

CALGON CARBON CORPORATION

Form 10-Q

August 08, 2011

[Table of Contents](#)

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 June 30, 2011

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: 1-10776

CALGON CARBON CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	25-0530110 (I.R.S. Employer Identification No.)
P.O. Box 717, Pittsburgh, PA (Address of principal executive offices)	15230-0717 (Zip Code)
(412) 787-6700 (Registrant's telephone number, including area code)	

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 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 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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

Class	Outstanding at July 26, 2011
Common Stock, \$.01 par value per share	56,495,962 shares

Table of Contents

CALGON CARBON CORPORATION

FORM 10-Q

QUARTER ENDED June 30, 2011

The Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Forward-looking statements typically contain words such as expect, believe, estimate, anticipate, 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 Form 10-Q and in the Company's most recent Annual Report pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's 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 higher energy and raw material costs, costs of imports and related tariffs, labor relations, availability of capital, environmental requirements as they relate both to our operations and to 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 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.

I N D E X

	Page
<u>PART I - CONDENSED CONSOLIDATED FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements</u>	
<u>Introduction to the Condensed Consolidated Financial Statements</u>	2
<u>Condensed Consolidated Statements of Income (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	31
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	48
<u>Item 4. Controls and Procedures</u>	48
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	49
<u>Item 1a. Risk Factors</u>	49
<u>Item 6. Exhibits</u>	49
<u>SIGNATURES</u>	50
<u>CERTIFICATIONS</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

Table of Contents

PART I CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements included herein have been prepared by Calgon Carbon Corporation and subsidiaries (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in 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 contained herein are adequate to make the information presented herein 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, 2010 included in the Company's Annual Report on Form 10-K.

In management's opinion, the unaudited interim condensed consolidated financial statements contained herein reflect all adjustments, which are of a normal and recurring nature, and which are necessary for a fair presentation, in all material respects, of the Company's financial results for the interim periods presented. Operating results for the first six months of 2011 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2011.

Table of Contents

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands Except Per Share Data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	\$ 135,298	\$ 123,574	\$ 259,678	\$ 223,059
Net sales to related parties				3,442
Total	135,298	123,574	259,678	226,501
Cost of products sold (excluding depreciation and amortization)	90,864	80,512	173,853	146,303
Depreciation and amortization	5,655	5,261	11,195	10,338
Selling, general and administrative expenses	20,798	19,997	41,362	38,161
Research and development expenses	1,701	2,047	3,469	3,534
Environmental and litigation contingencies	(1,135)	11,500	(956)	11,500
	117,883	119,317	228,923	209,836
Income from operations	17,415	4,257	30,755	16,665
Interest income	120	88	183	204
Interest expense	(62)	(86)	(80)	(94)
Gain on acquisitions (Note 1)				2,666
Other expense net	(46)	(172)	(236)	(475)
Income from operations before income tax and equity in income from equity investments	17,427	4,087	30,622	18,966
Income tax provision	6,136	1,171	10,854	6,686
Income from operations before equity in income from equity investments	11,291	2,916	19,768	12,280
Equity in income from equity investments				112
Net income	\$ 11,291	\$ 2,916	\$ 19,768	\$ 12,392
Net income per common share				
Basic:	\$ 0.20	\$ 0.05	\$ 0.35	\$ 0.22
Diluted:	\$ 0.20	\$ 0.05	\$ 0.35	\$ 0.22
Weighted average shares outstanding				
Basic	56,188,445	55,829,588	56,156,451	55,769,509
Diluted	57,053,522	56,748,454	56,973,576	56,736,894

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

Table of Contents

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,927	\$ 33,992
Restricted cash	1,275	1,173
Receivables (net of allowance of \$1,328 and \$1,743)	92,490	94,354
Revenue recognized in excess of billings on uncompleted contracts	9,958	7,461
Inventories	113,201	101,693
Deferred income taxes - current	17,236	19,668
Other current assets	13,479	13,707
Total current assets	261,566	272,048
Property, plant and equipment, net	217,623	186,834
Equity investments	212	212
Intangibles	7,830	8,615
Goodwill	27,078	26,910
Deferred income taxes - long-term	2,210	2,387
Other assets	4,408	4,557
Total assets	\$ 520,927	\$ 501,563
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 58,439	\$ 65,921
Billings in excess of revenue recognized on uncompleted contracts	3,485	2,971
Payroll and benefits payable	10,712	10,978
Accrued income taxes	137	659
Short-term debt	18,019	21,442
Current portion of long-term debt	3,010	3,203
Total current liabilities	93,802	105,174
Long-term debt	4,098	3,721
Deferred income taxes - long-term	10,467	6,979
Accrued pension and other liabilities	42,164	42,451
Total liabilities	150,531	158,325
Redeemable non-controlling interest (Note 1)		274
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common shares, \$.01 par value, 100,000,000 shares authorized, 59,090,934 and 58,989,578 shares issued	591	590

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Additional paid-in capital	170,589	169,284
Retained earnings	227,783	208,015
Accumulated other comprehensive income (loss)	2,706	(4,074)
	401,669	373,815
Treasury stock, at cost, 3,100,228 and 3,070,720 shares	(31,273)	(30,851)
Total shareholders' equity	370,396	342,964
Total liabilities and shareholders' equity	\$ 520,927	\$ 501,563

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

Table of Contents

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
<u>Cash flows from operating activities</u>		
Net income	\$ 19,768	\$ 12,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on acquisitions (Note 1)		(2,666)
Environmental and litigation contingencies	(956)	11,500
Depreciation and amortization	11,195	10,338
Equity in income from equity investments - net		(112)
Employee benefit plan provisions	832	1,434
Stock-based compensation	1,305	1,388
Deferred income tax	6,202	(283)
Changes in assets and liabilities:		
Decrease (increase) in receivables	4,336	(3,077)
Increase in inventories	(9,240)	(768)
Increase in revenue in excess of billings on uncompleted contracts and other current assets	(1,707)	(6,892)
(Decrease) increase in accounts payable, accrued liabilities, and accrued interest	(9,378)	6,653
Pension contributions	(3,690)	(7,561)
Other items net	952	(57)
Net cash provided by operating activities	19,619	22,289
<u>Cash flows from investing activities</u>		
Purchase of businesses net of cash (Note 1)		(2,103)
Property, plant and equipment expenditures	(36,246)	(16,999)
Proceeds from disposals of property, plant and equipment		56
Cash pledged for collateral		(1,066)
Cash released from collateral		5,289
Net cash used in investing activities	(36,246)	(14,823)
<u>Cash flows from financing activities</u>		
Revolving credit facility borrowings (Note 10)	147,086	
Revolving credit facility repayments (Note 10)	(149,250)	
Proceeds from debt obligations (Note 10)	373	6,587
Reductions of debt obligations (Note 10)	(1,724)	(6,770)
Treasury stock purchased	(422)	(933)
Common stock issued	117	223
Excess tax benefit from stock-based compensation	116	399
Net cash used in financing activities	(3,704)	(494)

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Effect of exchange rate changes on cash	266	34
(Decrease) increase in cash and cash equivalents	(20,065)	7,006
Cash and cash equivalents, beginning of period	33,992	38,029
Cash and cash equivalents, end of period	\$ 13,927	\$ 45,035

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

Table of Contents

CALGON CARBON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

(Unaudited)

1. Acquisitions

Zwicky Denmark and Sweden (Zwicky) and Hyde Marine, Inc. (Hyde)

On January 4, 2010, the Company acquired two Zwicky businesses. The Company acquired substantially all of the assets of Zwicky AS (Denmark) and acquired 100% of the outstanding shares of capital stock of Zwicky AB (Sweden). These companies are distributors of activated carbon products and providers of services associated with the reactivation of activated carbon and, subsequent to acquisition, their results are included in the Company's Activated Carbon and Service segment. As a result of the Zwicky acquisitions, the Company has increased its presence in Northern Europe.

On January 29, 2010, the Company acquired 100% of the capital stock of Hyde, a manufacturer of systems that use ultraviolet light technology to treat marine ballast water. The results of Hyde are included in the Company's Equipment segment. The Hyde acquisition provides the Company with immediate entry into the new global market for ballast water treatment and increases its knowledge base and experience in using ultraviolet light technology to treat water.

The aggregate purchase price for these acquisitions was \$4.3 million, including cash paid at closing of \$2.8 million as well as deferred payments and earnouts valued at \$1.5 million. The fair value of assets acquired less liabilities assumed for Hyde exceeded the purchase price thereby resulting in a pre-tax gain of \$0.3 million which is included in the gain on acquisitions in the Company's Condensed Consolidated Statement of Income for the six month period ended June 30, 2010. The Company recorded an estimated earnout liability of \$0.6 million payable to the former owner and certain employees of Hyde calculated based upon 5% of certain defined cash flow of the business through 2018, without limitation. This liability, which the Company evaluates and adjusts at the end of each reporting period, is recorded in accrued pension and other liabilities within the Condensed Consolidated Balance Sheet.

Calgon Mitsubishi Chemical Corporation (CMCC)

On March 31, 2010, the Company increased its ownership interest in its Japanese joint venture with CMCC from 49% to 80%. The increase in ownership was accomplished by CMCC borrowing funds and purchasing shares of capital stock directly from the former majority owner Mitsubishi Chemical Corporation (MCC) for approximately \$7.7 million. Subsequent to the share purchase and resultant control by the Company, the venture was re-named Calgon Carbon Japan KK (CCJ). CCJ also agreed to acquire the remaining shares held by MCC on March 31, 2011 (the redeemable noncontrolling interest) for approximately \$2.4 million. The original \$2.4 million obligation to purchase these remaining shares (the redeemable noncontrolling interest) was reduced by \$2.1 million for working capital and other adjustments related to indemnification claims that were previously estimated. On March 31, 2011, the remaining shares held by MCC were acquired with no payment due. Therefore, the Company recorded a \$0.3 million gain in Other expense net within the Company's Condensed Consolidated Statement of Income for the six month period ended June 30, 2011. The ownership of CCJ triples the Company's sales revenue in Asia and adds to its workforce and infrastructure in Japan, the world's second largest activated carbon market. The results of CCJ are reflected in the Company's Activated Carbon and Service segment.

Table of Contents

The acquisition date fair value of the Company's former 49% equity interest in CMCC was approximately \$9.8 million. The Company recorded a pre-tax gain of \$2.4 million related to this acquisition in 2010. The gain resulted from the remeasurement of the Company's equity interest to fair value as well as the fair value of assets acquired less liabilities assumed exceeding the purchase price.

The purchase price allocations and resulting impact on the corresponding Condensed Consolidated Balance Sheet relating to these acquisitions is as follows:

Assets:	
Cash	\$ 708
Accounts receivable	19,511
Inventory	14,625
Property, plant, and equipment, net	7,606
Intangibles*	5,374
Other current assets	2,530
Other assets	546
Total Assets	50,900
Liabilities:	
Accounts payable	(10,660)
Short-term debt	(14,777)
Current portion of long-term debt	(2,569)
Long-term debt	(5,160)
Accrued pension and other liabilities	(3,993)
Total Liabilities	(37,159)
Redeemable non-controlling interest	(274)
Net Assets	\$ 13,467
Cash Paid for Acquisitions	\$ 2,812

* Weighted amortization period of 8.9 years.

Subsequent to their acquisition and excluding the related net gains of \$2.7 million, these entities contributed the following to the Company's consolidated operating results for the three and six month periods ended June 30, 2010:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Revenue	\$ 15,599	\$ 16,652
Net loss	\$ (76)	\$ (498)

The aggregate purchase price for each acquisition was allocated to the assets acquired and liabilities assumed based on their respective estimated acquisition date fair values. The Company has finalized the valuations and completed the purchase price allocations for each of its acquisitions.

Table of Contents**Pro Forma Information**

The operating results of the acquired companies have been included in the Company's consolidated financial statements from the dates each were acquired. The following unaudited pro forma results of operations assume that the acquisitions had been included for the full periods indicated. Such results are not necessarily indicative of the actual results of operations that would have been realized nor are they necessarily indicative of future results of operations.

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Net sales	\$ 123,574	\$ 243,707
Net income	\$ 2,916	\$ 11,659
Net income per common share		
Basic	\$ 0.05	\$ 0.21
Diluted	\$ 0.05	\$ 0.21

The 2010 pro forma amounts have been calculated after adjusting for sales and related profit resulting from the Company's sales of activated carbon to both CCJ and Zwicky. In addition, the equity earnings from the Company's former non-controlling interest in CCJ have been removed. The results also reflect additional amortization that would have been charged assuming fair value adjustments to amortizable intangible assets had been applied to the beginning of each period presented.

The results for the six month period ended June 30, 2010 exclude approximately \$2.7 million of gains associated with the acquisitions.

2. Inventories:

	June 30, 2011	December 31, 2010
Raw materials	\$ 26,139	\$ 24,178
Finished goods	87,062	77,515
	\$ 113,201	\$ 101,693

3. Supplemental Cash Flow Information:

Cash paid for interest during the six months ended June 30, 2011 and 2010 was \$0.3 million and \$0.1 million, respectively. Income taxes paid, net of refunds, were \$4.3 million and \$7.3 million, for the six months ended June 30, 2011 and 2010, respectively.

The Company has reflected \$0.9 million and \$1.3 million of its capital expenditures as a decrease in accounts payable and accrued liabilities for changes in unpaid capital expenditures for the six months ended June 30, 2011 and 2010, respectively.

Table of Contents**4. Dividends:**

The Company's Board of Directors did not declare or pay a dividend for the three or six month periods ended June 30, 2011 and 2010.

5. Comprehensive income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 11,291	\$ 2,916	\$ 19,768	\$ 12,392
Other comprehensive income (loss), net of taxes	2,352	(2,524)	6,780	(7,578)
Comprehensive income	\$ 13,643	\$ 392	\$ 26,548	\$ 4,814

The only matters contributing to the other comprehensive income during the three and six months ended June 30, 2011 was the foreign currency translation adjustment of \$2.1 million and \$6.5 million, respectively; the changes in employee benefit accounts of \$0.2 million and \$0.4 million, respectively; and the change in the fair value of the derivative instruments of \$(41) thousand and \$(0.1) million, respectively. The only matters contributing to the other comprehensive loss during the three and six months ended June 30, 2010 was the foreign currency translation adjustment of \$(4.1) million and \$(9.9) million, respectively; the changes in employee benefit accounts of \$0.9 million and \$1.4 million, respectively; and the change in the fair value of the derivative instruments of \$0.7 million and \$0.9 million, respectively.

6. Segment Information:

The Company's management has identified three segments based on the product line and associated services. Those segments include Activated Carbon and Service, Equipment, and Consumer. The Company's chief operating decision maker, its chief executive officer, receives and reviews financial information in this format. The Activated Carbon and Service segment manufactures granular and powder activated carbon for use in applications to remove organic compounds from liquids, gases, water, and air. This segment also consists of services related to activated carbon including reactivation of spent carbon and the leasing, monitoring, and maintenance of carbon fills at customer sites. The service portion of this segment also includes services related to the Company's ion exchange technologies for treatment of groundwater and process streams. The Equipment segment provides solutions to customers' air and water process problems through the design, fabrication, and operation of systems that utilize the Company's enabling technologies: carbon adsorption, ultraviolet light, ballast water, and advanced ion exchange separation. The Consumer segment brings the Company's purification technologies directly to the consumer in the form of products and services including carbon cloth and activated carbon for household odors. The following segment information represents the results of operations:

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net Sales				
Activated Carbon and Service	\$ 121,522	\$ 110,381	\$ 234,406	\$ 200,833
Equipment	11,681	11,129	20,798	21,289
Consumer	2,095	2,064	4,474	4,379
	\$ 135,298	\$ 123,574	\$ 259,678	\$ 226,501
Income (loss) from operations before depreciation and amortization				
Activated Carbon and Service	\$ 24,889	\$ 9,275	\$ 43,957	\$ 26,962
Equipment	(483)	243	(866)	(72)
Consumer	(1,336)		(1,141)	113
	23,070	9,518	41,950	27,003
Depreciation and amortization				
Activated Carbon and Service	5,015	4,594	9,890	9,068
Equipment	520	550	1,067	1,036
Consumer	120	117	238	234
	5,655	5,261	11,195	10,338
Income from operations	17,415	4,257	30,755	16,665
Reconciling items:				
Interest income	120	88	183	204
Interest expense	(62)	(86)	(80)	(94)
Gain on acquisitions				2,666
Other expense net	(46)	(172)	(236)	(475)
Income from operations before income tax and equity in income from equity investments	\$ 17,427	\$ 4,087	\$ 30,622	\$ 18,966

	June 30, 2011	December 31, 2010
Total Assets		
Activated Carbon and Service	\$ 465,885	\$ 441,415
Equipment	46,416	49,860
Consumer	8,626	10,288
Consolidated total assets	\$ 520,927	\$ 501,563

Table of Contents

7. Derivative Instruments

The Company's corporate and foreign subsidiaries use foreign currency forward exchange contracts and foreign exchange option contracts to limit the exposure of exchange rate fluct