolling interest	210	174
Comprehensive income attributable to noncontrolling interest	1	1
Comprehensive income attributable to Eastman	209	173
Retained Earnings		
Retained earnings at beginning of period	$3,038	$2,760
Net earnings attributable to Eastman	247	158
Cash dividends declared	(46)	(36)
Retained earnings at end of period	$3,239	$2,882

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)	March 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$178	$249
Trade receivables, net	990	846
Miscellaneous receivables	182	151
Inventories	1,301	1,260
Other current assets	86	88
Total current assets	2,737	2,594
Properties		
Properties and equipment at cost	9,684	9,681
Less: Accumulated depreciation	5,530	5,500
Net properties	4,154	4,181
Goodwill	2,635	2,644
Intangible assets, net of accumulated amortization	1,842	1,849
Other noncurrent assets	319	351
Total assets	$11,687	$11,619
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	$1,289	$1,360
Borrowings due within one year	4	4
Total current liabilities	1,293	1,364
Long-term borrowings	4,779	4,779
Deferred income tax liabilities	104	91
Post-employment obligations	1,840	1,856
Other long-term liabilities	483	501
Total liabilities	8,499	8,591
Stockholders' equity		
Common stock ($0.01 par value – 350,000,000 shares authorized; shares issued – 214,741,633 and 213,406,523 for 2013 and 2012, respectively)	2	2
Additional paid-in capital	1,740	1,709
Retained earnings	3,239	3,038
Accumulated other comprehensive income	85	123
	5,066	4,872
Less: Treasury stock at cost (59,957,162 shares for 2013 and 59,511,662 shares for 2012)	1,961	1,929
Total Eastman stockholders' equity	3,105	2,943
Noncontrolling interest	83	85
Total equity	$3,188	$3,028
Total liabilities and stockholders' equity	$11,687	$11,619

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	First Three Months	
(Dollars in millions)	2013	2012
Cash flows from operating activities		
Net earnings including noncontrolling interest	$248	$159
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	110	69
Provision for deferred income taxes	26	13
Pension and other postretirement contributions (in excess of) less than expenses	(25)	(27)
Variable compensation (in excess of) less than expenses	(57)	(71)
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(155)	(103)
(Increase) decrease in inventories	(53)	14
Increase (decrease) in trade payables	(27)	(20)
Other items, net	(62)	(15)
Net cash provided by operating activities	5	19
Cash flows from investing activities		
Additions to properties and equipment	(87)	(90)
Proceeds from redemption of short-term time deposits	—	120
Proceeds from sale of assets and investments	5	6
Acquisitions and investments in joint ventures, net of cash acquired	—	(10)
Additions to capitalized software	(1)	(1)
Other items, net	—	(35)
Net cash used in investing activities	(83)	(10)
Cash flows from financing activities		
Net increase (decrease) in commercial paper, credit facility, and other borrowings	200	(1)
Proceeds from borrowings	—	5
Repayment of borrowings	(200)	—
Dividends paid to stockholders	(1)	(36)
Treasury stock purchases	(32)	—
Dividends paid to noncontrolling interest	(3)	—
Proceeds from stock option exercises and other items, net	46	15
Net cash provided by (used in) financing activities	10	(17)
Effect of exchange rate changes on cash and cash equivalents	(3)	—
Net change in cash and cash equivalents	(71)	(8)
Cash and cash equivalents at beginning of period	249	577
Cash and cash equivalents at end of period	$178	$569

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company (the "Company" or "Eastman") in accordance and consistent with the accounting policies stated in the Company's 2012 Annual Report on Form 10-K and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of the Company's 2012 Annual Report on Form 10-K. The unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States ("GAAP") and of necessity include some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, sales revenue, and expenses of all majority-owned subsidiaries and joint ventures in which a controlling interest is maintained. Eastman accounts for other joint ventures and investments where it exercises significant influence on the equity basis. Intercompany transactions and balances are eliminated in consolidation. Certain prior period data has been reclassified in the Consolidated Financial Statements and accompanying footnotes to conform to current period presentation.

Solutia acquisition
Information related to the Solutia Inc. ("Solutia") acquisition completed July 2, 2012 is in Note 2, "Acquisitions and Investments in Joint Ventures". As of the date of acquisition, results of the acquired Solutia businesses are included in Eastman results.

2. ACQUISITIONS AND INVESTMENTS IN JOINT VENTURES

Solutia Inc.
On July 2, 2012, the Company completed its acquisition of Solutia, a global leader in performance materials and specialty chemicals. In the acquisition, each outstanding share of Solutia common stock was cancelled and converted automatically into the right to receive $22.00 in cash and 0.12 shares of Eastman common stock. In total, 14.7 million shares of Eastman common stock were issued in the transaction. The fair value of total consideration transferred was $4.8 billion, consisting of cash of $2.6 billion, net of cash acquired; equity in the form of Eastman stock of approximately $700 million; and the assumption and subsequent repayment of Solutia's debt at fair value of $1.5 billion.

The funding of the cash portion of the purchase price, repayment of Solutia's debt, and acquisition costs was provided primarily from borrowings, including the $2.3 billion net proceeds from the public offering of notes on June 5, 2012 and borrowings of $1.2 billion on July 2, 2012 under a five-year term loan agreement (the "Term Loan"). See Note 6, "Borrowings".

The purchase price allocation for the Solutia acquisition has been finalized as of December 31, 2012, with the exception of current and deferred income taxes and the allocation of goodwill to reporting units. The finalization of current and deferred income taxes is expected to be completed during the first half of 2013 upon completion of the Solutia 2012 final tax returns. Goodwill has been preliminarily allocated to the reporting units. There were no adjustments during first quarter 2013 to the December 31, 2012 purchase price allocation of the July 2, 2012 Solutia acquisition, as summarized in the table below.

(Dollars in millions)	
Assets acquired and liabilities assumed on July 2, 2012	
Current assets	$920
Properties and equipment	947
Intangible assets	1,791
Other noncurrent assets	614

Goodwill	2,230
Current liabilities	(462)
Long-term liabilities	(2,665)
Equity and cash consideration, net of $88 million cash acquired	$3,375

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company used the income, market, or cost approach (or a combination thereof) for the valuation as appropriate, and used valuation inputs in these models and analyses that were based on market participant assumptions. Market participants are considered to be buyers and sellers unrelated to Eastman in the principal or most advantageous market for the asset or liability. For certain items, the carrying value was determined to be a reasonable approximation of fair value based on information available to Eastman management. The fair value of receivables acquired from Solutia on July 2, 2012 was $350 million, with gross contractual amounts receivable of $366 million. Acquired intangible assets are primarily customer relationships, trade names, and developed technologies. Long-term liabilities are primarily Solutia's debt, which was repaid by Eastman at closing, deferred tax liabilities, environmental liabilities, and pension and other postretirement welfare plan obligations. The Company finalized the acquisition accounting related to the transaction during fourth quarter 2012 with the exception of income taxes which are expected to be completed during the first half of 2013. Any adjustments for tax are not expected to have a material impact on the Company's financial position or results of operations.

The acquisition of Solutia broadens Eastman's global presence, facilitates growth opportunities through enhanced access to markets such as the automotive and architectural industries, and expands Eastman's portfolio of sustainable products. In connection with the purchase, the Company recorded goodwill, which represents the excess of the purchase price over the estimated fair value of tangible and intangible assets acquired, net of liabilities assumed. The goodwill is attributed primarily to Solutia as a going concern and the fair value of expected cost synergies and revenues growth from combining the Eastman and Solutia businesses. The going concern element represents the ability to earn a higher return on the combined assembled collection of assets and businesses of Solutia than if those assets and businesses were to be acquired and managed separately. Other relevant elements of goodwill are the benefits of access to certain markets and work force. Goodwill from the Solutia acquisition has been allocated to certain of the Company's reportable segments. None of the goodwill is deductible for tax purposes.

(Dollars in millions)	Goodwill
Additives & Functional Products	$740
Advanced Materials	1,027
Specialty Fluids & Intermediates	463
Total	$2,230

Properties acquired included a number of manufacturing, sales, and distribution sites and related facilities, land and leased sites that include leasehold improvements, and machinery and equipment for use in manufacturing operations. Management valued properties using the cost approach supported where available by observable market data which includes consideration of obsolescence.

Intangible assets acquired included a number of trade names and trademarks that are both business-to-business and business-to-consumer in nature, including Crystex®, Saflex®, and Llumar®. Also acquired was technology related to products protected by a number of existing patents, patent applications, and trade secrets. In addition to these intangible assets, the Company acquired a number of customer relationships in industries such as automotive tires and aviation. Management valued intangible assets using the relief from royalty and multi-period excess earnings methods, both forms of the income approach supported by observable market data for peer chemical companies.

(Dollars in millions)	Fair Value	Weighted-Average Amortization Period (Years)
Amortizable intangible assets		
Customer relationships	$809	22
Developed technologies	440	13
Indefinite-lived intangible assets		

Trade names	542
Total	$1,791

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Management estimated the fair market value of fixed-rate debt based on the viewpoint that the exit price approximated the entry price given the lack of observable market prices. Additionally, acquired interest rate swaps and foreign exchange contracts were terminated and settled immediately following the acquisition. Because these derivatives were recorded at fair value in the opening balance sheet, there were no gains or losses associated with these settlements.

Management also evaluated probable loss contingencies, including those for legal and environmental matters, as prescribed under applicable GAAP. Due to the lack of observable market inputs, assumed liabilities for environmental loss contingencies that were both probable and estimable were recorded based upon estimates of future cash outflows for such contingencies as of the acquisition date. See Note 10, "Environmental Matters", for more information.

Related to the acquisition of Solutia, the Company recognized $7 million in integration costs in first quarter 2013. In first quarter 2012, the Company recognized $9 million in transaction costs and $5 million in financing costs related to the acquisition. Transaction costs and integration costs were expensed as incurred and are included in the "Selling, general and administrative expenses" line item and financing costs are included in the "Other charges (income), net" line item in the Unaudited Consolidated Statements of Earnings, Comprehensive Income, and Retained Earnings.

Beginning third quarter 2012, the Company's consolidated results of operations includes the results of the acquired Solutia businesses. Sales revenue of $501 million and operating earnings of $64 million from the acquired Solutia businesses are included in the Company's consolidated results of operations for first quarter 2013. Operating earnings include the $7 million in integration costs and $3 million in restructuring charges for severance associated with the continued integration of Solutia.

The unaudited pro forma financial results for three months ended March 31, 2012 combine the consolidated results of Eastman and Solutia giving effect to the acquisition of Solutia as if it had been completed on January 1, 2011, the beginning of the comparable annual reporting period prior to the year of acquisition. The unaudited pro forma financial results presented below do not include any anticipated synergies or other expected benefits of the acquisition. This unaudited pro forma financial information is presented for informational purposes only and is not indicative of future operations or results had the acquisition been completed as of January 1, 2011.

The unaudited pro forma financial results include certain adjustments for additional depreciation and amortization expense based upon the fair value step-up and estimated useful lives of Solutia depreciable fixed assets and definite-life amortizable assets acquired in the transaction. The unaudited pro forma results also include adjustments to net interest expense and elimination of early debt extinguishment costs historically recorded by Solutia based upon the retirement of Solutia's debt and issuance of additional debt related to the transaction. The provision for income taxes from continuing operations has also been adjusted for all periods, based upon the foregoing adjustments to historical results, as well as the elimination of historical net changes in valuation allowances against certain deferred tax assets of Solutia.

Additionally, in the preparation of unaudited pro forma sales and earnings from continuing operations, Solutia's historical consolidated results have been retrospectively adjusted for the change in accounting methodology for pension and other postretirement benefit ("OPEB") plans actuarial gains and losses adopted by Eastman during first quarter 2012. For additional information, see Note 14, "Accounting Methodology Change for Pension and Other Postretirement Benefit Plans" in Part II, Item 8 of the Company's 2012 Annual Report on Form 10-K.

	First Quarter
(Dollars in millions)	2012
Pro forma sales	$2,319
Pro forma earnings from continuing operations	220

Non-recurring costs directly attributable to the acquisition, which will not have an ongoing impact, are excluded from unaudited pro forma earnings from continuing operations for first quarter 2012. These items include transaction and financing costs incurred by Eastman during first quarter 2012 as well as transaction costs of $11 million incurred by Solutia prior to its acquisition by Eastman.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. INVENTORIES

(Dollars in millions)	March 31, 2013	December 31, 2012
At FIFO or average cost (approximates current cost)		
Finished goods	$989	$941
Work in process	301	288
Raw materials and supplies	517	536
Total inventories	1,807	1,765
LIFO Reserve	(506)	(505)
Total inventories	$1,301	$1,260

Inventories valued on the LIFO method were approximately 60 percent of total inventories as of both March 31, 2013 and December 31, 2012.

4. PAYABLES AND OTHER CURRENT LIABILITIES

(Dollars in millions)	March 31, 2013	December 31, 2012
Trade creditors	$687	$723
Accrued payrolls, vacation, and variable-incentive compensation	96	171
Accrued taxes	112	76
Post-employment obligations	61	62
Interest payable	36	59
Environmental contingent liabilities, current portion	35	35
Other	262	234
Total payables and other current liabilities	$1,289	$1,360

The current portion of post-employment obligations is an estimate of current year payments. Included in "Other" above are dividends payable, certain accruals for payroll deductions and employee benefits, the current portion of hedging liabilities, and other payables and accruals.

5. PROVISION FOR INCOME TAXES

	First Quarter	
(Dollars in millions)	2013	2012
Provision for income taxes	$97	$85
Effective tax rate	28 %	35 %

The first quarter 2013 effective tax rate was impacted by enactment of the American Taxpayer Relief Act of 2012 in January 2013, which resulted in a $10 million benefit primarily related to a research and development ("R&D") tax credit. The first quarter 2012 effective tax rate was impacted by the non-deductibility of certain transaction costs related to the acquisition of Solutia.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table reflects a revision of a 2012 deferred tax liability line item reported in Note 9, "Provision for Income Taxes" to the consolidated financial statements in Part II, Item 8 of the Company's 2012 Annual Report on Form 10-K. The "Amortization" line item was mischaracterized as "Inventory reserves". There was no impact on net deferred tax liability reported in the Company's 2012 Annual Report on Form 10-K.

(Dollars in millions)	December 31, 2012	
Deferred tax assets		
Post-employment obligations	$715	
Net operating loss carryforwards	630	
Tax credit carryforwards	230	
Environmental reserves	145	
Other	82	
Total deferred tax assets	1,802	
Less valuation allowance	(215	)
Deferred tax assets less valuation allowance	$1,587	
Deferred tax liabilities		
Depreciation	$(951	)
Amortization	(666	)
Total deferred tax liabilities	$(1,617	)
Net deferred tax liabilities	$(30	)
As recorded in the Consolidated Statements of Financial Position:		
Other current assets	$34	
Other noncurrent assets	30	
Payables and other current liabilities	(3	)
Deferred income tax liabilities	(91	)
Net deferred tax liabilities	$(30	)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

6. BORROWINGS

(Dollars in millions)	March 31, 2013	December 31, 2012
Borrowings consisted of:		
3% debentures due 2015	$250	$250
2.4% notes due 2017	997	997
6.30% notes due 2018	173	174
5.5% notes due 2019	250	250
4.5% debentures due 2021	250	250
3.6% notes due 2022	894	893
7 1/4% debentures due 2024	243	243
7 5/8% debentures due 2024	54	54
7.60% debentures due 2027	222	222
4.8% notes due 2042	496	496
Credit facility borrowings (1)	950	950
Other	4	4
Total borrowings	4,783	4,783
Borrowings due within one year	4	4
Long-term borrowings	$4,779	$4,779

(1) Includes Term Loan borrowings of $750 million and $950 million at March 31, 2013 and December 31, 2012, respectively, and commercial paper borrowings of $200 million at March 31, 2013. At March 31, 2013, the Term Loan interest rate was 1.75% and the weighted average interest rate for commercial paper was 0.37%.

On June 5, 2012, the Company issued 2.4% notes due 2017 in the principal amount of $1.0 billion, 3.6% notes due 2022 in the principal amount of $900 million, and 4.8% notes due 2042 in the principal amount of $500 million. Proceeds from the sale of the notes, net of original issue discounts, issuance costs, and the monetization of interest rate swaps, were $2.3 billion. In addition, on July 2, 2012, the Company borrowed the entire $1.2 billion available under the five-year Term Loan. Proceeds from these borrowings were used to pay, in part, the cash portion of the Solutia acquisition, repay Solutia debt, and pay acquisition costs. At March 31, 2013, the Company had repaid $450 million of borrowings under the Term Loan.

The Company has a $750 million revolving credit agreement (the "Revolving Credit Facility") expiring December 2016. Borrowings under the Revolving Credit Facility are subject to interest at varying spreads above quoted market rates and a commitment fee is paid on the total unused commitment. At March 31, 2013 and December 31, 2012, the Company had no outstanding borrowings under the Revolving Credit Facility.

The Revolving Credit Facility provides liquidity support for commercial paper borrowings and general corporate purposes. Accordingly, any outstanding commercial paper borrowings reduce capacity for borrowings available under the Revolving Credit Facility. Given the expiration date of the Revolving Credit Facility, any commercial paper borrowings supported by the Revolving Credit Facility are classified as long-term borrowings because the Company has the ability and intent to refinance such borrowings on a long-term basis. At March 31, 2013 the Company's commercial paper borrowings were $200 million. There were no commercial paper borrowings at December 31, 2012. As a result of the commercial paper borrowings in first quarter 2013, the amount available for borrowing under the Revolving Credit Facility was reduced by $200 million.

At March 31, 2013, the Company also had a $250 million line of credit under its accounts receivable securitization agreement ("A/R Facility"), expiring April 2015. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's borrowing costs, and the Company pays a fee to maintain availability of the A/R Facility. At March 31, 2013 and December 31, 2012, the Company had no outstanding borrowings under the A/R Facility.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Term Loan, Revolving Credit Facility, and the A/R Facility contain a number of customary covenants and events of default, including the maintenance of certain financial ratios. The Company was in compliance with all such covenants for all periods presented. Other than the $200 million reduction in the amount available under the Revolving Credit Facility as of March 31, 2013 as a result of commercial paper borrowings, substantially all of the amounts under these facilities were available for borrowing as of March 31, 2013 and December 31, 2012. The Company would not violate applicable covenants for these periods if the total available amounts of the facilities had been borrowed.

Fair Value of Borrowings

The Company has determined that its long-term borrowings at March 31, 2013 and December 31, 2012 were classified in the fair value hierarchy as defined in the accounting policies in Note 1, "Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of the Company's 2012 Annual Report on Form 10-K. The fair value for fixed-rate borrowings is based on current market prices and is classified in level 1. The fair value for the Company's floating-rate borrowings, which relate to the Term Loan, equals the carrying value and is classified within level 2.