

CALGON CARBON Corp
Form 10-Q
November 05, 2014
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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 September 30, 2014

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)

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 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

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 October 29, 2014
53,216,763 shares

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CALGON CARBON CORPORATION

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2014

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 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 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, 2013, as filed with the Securities and Exchange Commission by the Company in its Annual Report on 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 nine months of 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands except Per Share Data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	\$ 137,699	\$ 139,375	\$ 414,463	\$ 414,847
Cost of products sold (excluding depreciation and amortization)	90,106	93,001	272,822	279,473
Depreciation and amortization	7,570	7,347	22,124	21,399
Selling, general and administrative expenses	19,544	19,362	59,181	56,279
Research and development expenses	1,638	1,614	4,794	4,476
Restructuring income	(27)	(87)	(252)	(129)
Litigation and other contingencies		266		266
Income from operations	118,831	121,503	358,669	361,764
Interest income	15	3	56	139
Interest expense	(32)	(122)	(196)	(428)
Other expense net	(401)	(395)	(1,329)	(1,564)
Income before income tax provision	18,450	17,358	54,325	51,230
Income tax provision	6,226	5,473	17,089	16,561
Net income	12,224	11,885	37,236	34,669
Other comprehensive income (loss), net of tax (Note 9)				
Foreign currency translation	(9,207)	4,551	(8,112)	(967)
Pension benefit	503	425	825	1,759
Derivatives	665	(391)	246	168
Total other comprehensive income (loss)	(8,039)	4,585	(7,041)	960
Total comprehensive income	\$ 4,185	\$ 16,470	\$ 30,195	\$ 35,629
Net income per common share				
Basic	\$ 0.23	\$ 0.22	\$ 0.70	\$ 0.64
Diluted	\$ 0.23	\$ 0.22	\$ 0.69	\$ 0.64
Weighted average shares outstanding				
Basic	52,856,846	53,900,119	53,132,952	53,774,268
Diluted	53,759,306	54,763,796	54,039,057	54,506,378

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)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,973	\$ 32,942
Receivables (net of allowance of \$871 and \$1,328)	96,339	96,996
Revenue recognized in excess of billings on uncompleted contracts	8,732	8,090
Inventories	104,227	109,517
Deferred income taxes current	17,355	20,787
Other current assets	10,708	13,118
Total current assets	279,334	281,450
Property, plant and equipment, net	279,753	266,849
Intangibles, net	5,889	5,602
Goodwill	26,417	26,552
Deferred income taxes long-term	2,935	3,791
Other assets	5,094	5,834
Total assets	\$ 599,422	\$ 590,078
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 53,730	\$ 57,213
Restructuring reserve	297	535
Billings in excess of revenue recognized on uncompleted contracts	4,501	5,406
Payroll and benefits payable	12,452	14,144
Accrued income taxes	1,434	2,726
Short-term debt	913	2,172
Current portion of long-term debt	152	
Total current liabilities	73,479	82,196
Long-term debt	53,108	32,114
Deferred income taxes long-term	31,256	30,902
Accrued pension and other liabilities	21,263	28,361
Total liabilities	179,106	173,573
Commitments and contingencies (Note 12)		
Shareholders equity:		
Common shares, \$.01 par value, 100,000,000 shares authorized, 57,421,080 and 57,232,050 shares issued	574	572
Additional paid-in capital	174,901	170,320
Retained earnings	353,460	316,224
Accumulated other comprehensive loss	(8,181)	(1,140)

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	520,754	485,976
Treasury stock, at cost, 7,750,609 and 6,242,326 shares	(100,438)	(69,471)
Total shareholders' equity	420,316	416,505
Total liabilities and shareholders' equity	\$ 599,422	\$ 590,078

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)

	Nine Months Ended September 30,	
	2014	2013
<u>Cash flows from operating activities</u>		
Net income	\$ 37,236	\$ 34,669
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,124	21,399
Employee benefit plan provisions	(144)	1,370
Stock-based compensation	2,840	2,391
Deferred income tax expense	3,717	2,877
Restructuring income	(252)	(129)
Restructuring cash payments	(83)	(3,124)
Changes in assets and liabilities-net of effects from foreign exchange:		
Increase in receivables	(806)	(7,096)
Decrease (increase) in inventories	3,935	(3,289)
Decrease in revenue in excess of billings on uncompleted contracts and other current assets	1,481	8,177
Decrease in accounts payable and accrued liabilities	(5,508)	(15,140)
Pension contributions	(2,366)	(3,547)
Other items net	(795)	573
Net cash provided by operating activities	61,379	39,131
<u>Cash flows from investing activities</u>		
Proceeds from sale of assets and businesses	451	642
Capital expenditures	(43,775)	(22,053)
Government grants received	1,209	1,709
Net cash used in investing activities	(42,115)	(19,702)
<u>Cash flows from financing activities</u>		
Japanese working capital loan borrowings short-term (Note 4)	3,330	
Japanese working capital loan repayments short-term (Note 4)	(4,301)	(16,291)
U.S. credit agreement borrowings long term (Note 4)	68,950	64,900
U.S. credit agreement repayments long term (Note 4)	(46,200)	(71,150)
Proceeds of debt obligations		10,476
Reductions of debt obligations	(1,734)	(1,015)
Treasury stock purchased (Note 6)	(30,967)	(344)
Common stock issued	1,547	3,410
Net cash used in financing activities	(9,375)	(10,014)
Effect of exchange rate changes on cash and cash equivalents	(858)	2,401
Increase in cash and cash equivalents	9,031	11,816
Cash and cash equivalents, beginning of period	32,942	18,161
Cash and cash equivalents, end of period	\$ 41,973	\$ 29,977

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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. Restructuring

During the third quarter of 2012, the Company adopted a worldwide strategy to reduce costs and realign the organization structure in response to the global economic slowdown, rising raw material and maintenance costs, and delays in implementation of environmental regulations, which created a challenging business environment for the Company. As a part of this strategy, the Company closed, and later sold, its Datong, China manufacturing facility and a warehouse in Belgium, temporarily idled a reactivation facility in Blue Lake, California, and reduced headcount. The Company also consolidated operations at certain locations and evaluated non-core businesses for potential divestiture.

For the three and nine months ended September 30, 2014, the Company recorded \$27 thousand and \$0.1 million of restructuring income which represents reductions in the estimated accrual. The Company also received proceeds of \$0.5 million and recorded a pre-tax gain of \$0.1 million for the sale of a warehouse in Belgium for the nine months ended September 30, 2014. For the three and nine months ended September 30, 2013, the Company recorded \$(87) thousand and \$0.4 million of restructuring (income) charges, respectively. For the nine months ended September 30, 2013, the Company also recorded a pre-tax gain of \$0.6 million for the sale of its activated carbon manufacturing facility in Datong, China. The gain on sale was comprised of the release of foreign currency translation adjustments of \$1.0 million which was partially offset by a \$0.4 million charge for the write-off of goodwill. The restructuring activity was all within the Activated Carbon and Service segment. The remaining restructuring cash outlays are expected to be made in 2014.

The following table summarizes the restructuring plan and the reserve activity since inception and through the period ended September 30, 2014:

(Thousands, except no. of employees)	Employee Termination Benefits	Asset Write-offs	Gain on Sale	Other	Total Restructuring Activity	Employees Impacted
Restructuring charges	\$ 5,777	\$ 4,000	\$	\$ 434	\$ 10,211	120
2012 Activity	(2,551)	(4,000)		(434)	(6,985)	(53)
Balance at December 31, 2012	\$ 3,226	\$	\$	\$	\$ 3,226	67
Restructuring charges (income)	357		(578)	92	(129)	4
2013 Activity	(3,048)		578	(92)	(2,562)	(67)
Balance at December 31, 2013	\$ 535	\$	\$	\$	\$ 535	4
Restructuring income	(130)		(122)		(252)	
2014 Activity to date	(108)		122		14	(2)
Balance at September 30, 2014	\$ 297	\$	\$	\$	\$ 297	2

2. Inventories

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	September 30, 2014		December 31, 2013	
Raw materials	\$	27,156	\$	31,603
Finished goods		77,071		77,914
	\$	104,227	\$	109,517

Inventories are recorded net of reserves of \$2.7 million and \$1.9 million for obsolete and slow-moving items as of September 30, 2014 and December 31, 2013, respectively.

Table of Contents**3. Goodwill & Other Identifiable Intangible Assets**

The Company has elected to perform the annual impairment test of its goodwill, as required, on December 31 of each year. For purposes of the test, the Company has identified reporting units, as defined within Accounting Standards Codification (ASC) 350, Intangibles – Goodwill and Other, at a regional level for the Activated Carbon and Service segment and at the technology level for the Equipment segment and has allocated goodwill to these reporting units accordingly. The goodwill associated with the Consumer segment is not material and has not been allocated below the segment level. The changes in the carrying amounts of goodwill by segment for the nine months ended September 30, 2014 are as follows:

	Activated Carbon & Service Segment	Equipment Segment	Consumer Segment	Total
Balance as of December 31, 2013	\$ 19,961	\$ 6,531	\$ 60	\$ 26,552
Foreign exchange	(58)	(77)		(135)
Balance as of September 30, 2014	\$ 19,903	\$ 6,454	\$ 60	\$ 26,417

The following is a summary of the Company's identifiable intangible assets:

	Weighted Average Amortization Period	Gross Carrying Amount	September 30, 2014 Foreign Exchange	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets:					
Patents	20.0 Years	\$ 676	\$	\$ (625)	\$ 51
Customer Relationships	15.9 Years	10,450	(247)	(9,107)	1,096
Product Certification	5.5 Years	8,410	(50)	(4,780)	3,580
Unpatented Technology	18.4 Years	3,183		(2,657)	526
Licenses	20.0 Years	964	(66)	(262)	636
Total	12.8 Years	\$ 23,683	\$ (363)	\$ (17,431)	\$ 5,889

	Weighted Average Amortization Period	Gross Carrying Amount	December 31, 2013 Foreign Exchange	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets:					
Patents	20.0 Years	\$ 676	\$	\$ (592)	\$ 84
Customer Relationships	15.9 Years	10,450	(209)	(8,777)	1,464
Product Certification	5.4 Years	7,905	(34)	(5,237)	2,634
Unpatented Technology	18.4 Years	3,183		(2,457)	726
Licenses	20.0 Years	964	(43)	(227)	694
Total	12.9 Years	\$ 23,178	\$ (286)	\$ (17,290)	\$ 5,602

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For the three and nine months ended September 30, 2014, the Company recognized \$0.6 million and \$1.7 million, respectively, of amortization expense related to intangible assets. For the three and nine months ended September 30, 2013, the Company recognized \$0.5 million and \$1.6 million, respectively, of amortization expense related to intangible assets. As of September 30, 2014, estimated future amortization expense of identifiable intangible assets is \$0.6 million for the remaining three months of 2014. The Company estimates amortization expense to be recognized during the next five years as follows:

For the year ending December 31:

2015	\$	1,671
2016		1,441
2017		661
2018		468
2019		259

Table of Contents**4. Borrowing Arrangements****Short-Term Debt**

	September 30, 2014	December 31, 2013
Borrowings under Japanese Working Capital Loan	\$ 913	\$ 1,900
Borrowings under Chinese Credit Facility		272
Total	\$ 913	\$ 2,172

Long-Term Debt

	September 30, 2014	December 31, 2013
U.S. Credit Agreement Borrowings	\$ 49,000	\$ 26,250
Japanese Term Loan Borrowings	4,108	5,699
Belgian Loan Borrowings	152	165
Total	53,260	32,114
Less current portion of long-term debt	(152)	
Net	\$ 53,108	\$ 32,114

U.S. Credit Agreement

On November 6, 2013, the Company entered into a new U.S. Credit Agreement (Credit Agreement). The Credit Agreement provides for a senior unsecured revolving credit facility (Revolver) in an amount up to \$225.0 million which expires on November 6, 2018. The Company may request that the Revolver be extended for up to two additional one-year periods. A portion of the Revolver not in excess of \$75.0 million shall be available for standby or letters of credit for trade, \$15.0 million shall be available for swing loans, and \$50.0 million shall be available for loans or letters of credit in certain foreign denominated currencies. The Company may have the option to increase the Revolver in an amount not to exceed \$75.0 million with the consent of the Lenders. Availability under the Revolver is conditioned upon various customary conditions. Total availability under the Revolver as of September 30, 2014 was \$218.8 million after considering outstanding letters of credit of \$2.2 million and borrowings.

The Credit Agreement also provides for senior unsecured delayed draw term loans (Delayed Draw Term Loans) in an aggregate amount up to \$75.0 million which expires on November 6, 2020. The Delayed Draw Term Loans are available for two years from the closing date. The Company may only request a maximum of three Delayed Draw Term Loans with a minimum borrowing of \$15.0 million and no amount repaid may be re-borrowed. Beginning January 1, 2016, quarterly repayments are required equal to 2.5% of the outstanding balance of the Delayed Draw Term Loans, with the remaining balance due on the November 6, 2020 expiration date. Total availability under the Delayed Draw Term Loan as of September 30, 2014 was \$30.0 million. A quarterly nonrefundable commitment fee is payable by the Company based on the unused availability under the Revolver and the undrawn portion of the Delayed Draw Term Loans and is currently equal to 0.15%.

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The Company incurred issuance costs of \$0.7 million for the Credit Agreement which were deferred and are being amortized over the term of the Revolver and Delayed Draw Term Loan facilities.

The interest rate on amounts owed under the Revolver and Delayed Draw Term Loans will be, at the Company's option, either (i) a fluctuating Base Rate or (ii) an adjusted LIBOR rate plus in each case, an applicable margin based on the Company's leverage ratio as set forth in the Credit Agreement. The interest rate charged on amounts owed under swing loans will be either (i) a fluctuating Base Rate or (ii) such other interest rates as the Lender and the Company may agree to from time to time. The interest rate per annum on outstanding borrowings as of September 30, 2014 ranged from 1.2% to 1.31%.

Total outstanding borrowings under the Revolver were \$4.0 million and \$26.3 million as of September 30, 2014 and December 31, 2013, respectively. Total outstanding borrowings under the Delayed Draw Term Loan were \$45.0 million and zero as of September 30, 2014 and December 31, 2013, respectively. The Outstanding borrowings are shown as long-term debt within the condensed consolidated balance sheets. The borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows.

Certain of the Company's Domestic Subsidiaries unconditionally guarantee all indebtedness and obligations related to borrowings under the Credit Agreement. The Company's obligations under the Credit Agreement are unsecured.

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The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type. The Company is permitted to pay dividends so long as the sum of availability under the Credit Agreement and the amount of U.S. cash on hand is at least \$50.0 million, and debt is less than or equal to 2.75x earnings before interest, taxes, depreciation and amortization. In addition, the Credit Agreement includes limitations on the Company and its subsidiaries with respect to indebtedness, additional liens, disposition of assets or subsidiaries, and transactions with affiliates. The Company must comply with certain financial covenants including a minimum interest coverage ratio and maximum leverage ratio as defined within the Credit Agreement. The Credit Agreement also provides for customary events of default, including failure to pay principal or interest when due, breach of representations and warranties, certain insolvency or receivership events affecting the Company and its subsidiaries and a change in control of the Company. If an event of default occurs, the Lenders will be under no further obligations to make loans or issue letters of credit. Upon the occurrence of certain events of default, all outstanding obligations of the Company automatically will become immediately due and payable, and other events of default will allow the Agent to declare all or any portion of the outstanding obligations of the Company to be immediately due and payable.

Belgian Loan and Credit Facility

On November 30, 2009, the Company entered into a Loan Agreement (the Belgian Loan) in order to help finance the expansion of the Company's Feluy, Belgium facility. The Company had 120 thousand Euros, or \$0.2 million, of outstanding borrowings under the Belgian Loan as of September 30, 2014 and December 31, 2013, respectively. No further bonds can be called on. The interest rate on the loan is 5.35%, and the loan will be paid in full as of December 31, 2014. The Belgian Loan is guaranteed by a mortgage mandate on the Feluy site and is subject to customary reporting requirements, though no financial covenants exist.

The Company also maintains an unsecured Belgian credit facility totaling 2.0 million Euros. There are no financial covenants and the Company had no outstanding borrowings under the Belgian credit facility as of September 30, 2014 and December 31, 2013, respectively. Bank guarantees of 0.9 million Euros and 1.0 million Euros were issued as of September 30, 2014 and December 31, 2013, respectively.

United Kingdom Credit Facility

The Company maintains a United Kingdom credit facility for the issuance of various letters of credit and guarantees totaling 0.6 million British Pounds Sterling. Bank guarantees of 0.4 million British Pounds Sterling were issued as of September 30, 2014 and December 31, 2013, respectively.

Japanese Loans

Calgon Carbon Japan (CCJ) maintains a Term Loan Agreement (the Japanese Term Loan) and a Working Capital Loan Agreement (the Japanese Working Capital Loan). The Company is jointly and severally liable as the guarantor of CCJ's obligations and the Company permitted CCJ to grant a security interest and continuing lien in certain of its assets, including inventory and accounts receivable, to secure its obligations under both loan agreements.

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On May 10, 2013, CCJ renewed the Japanese Term Loan, which provides for borrowings up to 1.0 billion Japanese Yen, and bears interest based on the Uncollateralized Overnight Call Rate plus 0.6%, which totaled 0.7% per annum as of September 30, 2014. This loan matures on May 10, 2017. The borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows. As of September 30, 2014, CCJ had 450 million Japanese Yen or \$4.1 million outstanding and recorded as long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2013, CCJ had 600 million Japanese Yen or \$5.7 million outstanding and recorded as long-term debt within the Company's condensed consolidated balance sheet.

The Japanese Working Capital Loan provides for borrowings up to 1.5 billion Japanese Yen, and bears interest based on the Short-term Prime Rate, which was 1.475% per annum as of September 30, 2014. On March 17, 2014, CCJ extended the maturity date of the Japanese Working Capital Loan from April 2, 2014 to April 2, 2015. Borrowings and repayments under the Japanese Working Capital Loan have generally occurred in short-term intervals, as needed, in order to ensure adequate liquidity while minimizing outstanding borrowings. The borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows. As of September 30, 2014, CCJ had 100 million Japanese Yen or \$0.9 million outstanding and recorded as short-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2013, CCJ had 200 million Japanese Yen or \$1.9 million outstanding and recorded as short-term debt within the Company's condensed consolidated balance sheet.

Table of Contents**Chinese Credit Facility**

The Company maintained an unsecured Chinese credit facility for working capital requirements totaling 10.0 million Renminbi (RMB) or \$1.6 million that matured and was terminated on July 19, 2014. On August 14, 2014, the Company entered into an Uncommitted Revolving Loan Facility Letter (Facility Letter) which provides for an uncommitted line of credit totaling 5.0 million RMB or \$0.8 million which matures on July 19, 2015. The Company is jointly and severally liable as the guarantor under the Facility Letter. As of September 30, 2014, there were no borrowings outstanding under this facility. As of December 31, 2013, total borrowings under the prior facility were 1.7 million RMB or \$0.3 million, and are shown as short-term debt within the Company's condensed consolidated balance sheet.

5. Fair Value Measurements

The following financial instrument assets (liabilities) are presented at carrying amount, fair value, and classification within the fair value hierarchy (refer to Notes 4 and 11 for details relating to borrowing arrangements and derivative instruments). The only financial instruments measured at fair value on a recurring basis are derivative instruments and the acquisition earn-out liability.

	Fair Value Hierarchy	September 30, 2014		December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative assets	2	\$ 1,731	\$ 1,731	\$ 1,874	\$ 1,874
Derivative liabilities	2	(261)	(261)	(423)	(423)
Acquisition earn-out liability	2	(720)	(720)	(850)	(850)
Short-term debt	2	(913)	(913)	(2,172)	(2,172)
Long-term debt, including current portion	2	(53,260)	(53,260)	(32,114)	(32,114)

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 the 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.

6. Shareholders Equity

The Company's Board of Directors did not declare or pay a dividend for the three or nine month periods ended September 30, 2014 and 2013.

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In December 2013, the Company's Board of Directors approved an increase in the overall value of shares authorized for repurchase under a share repurchase program resulting in a total remaining availability of \$150 million. Subsequently, the Company initiated an open market share repurchase program whereby 146,800 shares were repurchased in December 2013 at an average price of \$20.37 per share. During the nine months ended September 30, 2014, the Company repurchased an additional 1,485,141 shares at an average price of \$20.54 per share. All of the aforementioned repurchases were funded from operating cash flows, cash on hand, and borrowings and the shares are initially held as treasury stock. Subsequent to these repurchases, the Company's remaining authorization to repurchase its common stock is approximately \$116.5 million.

7. Pensions

U.S. Plans:

The following table provides the components of net periodic pension (benefit) costs of the U.S. plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Service cost	\$ 224	\$ 291	\$ 671	\$ 874
Interest cost	1,204	975	3,611	3,229
Expected return on plan assets	(1,885)	(1,661)	(5,656)	(4,995)
Amortization of prior service cost	18	18	55	56
Net actuarial loss amortization	219	909	658	2,727
Net periodic pension cost	\$ (220)	\$ 532	\$ (661)	\$ 1,891

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The expected long-term rate of return on plan assets is 7.75% in 2014.

During the third quarter of 2014, the Company offered a one-time opportunity to certain eligible terminated vested participants to elect a lump sum payment of their respective pension benefits to be paid in the fourth quarter of 2014. As a result, the Company currently believes that it may incur a settlement charge in the fourth quarter of 2014 related to such elections which is not yet estimable.

Employer Contributions

In its 2013 financial statements, the Company disclosed that it expected to contribute \$1.5 million to its U.S. pension plans in 2014. As of September 30, 2014, the Company has made contributions of \$1.2 million. The Company expects to contribute the remaining \$0.3 million over the balance of the year.

European Plans:

The following table provides the components of net periodic pension costs of the European plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Service cost	\$ 83	\$ 80	\$ 255	\$ 237
Interest cost	404	390	1,220	1,146
Expected return on plan assets	(379)	(326)	(1,140)	(957)
Net actuarial loss amortization	60	53	182	155
Foreign currency translation		4		12
Net periodic pension cost	\$ 168	\$ 201	\$ 517	\$ 593

The expected long-term rate of return on plan assets is between 4.0% and 5.6% in 2014.

Employer Contributions

In its 2013 financial statements, the Company disclosed that it expected to contribute \$2.1 million to its European pension plans in 2014. As of September 30, 2014, the Company contributed \$1.1 million. The Company expects to contribute the remaining \$1.0 million over the balance of the year.

Multi-Employer Plan:

In addition to the aforementioned European plans, the Company participates in a multi-employer plan in Europe. This multi-employer plan almost entirely relates to former employees of operations it has divested. Benefits are distributed by the multi-employer plan. The Company has a \$0.7 million and \$0.6 million liability recorded as a component of payroll and benefits payable within its condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013, respectively. Refer to Note 12 for further information related to this multi-employer plan.

8. Income Taxes

During the second quarter of 2014, the Internal Revenue Service (IRS) completed its joint committee review of the Company's 2008 amended income tax return. As a result of the conclusion of this examination, the Company received an income tax refund of \$2.5 million including tax and interest which was recorded in other current assets within the Company's condensed consolidated balance sheet. The Company released net uncertain tax positions including related accrued interest and penalties of \$1.4 million as a result of the conclusion of this examination all of which impacted the Company's effective tax rate.

The effective tax rate for the three months ended September 30, 2014 was 33.8% compared to 31.5% for the same period in 2013. The tax rate for the three months ended September 30, 2014 was slightly lower than the U.S. Federal statutory rate of 35% due to the mix of income earned in foreign taxing jurisdictions where the tax rate is lower than the U.S. rate. The 2013 effective tax rate was impacted by benefits related to the release of uncertain tax positions due to statute expirations and by permanent deductions.

The effective tax rate for the nine months ended September 30, 2014 was 31.5% compared to 32.3% for the nine months ended September 30, 2013. The tax rate for the nine months ended September 30, 2014 was lower than the U.S. Federal statutory rate of 35% due to the \$1.4 million tax benefit from the release of uncertain tax positions following the conclusion of the IRS examination

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discussed above, the mix of income earned in foreign taxing jurisdictions where the tax rate is lower than the U.S. rate, and other permanent non-taxable items. The tax rate for the nine months ended September 30, 2013 was lower than the U.S. Federal statutory rate primarily due to net tax benefits from the sale of the Company's activated carbon manufacturing facility in Datong, China which occurred in March 2013.

Unrecognized Income Tax Benefits

As of September 30, 2014 and December 31, 2013, the Company's gross unrecognized income tax benefits were \$1.9 million and \$3.4 million, respectively. If recognized, \$1.6 million and \$2.4 million of the gross unrecognized tax benefits would affect the effective tax rate as of September 30, 2014 and December 31, 2013, respectively. At this time, the Company believes that it is reasonably possible that approximately \$0.4 million of the estimated unrecognized tax benefits as of September 30, 2014 will be recognized within the next twelve months, based on the expiration of statutory periods, of which \$0.1 million will impact the Company's effective tax rate.

9. Accumulated Other Comprehensive Income (Loss)

The changes in the components of accumulated other comprehensive income (loss), net of tax, are as follows:

	Foreign Currency Translation Adjustments	Pension Benefit Adjustments	Derivatives	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2014, net of tax	\$ 16,793	\$ (18,450)	\$ 517	\$ (1,140)
Other comprehensive income (loss) before reclassifications	(8,112)	254	558	(7,300)
Amounts reclassified from other comprehensive income (loss)		571	(312)	259
Net current period other comprehensive income (loss)	(8,112)	825	246	(7,041)
Balance, September 30, 2014, net of tax	\$ 8,681	\$ (17,625)	\$ 763	\$ (8,181)

	Foreign Currency Translation Adjustments	Pension Benefit Adjustments	Derivatives	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2013, net of tax	\$ 17,098	\$ (33,718)	\$ 93	\$ (16,527)
Other comprehensive income (loss) before reclassifications	65	(69)	320	316
Amounts reclassified from other comprehensive income (loss)	(1,032)	1,828	(152)	644
Net current period other comprehensive income (loss)	(967)	1,759	168	960
Balance, September 30, 2013, net of tax	\$ 16,131	\$ (31,959)	\$ 261	\$ (15,567)

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Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (1)				Affected Line Item in the Statement where Net Income is Presented
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Foreign Currency Translation					
Adjustments:					
Sale of foreign subsidiary	\$	\$	\$	\$	1,032 Restructuring (2)
					1,032 Total before tax
					Tax (expense) or benefit
	\$	\$	\$	\$	1,032 Net of tax
Prior-service costs	\$	(18)	\$	(18)	\$ (55) (3)
Actuarial losses		(279)		(962)	(840) (3)
		(297)		(980)	(895) Total before tax
		105		372	324 Tax (expense) or benefit
	\$	(192)	\$	(608)	\$ (571) (1,828) Net of tax
Derivatives:					
Foreign exchange contracts	\$	90	\$	339	\$ 306 \$ 769 Cost of products sold (excluding depreciation and amortization)
Natural gas contracts		91		(70)	253 (476) Cost of products sold (excluding depreciation and amortization)
		181		269	559 293 Total before tax
		(77)		(122)	(247) (141) Tax (expense) or benefit
	\$	104	\$	147	\$ 312 \$ 152 Net of tax
Total reclassifications for the period	\$	(88)	\$	(461)	\$ (259) \$ (644) Net of tax

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- (1) Amounts in parentheses indicate debits to income/loss.
- (2) The adjustment for 2013 relates to the Company's sale of its activated carbon manufacturing facility in Datong, China.
- (3) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost.

Foreign currency translation adjustments exclude income tax expense (benefit) for the earnings of the Company's non-U.S. subsidiaries as management believes these earnings will be reinvested for an indefinite period of time. Determination of the amount of unrecognized deferred U.S. income tax liability on these unremitted earnings is not practicable.

The income tax benefit associated with the Company's pension benefits included in accumulated other comprehensive loss was \$9.8 million and \$9.7 million as of September 30, 2014 and December 31, 2013, respectively. The income tax expense associated with the Company's derivatives included in accumulated other comprehensive income was \$0.4 million and \$0.3 million as of September 30, 2014 and December 31, 2013, respectively.

The following table contains the components of income tax expense (benefit) included in other comprehensive income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Pension benefit	\$ 105	\$ 372	\$ 324	\$ 1,110
Derivatives	372	(244)	86	144

10. Supplemental Cash Flow Information

The Company has reflected \$2.5 million and \$(1.0) million of its capital expenditures as a non-cash increase and decrease in accounts payable and accrued liabilities for changes in unpaid capital expenditures for the nine months ended September 30, 2014 and 2013, respectively.

11. 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.

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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 accompanying condensed consolidated balance sheets were as follows:

Asset Derivatives	Balance Sheet Locations	September 30, 2014	December 31, 2013
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Other current assets	\$ 1,029	\$ 850
Natural gas contracts	Other current assets	30	189
Foreign exchange contracts	Other assets	155	94
Natural gas contracts	Other assets	10	13
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	473	728
Foreign exchange contracts	Other assets	34	
Total asset derivatives		\$ 1,731	\$ 1,874

Liability Derivatives **Balance Sheet Locations**