CALGON CARBON Corp
Form 10-Q
May 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number: 1-10776

CALGON CARBON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**25-0530110**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3000 GSK Drive **Moon Township, Pennsylvania**	**15108**
(Address of principal executive offices)	(Zip Code)

(412) 787-6700

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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 o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes o 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	**Outstanding as of April 27, 2015**
Common Stock, $.01 par value per share	52,705,898 shares

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CALGON CARBON CORPORATION

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED MARCH 31, 2015

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Forward-looking statements typically contain words such as expects, believes, estimates, anticipates, or similar words indicating that future outcomes are uncertain. Statements looking forward in time, including statements regarding future growth and profitability, price increases, cost savings, broader product lines, enhanced competitive posture and acquisitions, are included in this Quarterly Report on Form 10-Q and in the Company s most recent Annual Report on Form 10-K pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks and uncertainties that may cause Calgon Carbon Corporation s (the Company) actual results in future periods to be materially different from any future performance suggested herein. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company s control. Some of the factors that could affect future performance of the Company are changes in, or delays in the implementation of, regulations that cause a market for our products, acquisitions, higher energy and raw material costs, costs of imports and related tariffs, labor relations, availability of capital, and environmental requirements as they relate both to our operations and our customers, changes in foreign currency exchange rates, borrowing restrictions, validity of patents and other intellectual property, and pension costs. In the context of the forward-looking information provided in this Quarterly Report on Form 10-Q and in other reports, please refer to the discussions of risk factors and other information detailed in, as well as the other information contained in the Company s most recent Annual Report. Any forward-looking statement speaks only as of the date on which such statement is made and the Company does not intend to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by the Federal securities laws of the United States.

In reviewing any agreements incorporated by reference in this Form 10-Q, please remember such agreements are included to provide information regarding the terms of such agreements and are not intended to provide any other factual or disclosure information about the Company. The agreements may contain representations and warranties by the Company, which should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties should those statements prove to be inaccurate. The representation and warranties were made only as of the date of the relevant agreement or such other date or dates as may be specified in such agreement and are subject to more recent developments. Accordingly, these representations and warranties alone may not describe the actual state of affairs as of the date they were made or at any other time.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands except Per Share Data)

(Unaudited)

	Three Months Ended March 31, 2015	2014
Net sales	$ 135,703	$ 131,632
Cost of products sold (excluding depreciation and amortization)	87,218	87,463
Depreciation and amortization	8,701	7,029
Selling, general and administrative expenses	21,098	20,064
Research and development expenses	1,396	1,578
Restructuring		(103)
	118,413	116,031
Income from operations	17,290	15,601
Interest income	11	10
Interest expense	(131)	(109)
Other expense net	(548)	(546)
Income before income tax provision	16,622	14,956
Income tax provision	5,561	5,147
Net income	11,061	9,809
Other comprehensive (loss) income, net of tax (Note 8)		
Foreign currency translation	(10,296)	124
Defined benefit pension plans	810	202
Derivatives	244	(206)
Total other comprehensive (loss) income	(9,242)	120
Total comprehensive income	$ 1,819	$ 9,929
Net income per common share		
Basic	$ 0.21	$ 0.18
Diluted	$ 0.21	$ 0.18
Dividends per common share	$ 0.05	$

Weighted average shares outstanding		
Basic	52,450,994	53,608,465
Diluted	53,330,262	54,525,367

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

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CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except Per Share Data)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 48,414	$ 53,133
Receivables (net of allowance of $1,601 and $1,526)	97,480	95,232
Revenue recognized in excess of billings on uncompleted contracts	10,954	10,763
Inventories	101,761	98,446
Deferred income taxes current	17,307	19,827
Other current assets	14,697	15,561
Total current assets	290,613	292,962
Property, plant and equipment, net	292,149	290,586
Intangibles, net	5,741	6,281
Goodwill	25,913	26,197
Deferred income taxes long-term	3,113	2,870
Other assets	2,592	2,765
Total assets	$ 620,121	$ 621,661
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 49,814	$ 53,614
Restructuring reserve	251	280
Billings in excess of revenue recognized on uncompleted contracts	5,211	5,430
Payroll and benefits payable	10,520	14,725
Accrued income taxes	3,006	537
Short-term debt		833
Current portion of long-term debt	1,125	
Total current liabilities	69,927	75,419
Long-term debt	78,636	70,448
Deferred income taxes long-term	31,027	31,879
Accrued pension and other liabilities	36,159	38,442
Total liabilities	215,749	216,188
Commitments and contingencies (Note 11)		
Stockholders equity:		
Common stock, $.01 par value, 100,000,000 shares authorized, 57,541,631 and 57,469,389 shares issued	575	575
Additional paid-in capital	178,240	176,475
Retained earnings	374,025	365,594
Treasury stock, at cost, 8,295,050 and 8,196,372 shares	(111,716)	(109,661)
Accumulated other comprehensive loss	(36,752)	(27,510)
Total stockholders equity	404,372	405,473

Total liabilities and stockholders equity	$	620,121	$	621,661

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

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CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities		
Net income	$ 11,061	$ 9,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,701	7,029
Employee benefit plan provisions	360	18
Stock-based compensation	1,255	721
Deferred income tax expense	793	2,535
Restructuring income		(103)
Restructuring cash payments		(47)
Changes in assets and liabilities-net of effects from foreign exchange:		
Increase in receivables	(5,398)	(3,038)
(Increase) decrease in inventories	(5,958)	1,271
Decrease (increase) in revenue in excess of billings on uncompleted contracts and other current assets	627	(1,393)
Decrease in accounts payable and accrued liabilities	(2,833)	(5,557)
Pension contributions	(377)	(707)
Other items net	715	(316)
Net cash provided by operating activities	8,946	10,222
Cash flows from investing activities		
Capital expenditures	(16,060)	(8,638)
Government grants received		1,254
Net cash used in investing activities	(16,060)	(7,384)
Cash flows from financing activities		
Japanese working capital loan borrowings short-term (Note 5)		1,955
Japanese working capital loan repayments short-term (Note 5)	(848)	(488)
U.S. credit agreement borrowings long term (Note 5)	18,500	31,950
U.S. credit agreement repayments long term (Note 5)	(9,200)	(10,700)
Reductions of debt obligations		(1,527)
Treasury stock purchased (Note 7)	(2,055)	(21,230)
Common stock dividends paid	(2,630)	
Proceeds from the exercise of stock options	405	959
Net cash provided by financing activities	4,172	919
Effect of exchange rate changes on cash and cash equivalents	(1,777)	(484)
(Decrease) increase in cash and cash equivalents	(4,719)	3,273
Cash and cash equivalents, beginning of period	53,133	32,942
Cash and cash equivalents, end of period	$ 48,414	$ 36,215

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

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CALGON CARBON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

(Unaudited)

1. Basis of Presentation and Accounting Policies

The condensed consolidated financial statements included herein are unaudited and have been prepared by Calgon Carbon Corporation and subsidiaries (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company believes that the disclosures included herein are adequate to make the information presented not misleading when read in conjunction with the Company s audited consolidated financial statements and the notes included therein for the year ended December 31, 2014, as filed with the Securities and Exchange Commission by the Company on Annual Report on Form 10-K.

In management s opinion, the condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, and which are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first three months of 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Certain prior year amounts have been reclassified to conform to the 2015 presentation. Refer to Note 13 for reclassifications made to include depreciation and amortization expense in income from operations for the Company s segments.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), No. 2014-09, Revenue (Topic 606): Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying five steps listed in the guidance. ASU 2014-09 also requires disclosure of both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. In April 2015, the FASB tentatively decided to defer for one year the effective date and permit entities to early adopt the new standard. If the deferral becomes final, the new guidance would be effective for annual reporting periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified retrospective approach. The Company is evaluating the provisions of this ASU and assessing the impact it may have on the Company s consolidated financial statements.

2. Inventories

	March 31, 2015	December 31, 2014
Raw materials	$ 25,958	$ 26,860
Finished goods	75,803	71,586
Total	$ 101,761	$ 98,446

Inventories are recorded net of reserves of $1.8 million and $2.3 million for obsolete and slow-moving items as of March 31, 2015 and December 31, 2014, respectively.

3. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for

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identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- **Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- **Level 3** Unobservable inputs that reflect the reporting entity s own assumptions.

The following financial instrument assets (liabilities) are presented below at carrying amount, fair value, and classification within the fair value hierarchy (refer to Notes 4 and 5 for details relating to derivative instruments and borrowing arrangements). The only financial instruments measured at fair value on a recurring basis are derivative instruments and the acquisition earn-out liability:

	Fair Value Hierarchy Level	**March 31, 2015**		**December 31, 2014**	
		Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Derivative assets	2	$ 2,411	$ 2,411	$ 2,155	$ 2,155
Derivative liabilities	2	(1,028)	(1,028)	(861)	(861)
Acquisition earn-out liability	2	(693)	(693)	(670)	(670)
Short-term debt	2			(833)	(833)
Long-term debt, including current portion	2	(79,761)	(79,761)	(70,448)	(70,448)

Cash and cash equivalents, accounts receivable, and accounts payable included in the condensed consolidated balance sheets approximate fair value and are excluded from the table above. The recorded debt amounts are primarily based on the prime rate, LIBOR, or Fed Funds rate and, accordingly, the carrying value of these obligations equals fair value. Fair value for the acquisition earn-out liability is based upon Level 2 inputs which are periodically re-evaluated for changes in future projections and the discount rate. This liability is recorded in accrued pension and other liabilities within the Company s condensed consolidated balance sheets.

4. Derivative Instruments

The Company uses foreign currency forward exchange contracts and foreign exchange option contracts to limit the exposure of exchange rate fluctuations on certain foreign currency receivables, payables, and other known and forecasted transactional exposures for periods consistent with the expected cash flow of the underlying transactions. Management s policy for managing foreign currency risk is to use derivatives to hedge up to 75% of the forecasted intercompany sales to its European, Canadian, and Japanese subsidiaries. The foreign currency forward exchange and foreign exchange option contracts generally mature within eighteen months and are designed to limit exposure to exchange rate fluctuations.

The Company also uses natural gas forward contracts to limit the exposure to changes in natural gas prices. Management s policy for managing natural gas exposure is to use derivatives to hedge up to 75% of the forecasted natural gas requirements. The natural gas forward contracts generally mature within twenty-four months.

The Company accounts for its derivative instruments under ASC 815 Derivatives and Hedging. Hedge effectiveness is measured on a quarterly basis and any portion of ineffectiveness as well as hedge components excluded from the assessment of effectiveness, are recorded directly to current earnings. In accordance with ASC 820, Fair Value Measurements and Disclosures, the fair value of the Company s foreign exchange forward contracts, foreign exchange option contracts, and natural gas forward contracts is determined using Level 2 inputs, which are defined as observable inputs. The inputs used are from market sources that aggregate data based upon market transactions.

The fair value of outstanding derivative contracts in the condensed consolidated balance sheets was as follows:

Asset Derivatives	**Balance Sheet Locations**	**March 31, 2015**	**December 31, 2014**
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Other current assets	$ 2,061	$ 1,665
Foreign exchange contracts	Other assets	111	182
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	239	308
Total asset derivatives		$ 2,411	$ 2,155

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Liability Derivatives	Balance Sheet Locations	March 31, 2015	December 31, 2014
Derivatives designated as hedging instruments:			
Natural gas contracts	Accounts payable and accrued liabilities	$ 672	$ 427
Foreign exchange contracts	Accrued pension and other liabilities	1	
Natural gas contracts	Accrued pension and other liabilities	143	372
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	212	62
Total liability derivatives		$ 1,028	$ 861

The Company had the following outstanding derivative contracts that were entered into to hedge forecasted transactions:

(in thousands except for mmbtu)	March 31, 2015	December 31, 2014
Natural gas contracts (mmbtu)	965,000	810,000
Foreign exchange contracts	$ 45,869	$ 41,237

The use of derivatives exposes the Company to the risk that a counter party may default on a derivative contract. The Company enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties. The aggregate fair value of the Company s derivative instruments in asset positions represents the maximum loss that the Company would recognize at that date if all counterparties failed to perform as contracted. The Company has entered into various master netting arrangements with counterparties to facilitate settlement of gains and losses on these contracts. These arrangements may allow for netting of exposures in the event of default or termination of the counterparty agreement due to breach of contract. The Company does not net its derivative positions by counterparty for purposes of balance sheet presentation and disclosure.

	March 31, 2015		December 31, 2014	
	Fair Value of Assets	Fair Value of Liabilities	Fair Value of Assets	Fair Value of Liabilities
Gross derivative amounts recognized in the balance sheet	$ 2,411	$ 1,028	$ 2,155	$ 861
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting	(84)	(84)	(26)	(26)
Net amount	$ 2,327	$ 944	$ 2,129	$ 835

Derivatives in Cash Flow Hedging Relationships

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31,	
	2015	2014
Foreign exchange contracts	$ 1,050	$ (356)
Natural gas contracts	(323)	105
Total	$ 727	$ (251)