CALGON CARBON Corp
Form 10-Q
May 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from to

Commission file number: 1-10776

CALGON CARBON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**25-0530110** (I.R.S. Employer Identification No.)
P.O. Box 717, Pittsburgh, PA (Address of principal executive offices)	**15230-0717** (Zip Code)

(412) 787-6700

(Registrant s telephone number, including area code)

None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

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

Class	**Outstanding at May 1, 2014**
Common Stock, $.01 par value per share	53,277,286 shares

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CALGON CARBON CORPORATION

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED March 31, 2014

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

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

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PART I CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements included herein have been prepared by Calgon Carbon Corporation and subsidiaries (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company believes that the disclosures included herein are adequate to make the information presented not misleading when read in conjunction with the Company s audited consolidated financial statements and the notes included therein for the year ended December 31, 2013, as filed with the Securities and Exchange Commission by the Company on Annual Report on Form 10-K.

In management s opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, and which are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first three months of 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands except Per Share Data)

(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net sales	$ 131,632	$ 135,040
Cost of products sold (excluding depreciation and amortization)	87,463	92,415
Depreciation and amortization	7,029	6,747
Selling, general and administrative expenses	20,064	19,526
Research and development expenses	1,578	1,402
Restructuring	(103)	(24)
	116,031	120,066
Income from operations	15,601	14,974
Interest income	10	124
Interest expense	(109)	(177)
Other expense net	(546)	(828)
Income before income tax provision	14,956	14,093
Income tax provision	5,147	4,279
Net income	9,809	9,814
Other comprehensive income (loss), net of tax (Note 9)		
Foreign currency translation	124	(6,288)
Derivatives	(206)	574
Employee benefit plans	202	(378)
Total other comprehensive income (loss)	120	(6,092)
Total comprehensive income	$ 9,929	$ 3,722
Net income per common share		
Basic	$ 0.18	$ 0.18
Diluted	$ 0.18	$ 0.18
Weighted average shares outstanding		
Basic	53,608,465	53,620,349
Diluted	54,525,367	54,200,210

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

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CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except Per Share Data)

(Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,215	$ 32,942
Receivables (net of allowance of $1,347 and $1,328)	100,349	96,996
Revenue recognized in excess of billings on uncompleted contracts	7,401	8,090
Inventories	108,621	109,517
Deferred income taxes current	18,280	20,787
Other current assets	14,679	13,118
Total current assets	285,545	281,450
Property, plant and equipment, net	266,949	266,849
Intangibles, net	5,917	5,602
Goodwill	26,523	26,552
Deferred income taxes long-term	3,850	3,791
Other assets	5,412	5,834
Total assets	$ 594,196	$ 590,078
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 55,057	$ 57,213
Restructuring reserve	385	535
Billings in excess of revenue recognized on uncompleted contracts	5,247	5,406
Payroll and benefits payable	10,362	14,144
Accrued income taxes	2,113	2,726
Short-term debt	3,612	2,172
Total current liabilities	76,776	82,196
Long-term debt	52,043	32,114
Deferred income taxes long-term	30,980	30,902
Accrued pension and other liabilities	27,373	28,361
Total liabilities	187,172	173,573
Commitments and contingencies (Note 12)		
Shareholders equity:		
Common shares, $.01 par value, 100,000,000 shares authorized, 57,346,877 and 57,232,050 shares issued	573	572
Additional paid-in capital	172,139	170,320
Retained earnings	326,033	316,224
Accumulated other comprehensive loss	(1,020)	(1,140)
	497,725	485,976

Treasury stock, at cost, 7,266,916 and 6,242,326 shares		(90,701)		(69,471)
Total shareholders equity		407,024		416,505
Total liabilities and shareholders equity	$	594,196	$	590,078

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

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CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flows from operating activities		
Net income	$ 9,809	$ 9,814
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,029	6,747
Employee benefit plan provisions	18	876
Stock-based compensation	721	946
Deferred income tax expense	2,535	740
Restructuring	(103)	(24)
Restructuring cash payments	(47)	(2,616)
Changes in assets and liabilities-net of effects from foreign exchange:		
Increase in receivables	(3,038)	(13,361)
Decrease (increase) in inventories	1,271	(1,588)
(Increase) decrease in revenue in excess of billings on uncompleted contracts and other current assets	(1,393)	5,300
Decrease in accounts payable and accrued liabilities	(5,557)	(9,845)
Pension contributions	(707)	(456)
Other items net	(316)	2,855
Net cash provided by (used in) operating activities	10,222	(612)
Cash flows from investing activities		
Proceeds from sale of business		642
Capital expenditures	(8,638)	(10,617)
Government grants received	1,254	1,693
Net cash used in investing activities	(7,384)	(8,282)
Cash flows from financing activities		
Japanese working capital loan borrowings short-term (Note 4)	1,955	
Japanese working capital loan repayments short-term (Note 4)	(488)	(1,090)
U.S. Revolving credit facility borrowings long term (Note 4)	31,950	28,200
U.S. Revolving credit facility repayments long term (Note 4)	(10,700)	(24,550)
Proceeds of debt obligations		173
Reductions of debt obligations	(1,527)	(901)
Treasury stock purchased	(21,230)	(339)
Common stock issued	959	1,572
Net cash provided by financing activities	919	3,065
Effect of exchange rate changes on cash and cash equivalents	(484)	2,222
Increase (decrease) in cash and cash equivalents	3,273	(3,607)
Cash and cash equivalents, beginning of period	32,942	18,161
Cash and cash equivalents, end of period	$ 36,215	$ 14,554

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

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CALGON CARBON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

(Unaudited)

1. Restructuring

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

For the period ended March 31, 2014, the Company recorded $0.1 million of restructuring income which represents a reduction in the estimated accrual. For the period ended March 31, 2013, the Company recorded a $0.6 million restructuring charge and a pre-tax gain of $0.6 million for the sale of its activated carbon manufacturing facility in Datong, China. The gain on sale was comprised of the release of foreign currency translation adjustments of $1.0 million which was partially offset by a $0.4 million charge for the write-off of goodwill. The restructuring activity was all within the Activated Carbon and Service segment. The remaining restructuring cash outlays are expected to be made in 2014.

The following table summarizes the restructuring plan and the reserve activity since inception and through the quarter ended March 31, 2014:

(Thousands, except no. of employees)	Employee Termination Benefits	Asset Write-offs	Gain on Sale	Other	Total Restructuring Activity	Employees Impacted
Restructuring charges	$ 5,777	$ 4,000	$	$ 434	$ 10,211	120
2012 Activity	(2,551)	(4,000)		(434)	(6,985)	(53)
Balance at December 31, 2012	$ 3,226	$	$	$	$ 3,226	67
Restructuring charges (income)	357		(578)	92	(129)	4
2013 Activity	(3,048)		578	(92)	(2,562)	(67)
Balance at December 31, 2013	$ 535	$	$	$	$ 535	4
Restructuring income	(103)				(103)	
2014 Activity to date	(47)				(47)	
Balance at March 31, 2014	$ 385	$	$	$	$ 385	4

2. Inventories

	March 31, 2014	December 31, 2013
Raw materials	$ 28,906	$ 31,603
Finished goods	79,715	77,914
	$ 108,621	$ 109,517

Inventories are recorded net of reserves of $2.0 million and $1.9 million for obsolete and slow-moving items at March 31, 2014 and December 31, 2013, respectively.

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3. Goodwill & Other Identifiable Intangible Assets

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

	Activated Carbon & Service Segment	Equipment Segment	Consumer Segment	Total
Balance as of December 31, 2013	$ 19,961	$ 6,531	$ 60	$ 26,552
Foreign exchange	33	(62)		(29)
Balance as of March 31, 2014	$ 19,994	$ 6,469	$ 60	$ 26,523

The following is a summary of the Company s identifiable intangible assets as of March 31, 2014 and December 31, 2013, respectively.

	March 31, 2014				
	Weighted Average Amortization Period	Gross Carrying Amount	Foreign Exchange	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets:					
Patents	20.0 Years	$ 676	$	$ (603)	$ 73
Customer Relationships	15.9 Years	10,450	(208)	(8,888)	1,354
Product Certification	5.1 Years	7,211	(46)	(4,035)	3,130
Unpatented Technology	18.4 Years	3,183		(2,524)	659
Licenses	20.0 Years	964	(24)	(239)	701
Total	13.1 Years	$ 22,484	$ (278)	$ (16,289)	$ 5,917

	December 31, 2013				
	Weighted Average Amortization Period	Gross Carrying Amount	Foreign Exchange	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets:					
Patents	20.0 Years	$ 676	$	$ (592)	$ 84
Customer Relationships	15.9 Years	10,450	(209)	(8,777)	1,464
Product Certification	5.4 Years	7,905	(34)	(5,237)	2,634
Unpatented Technology	18.4 Years	3,183		(2,457)	726

Licenses	20.0 Years	964	(43)	(227)	694
Total	12.9 Years	$ 23,178	$ (286)	$ (17,290)	$ 5,602

For the three months ended March 31, 2014 and 2013, the Company recognized $0.5 million of amortization expense related to intangible assets, respectively. As of March 31, 2014, estimated future amortization expense of identifiable

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intangible assets is $1.6 million for the remaining nine months of 2014. The Company estimates amortization expense to be recognized during the next five years as follows:

For the year ending December 31:		
2015	$	1,520
2016		1,293
2017		497
2018		306
2019		150

4. Borrowing Arrangements

Short-Term Debt

		March 31, 2014		December 31, 2013
Borrowings under Japanese Working Capital Loan	$	3,405	$	1,900
Borrowings under Chinese Credit Facility		207		272
Total	$	3,612	$	2,172

Long-Term Debt

		March 31, 2014		December 31, 2013
U.S. Credit Facility Borrowings	$	47,500	$	26,250
Japanese Term Loan Borrowings		4,378		5,699
Belgian Loan Borrowings		165		165
Total	$	52,043	$	32,114

U.S. Credit Facility

On November 6, 2013, the Company entered into a new U.S. Credit Agreement (Credit Agreement). The Credit Agreement provides for a senior unsecured revolving credit facility (Revolver) in an amount up to $225.0 million which expires on November 6, 2018. The Company may request that the Revolver be extended for up to two additional one-year periods. A portion of the Revolver not in excess of $75.0 million shall be available for standby or letters of credit for trade, $15.0 million shall be available for swing loans, and $50.0 million shall be available for loans or letters of credit in certain foreign denominated currencies. The Company may have the option to increase the Revolver in an amount not to exceed $75.0 million with the consent of the Lenders. Availability under the Revolver is conditioned upon various customary conditions. Total availability under the Revolver as of March 31, 2014 was $175.2 million after considering outstanding letters of credit of $2.3 million and borrowings.

The Credit Agreement also provides for senior unsecured delayed draw term loans (Delayed Draw Term Loans) in an aggregate amount up to $75.0 million which expires on November 6, 2020. The Delayed Draw Term Loans are available for two years from the Closing Date. The Company may only request a maximum of three Delayed Draw Term Loans with a minimum borrowing of $15.0 million and no amount repaid may be re-borrowed. Total availability under the Delayed Draw Term Loan as of March 31, 2014 was $75 million.

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A quarterly nonrefundable commitment fee is payable by the Company based on the unused availability under the Revolver and the undrawn portion of the Delayed Draw Term Loans and is currently equal to 0.15%.

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 based on the highest of (A) the prime rate announced from time to time by the Agent, (B) the daily federal funds open rate plus 0.50% and (C) a daily LIBOR rate plus 1.00%, or (ii) a rate based on the published rated offered by leading banks in the London interbank deposit market (or other foreign country for non-Euro or U.S. denominated currencies) divided by a number equal to 1.00 minus the applicable LIBOR Reserve Percentage comparable borrowings and reserve requirements prescribed by the Board of Governors of the Federal Reserve System of the United States, in each case, plus an applicable margin based on the Company s leverage ratio as set forth in the Credit Agreement. An amendment to the Credit Agreement was signed on February 10, 2014 which modified the interest rate charged on amounts owed under swing loans to be either (i) a fluctuating Base Rate as described above or (ii) such other interest rates as the Lender and the Company may agree to from time to time. The interest rate per annum on outstanding borrowings as of March 31, 2014 ranged from 1.16% to 1.20%.

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

Total outstanding borrowings under the Revolver were $47.5 million and $26.3 million as of March 31, 2014 and December 31, 2013, respectively, and are shown as long-term debt within the condensed consolidated balance sheet. There were no outstanding borrowings under the Delayed Draw Term Loan as of March 31, 2014 and December 31, 2013. The borrowings and repayments are presented on a gross basis within the Company s condensed consolidated statement of cash flows.

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

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

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default will allow the Agent to declare all or any portion of the outstanding obligations of the Company to be immediately due and payable.

Belgian Loan and Credit Facility

On November 30, 2009, the Company entered into a Loan Agreement (the Belgian Loan) in order to help finance the expansion of the Company s Feluy, Belgium facility. The Company had 120 thousand Euros, or $0.2 million, of outstanding borrowings under the Belgian Loan as of March 31, 2014 and December 31, 2013, respectively. No further bonds can be called on. The maturity date is April 13, 2018 and the interest rate is 5.35%. The Belgian Loan is guaranteed by a mortgage mandate on the Feluy site and is subject to customary reporting requirements, though no financial covenants exist.

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

United Kingdom Credit Facility

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

Japanese Loans

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

CCJ signed an agreement on May 10, 2013 to renew the Japanese Term Loan, which provides for borrowings up to 1.0 billion Japanese Yen, and bears interest based on the Uncollateralized Overnight Call Rate plus 0.6%, which totaled 0.7% per annum as of March 31, 2014. This loan matures on May 10, 2017. The borrowings and repayments are presented on a gross basis within the Company s condensed consolidated statements of cash flows. As of March 31, 2014, CCJ had 450 million Japanese Yen or $4.4 million outstanding and recorded as long-term debt within the Company s condensed consolidated balance sheets. As of December 31, 2013, CCJ had 600 million Japanese Yen or $5.7 million outstanding and recorded as long-term debt within the Company s condensed consolidated balance sheets.

The Japanese Working Capital Loan provides for borrowings up to 1.5 billion Japanese Yen, and bears interest based on the Short-term Prime Rate, which was 1.475% per annum as of March 31, 2014. On March 17, 2014, CCJ signed an agreement which extended the maturity date of the Japanese Working Capital Loan from April 2, 2014 to April 2, 2015.

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Borrowings and repayments under the Japanese Working Capital Loan have generally occurred in short-term intervals, as needed, in order to ensure adequate liquidity while minimizing outstanding borrowings. The borrowings and repayments are presented on a gross basis within the Company s condensed consolidated statements of cash flows. As of March 31, 2014, CCJ had 350 million Japanese Yen or $3.4 million outstanding and recorded as short-term debt within the Company s condensed consolidated balance sheets as the Company intends to repay the borrowings within the next twelve months. As of December 31, 2013, CCJ had 200 million Japanese Yen or $1.9 million outstanding and recorded as short-term debt within the Company s condensed consolidated balance sheets.

Chinese Credit Facility

The Company maintains an unsecured Chinese credit facility for working capital requirements totaling 10.0 million Renminbi (RMB) or $1.6 million that matures on July 19, 2014. The interest rate per annum on outstanding borrowings as of March 31, 2014 was 5.32%. Total outstanding borrowings under this facility were 1.3 million RMB or $0.2 million as of March 31, 2014 and are shown as short-term debt within the Company s condensed consolidated balance sheets. As of December 31, 2013, total borrowings under this facility were 1.7 million RMB or $0.3 million, and are shown as short-term debt within the Company s condensed consolidated balance sheets.

5. Fair Value Measurements

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 11 for details relating to borrowing arrangements and derivative instruments). The only financial instruments measured at fair value on a recurring basis are derivative instruments and the acquisition earn-out liability:

	March 31, 2014				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
Derivative assets	$ 1,210	$ 1,210	$	$ 1,210	$
Derivative liabilities	(340)	(340)		(340)	
Acquisition earn-out liability	(912)	(912)		(912)	
U.S. credit facility	(47,500)	(47,500)		(47,500)	
Chinese credit facility	(207)	(207)		(207)	
Japanese working capital loan	(3,405)	(3,405)		(3,405)	
Japanese term loan	(4,378)	(4,378)		(4,378)	
Other loans	(165)	(165)		(165)	

	December 31, 2013				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
Derivative assets	$ 1,874	$ 1,874	$	$ 1,874	$
Derivative liabilities	(423)	(423)		(423)	
Acquisition earn-out liability	(850)	(850)		(850)	
U.S. credit facility	(26,250)	(26,250)		(26,250)	
Chinese credit facility	(272)	(272)		(272)	

Japanese working capital loan	(1,900)	(1,900)	(1,900)
Japanese term loan	(5,699)	(5,699)	(5,699)
Other loans	(165)	(165)	(165)

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

6. Shareholders Equity

The Company s Board of Directors did not declare or pay a dividend for the three months ended March 31, 2014 and 2013.

In December 2013, the Company s Board of Directors approved an increase in the overall value of shares authorized for repurchase under a share repurchase program to $150 million. Subsequently, the Company initiated an open market share repurchase program whereby 146,800 shares were repurchased in December 2013 at an average price of $20.37 per share. During the quarter ended March 31, 2014, the Company repurchased an additional 1,013,341 shares at an average price of $20.50 per share. All of the above mentioned repurchases were funded from operating cash flows, cash on hand, and borrowings and the shares are initially held as treasury stock. Subsequent to these repurchases, the Company s remaining authorization to repurchase its common stock is approximately $126.2 million.

7. Pensions

U.S. Plans:

For U.S. plans, the following table provides the components of net periodic pension (benefit) costs of the plans for the periods ended March 31, 2014 and 2013:

	Three Months Ended March 31	
	2014	**2013**
Service cost	$ 251	$ 291
Interest cost	1,199	1,127
Expected return on plan assets	(1,901)	(1,667)
Amortization of prior service cost	18	19
Net actuarial loss amortization	276	909
Net periodic pension (benefit) cost	$ (157)	$ 679

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

Employer Contributions

In its 2013 financial statements, the Company disclosed that it expected to contribute $1.5 million to its U.S. pension plans in 2014. As of March 31, 2014, the Company has made contributions of $0.3 million. The Company expects to contribute the remaining $1.2 million over the balance of the year.

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European Plans:

For European plans, the following table provides the components of net periodic pension costs of the plans for the periods ended March 31, 2014 and 2013:

	Three Months Ended March 31	
	2014	2013
Service cost	$ 86	$ 78
Interest cost	405	374
Expected return on plan assets	(377)	(237)
Net actuarial loss (gain) amortization	61	(24)
Foreign currency translation		6
Net periodic pension cost	$ 175	$ 197

The expected long-term rate of return on plan assets is between 4.00% and 5.60% in 2014.

Employer Contributions

In its 2013 financial statements, the Company disclosed that it expected to contribute $2.1 million to its European pension plans in 2014. As of March 31, 2014, the Company contributed $0.4 million. The Company expects to contribute the remaining $1.7 million over the balance of the year.

Multi-Employer Plan:

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

8. Income Taxes

The effective tax rate for the three months ended March 31, 2014 was 34.4% compared to 30.4% for the three months ended March 31, 2013. The tax rate for the three months ended March 31, 2014 was lower than the U.S. federal statutory rate of 35% due to non-taxable permanent differences. The tax rate for the three months ended March 31, 2013 was lower than the U.S. federal statutory rate primarily due to net tax benefits from the sale of the Company s activated carbon manufacturing facility in Datong, China which occurred in March 2013.

Unrecognized Income Tax Benefits

As of March 31, 2014 and December 31, 2013, the Company s gross unrecognized income tax benefits were $3.5 million and $3.4 million, respectively. If recognized, $2.4 million of the gross unrecognized tax benefits would affect the effective tax rate at March 31, 2014 and December 31, 2013, respectively. At this time, the Company believes that it is reasonably possible that approximately $0.4 million of the estimated unrecognized tax benefits as of March 31, 2014 will

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be recognized within the next twelve months, based on the expiration of statutory periods, of which $0.1 million will impact the Company s effective tax rate.

Subsequent to March 31, 2014, the Company was informed that the IRS completed its joint committee review of the Company s 2008 amended income tax return. As a result of the conclusion of this examination, the Company will receive an income tax refund of $2.5 million including tax and interest which was recorded in other current assets within the Company s condensed consolidated balance sheets. Additionally, in the second quarter of 2014, the Company expects to release net uncertain tax positions including related accrued interest and penalties of approximately $1.4 million as a result of the conclusion of this examination all of which will impact the Company s effective tax rate.

9. Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments	Pension Benefit Adjustments	Derivatives	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2014, net of tax	$ 16,793	$ (18,450)	$ 517	$ (1,140)
Other comprehensive income (loss) before reclassifications	124	(23)	(135)	(34)
Amounts reclassified from other comprehensive income (loss)		225	(71)	154
Net current period other comprehensive income (loss)	124	202	(206)	120
Balance, March 31, 2014, net of tax	**$ 16,917**	**$ (18,248)**	**$ 311**	**$ (1,020)**

	Foreign Currency Translation Adjustments	Pension Benefit Adjustments	Derivatives	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2013, net of tax	$ 17,098	$ (33,718)	$ 93	$ (16,527)
Other comprehensive income (loss) before reclassifications	(7,320)	181	549	(6,590)
Amounts reclassified from other comprehensive income (loss)	1,032	(559)	25	498
Net current period other comprehensive income (loss)	(6,288)	(378)	574	(6,092)
Balance, March 31, 2013, net of tax	**$ 10,810**	**$ (34,096)**	**$ 667**	**$ (22,619)**

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)(1) March 31, 2014	2013	Affected Line Item in the Statement where Net Income is Presented

Foreign Currency Translation Adjustments:					
Sale of foreign subsidiary	$		$	1,032	Restructuring (2)
				1,032	Total before tax
					Tax (expense) or benefit
	$		$	1,032	Net of tax
Pension Benefit Adjustments:					
Prior-service costs	$	(18)	$	(19)	(3)
Actuarial losses		(337)		(885)	(3)
		(355)		(904)	Total before tax
		130		345	Tax (expense) or benefit
	$	(225)	$	(559)	Net of tax
Derivatives:					
Foreign exchange contracts	$	133	$	(170)	Cost of products sold (excluding depreciation and amortization)
Natural gas contracts		4		214	Cost of products sold (excluding depreciation and amortization)
		137		44	Total before tax
		(66)		(19)	Tax (expense) or benefit
	$	71	$	25	Net of tax
Total reclassifications for the period	$	(154)	$	498	Net of tax

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

(2) The adjustment for 2013 relates to the Company s sale of its activated carbon manufacturing facility in Datong, China.

(3) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost.

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

The income tax benefit associated with the Company s pension benefits included in accumulated other comprehensive loss was $9.6 million and $9.7 million at March 31, 2014 and December 31, 2013, respectively. The income tax expense associated with the Company s derivatives included in accumulated other comprehensive income was $0.2 million and $0.3 million at March 31, 2014 and December 31, 2013, respectively.

The income tax (expense) benefit associated with foreign currency translation included in other comprehensive income (loss) was $(7) thousand and $(0.2) million for the three months ended March 31, 2014 and 2013, respectively. The income tax (expense) benefit associated with the Company s pension benefits included in other comprehensive income (loss) was $(0.1) million and $0.3 million for the three months ended March 31, 2014 and 2013, respectively. The income tax (expense) benefit associated with the Company s derivatives included in other comprehensive income (loss) was $0.1 million and $(0.4) million for the three months ended March 31, 2014 and 2013, respectively.

10. Supplemental Cash Flow Information

Cash paid for interest during the three months ended March 31, 2014 and 2013 was $0.1 million and $0.3 million, respectively. Income taxes paid, net of refunds, for the three months ended March 31, 2014 and 2013, was $3.2 million and $2.1 million, respectively.

The Company has reflected $0.7 million and $0.1 million of its capital expenditures as a non-cash increase in accounts payable and accrued liabilities for changes in unpaid capital expenditures for the three months ended March 31, 2014 and 2013, respectively.

11. Derivative Instruments

The Company s corporate and foreign subsidiaries use foreign currency forward exchange contracts and foreign exchange option contracts to limit the exposure of exchange rate fluctuations on certain foreign currency receivables, payables, and other known and forecasted transactional exposures for periods consistent with the expected cash flow of the underlying transactions. The foreign currency forward exchange and foreign exchange option contracts generally mature within

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eighteen months and are designed to limit exposure to exchange rate fluctuations. The Company also uses cash flow hedges to limit the exposure to changes in natural gas prices. The natural gas forward contracts generally mature within one to eighteen months. The Company enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts. The Company does not currently offset derivative positions on these contracts. The Company accounts for its derivative instruments under Accounting Standards Codification (ASC) 815 Derivatives and Hedging.

The fair value of outstanding derivative contracts recorded as assets in the accompanying condensed consolidated balance sheets were as follows:

Asset Derivatives	**Balance Sheet Locations**	**March 31, 2014**	**December 31, 2013**
Derivatives designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Other current assets	$ 416	$ 850
Natural gas contracts	Other current assets	156	189
Foreign exchange contracts	Other assets	14	94
Natural gas contracts	Other assets	1	13
Total derivatives designated as hedging instruments under ASC 815		587	1,146
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Other current assets	518	728
Foreign exchange contracts	Other assets	105	
Total derivatives not designated as hedging instruments under ASC 815		623	728
Total asset derivatives		$ 1,210	$ 1,874

The fair value of outstanding derivative contracts recorded as liabilities in the accompanying condensed consolidated balance sheets were as follows:

Liability Derivatives	**Balance Sheet Locations**	**March 31, 2014**	**December 31, 2013**
Derivatives designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable and accrued liabilities	$ 274	$ 391
Foreign exchange contracts	Accrued pension and other liabilities	22	27
Natural gas contracts	Accrued pension and other liabilities	36	
Total derivatives designated as hedging instruments under ASC 815		332	418
Derivatives not designated as hedging Instruments under ASC 815:			

Foreign exchange contracts	Accounts payable and accrued liabilities		8		5
Total liability derivatives		$	340	$	423

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In accordance with ASC 820, Fair Value Measurements and Disclosures, the fair value of the Company s foreign exchange forward contracts, foreign exchange option contracts, and natural gas forward contracts is determined using Level 2 inputs, which are defined as observable inputs. The inputs used are from market sources that aggregate data based upon market transactions.

The use of derivatives exposes the Company to the risk that a counter party may default on a derivative contract. The aggregate fair value of the Company s derivative instruments in asset positions as of March 31, 2014 was $1.2 million, representing the maximum loss that the Company would recognize at that date if all counterparties failed to perform as contracted. The Company has entered into master agreements with counterparties for its foreign exchange contracts that 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.

The gross and net amounts of derivative assets and liabilities were as follows (in thousands):

	March 31, 2014		December 31, 2013	
	Fair Value of Assets	**Fair Value of Liabilities**	**Fair Value of Assets**	**Fair Value of Liabilities**
Gross derivative amounts recognized in the balance sheet	$ 1,210	$ 340	$ 1,874	$ 423
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting	(304)	(304)	(423)	(423)
Net amount	$ 906	$ 36	$ 1,451	$

Cash Flow Hedges

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 accumulated other comprehensive income (loss) (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings and were not material for the three months ended March 31, 2014 and 2013, respectively.

The following table provides details on the changes in accumulated OCI relating to derivative assets and liabilities that qualified for cash flow hedge accounting.

	Three Months Ended March 31,	
	2014	**2013**
Accumulated OCI derivative gain at January 1	$ 874	$ 75
Effective portion of changes in fair value	(251)	1,032
Reclassifications from accumulated OCI derivative to earnings	(137)	44