

CALGON CARBON Corp  
Form 10-Q  
May 05, 2016  
[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 March 31, 2016**

**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)

Edgar Filing: CALGON CARBON Corp - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**25-0530110**  
(I.R.S. Employer  
Identification No.)

**3000 GSK Drive**  
**Moon Township, Pennsylvania**  
(Address of principal executive offices)

**15108**  
(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 as of April 25, 2016**  
50,588,165 shares



Table of Contents

CALGON CARBON CORPORATION

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED MARCH 31, 2016

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.

Table of Contents

INDEX

	<b>Page</b>
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	3
<u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Comprehensive 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.</u>	18
<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	
<u>Item 3.</u>	25
<u>Qualitative and Quantitative Disclosures about Market Risk</u>	
<u>Item 4.</u>	25
<u>Controls and Procedures</u>	
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u>	25
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	25
<u>Risk Factors</u>	
<u>Item 2.</u>	26
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 6.</u>	27
<u>Exhibits</u>	
<u>SIGNATURES</u>	28
<u>CERTIFICATIONS</u>	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABEL LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

## CALGON CARBON CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands except Share Data)

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net sales	\$ 120,199	\$ 135,703
Cost of products sold (excluding depreciation and amortization)	78,459	87,218
Depreciation and amortization	8,775	8,701
Selling, general and administrative expenses	22,982	21,098
Research and development expenses	1,520	1,396
	111,736	118,413
Income from operations	8,463	17,290
Interest income	6	11
Interest expense	(333)	(131)
Other income (expense) net	223	(548)
Income before income tax provision	8,359	16,622
Income tax provision	2,901	5,561
Net income	5,458	11,061
Other comprehensive income (loss), net of tax (Note 8)		
Foreign currency translation	3,097	(10,296)
Defined benefit pension plans	524	810
Derivatives	(790)	244
Total other comprehensive income (loss)	2,831	(9,242)
Total comprehensive income	\$ 8,289	\$ 1,819
Net income per common share		
Basic	\$ 0.11	\$ 0.21
Diluted	\$ 0.11	\$ 0.21

Edgar Filing: CALGON CARBON Corp - Form 10-Q

Dividends per common share	\$	0.05	\$	0.05
Weighted average shares outstanding				
Basic		50,308,295		52,450,994
Diluted		51,040,650		53,330,262

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 except Share Data)

(Unaudited)

	March 31, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 50,906	\$ 53,629
Receivables (net of allowance of \$1,742 and \$1,675)	91,929	96,674
Revenue recognized in excess of billings on uncompleted contracts	10,591	9,156
Inventories	119,471	110,364
Deferred income taxes - current	23,381	22,537
Other current assets	10,077	15,365
Total current assets	306,355	307,725
Property, plant and equipment, net	310,275	311,019
Intangibles, net	5,758	5,961
Goodwill	25,767	25,777
Deferred income taxes - long-term	2,853	2,816
Other assets	3,340	3,220
Total assets	\$ 654,348	\$ 656,518
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 54,027	\$ 53,716
Billings in excess of revenue recognized on uncompleted contracts	3,519	3,581
Payroll and benefits payable	11,488	13,753
Accrued income taxes	2,683	2,091
Current portion of long-term debt	7,500	7,500
Total current liabilities	79,217	80,641
Long-term debt	105,246	103,941
Deferred income taxes - long-term	40,613	41,383
Accrued pension and other liabilities	36,728	36,562
Total liabilities	261,804	262,527
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$.01 par value, 100,000,000 shares authorized, 57,722,626 and 57,646,683 shares issued	577	576
Additional paid-in capital	183,056	181,713
Retained earnings	401,552	398,627
Treasury stock, at cost, 10,774,361 and 10,232,612 shares	(153,842)	(145,295)
Accumulated other comprehensive loss	(38,799)	(41,630)
Total stockholders' equity	392,544	393,991
Total liabilities and stockholders' equity	\$ 654,348	\$ 656,518



Edgar Filing: CALGON CARBON Corp - Form 10-Q

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

Edgar Filing: CALGON CARBON Corp - Form 10-Q

Table of Contents

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income	\$ 5,458	\$ 11,061
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,775	8,701
Employee benefit plan provisions	774	360
Stock-based compensation	1,203	1,255
Deferred income tax (benefit) expense	(1,324)	793
Changes in assets and liabilities-net of effects from foreign exchange:		
Decrease (increase) in receivables	5,506	(5,398)
Increase in inventories	(8,594)	(5,958)
Decrease in revenue in excess of billings on uncompleted contracts and other current assets	3,730	627
Decrease in accounts payable and accrued liabilities	(2,085)	(2,833)
Pension contributions	(353)	(377)
Other items net	(967)	715
Net cash provided by operating activities	12,123	8,946
<b>Cash flows from investing activities</b>		
Capital expenditures	(7,367)	(16,060)
Proceeds from sale of assets	1,234	
Net cash used in investing activities	(6,133)	(16,060)
<b>Cash flows from financing activities</b>		
Japanese working capital loan repayments short-term		(848)
Credit agreement borrowings long term	27,668	18,500
Credit agreement repayments long term	(22,622)	(9,200)
Repayment of term loan long term	(4,001)	
Treasury stock purchased	(8,547)	(2,055)
Common stock dividends paid	(2,533)	(2,630)
Proceeds from the exercise of stock options	162	405
Net cash (used in) provided by financing activities	(9,873)	4,172
Effect of exchange rate changes on cash and cash equivalents	1,160	(1,777)
Net decrease in cash and cash equivalents	(2,723)	(4,719)
Cash and cash equivalents, beginning of period	53,629	53,133
Cash and cash equivalents, end of period	\$ 50,906	\$ 48,414

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. 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 (SEC). 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, 2015, as filed with the SEC 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 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Certain prior year amounts have been reclassified to conform to the 2016 presentation. The restructuring reserve of \$0.1 million reported as of December 31, 2015 has been reclassified to accounts payable and accrued liabilities.

There have been no developments to recently issued accounting standards from those disclosed in the Company's Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2015, except for the following.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) which introduces a lessee model that brings most leases on the balance sheet, requiring lessees to recognize the right to use assets and lease obligations that arise from lease arrangements exceeding a twelve month term. Lessees will also need to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The new guidance is effective for fiscal years beginning after December 15, 2018, and early application is permitted. Entities are required to use a modified retrospective transition for existing leases. The Company is evaluating the provisions of this ASU and assessing the impact it may have on the Company's consolidated financial statements and related disclosures.

## Edgar Filing: CALGON CARBON Corp - Form 10-Q

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) which amends the principal-versus agent implementation guidance and illustrations in FASB's new revenue standard ASU 2014-09. The new guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new guidance is effective for fiscal years, and interim periods within those years, 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 and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The Company is evaluating the provisions of this ASU and assessing the impact it may have on the Company's consolidated financial statements and related disclosures.

Table of Contents**2. Inventories**

	<b>March 31, 2016</b>		<b>December 31, 2015</b>	
Raw materials	\$	20,591	\$	23,327
Finished goods		98,880		87,037
<b>Total</b>	<b>\$</b>	<b>119,471</b>	<b>\$</b>	<b>110,364</b>

Inventories are recorded net of reserves of \$2.6 million and \$2.4 million for obsolete and slow-moving items as of March 31, 2016 and December 31, 2015, 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 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:

	<b>Fair Value Hierarchy Level</b>	<b>March 31, 2016</b>		<b>December 31, 2015</b>	
		<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Cash and cash equivalents	1	\$ 50,906	\$ 50,906	\$ 53,629	\$ 53,629
Derivative assets	2	331	331	468	468
Derivative liabilities	2	(1,338)	(1,338)	(783)	(783)
Acquisition earn-out liability	2	(188)	(188)	(163)	(163)
	2	(112,746)	(112,746)	(111,441)	(111,441)

Long-term debt, including current portion

Accounts receivable, and accounts payable included in the condensed consolidated balance sheets approximate fair value and are excluded from the table above. The fair value of cash and cash equivalents are based on quoted prices. The fair value of derivative assets and liabilities are measured based on inputs from market sources that aggregate data based upon market transactions. 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. The Company's debt bears interest based on market rates and, accordingly, the carrying value of these obligations approximates fair value.

#### 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 value of the forecasted exposure. 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 that are not fixed. The natural gas forward contracts generally mature within twenty-four months.

## Edgar Filing: CALGON CARBON Corp - Form 10-Q

### Table of Contents

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 other expense - net.

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

Asset Derivatives	Balance Sheet Locations	March 31, 2016	December 31, 2015
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Other current assets	\$ 49	\$ 411
Foreign exchange contracts	Other assets		6
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	282	51
Total asset derivatives		\$ 331	\$ 468

Liability Derivatives	Balance Sheet Locations	March 31, 2016	December 31, 2015
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	\$ 697	\$ 13
Natural gas contracts	Accounts payable and accrued liabilities	460	586
Foreign exchange contracts	Accrued pension and other liabilities	138	3
Natural gas contracts	Accrued pension and other liabilities	36	89
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	7	92
Total liability derivatives		\$ 1,338	\$ 783

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

(in thousands except for mmbtu)	March 31, 2016	December 31, 2015
Natural gas contracts (mmbtu)	735,000	955,000
Foreign exchange contracts	\$ 52,657	\$ 37,016

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.



Edgar Filing: CALGON CARBON Corp - Form 10-Q

	March 31, 2016		December 31, 2015	
	Fair Value of Assets	Fair Value of Liabilities	Fair Value of Assets	Fair Value of Liabilities
Gross derivative amounts recognized in the balance sheet	\$ 331	\$ 1,338	\$ 468	\$ 783
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting	(56)	(56)	(67)	(67)
Net amount	\$ 275	\$ 1,282	\$ 401	\$ 716

**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. The location of the gain or (loss) reclassified into earnings (effective portion) for derivatives in cash flow hedging relationships is cost of products sold (excluding depreciation and amortization).

Table of Contents

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31,			
	2016		2015	
Foreign exchange contracts	\$	(1,039)	\$	1,050
Natural gas contracts		(191)		(323)
Total	\$	(1,230)	\$	727

	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (1) Three Months Ended March 31,			
	2016		2015	
Foreign exchange contracts	\$	281	\$	444
Natural gas contracts		(275)		(124)
Total	\$	6	\$	320

(1) Assuming market rates remain constant with the rates as of March 31, 2016, a loss of \$1.1 million is expected to be recognized in earnings over the next 12 months.

During the quarters ended March 31, 2016 and 2015, there was no gain or (loss) recognized in earnings on derivatives related to the ineffective portion and the amount excluded from effectiveness testing, which would have been recorded in other expense net.

**Derivatives Not Designated as Hedging Instruments**

The Company has also entered into certain derivatives to minimize its exposure of exchange rate fluctuations on certain foreign currency receivables, payables, and other known and forecasted transactional exposures. The Company has not qualified these contracts for hedge accounting treatment and therefore, the fair value gains and losses on these contracts are recorded in earnings, in other expense - net as follows:

	Amount of Gain or (Loss) Recognized in Earnings on Derivatives Three Months Ended March 31,			
	2016		2015	
Foreign exchange contracts	\$	1,552	\$	(1,030)
Total	\$	1,552	\$	(1,030)

**5. Borrowing Arrangements**

Long-Term Debt	March 31, 2016		December 31, 2015	
U.S. Credit Agreement Borrowings	\$	108,745	\$	107,700
Japanese Credit Agreement Borrowings		4,001		
Japanese Term Loan Borrowings				3,741
Total Long-Term Debt	\$	112,746	\$	111,441

Edgar Filing: CALGON CARBON Corp - Form 10-Q

Less current portion of long-term debt		(7,500)	(7,500)
Net Long-Term Debt	\$	105,246	\$ 103,941

**U.S. Credit Agreement**

On November 6, 2013, the Company entered into the U.S. Credit Agreement (Credit Agreement) which provides for a senior unsecured revolving credit facility (Revolver) in an amount up to \$225.0 million. As a result of amendments, the expiration date of the Revolver is now November 6, 2020. 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. In April 2016, an amendment was signed to the Credit Agreement that increased the threshold for a Permitted Acquisition. Refer to Note 15 for further information.

Table of Contents

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 expire on November 6, 2020. The full amount of the Delayed Draw Term Loans was outstanding as of December 31, 2015, and beginning January 1, 2016, the Company began making quarterly repayments. As a result, \$7.5 million is shown as the current portion of long-term debt within the condensed consolidated balance sheet as equal quarterly repayments will continue until the remaining balance is due on the November 6, 2020 expiration date.

Upon entering into the Credit Agreement, the Company incurred issuance costs of \$0.8 million which were deferred and are being amortized over the term of the Revolver and Delayed Draw Term Loan facilities. 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 equal to 0.15%.

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 ranged from 1.44% to 1.59% as of March 31, 2016, and 1.18% to 1.33% as of March 31, 2015.

Total outstanding borrowings under the Revolver were \$35.6 million and \$32.7 million as of March 31, 2016 and December 31, 2015, respectively. Total availability under the Revolver as of March 31, 2016 and December 31, 2015 was \$186.9 million and \$189.9 million, respectively, after considering borrowings and the outstanding letters of credit of \$2.5 million and \$2.4 million as of March 31, 2016 and December 31, 2015, respectively. Total outstanding borrowings under the Delayed Draw Term Loans were \$73.1 million and \$75.0 million as of March 31, 2016 and December 31, 2015, respectively. There is no remaining availability under the Delayed Draw Term Loans. The outstanding borrowings are shown as current portion of long-term debt and long-term debt within the condensed consolidated balance sheets, and borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows.

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

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 a maximum leverage ratio as defined within the Credit Agreement. The Company was in compliance with all such covenants as of March 31, 2016. 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.

**Japanese Credit Agreement**

On March 24, 2016, Calgon Carbon Japan (CCJ) entered into a 2.0 billion Japanese Yen unsecured revolving loan facility agreement (Japanese Credit Agreement) which expires on March 24, 2019. The Japanese Credit Agreement replaced the Term Loan Agreement (Japanese Term Loan) and Working Capital Loan (Japanese Working Capital Loan) agreement that CCJ previously had in place which are described below. As of March 31, 2016, CCJ had 450 million Japanese Yen, or \$4.0 million outstanding. The outstanding borrowings are shown as long-term debt within the condensed consolidated balance sheets, and borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows.

A quarterly nonrefundable commitment fee is payable by CCJ based on the unused availability under the Japanese Credit Agreement and is equal to 0.15%. Total availability under the Japanese Credit Agreement was 1.55 billion Japanese Yen as of March 31, 2016. The Japanese Credit Agreement bears interest based on the Tokyo Interbank Offered Rate of interest (TIBOR), plus an applicable margin based on the Company's leverage ratio as defined in the U.S. Credit Agreement, which averaged 1.07% per annum as of March 31, 2016. The Company is jointly and severally liable as the guarantor of CCJ's obligations under the Japanese Credit Agreement. CCJ may make voluntary prepayments of principal and interest after providing prior written notice and before the full amount then outstanding is due and payable on the March 24, 2019 expiration date.

Table of Contents

**Prior Japanese Loans**

Prior to March 31, 2016, CCJ maintained a Japanese Term Loan and a Japanese Working Capital Loan. These agreements were terminated on March 31, 2016 and replaced by the Japanese Credit Agreement described above. The Company was 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. The amount of the assets available to be pledged was in excess of the outstanding obligation as of December 31, 2015.

The Japanese Term Loan provided for a principal amount of 1.0 billion Japanese Yen and bore interest based on the Uncollateralized Overnight Call Rate plus an applicable margin which averaged 0.7% per annum as of December 31, 2015. This loan was originally scheduled to mature on May 10, 2017. As of December 31, 2015, CCJ had 450 million Japanese Yen or \$3.7 million outstanding. The outstanding borrowings were shown as long-term debt within the condensed consolidated balance sheets, and borrowings and repayments were presented on a gross basis within the Company's condensed consolidated statements of cash flows.

The Japanese Working Capital Loan provided for borrowings up to 1.5 billion Japanese Yen, and bore interest based on the Short-term Prime Rate. This loan was scheduled to mature on March 31, 2016. Borrowings and repayments under the Japanese Working Capital Loan generally occurred in short term intervals, as needed, in order to ensure adequate liquidity while minimizing outstanding borrowings. As of December 31, 2015, CCJ had no outstanding borrowings under this facility.

**Chinese Credit Facility**

The Company maintained an Uncommitted Revolving Loan Facility Letter (Facility Letter) which provided for an uncommitted line of credit totaling 5.0 million Renminbi (RMB) or \$0.8 million. This Facility Letter was scheduled to expire on July 19, 2016, but was canceled in April 2016. The Company was jointly and severally liable as the guarantor under the Facility Letter. There were no outstanding borrowings under this facility as of March 31, 2016 and December 31, 2015.

**Belgian Credit Facility**

The Company 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 March 31, 2016 and December 31, 2015, respectively. Bank guarantees of 1.1 million Euros and 0.9 million Euros were issued as of March 31, 2016 and December 31, 2015, respectively.

**United Kingdom Credit Facility**

## Edgar Filing: CALGON CARBON Corp - Form 10-Q

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 March 31, 2016 and December 31, 2015, respectively.

### 6. Pensions

#### U.S. Plans

For the U.S. plans, the following table provides the components of net periodic pension costs of the plans for the periods ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Service cost	\$ 258	\$ 293
Interest cost	1,170	1,153
Expected return on plan assets	(1,510)	(1,793)
Amortization of prior service cost		4
Net actuarial loss amortization	784	684
Net periodic pension cost	\$ 702	\$ 341

Table of Contents**European Plans**

For the European plans, the following table provides the components of net periodic pension costs of the plans for the periods ended March 31, 2016 and 2015:

	Three Months Ended March 31,			
	2016		2015	
Service cost	\$	92	\$	73
Interest cost		297		305
Expected return on plan assets		(375)		(414)
Net actuarial loss amortization		58		55
Net periodic pension cost	\$	72	\$	19

**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. As of March 31, 2016 and December 31, 2015, respectively, the Company has a \$1.0 million and \$0.9 million liability recorded as a component of payroll and benefits payable within its condensed consolidated balance sheets. Refer to Note 11 for further information related to this multi-employer plan.

**7. Stockholders Equity**

Dividends on common stock of \$0.05 per share were declared and paid in the first quarter of 2016 and 2015. In addition, in May 2016, the Company's Board of Directors declared a dividend on common stock of \$0.05 per share.

In December 2013, the Company's Board of Directors approved a share repurchase program with a total of \$150 million of purchases authorized. During the three months ended March 31, 2016 and March 31, 2015, the Company repurchased 518,576 and 80,500 shares, respectively, at an average price of \$15.81 per share and \$20.88 per share, respectively. As of March 31, 2016, the Company had repurchased a total of 4,598,661 shares at an average price of \$18.67 per share under this program. All of the above mentioned repurchases were funded from operating cash flows, cash on hand, and borrowings and the shares are held as treasury stock. Subsequent to these repurchases, the Company's remaining authorization to repurchase its common stock is approximately \$64.1 million. In April 2016, the Company suspended the activities of the share repurchase program.

**8. Accumulated Other Comprehensive Income (Loss)**



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

	<b>Foreign Currency Translation Adjustments</b>	<b>Defined Benefit Pension Plan Adjustments</b>	<b>Derivatives</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
Balance as of December 31, 2015, net of tax	\$ (11,070)	\$ (30,474)	\$ (86)	\$ (41,630)
Other comprehensive income (loss) before reclassifications	3,097	(17)	(786)	2,294
Amounts reclassified from other comprehensive income (loss)		541	(4)	537
Net current period other comprehensive income (loss)	3,097	524	(790)	2,831
Balance as of March 31, 2016, net of tax	\$ (7,973)	\$ (29,950)	\$ (876)	\$ (38,799)

Table of Contents

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan Adjustments	Derivatives	Total Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2014, net of tax	\$ 1,943	\$ (30,358)	\$ 905	\$ (27,510)
Other comprehensive income (loss) before reclassifications	(10,296)	310	462	(9,524)
Amounts reclassified from other comprehensive income (loss)		500	(218)	282
Net current period other comprehensive income (loss)	(10,296)	810	244	(9,242)
Balance as of March 31, 2015, net of tax	\$ (8,353)	\$ (29,548)	\$ 1,149	\$ (36,752)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)(1) Three Months Ended March 31, 2016		2015		Affected Line Item in the Statement where Net Income is Presented
<b>Defined Benefit Pension Plan Adjustments:</b>					
Prior-service costs	\$		\$	(4)	(2)
Actuarial losses		(842)		(739)	(2)
		(842)		(743)	Total before tax
		301		243	Tax benefit
		(541)		(500)	Net of tax
<b>Derivatives:</b>					
Foreign exchange contracts	\$	281	\$	444	Cost of products sold (excluding depreciation and amortization)
Natural gas contracts		(275)		(124)	Cost of products sold (excluding depreciation and amortization)
		6		320	Total before tax
		(2)		(102)	Tax expense
		4		218	Net of tax
Total reclassifications for the period	\$	(537)	\$	(282)	Net of tax

(1) Amounts in parentheses indicate debits to income/loss.

(2) 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 ASC 715 Compensation Retirement Benefits included in accumulated other comprehensive loss were \$16.8 million and \$17.1 million as of March 31, 2016 and December 31, 2015, respectively. The income tax benefit associated with the Company's derivatives included in accumulated other comprehensive

Edgar Filing: CALGON CARBON Corp - Form 10-Q

income (loss) was \$0.5 million and \$0.1 million as of March 31, 2016 and December 31, 2015, respectively.

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

	Three Months Ended March 31,			
	2016		2015	
Defined benefit pension plan	\$	301	\$	243
Derivatives		(425)		125

Table of Contents**9. Basic and Diluted Net Income Per Common Share**

Computation of basic and diluted net income per common share is performed as follows:

(Dollars in thousands, except per share amounts)	Three Months Ended March 31,	
	2016	2015
Net income available to common stockholders	\$ 5,458	\$ 11,061
Weighted Average Shares Outstanding		
Basic	50,308,295	52,450,994
Effect of Dilutive Securities	732,355	879,268
Diluted	51,040,650	53,330,262
Basic net income per common share	\$ 0.11	\$ 0.21
Diluted net income per common share	\$ 0.11	\$ 0.21

For the three months ended March 31, 2016 and 2015, there were 1,312,136 and 818,825 stock based compensation awards, respectively, that were excluded from the dilutive calculations as the effect would have been antidilutive.

**10. Income Taxes**

The effective tax rate for the three months ended March 31, 2016 was 34.7% compared to 33.5% for the three months ended March 31, 2015. The tax rate for the three months ended March 31, 2016 and 2015 was lower than the U.S. federal statutory rate of 35% primarily due to the mix of earnings in taxing jurisdictions where the tax rate is lower than the U.S. rate.

**11. Commitments and Contingencies****Waterlink**

In conjunction with the February 2004 purchase of substantially all of Waterlink Inc.'s (Waterlink) operating assets and the stock of Waterlink's U.K. subsidiary, environmental studies were performed on Waterlink's Columbus, Ohio property by environmental consulting firms that provided an identification and characterization of certain areas of contamination. In addition, these firms identified alternative methods of remediating the property and prepared cost evaluations of the various alternatives. The Company concluded from the information in the studies that a loss at this property was probable and recorded the liability. As of March 31, 2016 and December 31, 2015, the balances recorded were \$0.3 million as a component of accrued pension and other liabilities, respectively. The Company has determined that there has been insufficient progress to complete the remediation project by the end of 2016. The Company has further determined that additional site characterization work

is needed to establish the next steps. No estimates regarding the timing or potential cost of these activities can be made until the additional site characterization work is finished. Planning for the additional characterization work has begun. Implementation timing will depend on approval by the Ohio Voluntary Action Program administrators. Liability estimates are based on an evaluation of, among other factors, currently available facts, existing technology, presently enacted laws and regulations, and the experience of experts in groundwater remediation. It is possible that a further change in the estimate of this obligation will occur as remediation progresses.

### **Carbon Imports**

**General Anti-Dumping Background:** In March 2006, the Company and another U.S. producer of activated carbon (collectively, the Petitioners ) requested that the U.S. Department of Commerce (Commerce Department) investigate unfair pricing of certain thermally activated carbon imported from the People's Republic of China (China). In 2007, the Commerce Department found that imports of the subject merchandise from China were being unfairly priced (or dumped ). Following a finding by the U.S. International Trade Commission (ITC) that the domestic industry was injured by unfairly traded imports of activated carbon from China, the Commerce Department issued an anti-dumping order imposing tariffs on Chinese imports to offset the amount of the unfair pricing. The Commerce Department published the antidumping order in the Federal Register in April 2007, and all imports from China remain subject to it. Importers of subject activated carbon from China are required to make cash deposits of estimated anti-dumping duties at the time the goods are entered into the U.S. customs territory. Final assessment of duties and duty deposits are subject to revision based on annual retrospective reviews conducted by the Commerce Department.

Table of Contents

The Company is a domestic producer, exporter from China (through its wholly-owned subsidiary Calgon Carbon (Tianjin) Co., Ltd. (Calgon Carbon Tianjin)), and a U.S. importer of the activated carbon that is subject to the anti-dumping order. As such, the Company's involvement in the Commerce Department's proceedings is both as a domestic producer (a petitioner) and as a foreign exporter (a respondent).

The Company's role as an importer, which has in the past (and may in the future) required it to pay anti-dumping duties, results in a contingent liability related to the final amount of tariffs that are ultimately assessed on the imported product following the Commerce Department's annual review of relevant shipments and calculation of the anti-dumping duties due. As a result of proceedings before the Commerce Department that concluded in October 2015, the Company is currently required to post a duty of \$0.476 per pound when importing activated carbon from Calgon Carbon Tianjin into the U.S. The impact of the tariffs to the Company's financial results was not material for the three months ended March 31, 2016, and 2015, respectively. However, the Company's ultimate assessment rate and future cash deposit rate on such imports could change in the future, as a result of on-going proceedings before the Commerce Department.

As part of its standard process, the Commerce Department conducts annual reviews of sales made to the first unaffiliated U.S. customer, typically over the prior 12-month period. These reviews will be conducted for at least five years subsequent to a determination by the ITC in February 2013, finding that the anti-dumping duty order should remain in effect. These reviews can result in changes to the anti-dumping tariff rate (either increasing or reducing the rate) applicable to any foreign exporter. Revision of tariff rates has two effects. First, it will alter the actual amount of tariffs that U.S. Customs and Border Protection (Customs) will collect for the period reviewed, by either collecting additional duties, plus interest above those deposited with Customs by the U.S. importer at the time of entry or refunding a portion of the duties, plus interest deposited at the time of importation to reflect a decline in the margin of dumping. Second, the revised rate becomes the cash deposit rate applied to future entries, and can either increase or decrease the amount of duty deposits an importer will be required to post at the time of importation.

There have been eight periods of review since the anti-dumping order was published in 2007. Periods of Review (POR) I, II, IV and V, related to the periods that ended on March 31, 2008, 2009, 2011 and 2012, respectively, are final and not subject to further review or appeal. A summary of the proceedings in the remaining PORs follows below.

**Period of Review III:** On October 31, 2011, the Commerce Department published the final results of its third annual administrative review, which covers imports that entered the U.S. between April 1, 2009 and March 31, 2010 (POR III). Based on the POR III results, the Company's ongoing duty deposit rate was adjusted to zero. The Company recorded a receivable of \$1.1 million reflecting expected refunds for duty deposits made during POR III as a result of the announced decrease in the POR III assessment rate. The Commerce Department continued to assign cooperative respondents involved in POR III a deposit rate of \$0.127 per pound.

In early December 2011, several separate rate respondents appealed the Commerce Department's final results of POR III. Following the submission of briefs by the parties, the Court of International Trade (Court) remanded the case to the Commerce Department for further analysis. On January 9, 2014, the Commerce Department filed its remand redetermination with the Court, and continued to calculate a zero duty for the Company during POR III. In addition, the Commerce Department revised its earlier determination and assigned a zero margin as a separate rate to several Chinese producers/exporters of steam activated carbon to the U.S. that were not subjected to an individual investigation. The Company contested this aspect of the Commerce Department's redetermination. On November 24, 2014, the Court affirmed the Commerce Department's remand determination. Various parties involved in this review, including the Company, have appealed the decision to the United States Court of Appeals for the Federal Circuit (Court of Appeals). On May 2, 2016, the Court of Appeals issued a decision finding that shipments by all three of the Chinese separate rate respondents that initially challenged the Commerce Department's final results in POR III should be assigned a zero dumping margin. The Court of Appeal's decision will have no material impact on the Company's financial results.

**Period of Review VI:** On November 19, 2014, the Commerce Department announced the final margins for its sixth administrative review (POR VI), which covers imports that entered the U.S. between April 1, 2012 and March 31, 2013. The Commerce Department calculated a margin of \$0.018 per pound for both mandatory and separate rate respondents, and \$1.10 per pound for the China wide rate. Calgon Carbon Tianjin was assigned a margin of \$0.018 per pound as it was considered a separate rate respondent. In December 2014, an appeal was commenced challenging the final results of the sixth administrative review. On January 20, 2016, the Court issued a preliminary decision agreeing with the Petitioners' challenge to the Commerce Department's final margins and directing the agency to reconsider its valuation of a key factor of production. The Commerce Department's redetermination is currently due to be filed with the Court on May 11, 2016, and a final decision from the Court is possible in the third or fourth quarter of 2016. The impact of the tariffs during this period is not expected to be material to the Company's financial results.

**Period of Review VII:** On April 1, 2014, the Commerce Department published a notice allowing parties to request a seventh annual administrative review of the anti-dumping duty order covering the period April 1, 2013 through March 31, 2014 (POR VII). The Commerce Department selected two mandatory respondents to be reviewed. The preliminary results of the Commerce Department's review of POR VII were announced on April 30, 2015, with the margins ranging from \$0.00 per pound to \$0.24 per pound for

Table of Contents

mandatory respondents, \$0.24 per pound for separate rate respondents, and \$1.10 per pound for the China wide rate. Calgon Carbon Tianjin was preliminarily assigned a margin of \$0.24 per pound, as it was considered a separate rate respondent. The Commerce Department announced the final results for POR VII on October 5, 2015. The Commerce Department calculated anti-dumping margins for the mandatory respondents it examined ranging from \$0.00 per pound to \$0.476 per pound, and it calculated an anti-dumping margin of \$0.476 per pound for the separate rate respondents whose shipments of activated carbon to the U.S. were not individually reviewed. The Company, as a Chinese exporter and a U.S. importer, received the separate rate of \$0.476 per pound. The impact of the revised tariffs to the Company's financial results is not material. In October 2015, appeals by one of the mandatory respondents and several separate rate respondents were commenced challenging the final results of the seventh administrative review.

**Period of Review VIII:** On April 1, 2015, the Commerce Department published a notice allowing parties to request an eighth annual administrative review of the anti-dumping duty order covering the period April 1, 2014 through March 31, 2015 (POR VIII). Petitioners and other parties submitted requests for administrative reviews to the Commerce Department in April 2015. The Commerce Department initiated POR VIII in May 2015, and has selected two mandatory respondents for review. The preliminary results of the Commerce Department's review of POR VIII were announced on March 1, 2016, with the margins ranging from \$0.13 per pound to \$1.27 per pound for mandatory respondents, \$1.00 per pound for separate rate respondents, and \$1.10 per pound for the China wide rate. Calgon Carbon Tianjin was preliminarily assigned a margin of \$1.00 per pound, as it was considered a separate rate respondent. The impact of the tariffs during this period is not expected to be material to the Company's financial results. Based on the agency's practice in prior administrative reviews, the Company anticipates that the Commerce Department will announce the final results of its administrative review for POR VIII in October or November 2016.

**Period of Review IX:** On April 1, 2016, the Commerce Department published a notice allowing parties to request a ninth annual administrative review of the anti-dumping duty order covering the period April 1, 2015 through March 31, 2016 (POR IX). Petitioners and other parties will be submitting requests for administrative reviews to the Commerce Department in April 2016.

**Big Sandy Plant**

By letter dated January 22, 2007, the Company received from the United States Environmental Protection Agency (EPA) Region 4 a report of a hazardous waste facility inspection performed by the EPA and the Kentucky Department of Environmental Protection (KYDEP) as part of a Multi Media Compliance Evaluation of the Company's Big Sandy Plant in Catlettsburg, Kentucky that was conducted on September 20 and 21, 2005. Accompanying the report was a Notice of Violation (NOV) alleging multiple violations of the Federal Resource Conservation and Recovery Act (RCRA) and corresponding EPA and KYDEP hazardous waste regulations as well as the Clean Water Act (CWA).

The Company was required to conduct testing of the portion of stockpiled material dredged from onsite wastewater treatment lagoons that had not previously been tested in accordance with a pre-approved work plan and will install two ground water monitoring wells at the Company's permitted solid waste landfill where some lagoon solids had previously been disposed. The landfill is to be considered a non-hazardous facility and regulated by the KYDEP. The testing of the stockpile material was completed and the results have been reviewed by the EPA. The



Company received comments from the EPA including a request for a health and safety risk assessment similar to that which the Company performed on other materials from the lagoons. The Company has prepared this assessment and it has been submitted to the EPA. The stockpiled material was removed in 2015 and the Company will not be required to close or retrofit any of the wastewater treatment lagoons as RCRA hazardous waste management units and may continue to use them in their current manner. The Company will be subject to daily stipulated penalties for any failure to install and sample the landfill wells in accordance with the EPA-approved protocols and schedules. As of March 31, 2016 and December 31, 2015, there is no liability recorded related to this issue.

#### **Multi-employer Pension Plan**

The Company participates in a multi-employer plan in Europe which almost entirely relates to former employees of operations it has divested. Benefits are distributed by the multi-employer plan. In 2012 the Company learned that the multi-employer plan had previously elected to reduce benefits to entitled parties, and the local Labor Court had concluded that an employer was required to compensate its pensioners for the shortfall if benefits had been reduced by the plan. As a result, the Company accrued a liability for the past shortfall to its former employees, and the Company has had several claims from pensioners seeking compensation for the shortfall. In 2014 the Company also learned that certain pensioners are claiming that the employers should also pay a cost of living adjustment on the amounts paid by the multi-employer plan. In February 2015, the Court published an opinion ruling that employers may be required to pay a cost of living adjustment. As of March 31, 2016 and December 31, 2015, respectively, the Company has a \$1.0 million and \$0.9 million liability recorded as a component of payroll and benefits payable within its condensed consolidated balance sheets for the past shortfall adjustments to its former employees. The Company cannot predict if future benefit payments to entitled parties to be made by the multi-employer plan will continue to be reduced.

Table of Contents**Other**

In addition to the matters described above, the Company is involved in various other legal proceedings, lawsuits and claims, including employment, product warranty and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters when it is probable that a liability has been incurred and the loss amount is reasonably estimable. Management is currently unable to estimate the amount or range of reasonably possible losses, if any, resulting from such lawsuits and claims.

**12. Supplemental Cash Flow Information**

The Company has reflected \$(0.2) million and \$(0.5) million of its capital expenditures as a non-cash decrease in accounts payable and accrued liabilities for changes in unpaid capital expenditures for the three months ended March 31, 2016 and 2015, respectively.

**13. 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 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: ballast water, ultraviolet light, advanced ion exchange separation, and carbon adsorption. The Consumer segment supplies activated carbon cloth for use in military, industrial, and medical applications. Intersegment net sales are not material.

The following segment information represents the results of operations:

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net sales		
Activated Carbon and Service	\$ 106,236	\$ 122,747
Equipment	11,478	10,708
Consumer	2,485	2,248
Consolidated net sales	\$ 120,199	\$ 135,703
Income (loss) from operations		
Activated Carbon and Service	\$ 8,576	\$ 18,055
Equipment	(540)	(1,160)
Consumer	427	395
	8,463	17,290

Edgar Filing: CALGON CARBON Corp - Form 10-Q

Reconciling items:

Interest income		6		11
Interest expense		(333)		(131)
Other income (expense) net		223		(548)
Income before income tax provision	\$	8,359	\$	16,622
Depreciation and amortization				
Activated Carbon and Service	\$	8,217	\$	7,835
Equipment		418		713
Consumer		140		153
Depreciation and amortization	\$	8,775	\$	8,701

Table of Contents

**14. Government Grants**

On December 19, 2014, the Company received an incentive of 3.86 million RMB or approximately \$0.6 million from the Suzhou Wuzhong Economic Development Zone (WEDZ), where the Company's Suzhou, China facility is located. This incentive was provided based on the Company's commitment to the construction of carbon reactivation lines in two phases. Under phase one, the construction of two reactivation lines and under phase two, the construction of another two reactivation lines on the same site. For the year ended December 31, 2014, the Company recognized 1.93 million RMB or approximately \$0.3 million (which represents 50% of the total awarded incentive) less related expenses as a reduction to other expense - net on its consolidated statements of comprehensive income as phase one of the agreed upon commitment had been completed and all required documentation had been submitted to WEDZ. As of March 31, 2016 and December 31, 2015, the Company has a \$0.3 million liability recorded as a component of accrued pension and other liabilities within its condensed consolidated balance sheets for the remainder of the incentive that relates to phase two of the commitment as it has not yet been constructed.

**15. Subsequent Event**

On April 14, 2016, the Company entered into an agreement where it has made an irrevocable offer to purchase the assets and business of the wood-based activated carbon, reactivation and mineral-based filtration media business of CECA, a subsidiary of Arkema Group (the Activated Carbon and Filter Aid Business). The Activated Carbon and Filter Aid Business which primarily serves food and beverage, industrial and pharmaceutical customers in Europe and Asia had sales of 93.2 million Euros in 2015 and has approximately 300 employees. The completion of this transaction is subject to various customary conditions and regulatory clearances, including prior consultations with certain of Arkema's work council. The transaction is anticipated to close in the fourth quarter of 2016 and is valued at 145.5 million Euros, which includes a cash price of 137.7 million Euros and the assumption of certain liabilities. The Company expects to finance the transaction through a combination of cash and debt.

**Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition**

This discussion should be read in connection with the information contained in the Unaudited Condensed Consolidated Financial Statements and Notes to the Unaudited Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

**Results of Operations**

Consolidated net sales decreased by \$15.5 million or 11.4% for the quarter ended March 31, 2016 versus the quarter ended March 31, 2015. Included in this change was a \$1.1 million negative impact of foreign currency translation due to a stronger U.S. dollar which was primarily within the Activated Carbon and Service Segment.

## Edgar Filing: CALGON CARBON Corp - Form 10-Q

Net sales for the quarter ended March 31, 2016 for the Activated Carbon and Service segment decreased \$16.5 million or 13.5% versus the similar 2015 period including the negative impact of foreign currency translation which totaled \$1.0 million.

(Dollars in millions)	Increase (Decrease) in Net Sales		
	As Reported	Foreign Currency Impact	Net Of Foreign Currency Impact
Environmental Air market	\$ (1.3)	\$ 0.1	\$ (1.2)
Environmental Water market	(1.4)	0.1	(1.3)
Food and Beverage market	(0.7)	0.1	(0.6)
Industrial market	(0.3)	0.2	(0.1)
Potable Water market	(12.2)	0.3	(11.9)
Specialty Carbon market	(0.2)	0.1	(0.1)
Other	(0.4)	0.1	(0.3)
Total Activated Carbon and Service	\$ (16.5)	\$ 1.0	\$ (15.5)

The decrease was principally due to lower demand in the Potable Water market in all geographic regions as a result of multiple significant orders for municipal drinking water treatment in the first quarter of 2015 that did not repeat in 2016. Also contributing to the quarter over quarter decline was lower demand in the Americas Environmental Air market largely a result of unseasonably warmer winter weather conditions coupled with very low natural gas prices which reduced the operational requirements of certain customers' coal-fired electric generating units during the quarter. In addition, a legacy customer using standard product switched suppliers in

Table of Contents

2016. This decline in Environmental Air market sales was partially offset by an increase in demand for activated carbon pellets for treating sulfur and nitrogen oxide emissions. In addition, a customer plant closure negatively impacted the Environmental Water Market sales in Asia.

Net sales for the Equipment segment increased \$0.8 million or 7.2% in the first quarter 2016 versus the comparable 2015 period.

(Dollars in millions)	Increase (Decrease) in Net Sales	
Carbon adsorption equipment	\$	1.3
Ballast water treatment systems		(1.7)
Traditional ultraviolet light systems		0.4
Ion exchange systems		0.8
Total Equipment	\$	0.8

The increase was primarily due to several large projects for carbon adsorption and ion exchange equipment as compared to the prior year.

Partially offsetting this increase were lower sales for ballast water treatment systems due to continued regulatory delays and a decline in sales of equipment to offshore service vessels, the demand from which has been impacted by ongoing low oil prices. Foreign currency translation effects in the Equipment segment were not significant.

Net sales for the quarter ended March 31, 2016 for the Consumer segment increased \$0.2 million or 10.5% as compared to the first quarter of 2015 due to demand for defense application products, partially offset by the negative impact of foreign currency translation which totaled \$0.1 million.

Net sales less cost of products sold (excluding depreciation and amortization), as a percentage of net sales, was 34.7% for the quarter ended March 31, 2016 compared to 35.7% for the similar 2015 period, a 1.0 percentage point or \$1.2 million decrease primarily in the Activated Carbon and Service segment. Approximately \$1.2 million of this decrease resulted from a decline in volume of higher margin products, including FLUEPAC® products for mercury removal as compared to the prior year, along with higher pension costs of approximately \$0.5 million for the Company's U.S. plans. A business interruption insurance settlement of \$0.9 million provided a partial offset to the aforementioned items. The Company's cost of products sold excludes depreciation and amortization; therefore it may not be comparable to that of other companies.

Depreciation and amortization was comparable for the quarter ended March 31, 2016 versus the quarter ended March 31, 2015.

Selling, general and administrative expenses increased \$1.9 million or 8.9% for the quarter ended March 31, 2016 versus the comparable 2015 quarter primarily in the Activated Carbon and Service segment. The increase was principally due to costs related to a recently announced planned acquisition of the assets and business of the wood-based activated carbon, reactivation and mineral-based filtration media business of CECA, a subsidiary of Arkema Group. Refer to additional discussion

Edgar Filing: CALGON CARBON Corp - Form 10-Q

in Note 15 of the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Research and development expenses were comparable for the quarter ended March 31, 2016 versus the quarter ended March 31, 2015.

Interest income was comparable for the quarter ended March 31, 2016 versus the quarter ended March 31, 2015.

Interest expense increased \$0.2 million for the quarter ended March 31, 2016 versus the quarter ended March 31, 2015 due to an increase in the average outstanding borrowings under the Company's debt agreements.

The additional income in other income (expense) - net for the quarter ended March 31, 2016 versus the quarter ended March 31, 2015 was largely related to foreign exchange.

The income tax provision decreased \$2.7 million for the quarter ended March 31, 2016 as compared to the quarter ended March 31, 2015 predominately due to a decline in pretax earnings. The effective tax rate for the quarter ended March 31, 2016 was 34.7% compared to 33.5% for the quarter ended March 31, 2015. The increase in the effective rate primarily relates to a less favorable mix of income earned in foreign tax jurisdictions whose tax rates are lower than the U.S. rate in 2016 as compared to the similar period in 2015.

In the preparation of its effective tax rate, the Company uses an annualized estimate of pre-tax earnings. Throughout the year this annualized estimate may change based on actual results and annual earnings estimate revisions in various tax jurisdictions. Since the

Table of Contents

Company's permanent tax benefits are relatively constant, changes in the annualized estimate may have a significant impact on the effective tax rate in future periods.

**Financial Condition**

**Working Capital and Liquidity**

The Company has had sufficient financial resources to meet its operating requirements and to fund capital spending, dividend payments, share repurchases and pension plans.

Cash flows provided by operating activities were \$12.1 million for the period ended March 31, 2016 compared to \$8.9 million for the period ended March 31, 2015. The \$3.2 million increase was primarily due to a net favorable working capital change from lower receivables primarily as a result of the decline in revenue. This favorability more than offset the lower operating results.

Dividends on common stock of \$0.05 per share were declared and paid in the first quarter of 2016 and 2015. In addition, in May 2016, the Company's Board of Directors declared a dividend on common stock of \$0.05 per share.

The Company maintains a U.S. Credit Agreement (Credit Agreement) which provides for a senior unsecured revolving credit facility (Revolver) in an amount up to \$225 million which expires on November 6, 2020. Availability under the Revolver is conditioned upon various customary conditions. The Credit Agreement also provides for senior unsecured delayed draw term loans (Delayed Draw Term Loans) in an aggregate amount up to \$75 million which expires on November 6, 2020. The full amount of the Delayed Draw Term Loans was outstanding as of December 31, 2015, and beginning January 1, 2016, the Company began making quarterly repayments 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 outstanding borrowings under the Credit Agreement have remained relatively consistent from December 31, 2015. Total availability under the Credit Agreement was \$186.9 million as of March 31, 2016.

Certain domestic subsidiaries of the Company unconditionally guarantee all indebtedness and obligations related to borrowings under the Credit Agreement. The Company's obligations under the Credit Agreement are unsecured. The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type. The Company must comply with certain financial covenants including minimum interest coverage ratio and a maximum leverage ratio as defined within the Credit Agreement. The Company was in compliance with all such covenants as of March 31, 2016 and December 31, 2015.

Prior to March 31, 2016, Calgon Carbon Japan (CCJ) maintained a Japanese Term Loan and a Japanese Working Capital Loan. These agreements were replaced by a 2.0 billion Japanese Yen unsecured revolving loan facility agreement (Japanese Credit Agreement) which expires on March 24, 2019. The Company is a guarantor of CCJ's obligations under the Japanese Credit Agreement. Total availability under the



## Edgar Filing: CALGON CARBON Corp - Form 10-Q

Japanese Credit Agreement was 1.55 billion Japanese Yen or \$13.8 million as of March 31, 2016.

Refer to Note 5 to the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for further details on the Company's borrowing arrangements.

### **Share Repurchases**

In December 2013, the Company's Board of Directors approved a share repurchase program with a total of \$150 million of purchases authorized. During the three months ended March 31, 2016 and March 31, 2015, the Company repurchased 518,576 and 80,500 shares, respectively, at an average price of \$15.81 per share and \$20.88 per share, respectively. As of March 31, 2016, the Company had repurchased a total of 4,598,661 shares at an average price of \$18.67 per share under this program. All of the above mentioned repurchases were funded from operating cash flows, cash on hand, and borrowings and the shares are held as treasury stock. Subsequent to these repurchases, the Company's remaining authorization to repurchase its common stock is approximately \$64.1 million. In April 2016, the Company suspended the activities of the share repurchase program.

### **Contractual Obligations**

The Company is obligated to make future payments under various contracts such as debt agreements, lease agreements, and unconditional purchase obligations. As of March 31, 2016, there have been no material changes in the payment terms of these obligations since December 31, 2015.

Table of Contents

The Company currently expects that cash from annual operating activities plus cash balances and available external financing will be sufficient to meet its cash requirements for the next twelve months. The cash needs of each of the Company's reporting segments are principally covered by the segment's operating cash flow on a standalone basis. Any additional needs will be funded by cash on hand or borrowings under the Company's Credit Agreement, Japanese Credit Agreement, or other credit facilities. Specifically, the Equipment and Consumer segments historically have not required extensive capital expenditures; therefore, the Company believes that cash on hand and borrowings will adequately support each of the segments cash needs.

**Capital Expenditures and Investments**

Capital expenditures for property, plant and equipment totaled \$7.4 million for the three months ended March 31, 2016 compared to expenditures of \$16.1 million for the same period in 2015. The expenditures for the period ended March 31, 2016 were primarily for improvements to manufacturing facilities. The expenditures for the period ended March 31, 2015 were primarily for improvements to the Company's Catlettsburg, Kentucky manufacturing facility, along with expenditures related to the Company's new headquarters facility, which includes the research and development innovation center of approximately \$3.6 million and a SAP re-implementation project of approximately \$1.7 million. Capital expenditures for 2016 are currently projected to be approximately \$50 to \$60 million. The aforementioned expenditures are expected to be funded by operating cash flows, cash on hand, and borrowings.

Proceeds from the sale of assets were \$1.2 million for the three months ended March 31, 2016 and not significant for the three months ended March 31, 2015.

Cash and cash equivalents include \$44.5 million and \$45.1 million held by the Company's foreign subsidiaries as of March 31, 2016 and December 31, 2015, respectively. Generally, cash and cash equivalents held by foreign subsidiaries are not readily available for use in the United States without adverse tax consequences. The Company's principal sources of liquidity are its cash flows from its operating activities or borrowings directly from its lines of credit. The Company does not believe the level of its non-U.S. cash position will have an adverse effect on working capital needs, planned growth, repayment of maturing debt, or benefit plan funding.

**Contingencies**

The Company is involved in various legal proceedings, lawsuits and claims, including employment, product warranty and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters when it is probable that a liability has been incurred and the loss amount is reasonably estimable. Refer to Note 11 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for further details.

## **New Accounting Pronouncements**

Refer to Note 1 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for further details on recently issued accounting guidance.

## **Outlook**

### **Activated Carbon and Service**

The Company's estimate of a 7% compound annual growth rate for the activated carbon market for the period 2015 through 2020 is predicated on significant demand for mercury removal carbons in North America primarily driven by the U.S. Environmental Protection Agency's (EPA) regulations surrounding Mercury and Air Toxics Standards (MATS) and growing demand in activated carbon usage in China. While there have been noted increases in the demand for activated carbon in China, the recent economic slowdown in China may lead to lower than previously forecasted demand for activated carbon. Other impediments to near-term growth could include an economic slowdown in any or all of the regions served, impacts from delays in environmental regulations or the impact of the strength of the U.S. dollar. Through a series of initiatives that began in 2012, including additional capital investment; plant efficiency studies; and, product rationalization the Company has successfully increased its virgin carbon manufacturing capacity from an estimated 140 million pounds per year to approximately 163 million pounds per year. In addition, over this same time frame, the Company has been promoting its reactivation offerings to U.S. drinking water customers. By optimizing the available activated carbon reactivation capacity, the Company is able to effectively increase its virgin activated carbon pounds available for other growth opportunities. Finally, the Company has completed its evaluation of other longer-term opportunities for virgin activated carbon expansion. The results of this evaluation revealed that at this time, a significant virgin carbon expansion would most likely be undertaken at one of the Company's two virgin carbon facilities. However, current forecasted demand over the next several years indicates that this expansion is not currently necessary.

Table of Contents

The Company believes that fair pricing for activated carbon in the United States of America is being achieved via the application of a tariff imposed on Chinese steam activated carbon. Under the anti-dumping rules, importers of steam activated carbon from China are potentially required to pay anti-dumping duties. The United States Department of Commerce (Commerce Department) conducts reviews in order to determine whether changes (increases or decreases) should be made to the anti-dumping tariff rate applicable to any foreign exporter. These retrospective reviews occur annually while the anti-dumping duty order (the order) is in effect (the current order is scheduled to expire in March 2017). Refer to Note 11 of the condensed consolidated financial statements in Item 1 of this Quarterly Report for further details. The Company's last announced price increase was in February 2013.

Raw material costs for production in 2016 are expected to be comparable to 2015. The most significant raw material cost is coal. The quantity of coal consumed varies based on the overall production levels achieved as well as the mix of products manufactured during the year. As of March 31, 2016, the Company has approximately 84% of its 2016 anticipated coal requirements under contract or in inventory.

The Company continues to make research and development expenditures related to its advanced FLUEPAC® products. These products were introduced to significantly reduce the amount of powdered activated carbon (PAC) required for mercury removal from coal-fired power plant flue gas when compared to competing products. PAC is recognized today by the EPA as the leading abatement technology for mercury removal from coal-fired power plant flue gas. On December 21, 2011, the EPA issued the MATS regulation requiring mercury and other substances to be removed from the flue gas of coal-fired power plants. The final MATS regulation became effective on April 16, 2012. Compliance with MATS was required in April 2015; however, newly installed equipment and/or plants determined to be on reliability critical paths were able to get extensions of up to an additional two years. On June 29, 2015, the U.S. Supreme Court in a 5-4 decision reversed the decision of the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) which held that the EPA did not need to consider costs when deciding to regulate power plant emissions and remanded the case back to the D.C. Circuit. On December 15, 2015, the D.C. Circuit ordered that the MATS Rule (the Rule) be remanded to the EPA without vacatur. In late February, 2016, 20 states petitioned the U.S. Supreme Court to enjoin the MATS rule pending a petition for a writ of certiorari. The petition to enjoin the rule was denied, however, the Court has not yet ruled on the petition for certiorari. Despite this activity, the EPA published its final supplemental finding on April 14, 2016, concluding that cost consideration has not changed its determination that the MATS rule is appropriate and necessary. It is the expectation of the Company that the EPA will keep the Rule and the current compliance dates in place, continuing to drive utilities to treat for mercury with activated carbon. Additional challenges to the MATS rule are possible. There are also mercury removal regulations for the flue gas of coal-fired power plants that remain in effect for certain states and Canadian provinces.

The Company still believes that mercury removal could become the largest North American market for activated carbon and has made great strides in establishing itself as a market leader. Based on standard carbon products, the Company estimates the annual demand for mercury removal in North America may grow to as much as 290 million to 400 million pounds by 2017. However, long-term persistent low natural gas prices along with atypical weather conditions could reduce the market size. The Company's advanced products for mercury removal which have carbon usage rates of 50% to 90% less than alternative products, are important to its ongoing success in this market. Market acceptance of the Company's advanced FLUEPAC® products is growing. Bidding activity with electric utilities has been active and is resulting in the receipt of significant, new orders for the Company's FLUEPAC® products. The Company currently believes approximately one-third of this market is represented by the 19 states and certain Canadian provinces that have regulations in place that require mercury removal. The Company estimates that those utilities that were required to comply with the MATS regulation in April 2015 also comprise approximately one-third of the potential mercury removal market with the remaining approximate one third of the potential market being comprised of utilities required to comply with the MATS regulation in April 2016. The Company's expectation is that its ongoing share of the value of this market will be at least 30%.

Compliance with other emissions regulations such as the EPA's Cross State Air Pollution Rule (CSAPR) and Carbon Pollution Standards (CPS) could significantly impact the amount of carbon utilized by electric utilities for compliance with MATS. In September 2013, the EPA released a Carbon Pollution Standards proposal for new electric generating units. The standards for new units are likely to have little impact on activated carbon usage in the future; however, in August of 2015, the EPA finalized CPS for existing electric generating units. The Company continues to evaluate the rule, but believes that the CPS for existing units could have a negative impact on future activated carbon demand for electric generators, should generators opt to retire or repower their coal-fired electric generation units.

In addition to mercury regulations in North America, China has announced plans for mercury removal from its coal-fired power plants. The plans, as announced, stipulate levels of mercury removal that would not likely result in large activated carbon sales. However, trials will purportedly be conducted to establish removal requirements.

Table of Contents

Treatment of municipal drinking water remains a long term growth area for the Company. An important driver of recent growth (2009 through 2014) was the reduction of Disinfection Byproducts (DBPs). DBPs are compounds that form when naturally occurring organic materials in drinking water sources react with disinfection chemicals. Granular activated carbon (GAC) is recognized by the EPA as a best available control technology (BACT) for the reduction of DBPs in drinking water. While the expansion of GAC adoption related to the EPA's Stage 2 Disinfectants and Disinfection Byproducts Rule (the DBP Rule) has slowed, the Company expects to see new business over the next several years as municipalities continue with the DBP Rule compliance activities. There is potential for new DBP GAC installations related to two areas. First, mostly medium and small water utilities who have not achieved compliance with the DBP Rule could adopt GAC for DBP control. Second, utilities that currently use alternative disinfectants, such as chloramines, as their primary means to comply with Stage 2 may adopt GAC/chlorine for DBP Rule compliance. Disinfection with chloramines can result in the formation of emerging classes of DBPs, many of which are not yet regulated but are under study by the EPA. The EPA has now begun its Six Year Review of the DBP Rule, and a new Stage 3 Rule, which could drive additional GAC sales. Although we do not expect a DBP Stage 3 rule limiting the use of chloramines or the DBPs formed by chloramine disinfection to go into effect for a number of years, the volume of GAC required to meet these needs could be significant. We estimate that the municipal water systems in ten of the largest cities in the U.S. that currently use chloramines to meet their DBP Stage 2 compliance requirements would need initial installations, in the aggregate, of approximately 400 million pounds of GAC. Once on line, these new installations would require periodic replacement or reactivation to meet their water treatment needs. Some of these utilities are already involved in studies or pilot test programs to evaluate the use of GAC to meet their DBP treatment needs. It is possible that some of these, or other municipalities that are treating for DBPs using chloramines, will choose to switch to GAC prior to the issuance of a DBP Stage 3 regulation.

Throughout 2015, we noticed an increase in the time between GAC exchange and reactivation services by customers who are relatively new to using GAC for treating DBP precursors. As they gain experience in using GAC, they are also focusing on optimizing its use in combination with other technologies to minimize their overall costs of treating their water supplies. In the short term this has reduced the volume of the reactivation exchange market from our previous expectations. However, these full-scale drinking water treatment operations demonstrate that GAC provides effective DBP protection for longer periods of time than originally believed, confirming the favorable economics of GAC with custom municipal reactivation (CMR). In fact, the Company can use an updated model that comprehends the elongated exchange frequency to show that using GAC is an even less expensive solution than previously thought. We believe use of this information could enhance our ability to convert some of the approximately 8,000 largest municipal water systems in North America to adopt the use of GAC with CMR services for their water treatment needs. As such, we expect that the use of GAC by municipalities for treating their water supplies for DBPs or other contaminants, and our related CMR services, will continue to increase.

In addition, increased public awareness of the presence and human health impacts of man-made chemicals and naturally occurring contaminants in drinking water is expected to contribute to continued growth of the Company's municipal drinking water business. With this awareness, there has been an increased demand for safe drinking water in communities around the United States. Chemicals from industrial processes can contaminate groundwater wells and are currently unregulated. While it is expected that these contaminants will be regulated by the EPA in the future, we have seen recent activity at the local level that demonstrate communities are demanding drinking water that is free from contaminants that are not regulated. Chemical releases that impact sources of drinking water highlight the need for utilities that draw from such sources to provide barrier defenses against such events. GAC is an ideal technology for this purpose and we expect utilities to look to install GAC to provide protection against spills and contamination. Most recently, concern regarding the presence of perfluorinated compounds (PFCs) in groundwater drinking water sources has led to an increase in both inquiries and orders from numerous utilities across the U.S., including an order for equipment and GAC for the municipal water system in Hoosick Falls, NY, despite the lack of regulations for these compounds. In a similar vein, 1,2,3-Trichloropropane (1,2,3-TCP) in groundwater has become a major issue in California, New York, and New Jersey, and the Company has received an equipment order in New Jersey and is presently handling inquiries for several more. Harmful algal blooms can also present a human health risk to community drinking water supplies; both GAC and PAC have been used successfully to protect against the intrusion of algal toxins in drinking water systems. Use of GAC can protect water treatment plants from the harmful effects of algal bloom toxicity, while increased dosing of PAC can also help when algal blooms are detected.

As more municipalities move to install GAC for the various reasons mentioned, the Company expects to see growth in its CMR service business. In many cases, municipalities engage in a long term plan for CMR services at the time of their initial fill of GAC. In other circumstances, customers convert to the use of CMR services, rather than replacing spent carbon with virgin GAC, due to the affordability of

## Edgar Filing: CALGON CARBON Corp - Form 10-Q

this process. CMR business arrangements can be through either multi-year contracts for the services or through a periodic bidding process when the service is required.

In Europe, the Company has a multi-year contract with a large water provider in the United Kingdom (UK) and will supply virgin carbon and reactivation services for up to the remaining seven year period from its upgraded Tipton plant in the UK. The plant returned to operation with the additional capacity and planned upgrades during the first quarter of 2016.

Table of Contents

China also announced that it will commit billions of dollars to water and wastewater improvements. Investments are underway, but have been slower than anticipated. The Company continues to monitor this situation closely. China has also tightened the regulations for VOC emissions, which is resulting in new reactivation opportunities.

**Equipment**

The Company's equipment business is somewhat cyclical in nature and depends on both regulations and the general health of the overall economy. The Company believes that global demand for its ultraviolet light (UV) systems will continue for a variety of applications including drinking water, waste water, and advanced oxidation.

The Company also believes that demand for its ballast water treatment systems will grow. The U.S. Coast Guard (USCG) issued its ballast water treatment rule on March 23, 2012 (Coast Guard Rule). The Coast Guard Rule addresses the transportation of potentially harmful organisms through ballast water and ultimately requires U.S. Type Approval for treatment systems used in U.S. waters. Ships wishing to release ballast water into U.S. waters must operate an acceptable treatment system on all ships built after December 1, 2013; on medium ballast water capacity ships after their first dry-dock after January 1, 2014; and, on small and large ballast water capacity ships after their first dry-dock after January 1, 2016. Ship operators can seek an extension of the fore mentioned compliance dates from the USCG by citing the lack of availability of U.S. Type Approved ballast water treatment systems. As of March 18, 2016, 5,307 such extensions have been granted to operators that otherwise would have been required to purchase ballast water treatment equipment under the Rule. The granting of these extensions despite the existence of acceptable but not yet U.S. Type Approved systems (like the Hyde GUARDIAN®) has had a dampening effect on the market. The Coast Guard Rule's discharge limits match the numerical limits proposed by the International Maritime Organization (IMO) but the USCG is more prescriptive as to testing methodology than is the IMO. The only test method currently referenced in the Coast Guard Rule cannot measure the effectiveness of UV based systems like the Company's Hyde GUARDIAN® and the other best selling systems. In December 2015, the USCG decided it would not allow the Company, and several other manufacturers of ultraviolet light-based ballast water treatment systems, to use the Most Probable Number (MPN) test method for purposes of testing the Company's system to apply for type approval under USCG regulations. Although the Company has appealed the USCG's decision, its ramifications, if upheld, could have an adverse effect on the Company's ability to compete in the market for ballast water treatment systems for vessels discharging ballast water in U.S. waterways and ports, or cause the Company to invest time and incur additional expenses to redesign its system.

There are five Independent Laboratories (IL) approved by the USCG to work with manufacturers in the Type Approval process: NSF International (NSF), located in Ann Arbor, Michigan, Det Norske Veritas (DNV) AS, located in Hovik, Norway, Korean Register of Shipping, located in Busan, Korea, Control Union Certifications BV located in the Netherlands, and Lloyd's Register EMEA located in the United Kingdom. The IL's have begun working with manufacturers on testing for U.S. Type Approval—a process that is expected to take from one to three years. In the interim, ships may discharge ballast water in U.S. ports for a period of five years after their original compliance date if they operate a ballast water treatment system that has been designated as an Alternate Management System (AMS) by the USCG. To qualify for this status, the equipment supplier must possess an international Type Approval, and must demonstrate to the USCG that the equipment performs at least as well as ballast water exchange. The Company was granted AMS status for its Hyde GUARDIAN® ballast water treatment system effective April 15, 2013.

In 2004, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWMC) which, like the Coast Guard Rule, addresses the transportation of potentially harmful organisms through ballast water. The regulations requiring ballast water treatment will become effective one year after 30 countries representing 35% of the world's shipping tonnage ratify the BWMC. The BWMC has now been signed by 49 countries representing 34.79% of the world's current shipping tonnage. The BWMC is expected to be phased in over a six-year period following ratification and, coupled with the Coast Guard Rule, will require an estimated 64,000 vessels to install ballast water treatment systems. The Company believes that the total ballast water treatment market for equipment will approximate \$18 billion to \$28



## Edgar Filing: CALGON CARBON Corp - Form 10-Q

billion after ratification of the BWMC. Factors influencing the size of the market include the number of manufacturers who are ultimately able to effectively serve this market and ongoing uncertainties surrounding the USCG type approval process.

The Hyde GUARDIAN® system, which employs filtration and ultraviolet light technology to filter and disinfect ballast water, offers cost, safety, and technological advantages. Hyde GUARDIAN® has received Type Approval from Lloyd's Register on behalf of the U.K. Maritime and Coast Guard Agency which confirms compliance with the IMO Ballast Water Management Convention. Hyde GUARDIAN® has also received Class Society Type Approval from Lloyd's Register (LR), American Bureau of Shipping (ABS), and Russian Maritime Registry of Shipping (RS). The strategic acquisition of Hyde Marine provided the Company immediate entry into a global, regulation driven market with major long-term growth potential. To date, most of the Hyde GUARDIAN® systems sold have been for new ship builds but long term, most of Hyde's sales are expected to be for systems retrofitted into existing ships. The number of new ship builds has declined and the retrofit market for ballast water equipment has been slow to ramp up owing to the delay in ratification of the IMO BWMC and the fore mentioned USCG extensions. This, along with the more recent shift

Table of Contents

in oil and gas economics has suppressed the number of Hyde GUARDIAN® orders received. Subsequent to the January 2010 acquisition of Hyde Marine, the Company has sold more than 450 systems valued at over \$90 million.

Backlog for the Equipment segment as of March 31, 2016 was \$12.6 million, while backlog as of December 31, 2015 was \$18.5 million.

**Consumer**

The Company's Consumer segment supplies activated carbon cloth for use in medical, military and specialty applications. The Company anticipates future growth in medical applications for wound care as its cloth aids in the healing process while providing odor control. The Company recently began to focus additional marketing and sales resources to this area of its business, and expects to see modest annual growth in 2016.

**Critical Accounting Policies**

There were no material changes to the Company's critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There were no material changes in the Company's exposure to market risk as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2016. These disclosure controls and procedures are the controls and other procedures that were designed to provide reasonable assurance that information required to be disclosed in reports that are filed with or submitted to the U.S. Securities and Exchange Commission is: (1) accumulated and communicated to management, including the Chief

Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in applicable law and regulations. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2016, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Refer to Note 11 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, for further details.

**Item 1A. Risk Factors**

There were no material changes in the Company's risk factors from the risks disclosed in the Company's Form 10-K for the year ended December 31, 2015.

Table of Contents**Item 2.** Unregistered Sales of Equity Securities and Use of ProceedsIssuer Purchases of Equity Securities

<b>Period</b>	<b>(a) Total Number of Shares Purchased (1)</b>	<b>(b) Average Price Paid Per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs (2)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs</b>
January 1 - January 31, 2016	300,736	\$ 15.61	300,736	\$ 67,637,631
February 1 - February 29, 2016	241,013	\$ 15.98	217,840	\$ 64,131,013
March 1 - March 31, 2016		\$		\$ 64,131,013

(1) Includes 23,173 shares surrendered to the Company by employees to satisfy tax withholding obligations on restricted share awards issued under the Company's Equity Incentive Plan. Future purchases under this Plan will be dependent upon employee elections.

(2) In December 2013, the Company's Board of Directors authorized the repurchase of additional common stock, resulting in a total remaining availability of \$150 million. There is no expiration date for this program. In April 2016, the Company announced that it would suspend the activities of the share repurchase program.

Table of Contents**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>	<b>Method of filing</b>
2.1	Letter Agreement, dated April 14, 2016 (including the form Asset and Share Purchase Agreement to be entered into by and among Calgon Carbon Corporation, Calgon Carbon Investments, Inc., CECA, S.A., Arkema S.r.l, Arkema Shanghai Distribution Co Ltd and ARKEMA FRANCE).	(a)
10.1	Facility Agreement by and between Calgon Carbon Japan KK and Bank of America, N.A., Tokyo Branch dated March 24, 2016.	(b)
10.2	Continuing Guaranty of Calgon Carbon Corporation in favor of Bank of America, N.A., Tokyo Branch dated March 24, 2016.	(c)
10.3	Fourth Amendment to Credit Agreement by and among Calgon Carbon Corporation, the Guarantors party thereto, the Lenders party thereto and PNC Bank, National Association, as Administrative Agent dated April 13, 2016.	(d)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

(a) *Incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed April 14, 2016.*

(b) *Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 30, 2016.*

(c) *Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed March 30, 2016.*

(d) *Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 15, 2016.*

Table of Contents

SIGNATURES

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

CALGON CARBON CORPORATION  
(REGISTRANT)

Date: May 5, 2016

/s/ Robert M. Fortwangler

Robert M. Fortwangler  
Senior Vice President,  
Chief Financial Officer