

CALGON CARBON CORPORATION

Form 10-Q

August 07, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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)

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

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

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

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

Class
Common Stock, \$.01 par value per share

Outstanding at July 29, 2009
54,750,451 shares

## CALGON CARBON CORPORATION

FORM 10-Q  
QUARTER ENDED June 30, 2009

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 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, capital and environmental requirements, 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.

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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 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, 2008, as filed with the Securities and Exchange Commission by the Company in Form 10-K.

In management's opinion, the unaudited interim 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 six months of 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

CALGON CARBON CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in Thousands Except Per Share Data)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008*	2009	2008*
Net sales	\$ 98,649	\$ 106,335	\$ 184,601	\$ 193,755
Net sales to related parties	4,441	2,141	9,122	5,052
Total	103,090	108,476	193,723	198,807
Cost of products sold (excluding depreciation and amortization)	70,319	71,021	131,533	132,786
Depreciation and amortization	3,972	4,199	7,748	8,125
Selling, general and administrative expenses	17,380	16,151	33,125	31,351
Research and development expenses	1,246	1,003	2,208	2,094
Gain on AST settlement (See Note 7)	—	—	—	(9,250)
	92,917	92,374	174,614	165,106
Income from operations	10,173	16,102	19,109	33,701
Interest income	77	425	204	857
Interest expense	(186)	(2,069)	(207)	(4,156)
Other expense—net (See Note 9)	(1,500)	(480)	(1,928)	(570)
Income from continuing operations before income tax and equity in income (loss) from equity investments	8,564	13,978	17,178	29,832
Income tax provision	2,893	4,555	5,974	10,474
Income from continuing operations before equity in income (loss) from equity investments	5,671	9,423	11,204	19,358
Equity in income (loss) from equity investments	427	(139)	868	299
Income from continuing operations	6,098	9,284	12,072	19,657
Income from discontinued operations, net	—	3,447	—	3,447
Net income	\$ 6,098	\$ 12,731	\$ 12,072	\$ 23,104
Net income per common share				
Basic:				
Income from continuing operations	\$ .11	\$ .23	\$ .22	\$ .49
Income from discontinued operations	—	.09	—	.08
Total	\$ .11	\$ .32	\$ .22	\$ .57

Diluted:

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Income from continuing operations	\$	.11	\$	.18	\$	.21	\$	38
Income from discontinued operations		—		.06		—		.07
Total	\$	.11	\$	.24	\$	.21	\$	.45

Weighted average shares outstanding

Basic	54,331,467	40,558,818	54,224,885	40,399,608
Diluted	56,285,314	52,024,889	56,182,738	51,890,504

\* Results have been retrospectively adjusted to incorporate the adoption of FASB Staff Position APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (See Note 9).

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

CALGON CARBON CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands except share data)  
(Unaudited)

	June 30, 2009	December 31, 2008*
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,501	\$ 16,750
Restricted cash	11,019	—
Receivables (net of allowance of \$2,152 and \$1,596)	60,948	62,300
Receivables from related parties	4,600	2,215
Revenue recognized in excess of billings on uncompleted contracts	7,048	8,870
Inventories	94,441	93,725
Deferred income taxes – current	10,280	8,911
Other current assets	5,964	7,817
<b>Total current assets</b>	<b>201,801</b>	<b>200,588</b>
Property, plant and equipment, net	143,774	122,960
Equity investments	11,036	11,747
Intangibles	5,373	5,930
Goodwill	26,813	26,340
Deferred income taxes – long-term	10,356	13,129
Other assets	6,203	6,568
<b>Total assets</b>	<b>\$ 405,356</b>	<b>\$ 387,262</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 39,232	\$ 39,647
Billings in excess of revenue recognized on uncompleted contracts	6,160	4,639
Accrued interest	182	140
Payroll and benefits payable	7,731	10,522
Accrued income taxes	1,272	1,088
Short-term debt	—	1,605
Current portion of long-term debt	5,163	7,903
<b>Total current liabilities</b>	<b>59,740</b>	<b>65,544</b>
Long-term debt	7,600	—
Deferred income taxes – long-term	44	242
Accrued pension and other liabilities	69,639	68,199
<b>Total liabilities</b>	<b>137,023</b>	<b>133,985</b>
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common shares, \$.01 par value, 100,000,000 shares authorized, 57,229,545 and 56,961,297 shares issued	572	570
Additional paid-in capital	156,137	153,766



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Retained earnings	146,078	134,006
Accumulated other comprehensive loss	(4,960)	(6,450)
	297,827	281,892
Treasury stock, at cost, 3,017,776 and 2,902,264 shares	(29,494)	(28,615)
Total shareholders' equity	268,333	253,277
Total liabilities and shareholders' equity	\$ 405,356	\$ 387,262

\* Results have been retrospectively adjusted to incorporate the adoption of FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (See Note 9).

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

CALGON CARBON CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Dollars in Thousands)  
 (Unaudited)

	Six Months Ended June 30,	
	2009	2008*
<b>Cash flows from operating activities</b>		
Net income	\$ 12,072	\$ 23,104
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Gain from divestiture	—	(4,353)
Depreciation and amortization	7,748	8,125
Equity in (income) loss from equity investments - net	(418)	101
Employee benefit plan provisions	2,690	1,277
Write-off of prior credit facility fees (Note 9)	827	—
Amortization of convertible notes discount	185	2,005
Stock-based compensation	1,239	1,534
Deferred income tax	1,863	2,836
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in receivables	288	(7,654)
Decrease (increase) in inventories	706	(3,741)
Decrease (increase) in revenue in excess of billings on uncompleted contracts and other current assets	4,088	(760)
Decrease in accounts payable and accrued liabilities	(2,550)	(551)
Increase in accrued income taxes	433	648
Pension contributions	(733)	(4,673)
Other items – net	1,167	234
Net cash provided by operating activities	29,605	18,132
<b>Cash flows from investing activities</b>		
Property, plant and equipment expenditures	(28,196)	(11,802)
Proceeds from disposals of property, plant and equipment	—	331
Cash pledged for collateral	(11,019)	—
Net cash used in investing activities	(39,215)	(11,471)
<b>Cash flows from financing activities</b>		
Revolving credit facility borrowings (repayments), net	7,600	—
Reductions of debt obligations (See Note 9)	(4,530)	—
Treasury stock purchases	(879)	(823)
Common stock issued through exercise of stock options	448	2,543
Excess tax benefit from stock-based compensation	362	970
Other (See Note 9)	(1,028)	—
Net cash provided by financing activities	1,973	2,690
Effect of exchange rate changes on cash	(1,612)	(1,106)
(Decrease) increase in cash and cash equivalents	(9,249)	8,245
Cash and cash equivalents, beginning of period	16,750	30,304
Cash and cash equivalents, end of period	\$ 7,501	\$ 38,549

\* Results have been retrospectively adjusted to incorporate the adoption of FASB Staff Position APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (See Note 9).

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

CALGON CARBON CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Thousands)  
(Unaudited)

1.	Inventories:	June 30, 2009	December 31, 2008
	Raw materials	\$ 25,553	\$ 27,241
	Finished goods	68,888	66,484
		\$ 94,441	\$ 93,725

2. Supplemental Cash Flow Information:

Cash paid for interest during the six months ended June 30, 2009 and 2008 was \$0.2 million and \$2.3 million, respectively. Income taxes paid, net of refunds, were \$2.7 million and \$7.6 million, for the six months ended June 30, 2009 and 2008, respectively.

3. Dividends:

The Company's Board of Directors did not declare or pay a dividend for the three or six month periods ended June 30, 2009 and 2008.

4. Comprehensive income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008

Net income	\$ 6,098	\$ 12,731	\$ 12,072	\$ 23,104
Other comprehensive income, net of taxes	5,121	2,222	1,490	6,122
Comprehensive income	\$ 11,219	\$ 14,953	\$ 13,562	\$ 29,226

The only matters contributing to the other comprehensive income during the three and six months ended June 30, 2009 was the foreign currency translation adjustment of \$5.2 million and \$1.8 million, respectively; the changes in employee benefit accounts of \$(47) thousand and \$0.5 million, respectively; and the change in the fair value of the derivative instruments of \$(0.1) million and \$(0.8) million, respectively. The only matters contributing to the other comprehensive income during the three and six months ended June 30, 2008 was the foreign currency translation adjustment of \$0.7 million and \$4.1 million, respectively; the changes in employee benefit accounts of \$0.1 million and \$0.2 million, respectively; and the change in the fair value of the derivative instruments of \$1.4 million and \$1.8 million, respectively.

5.

## Segment Information:

The Company's management has identified three segments based on 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 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 liquid process problems through the design, fabrication, and operation of systems that utilize the Company's enabling technologies: carbon adsorption, ultraviolet light, 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 the Company's continuing operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Net Sales</b>				
Activated Carbon and Service	\$ 89,383	\$ 95,284	\$ 167,146	\$ 172,182
Equipment	11,327	10,742	22,226	20,439
Consumer	2,380	2,450	4,351	6,186
	\$ 103,090	\$ 108,476	\$ 193,723	\$ 198,807
<b>Income (loss) from continuing operations before depreciation and amortization</b>				
Activated Carbon and Service	\$ 13,200	\$ 19,766	\$ 25,082	\$ 37,142
Equipment	962	519	1,937	3,962
Consumer	(17)	16	(162)	722
	14,145	20,301	26,857	41,826
<b>Depreciation and amortization</b>				
Activated Carbon and Service	3,549	3,793	6,909	7,276
Equipment	304	280	606	598
Consumer	119	126	233	251
	3,972	4,199	7,748	8,125
<b>Income from operations</b>	10,173	16,102	19,109	33,701
<b>Reconciling items:</b>				
Interest income	77	425	204	857
Interest expense	(186)	(2,069)	(207)	(4,156)
Other expense – net	(1,500)	(480)	(1,928)	(570)
<b>Consolidated income from continuing operations before income tax and equity in income (loss) from equity investments</b>	\$ 8,564	\$ 13,978	\$ 17,178	\$ 29,832

	June 30, 2009	December 31, 2008
<b>Total Assets</b>		
Activated Carbon and Service	\$ 351,341	\$ 334,675
Equipment	40,202	38,867
Consumer	13,813	13,720
<b>Consolidated total assets</b>	<b>\$ 405,356</b>	<b>\$ 387,262</b>

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## 6. 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 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. 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 uses cash flow hedges to limit the exposure to changes in natural gas prices. The natural gas forward contracts generally mature within one to thirty-six months. The Company also has a ten-year foreign currency swap agreement to fix the foreign exchange rate on a \$6.5 million intercompany loan between the Company and its foreign subsidiary, Chemviron Carbon Ltd. Since its inception, the foreign currency swap has been treated as a foreign exchange cash flow hedge.

The Company accounts for its derivative instruments under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"). This standard requires recognition of all derivatives as either assets or liabilities at fair value and may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses from changes in the fair value of derivative instruments.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 to provide qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Company adopted SFAS No. 161 on January 1, 2009, as required.

The fair value of outstanding derivative contracts recorded as assets in the accompanying Consolidated Balance Sheets were as follows:

Asset Derivatives	Balance Sheet Locations	June 30, 2009	December 31, 2008
Derivatives designated as hedging instruments under SFAS No. 133:			
	Other current		
Foreign exchange contracts	assets	\$ 833	\$ 1,153
Currency swap	Other assets	141	662
Natural gas contracts	Other assets	6	0
Total derivatives designated as hedging instruments under SFAS No. 133			
		980	1,815
Derivatives not designated as hedging instruments under SFAS No. 133:			
	Other current		
Foreign exchange contracts	assets	36	14

