GRILL CONCEPTS INC
Form 8-K
July 06, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of report (Date of earliest event reported): July 2, 2007

GRILL CONCEPTS, INC.

(Exact name of registrant as specified in Charter)

Delaware	0-23326	13-3319172
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employer Identification No.)

11661 San Vicente Blvd., Suite 404

Los Angeles, California 90049

(Address of Principal Executive Offices)(Zip Code)

310-820-5559

(Issuer Telephone number)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On July 2, 2007, Grill Concepts, Inc. (the Company) entered into definitive subscription agreements (the Subscription Agreements) with Robert Spivak, as a selling stockholder, and certain investors (the Investors), pursuant to which the Company agreed to sell an aggregate of 2,000,000 shares of common stock of the Company (the Shares) and warrants (the Warrants) to purchase up to an aggregate of 735,000 shares of common stock of the Company for aggregate gross proceeds of $14,092,400.

In conjunction with the Offering, Robert Spivak, a director and former officer of the Company, agreed to sell 100,000 shares of common stock of the Company (collectively, the shares offered by Robert Spivak together with the Shares and the Warrants are referred to as the Offered Securities and the offer and sale of the Offered Securities is referred to as the Offering) to the Investors pursuant to Subscription Agreements.

The Warrants entitle the holders to purchase one share of common stock for each Warrant held at any time prior to the fifth anniversary of their issuance date, which will be at the closing at an exercise price equal to $8.05 per share, subject to adjustment upon certain corporate events, including stock dividends, distributions and reclassifications. The Warrant exercise price is also subject to adjustment upon certain issuances of shares at prices below the exercise price of the Warrant, provided, however, that the exercise price shall in no event be reduced to less than $7.00 (subject to adjustment in the event of splits, reverse splits, stock dividends and similar transactions).

The Offered Securities were offered by the Company in a private placement transaction pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the Securities Act) and Rule 506 promulgated thereunder. Each of the Investors represented that it is an accredited investor , as defined in Rule 501 promulgated under the Securities Act. Completion of the sale of the Offered Securities is subject to satisfaction of various conditions set forth in the Subscription Agreements.

Pursuant to the terms of the Subscription Agreements, the Company and the Investors will enter into a Registration Rights Agreement at closing, under which the Company will agree to file with the Securities and Exchange Commission, within 30 days, a registration statement covering the Offered Securities. In the event the registration statement covering the Offered Securities is not filed or declared effective by the Securities and Exchange Commission within the time periods described in the Subscription Agreements, and under certain other circumstances, the Company will be required to pay the Investors damages in the amount prescribed in the Subscription Agreements.

The Company engaged placement agents for the offering. For their services, the placement agents will receive, at closing, commissions totaling 6.5% of gross funds received (excluding funds received from affiliates of existing shareholders of the Company) and warrants (the Placement Agent Warrants) to purchase up to an aggregate of five percent of the shares of common stock sold in the offering (excluding shares sold to affiliates of existing shareholders of the Company) for a term of three years at an exercise price equal to $8.75 per share, subject to adjustment only upon certain corporate events, including stock dividends, distributions and reclassifications. Each of the placement agents represented that it is an accredited investor , as defined in Rule 501 promulgated under the Securities Act. The Registration Rights Agreements provide that the shares of common stock underlying the Placement Agent Warrants are to be included in the registration statement to be filed.

This Current Report of Form 8-K does not constitute an offer to sell or the solicitation of an offer to buy any securities. At the time of their issuance, the shares of common stock and the underlying shares of common stock issuable upon exercise of the warrants have not been registered under the Securities Act, or any applicable state securities laws and may not be offered or sold in the United States, absent registration or an applicable exemption from such registration requirements.

Among the Investors subscribing to purchase shares under the Subscription Agreements are Good Tasting LLC, which has subscribed for 113,560 Shares and 39,746 Warrants, and Tuscany Oaks Partners I LLC, which has subscribed for 198,000 Shares and 69,300 Warrants. Good Tasting LLC and Tuscany Oaks Partners I LLC have advised that they may constitute a group with Eaturna LLC for purposes of Section 13(d) of the Securities Exchange Act of 1934. Eaturna LLC is a principal shareholder of the Company but did not participate in the Offering. Otherwise, there were no relationships between the Company and any of the Investors or the placement agents prior to the Offering.

The foregoing is qualified in its entirety by reference to the documents filed herewith as Exhibits 4.1, 4.2, 4.3, and 10.1. Please note that certain Investors executed variations of the Subscription Agreement and Warrant, which variations are detailed on Schedule 1.2 to the Subscription Agreement attached as Exhibit 10.1.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

4.1 Form of Placement Agent Warrants

4.2 Form of Registration Rights Agreement

4.3 Form of Warrant

10.1 Form of Subscription Agreement, dated July 2, 2007, relating to the sale of units including shares of common stock and warrants

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: July 5, 2007

GRILL CONCEPTS, INC.

By: /s/ Philip Gay
Philip Gay
President and Chief Executive Officer

and.

In connection with the Framework Agreement, on December 6, 2013, the Board of Directors authorized the Company to sell all facilities within the Company's Gumi plant but excluding any assets comprising the Target Business. Accordingly, the Real Property Sale and Purchase Agreement was entered with SCG on January 23, 2014, stipulates that the sale occur on February 1, 2014. The net proceeds are expected to be $83,998 thousand.

In connection with the Framework Agreement, the Company shall dispose precious metals and the disposal are expected to occur on February 17, 2014 under the management plan. The net proceeds expected to be calculated based on the market price at the date of transactions.

In connection with the Framework Agreement, SCP shall shut down its existing photovoltaic glass business ("PV Business") within one year following the agreement date and, no later than one year after the general completion of such shut-down of the PV Business, operated by SCM. Accordingly, the Company plans to market the remaining assets of PV Business and complete the disposition of PV Business to comply with the Framework Agreement. An impairment charge of $62,722 thousand was recognized by fully written down of the net book value of long-lived assets in the year ended December 31, 2013.

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As a result, the operating results of Target Business and PV Business to be sold are reported as discontinued operations in all periods presented. Amounts previously reported have been reclassified to conform to this presentation in accordance with ASC 205, Presentation of Financial Statements, to allow for meaningful comparison of continuing operations. The Company's historical financial results, except for disclosures related to cash flows, have been restated to account for Target Business and PV Business as discontinued operations. The assets and liabilities of Target Business, PV Business, precious metals and Gumi facilities to be sold are classified as held for sale and have been aggregated and reported on separate lines of the consolidated balance sheets for all periods presented.

The following table discloses the results of operations reported as discontinued operations for years ended December 31, 2013, 2012, and 2011, respectively.

(in thousands)	2013	2012	2011
Discontinued Operations:			
Net sales	$ 162,366	$ 174,197	$ 232,375
Earnings (loss) from discontinued operations	(67,021)	30,478	23,731
Income taxes on discontinued operations	(539)	(9,621)	(9,318)
Net (loss) income from discontinued operations	$ (67,560)	$ 20,857	$ 14,413

The following table reflects the summary of assets and liabilities held for sale as of December 31, 2013 and 2012, for Target Business and PV Business reported as discontinued operations and precious metals and Gumi facilities to be disposed within one year from December 31, 2013.

(in thousands)	2013	2012
Assets		
Accounts and notes receivable, net	$ 29,337	$ 25,949
Inventories, net	102,593	76,701
Property, plant and equipment, net	158,862	208,273
Other assets	1,825	2,365
Assets of discontinued operations	$ 292,617	$ 313,288
Liabilities		
Accounts payable and accrued expenses	$ 9,538	$ 8,414
Short-term borrowings1	32,059	-
Other liabilities	9,498	5,814
Liabilities of discontinued operations	$ 51,095	$ 14,228

1 As of December 31, 2013, SCM's term loan debt was $32,059 thousand, and variable interest rate is contracted. As of December 31, 2013, the weighted average rate was 2.08%. Due to the decision to shut down PV business, the term loan is immediately due and payable.

4. Inventories

Inventories consist of the following:

(in thousands)	2013	2012
Finished goods	$ 14,808	$ 13,879
Semi-finished goods	4,685	6,783
Raw materials	17,823	21,511
Work-in-process	768	1,046
Auxiliary materials	54,683	49,105
	$ 92,767	$ 92,324

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5. Other Current Assets

Other current assets consist of the following:

(in thousands)	2013	2012
Prepaid expenses	$ 79,659	$ 79,926
Prepaid value added tax	-	10,907
Accrued income receivable	4,165	17,434
Restricted cash	24,703	28,145
Other current assets	764	159
	$ 109,291	$ 136,571

6. Equity Method Investments

Equity method investments comprise the following:

(in thousands)	Ownership interest1	2013	2012
Affiliated companies accounted for under the equity method			
Corsam Technologies LLC	50%	$ 2,352	$ 6,689

1 This reflects the Company's direct ownership interests in the affiliated company. The Company does not have control of the entity.

During September 2009, the Company entered into an operating agreement with Corning. Pursuant to the operating agreement, the parties established Corsam Technologies LLC ("Corsam"), a new equity affiliate established to provide glass technology research for future product applications. The Company contributed $124,000 thousand in cash and Corning contributed intellectual property with a corresponding value. In 2012, the Company and Corning each contributed an additional $7,000 thousand. The Company and Corning each own 50% of the common stock of Corsam and Corning has agreed to provide research and development services to Corsam. The Company does not control Corsam as Corning maintains participating voting rights. In addition, Corsam has sufficient equity to finance its activities, the voting rights of investors in Corsam are considered substantive, and the risks and rewards of Corsam's research are shared only by those investors noted. As a result, the Company accounts for its investment in Corsam under the equity method of accounting for investments.

The Company's share of Corsam net losses of $5,198 thousand, $39,366 thousand and $ 27,758 thousand for the years ended December 31, 2013, 2012, and 2011, respectively, has been recognized in equity losses of affiliated companies.

On December 31, 2013 and 2012, because of slow down of the photovoltaic industry, Corsam recorded $7,697 thousand and $49,719 thousand, respectively, of impairment loss related to its intellectual property which was initially contributed by Corning. The Company recorded its 50% share of such impairment charge totaling $3,848 thousand

and $24,860 thousand for the year ended December 31, 2013 and 2012, respectively.

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7. Property, Plant and Equipment

Property, plant and equipment comprise the following:

(in thousands)	2013	2012
Building	$ 1,744,579	$ 1,765,014
Machinery and equipment	2,623,229	2,705,678
Vehicle, tools, furniture and fixtures	219,722	246,189
	4,587,530	4,716,881
Less: accumulated depreciation	(1,964,996)	(1,859,087)
	2,622,534	2,857,794
Land	258,031	254,788
Construction-in-progress	455,851	531,451
	$ 3,336,416	$ 3,644,033

Manufacturing equipment includes certain components of production equipment that are constructed with precious metals. At December 31, 2013 and 2012, the recorded amount of precious metals totaled $939,692 thousand and $942,187 thousand, respectively. Depletion expense for precious metals in the year ended December 31, 2013 and 2012 totaled $11,049 thousand and $18,862 thousand, respectively.

8. Other Non-current Assets

Other non-current assets consist of the following:

(in thousands)	2013	2012
Deposits	$ 30,844	$ 28,424
Available-for-sale marketable securities	5,835	6,366
Payment on long-term contract	132,435	195,645
Other non-current assets	13,934	13,269
	$ 183,048	$ 243,704

9. Impairment Charges

In response to economic challenges and strategic alternatives, certain assets used for the production of glasses were committed to be abandoned before the end of their previously estimated useful lives based on management's decision to reduce the manufacturing capacity. As a result, a group of unusable assets was fully written off in 2012, and another group in 2013. Before their respective write-offs, the group of assets written off in 2012 had a net book value of $27,294 thousand, while the group of assets written off in 2013 had a net book value of $20,945 thousand. These amounts are included as part of cost of sales in the consolidated statements of income.

In December 2013, the Company discontinued development of Willow coater technology, a technology for touch panel. As a result, for the year ended December 31, 2013, the Company recorded a pre-tax impairment charge of

$11,569 thousand for related long-lived assets associated with the development of Willow coating technology. These amounts are included as part of cost of sales in the consolidated statements of income.

The Company agreed with SCG to execute demolition and clean-up activities of a LCD processing building and certain office premises in Gumi plant. Accordingly, the Company recorded impairment charges totaling $31,960 thousand to fully write-down the subject assets of demolition and clean-up in 2013. These amounts are included as part of cost of sales in the consolidated statements of income.

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On December 2, 2011, the Company decided to exit from the CRT glass business operated in SCM, and the manufacturing of the CRT glass was ceased in December 2011 in response to anticipated lower sales in 2012. An impairment charge was needed for asset dismantling and restoration costs and costs for special termination benefits. Total cash payments with this plan were expected to be approximately $14,461 thousand with the majority of spending made in 2012. Accordingly, the Company recorded restructuring costs totaling $14,461 thousand in accordance with ASC 420, Exit or Disposal Cost Obligations, in the year ended December 31, 2011. These amounts are included as part of selling and administrative expenses in the consolidated statements of income.

10. Transactions with Related Parties

A summary of related party transactions and related receivable and payable balances as of December 31 is as follows:

2013 (1) (in thousands)	Sales4	Purchases5	Services Expensed	Receivables	Payables
Samsung affiliates					
Samsung Display	$ 1,597,601	$ -	$ 2,475	$ 241,901	$ 281
Samsung C&T Corporation	1,170	79,460	239	266	11,859
Samsung Engineering	208	5,882	6,126	-	6,968
Samsung SDS	3,233	10,631	35,040	-	14,129
SCG	100,197	-	2,910	38,010	1,187
Others	160,627	20,658	39,423	10,742	6,337
	1,863,036	116,631	86,213	290,919	40,761
Corning	161,131	36,912	62,318	1,717	11,313
	$ 2,024,167	$ 153,543	$ 148,531	$ 292,636	$ 52,074

(1) As of and for the year ended December 31, 2013, related parties sales of $83,525 thousand, purchases of $19 thousand and services expenses of $1,653 thousand and related receivables of $14,791 thousand and payables of $1,567 thousand for discontinued operations are included in the above table.

2012 (2) (in thousands)	Sales4	Purchases5	Services Expensed	Receivables	Payables
Samsung affiliates					
Samsung Display	$ 2,231,298	$ 29,919	$ 2,312	$ 349,236	$ 521
Samsung C&T Corporation	22	50,334	286	1	25,845
Samsung Engineering	156	36,370	147	7,201	640
Samsung SDS	60	71,945	35,828	-	27,829
SCG	69,779	-	1,211	-	-
Others	17,968	21,557	53,296	7,412	17,417
	2,319,283	210,125	93,080	363,850	72,252

Corning	126,041	79,691	89,535	31,836	6,386
	$ 2,445,324	$ 289,816	$ 182,615	$ 395,686	$ 78,638

(2) As of and for the year ended December 31, 2012, related parties sales of $98,271 thousand, purchases of $195 thousand and services expenses of $1,029 thousand and related receivables of $12,692 thousand and payables of $89 thousand for discontinued operations are included in the above table.

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2011 (3)	Sales4	Purchases5	Services Expensed	Receivables	Payables
(in thousands)					
Samsung affiliates					
Samsung Electronics	$ 2,580,173	$ -	$ 8,677	$ 317,693	$ 5,480
Samsung C&T Corporation	27	66,165	496	2	13,790
Samsung Engineering	1,034	41,619	1,279	53	6,881
Samsung SDS	15	13,923	19,844	6	8,928
Others	62,234	23,937	98,208	5,091	28,638
	2,643,483	145,644	128,504	322,845	63,717
Corning	108,916	102,037	226,441	1,039	5,478
	$ 2,752,399	$ 247,681	$ 354,945	$ 323,884	$ 69,195

(3) As of and for the year ended December 31, 2011, related parties sales of $84,379 thousand, purchases of $8,885 thousand and services expenses of $1,327 thousand and related receivables of $18,165 thousand and payables of $96 thousand for discontinued operations are included in the above table.
(4) Transfers of machinery and equipment to related parties including SCG, Samsung Electronics, Samsung SDS and Samsung Fine Chemicals are included.
(5) Purchases of property, plant and equipment are included.

In the normal course of business, the Company sells its products to Samsung Display and Corning, purchases semi-finished goods from Corning and purchases property, plant and equipment from Samsung affiliates and Corning. The Company also obtains services from Samsung affiliated companies. In addition, the Company paid a 3% royalty on net sales amounts of certain products to Corning. The royalty rate has been lowered from 6% to 3% under the revised royalty agreement effective from December 1, 2011.

Samsung Display was established on April 1, 2012 through a spin-off of Samsung Electronics' LCD division. As a result, the Company's shareholder has been changed to Samsung Display and the existing contractual relationship with Samsung Electronics was fully succeeded to Samsung Display. As of and for the year ended December 31, 2012, Samsung Display represents the sum of transactions and balances with Samsung Electronics and Samsung Display.

As of December 31, 2013 and 2012, the Company deposited the severance plan assets to Samsung Fire & Marine Insurance Co., Ltd. of $100,800 thousand and $71,885 thousand, respectively.

Effective in January 2012, the Company signed a five-year renewal of its long term LCD supply contract with Samsung Electronics.

In April 2012, Corning and Samsung Display formed SCG, a new affiliate of the Company established to manufacture organic light emitting diode glasses. The Company entered into a Shared Service Agreement and a Leasing Agreement with SCG and charges relevant fees on a cost basis with a reasonable mark-up to SCG. In addition, the Company sold certain inventories, machinery and equipment to SCG amounting to $49,795 thousand and $52,900 thousand for the year ended December 31, 2013 and 2012, respectively.

In December 2013, the Company and Samsung Electronics signed a sales and purchase agreement over Suwon R&D center at the amount of $138,076 thousand. The transaction completed on December 13, 2013. There was no gains or losses incurred as a result of the transaction.

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11. Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value in applying generally accepted accounting principles, and require disclosures about fair value measurements. The accounting standards also identify two kinds of inputs that are used to determine the fair value of assets and liabilities: observable and unobservable. Observable inputs are based on market data or independent sources while unobservable inputs are based on the Company's market assumptions. Once inputs have been characterized, the inputs are prioritized into one of three broad levels used to measure fair value as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices that are observable for the asset or liabilities, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Fair value standards apply whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement and require the use of observable market data when available. As of December 31, 2013 and 2012, the Company did not have any financial assets or liabilities that were measured using unobservable (or Level 3) inputs.

As of December 31, 2013 and 2012, the Company's financial assets consisted of available-for-sale securities. These financial assets are measured at fair value and are classified within the Level 1 valuation hierarchy.

The Company's available for sale investments include equity investments with a fair value of $5,835 thousand and $6,366 thousand at December 31, 2013 and 2012, respectively that are traded in active market. They are measured at fair value using closing stock prices from active markets.

Certain financial instruments that are not carried at fair value on the balance sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term financial instruments, severance plan assets, accounts and notes receivable, prepaid expenses, accounts payable, accrued liabilities, and short-term borrowing.

12. Income Taxes

The Company's income tax expenses are composed of domestic and foreign income taxes depending on the relevant tax jurisdiction.

Income tax expense consists of the following:

(in thousands)	2013	2012	2011
Current			
Domestic (Republic of Korea)	$ 253,319	$ 285,320	$ 499,059
Foreign	-	-	-
Total current	253,319	285,320	499,059

Deferred			
Domestic (Republic of Korea)	(29,817)	16,332	(21,829)
Foreign	-	-	-
Total deferred	(29,817)	16,332	(21,829)
Income taxes on continuing operations	$ 223,502	$ 301,652	$ 477,230

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The following table reconciles the expected amount of income tax expense based on consolidated statutory rates to the actual amount of taxes recorded by the Company:

(in thousands)	2013	2012	2011
Expected taxes at statutory rate	$ 227,265	$ 404,197	$ 611,161
Tax exemption for foreign investment	-	(107,599)	(167,302)
Tax rate changes	-	-	29,633
Tax credits, net of surtax effect	-	(1,032)	(13,737)
Others, net	(3,763)	6,086	17,475
Income taxes on continuing operations	$ 223,502	$ 301,652	$ 477,230
Effective tax rate	23.80%	18.06%	18.44%

The statutory income tax rate of the Company, including tax surcharges, is approximately 24.2%, but the effective income tax rate on continuing operation is 23.8%, 18.06% and 18.44% for 2013, 2012 and 2011, respectively, primarily due to tax exemption benefits for a foreign invested company under the Korean Tax Preference Control Law (“TPCL”). In accordance with the TPCL and the approval of the Korean government, the Company was fully exempt from the corporate income taxes on the taxable income arising from the sales of manufactured goods in proportion to the percentage of qualified foreign shareholder’s equity until 2003 and 50% exemption for the subsequent two years. In 2006, the Company issued additional shares to extend the tax exemption period. As a result, the Company was fully exempt from corporate income taxes until 2010, and thereafter was subject to a 50% tax exemption for a period of 2 years to 2012.

In November 2010, the NTS commenced a review of the Company’s 2008 tax year and a review of the SSC 2006 tax year. In April 2011, the tax review by the NTS was closed without claiming additional taxes for adjustment.

The corporate income tax rates including resident tax surcharge is a) 11 % on the taxable income of up to 0.2 billion won, b) 22% over taxable income exceeding 0.2 billion won up to 20 billion won, and c) 24.2% for the taxable income exceeding 20 billion won. The Company recognized its deferred income tax assets and liabilities as of December 31, 2013 based on the enacted future tax rates.

The primary components of the temporary differences that gave rise to the Company's deferred income tax assets and liabilities were as follows:

(in thousands)	2013	2012
Deferred income tax assets		
Property, plant and equipment	$ 11,466	$ 69
Accrued bonus payables	2,557	3,625
Other current liabilities	398	794
Equity method investments	50,887	37,618
Other	3,289	1,067
Total tax deferred income tax assets	68,597	43,173
Deferred income tax liabilities		

Property, plant and equipment, intangible	(270,576)	(265,746)
Reserve for technology development	(6,898)	(13,622)
Available-for-sale securities	(1,385)	(1,513)
Other	1,686	(7,434)
Total tax deferred income tax liabilities	(277,173)	(288,315)
Net deferred income tax liabilities	$ (208,576)	$ (245,142)

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A valuation allowance on deferred income tax assets is recognized when it is more likely than not that the deferred income tax assets will not be realized. Realization of the future tax benefit related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook for the economic environment in which the Company operates, and the overall future industry outlook.

The Company applies the provisions of ASC 740, Income taxes. The Company believes that it is more likely than not, based on the technical merits of a tax position, that the Company is entitled to economic benefits resulting from positions taken in its income tax returns.

The Company files income tax return in Korea and various other jurisdictions with varying statutes of limitations. Years open to examination by tax authorities in Korea are 2009 and subsequent tax years.

13. Shareholders' Equity

The components of and changes in shareholders' equity are as follows:

(in thousands)	2013	2012	2011
Preferred Stock	$ 350	$ 350	$ 350
Common Stock	176,700	176,700	176,700
Additional Paid-in Capital	312,114	312,114	312,114
Retained Earnings:			
Balance at the beginning of year	6,040,493	6,611,603	5,538,151
Net income attributable to Samsung Corning Precision Materials	649,351	1,389,557	2,060,770
Dividends paid to preferred shareholders	(1,103)	(3,288)	(2,786)
Dividends paid to common shareholders	(939,453)	(1,957,379)	(984,532)
Balance at end of year	5,749,288	6,040,493	6,611,603
Accumulated Other Comprehensive Income (loss):			
Balance at the beginning of year	185,480	(400,492)	(98,600)
Other comprehensive income, net of tax			
Foreign currency translation adjustment	105,155	583,679	(278,649)
Unrealized net gain on available for sale securities	(557)	2,293	(23,243)
Balance at end of year	290,078	185,480	(400,492)
Total Samsung Corning Precision Materials shareholders' equity	6,528,530	6,715,137	6,700,275
Noncontrolling interests:			
Balance at the beginning of year	12,177	11,214	35,487
Net (loss) income attributable to noncontrolling interests	(1,299)	(116)	1,873
Cash dividend to noncontrolling interests	(33)	(64)	(67)

Acquisition of subsidiary’s stock	-	-	(26,074)
OCI attributable to noncontrolling interest, net of tax			
Foreign currency translation adjustment	(665)	1,143	(5)
Balance at end of year	10,180	12,177	11,214
Total equity	$ 6,538,710	$ 6,727,314	$ 6,711,489

Preferred Stock

There were 41,107 shares of non-voting preferred stock with a par value of $8.51 issued and outstanding as of December 31, 2013 and 2012. Each share is entitled to non-cumulative dividends at the rate of 5% on par value. In addition, if the dividend ratio of common stock exceeds that of preferred stock, the additional dividend on preferred stock may be declared by a resolution of the general shareholders’ meeting.

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Retained Earnings
Retained earnings as of December 31, 2013 and 2012 comprised of the following:

(in thousands)	2013	2012
Appropriated		
Legal reserve	$ 82,339	$ 82,339
Reserve for business development	30,800	30,800
Reserve for research and manpower development	51,733	77,600
Voluntary reserve	4,157	4,157
	169,029	194,896
Unappropriated	5,580,259	5,845,597
	$ 5,749,288	$ 6,040,493

Legal Reserve
The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of the retained earnings as a legal reserve equal to a minimum of 10% of its cash dividends until such reserve equals 50% of its capital stock. The reserve is not available for dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, through resolution by the Company’s shareholders.

Reserve for Business Development
Pursuant to the Corporate Income Tax Law of Korea, the Company is allowed to appropriate a portion of the retained earnings as a reserve for business development. This reserve is not available for dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, through resolution by the Company’s shareholders.

Reserve for Research and Manpower Development
Pursuant to the former Korean Tax Exemption and Reduction Control Law and the Korean Tax Preference Control Law, the Company appropriates a portion of the retained earnings as a reserve for research and manpower development. This reserve is not available for dividends until it is used for the specified purpose or reversed.

Voluntary Reserve
The Company appropriates a certain portion of retained earnings pursuant to shareholder resolution as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

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Notes to Consolidated Financial Statements

14. Accumulated Other Comprehensive Income

A summary of changes in the components of accumulated other comprehensive income (loss), after tax, is as follows:

(in thousands)	Unrealized Gains and Losses on Available-for-sale securities	Foreign currency translation adjustment	Total
Balances at December 31, 2010	$ 25,089	$ (123,689)	$ (98,600)
Other comprehensive income before reclassifications	198	(278,649)	(278,451)
Amounts reclassified from accumulated other comprehensive income	(23,441)	-	(23,441)
Net current-period other comprehensive income	(23,243)	(278,649)	(301,892)
Balances at December 31, 2011	$ 1,846	$ (402,338)	$ (400,492)
Other comprehensive income before reclassifications	2,293	583,679	585,972
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net current-period other comprehensive income	2,293	583,679	585,972
Balances at December 31, 2012	$ 4,139	$ 181,341	$ 185,480
Other comprehensive income before reclassifications	(557)	105,155	104,598
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net current-period other comprehensive income	(557)	105,155	104,598
Balances at December 31, 2013	$ 3,582	$ 286,496	$ 290,078

A summary of reclassification out of accumulated other comprehensive income by component is as follows:

	2013	2012	2011	Affected line item in the consolidated statements of income
Realized gains on available for sale securities	$ -	$ -	$ 30,924	Other income, net
	-	-	(7,483)	Tax expense
	$ -	$ -	$ 23,441	Net of tax

15. Commitments and Contingencies

Credit Facilities

The Company has an unused credit facility totaling $161,568 thousand and $148,209 thousand at December 31, 2013 and 2012, respectively, under this facility as of and for the years ended December 31, 2013 and 2012.

Business and Credit Risk Concentration

The Company sells its products on a credit basis to its customers including certain related parties. Management estimates the collectability of accounts receivable based on the financial condition of the customers and prevailing economic trends. Based on management's estimates, the Company established allowances for doubtful accounts receivable which management believes are adequate. Concentrations of credit risk with respect to accounts receivable are limited to the credit worthiness of the Company's customers. Major customers of the Company are domestic TFT-LCD makers incorporated in Korea. Trade accounts receivables from these three major customers are 96% and 93% of total trade accounts receivable of the Company as of December 31, 2013 and 2012, respectively, and revenues from these three major customers constitute 92%, 91% and 93% of total revenues of the Company for the years ended December 31, 2013, 2012 and 2011, respectively.

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Pending Litigation

Based on the agreement entered on August 24, 1999 with respect to Samsung Motor Inc.'s ("SMI") bankruptcy proceedings, Samsung Motor Inc.'s creditors ("the Creditors") filed a civil action against Mr. Kun Hee Lee, former chairman of the Company, and 28 Samsung Group affiliates including the Company under joint and several liability for failing to comply with such agreement. Under the suit, the Creditors have sought 2,450 billion won (approximately $1.95 billion) for loss of principal on loans extended to SMI, a separate amount for breach of the agreement, and an amount for default interest. Samsung Life Insurance Co., Ltd. ("SLI") completed its Initial Public Offering ("IPO") on May 7, 2010. After disposing 2,277,787 shares and paying the principal balance owed to the Creditors, 878 billion won (approximately $ 0.80 billion) was deposited in to an escrow account. That remaining balance was to be used to pay the Creditors interest due to the delay in the SLI IPO. On January 11, 2011, the Seoul High Court ordered Samsung Group affiliates to pay 600 billion won (approximately $ 0.53 billion) to the Creditors and pay 5% annual interest for the period between May 8, 2010 and January 11, 2011, and pay 20% annual interest for the period after January 11, 2011 until the amounts owed to the Creditors are paid. In accordance with the Seoul High Court order, 620.4 billion won (which includes penalties and interest owed) was paid to the Creditors from the funds held in escrow during January 2011. On February 7, 2011, the Samsung Group affiliates and the Creditors appealed the Seoul High Court's ruling to the Korean Supreme Court and the appeal is currently in progress. The Company has not contributed to any payment related to these disputes, and has concluded that no provision for loss related to this matter should be reflected in the Company's consolidated financial statements at December 31, 2013.

16. Subsequent Event

On October 22, 2013, Corning announced that it has signed a series of strategic and financial agreements with Samsung Display, to strengthening the product and technology collaborations between the two companies. On January 15, 2014, the deal transactions closed and resulted in:

- On January 15, 2014, the Company entered into a 15 year $1,902,359 thousand borrowing from Corning Luxembourg S. àr.l. and the interest rate is 8.0% per annum.

- On January 15, 2014, the Company repurchased shares of $1,902,359 thousand from Samsung Display. As a result, Corning obtained full ownership of the Company, formerly an unconsolidated equity venture with Samsung Display.

- Amendment to the agreement on a long-term LCD display glass pricing was signed between Corning and Samsung Display on January 15, 2014. The amendment is effective for ten years, accordingly, the term of the TFT-LCD glass substrate long-term supply agreement, effective as of January 1, 2012 will also be extended from January 1, 2014 to December 31, 2023.

- On January 17, 2014, the Company has entered into the Business Transfer Agreement with SCG to transfer the Target business at Gumi. On February 1, 2014, the transaction closed. The expected proceeds from this transaction are $158,341 thousand and the expected pre-tax gains are $16,786 thousand.

- On January 21, 2014, the Company has entered into the Interest Transfer Agreement of Corsam with SCG to transfer investment in equity of Corsam. The transaction closed on February 1, 2014. No gain and loss expected.

- On January 23, 2014, the Company has entered into the Real Property Sale and Purchase Agreement with SCG to transfer the Gumi facilities. On February 1, 2014, the transaction closed. The expected proceeds from this transaction are $83,998 thousand and the expected pre-tax gains are $16,530 thousand.

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