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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Calgon Carbon Corporation's third quarter 2012 results conference call. (Operator Instructions).

I will now turn the call over to Gail Gerono, Vice-President of Investor Relations.

Gail Gerono - *Calgon Carbon Corp. - VP, IRC*

Thank you, good morning, and thank you for joining us. We chose this date for our third quarter so it would occur after November 1 when the Department of Commerce was scheduled to announce the final tariff on carbon imports from China. Unfortunately federal government offices were closed for part of this week due to Hurricane Sandy. As a result, the DOC has postponed the announcement until Monday, November 5. Shortly after the announcement, our lawyers will issue a news release regarding the final tariffs and we will post it is on our website. Please look for it there and if you have any questions about the tariff, give us a call.

Before we begin this morning, I would like to remind you that the Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Today's presentations or perhaps some of the comments made during the Q and A may contain statements that are forward looking. Forward-looking statement typically contain words such as "expect," "believe," "estimate," "anticipate," or similar words indicating that future outcomes are uncertain.

Statements looking forward in time including statements regarding future growth and profitability, price increases, cost savings, broader product lines, enhanced competitive posture and acquisitions are included in the company's most recent annual report pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.. They involve known and unknown risks and uncertainties that may cause the company's actual results in future periods to be materially different from any future performance suggested in the presentations or during the Q and A. 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 the company's future performance are higher energy and raw material costs, cost of imports and related tariffs, labor relations, availability of capital and environmental requirements as they relate both to our operations and to our customers, changes in foreign currency exchange rates, borrowing restrictions, the validity of patents and other intellectual property and pension costs. In the context of forward-looking information provided in this web cast, please refer to the discussions of risk factors and other information detailed in as well as the other information contained in company's most recent annual report and 10K. And now Randy Dearth, Calgon Carbon's President and CEO, will make some introductory remarks. Randy?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Thanks, Gail. I would also like to welcome you to our call today. In addition to me, our speakers today are Steve Schott, Calgon Carbon's CFO and I have with us today Bob O'Brien who is our Chief Operating Officer. Steve will review the third quarter financials and Bob will provide a review of our global operations. Following Bob's remarks, I will provide a progress report on our various corporate initiatives, including our cost improvement program. So since we have a full agenda, let's get started. Steve?

Steve Schott - *Calgon Carbon Corp. - CFO*

Thanks, Randy. Good morning, everyone. Total sales for the third quarter of 2012 were $135.5 million versus $143.6 million in the third quarter of 2011, a decrease of $8.1 million or 5.6%. Currency translation had a negative impact of $3.2 million on sales for the third quarter of 2012 due to the stronger dollar. Regarding our segments, sales in the activated carbon and service segment decreased $15 million or 11.6% for the third quarter of 2012 compared to the 2011's third quarter.

Sales for this segment declined in each of the company's three regions, however most significantly in the Americas. The primary reason for the favorable -- the primary reason was the favorable impact of a large municipal carbon supply that occurred in the third quarter of 2011, valued at $8 million. Also contributing to the quarter-over-quarter decrease was lower demand in both the environmental air market where our mercury removal product sales were $3.1 million less in the third quarter of 2012 compared to 2011. Finally, in the environmental water market revenue also declined year over year by $2.1 million. Equipment sales increased $6.6 million or 57.5% for the third quarter of 2012 compared to 2011's third quarter, primarily due to higher revenue recognition from ballast water treatment systems up $3.8 million and ion exchange systems of $1.2 million.

Consumer sales increased by approximately $269,000 or 13.3% for the third quarter of 2012 compared to 2011's third quarter as a result of higher demand for activated carbon cloth products. Consolidated gross profit before depreciation and amortization as a percent of net sales was 27.3% in the third quarter of 2012 compared to 33.8% in the third quarter of 2011, a decrease of 6.5 percentage points. The decline was primarily in the activated carbon and service segment for several reasons. First, let me address our business in the Americas region.

Costs increased by $2.5 million at our Pearl River, Mississippi, plant. The increase was due to maintenance issues, delays experienced with the significant capital project related to expanding our capacity and making production improvements as well as the effects of Hurricane Isaac. Also contributing to the decline in the Americas results was the write-off of obsolete inventory of $1.3 million. I would also like to note that the third quarter of 2011 included the favorable impact of $1.2 million related to a refund of tariff deposits that we had paid on Chinese activated carbon products. Margins were also lower in our other regions.

Continental Europe's margins declined by $600,000 in the third quarter of 2012 versus the third quarter of 2011. The margin decline was primarily due to the more challenging business environment in mainland Europe and as a result of foreign exchange impacts. Finally during the quarter, we incurred a charge of $400,000 for obsolete inventory at Calgon Carbon Japan. However, we are now seeing improvement in Calgon Carbon Japan's margins and many of our cost improvement initial initiatives will involve Calgon Carbon Japan which should lead to further margin improvement.

Depreciation and amortization expense was $6.8 million in the third quarter of 2012 compared to $6.1 million in the third quarter of 2011. The increase of $700,000 or 11.5% is primarily a result of the additional depreciation related to our recent capital improvement projects. Selling, administrative, and research expenses were $25.8 million during the third quarter of 2012 versus $24 million in 2011, an increase of $1.8 million or 7.5%. The increase included a $1.7 million pension charge unrelated to our restructuring, and a $1.7 million charge related to an agreement reached with the company's former chief executive officer in July 2012.

Partially offsetting this increase was the favorable impact of foreign exchange, of $500,000, and a reduction in legal expense of $500,000. During the third quarter of 2012, the company adopted a worldwide strategy to reduce costs and realign the organizational structure in response to the global economic slowdown, rising costs and delays in the implementation of environmental regulations, all of which have created a more challenging business environment. As a part of this strategy, the company will consolidate operations at certain locations, permanently close one of its manufacturing facilities, evaluate non-core businesses for potential divestiture, and reduce head count. As a result, the company recorded $8 million of restructuring charges in the third quarter of 2012 which are all within the activated carbon and service segment.

The $8 million included $3.6 million for the permanent closure of the company's activated carbon manufacturing facility in Datong, China, and $400,000 for the closure of a warehouse in Belgium. The company also recorded termination benefits of $3.8 million, including early retirement obligations for 86 employees worldwide. The company will have contractual cash outlays four these employee separations through the first quarter of 2013. In addition, we also expect to incur pension settlement costs as a result of lump sum pension distributions for those participants in the early retirement program which are currently estimated to be $1 million to $2 million. This charge will be recognized when the distributions occur, which should be over the next six months.

The company expects to finalize its organizational and operational changes during the fourth quarter of 2012 and as a result, could incur additional charges. The company recorded a tax benefit of $196,000 versus a provision of $3.7 million during the third quarter of 2011. The company's full-year 2012 tax rate has increased primarily as a result of the restructuring and other charges, which has affected the jurisdictional earnings of the company. Also as a direct result of the restructuring, during the third quarter we recorded a $600,000 valuation allowance against certain deferred tax assets.

To summarize, the charges and issues that impacted our third quarter results were $8 million for restructuring, $1.7 million for inventory write-offs, $1.7 million for a pension liability pertaining to operations that we had shut or sold years ago, $1.7 million for our agreement with our former CEO, in total, over $13 million of pretax charges and $600,000 of additional income tax expense. These issues contributed heavily to our net loss for the third quarter of $4.5 million or $0.08 per diluted share versus net income of $14.5 million or $0.25 per share in 2011. Turning to the company's segments, the activated carbon and service segment recognized $1.9 million in operating income before depreciation and amortization in the third quarter of 2012, compared to $25.7 million in the third quarter of 2011. The decline was primarily due to the charges I just summarized, as well as previously mentioned $2.5 million higher plant costs at Pearl River.

The third quarter of 2011 also included the $1.2 million impact of refunds of tariffs on Chinese activated carbon products. The equipment segment recognized $700,000 in operating income before depreciation and amortization in the third quarter of 2012, compared to a loss of $700,000 in the third quarter of 2011. The improvement was primarily due to higher revenue recognition of ballast water treatment systems. Equipment backlog declined from $29 million as of June 30, 2012, to $20 million as of September 30, 2012. The consumer segments operating results before depreciation and amortization were not material in either 2012 or 2011.

Balance sheet, I am pleased to report that our balance sheet remains strong. Cash increased during the third quarter of 2012 and at September 30 we had approximately $19 million of cash. Receivables were $96.9 million for the third quarter of 2012 and were $5.6 million lower than year-end 2011. Inventories were $112.1 million for the third quarter of 2012 which are $6.2 million lower than year-end 2011. We have had working capital improvements in 2012 in all three of our regions and working capital, particularly inventory, will remain a continued area of focus. At September 30, the company had total debt outstanding of $29.7 million which represents an increase of $2.3 million from year-end.

Cash flow, cash flow was also strong. Operating cash flow was $18.6 million for the third quarter of 2012 as compare ed to $13.3 million in 2011. The $5.3 million increase was due to the favorable working capital changes. Capital expenditures totaled approximately $9 million for the third quarter of 2012 and $46 million through the first nine months of 2012. Capital expenditures for the third quarter of 2012 include expenditures for the capacity expansion in our Pearl River production facility and the construction of a reactivation facility in Gila Bend, Arizona. Our estimated spending on capital for the full 2012 year is now estimated to be $55 million to $60 million.

Our ongoing efforts to reduce our capital spending and better align it with our operating cash flows has been successful.

Gail Gerono - *Calgon Carbon Corp. - VP, IRC*

Thanks, Steve. Bob O'Brien is up next for the global operations review of the quarter.

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Thanks, Gail. Let's start with sales. Sales of $135.5 million were lower than we had expected. As Steve mentioned, in the third quarter of 2011, we delivered virgin activated carbon to the city of Phoenix, valued at $8 million. There were no comparably sized shipment of activated carbon in the third quarter of 2012. Sales of powdered activated carbon for mercury removal were $3.1 million lower in the third quarter of 2012 than in the comparable period of 2011.

The decline in sales resulted from lower utilization rates for coal fired power plants due to the low price of natural gas. I am pleased to report however that we shipped a significant quantity of FLUEPAC to a major customer in October and we anticipate the shipments will continue throughout the fourth quarter. Requests from customers to delay large shipments of activated carbon are inherent in the nature of our business. In the third quarter, customer delays reduce expected sales by about $4.5 million. These orders are scheduled to be shipped in the fourth quarter of 2012 and the first quarter of 2013.

On the positive side, we are currently finalizing it agreements for some major new business for traditional carbon and UV applications. In Europe, we are in final discussions with a large water provider in the UK for a multiyear contract similar to our contract with the city of Phoenix. If successful, we could supply virgin carbon and potable water reactivation services for up to a ten-year period. In the US, we were selected by the Los Angeles Department of Water and Power to provide a $12.4 million Sentinel system for disinfection of drinking water confirming that UV remains the technology of choice for controlling Cryptosporidium and Giardia under the LT2 regulations.

In Asia, Calgon Carbon was awarded a contract to supply 5.7 million pounds of granular activated carbon for drinking water treatment in Singapore. Deliveries began in October. Let's move on to our plants.

Pearl River. Beginning in late May, the Pearl River carbon plant went to a scheduled four-week shut down period. Not only did we perform major maintenance on the plant equipment, we made significant capital modifications to increase production, lower operating costs and increase operational flexibility including more flexibility in the selection of our raw materials. Unforeseen construction issues arose with the capital modifications however, which required the shutdown period to be extended to seven weeks. Following the restart of the plant, additional operating issues developed which continued to significantly restrict production.

Adjustments to the operation of the plant were successfully made and plant operating performance improved until August 27 when the plant was again forced to shut down for a week due to the approach and subsequent impact of Hurricane Isaac. The plant went back on line in early September and has since performed up to our expectations. Despite the challenges, we succeeded in increasing the plant's production capacity by approximately 20% and achieved improvements in our activated carbon manufacturing process that will result in significant cost savings going forward. In addition, the knowledge acquired from the project at Pearl River can be applied at our Big Sandy plant with, we believe, comparable results.

Gila Bend reactivation plant -- the reactivation that we are building to serve the city of Phoenix and surrounding communities will be located in Gila Bend, Arizona. Ground was broken at the site in July. Site preparations and underground utilities were completed. Foundation installation began and major equipment procurement continues. The project is progressing on schedule and on budget with, commercial operation targeted for mid 2013.

Datong, China. On October 18, we announced the closure of our activated carbon production facility in Datong, China. The decision to build the facility more than ten years ago was driven by the availability of high quality coal at prices significantly below those available in the US. The activated carbon produced there was targeted for sale in Europe and the Americas.

The Datong plant was built to perform the first step of the activated carbon manufacturing process. A Chinese company was used to complete the manufacture of the activated carbon while our leased facility in Tianjin, China, screened, packaged and warehoused the carbon. We sourced metallurgical grade coal from mines in the Datong region. Over time, the availability of coal became limited as a result of the Chinese government's decision to consolidate the coal industry and close mines in the Datong region. The price of call in the Datong region continued to increase and our method of manufacturing activated in China became noncompetitive.

Since we do not foresee that changing, we decided to permanently close the facility. The plant had been idle since last October and the closure should result in permanent annual savings of $600,000 including primarily depreciation expense and to a much lesser extent, cost for our workforce as well as plant overhead. The Datong workers have been terminated and negotiations are underway to sell the site.

Let me be clear. We are not exiting the Chinese activated carbon market but we are in the process of determining the most practical and profitable way to participate in the market, keeping in mind there are about 125 producers of activated carbon in China. We will continue to supply virgin activated carbon to the Chinese market which we produce in the US or source from third party manufacturers. We will also continue to provide reactivation services from our new site in Suzhou. State of the Suzhou reactivation plant. The Suzhou plant ran intermittently during the third quarter. We are working with a provincial environmental protection bureau to secure our final operating permit based on emission tests that were conducted by the EPB in August.

Approval to transport spent carbon which, for many customers, is classified as a hazardous waste under new Chinese regulation across provincial borders has become a lengthy process. We expect that the receipt of our final operating permit which we expect shortly, will make it easier for our customers to obtain the necessary approvals from the provincial environmental protection bureaus. Next I will provide an update on emerging markets. Disinfection byproducts. We continue to do very well in this market.

We are in final discussions with the city of Glendale, Arizona, to provide reactivation services under a long-term contract. In the meantime, we are reactivating the city's spent carbon under terms of an interim agreement. Moving to ballast water treatment. Although we believe that the US Coast Guard's regulations will create a market for retrofits as expected, there was reduced proposal activity and contract awards for ballast water treatment systems in the third quarter as the number of new ships being built significantly trailed last year's rate. Never the less, we received 13 orders during the third quarter, bringing the total year-to-date to 45.

With the slow down in new orders, price competition has intensified among the type approved system suppliers. We continue to believe that our combination of UV technology and stack disfiltration provides the best system for the treatment of ballast water. In September, Denmark became the 36th member state to ratify the IMO convention, bringing the ratifying countries gross tonnage percentage to 29% of the 35% required for the convention to enter into force. Germany and Belgium announced at the IMO marine environment protection committee meeting in October that they are on the verge of ratifying the convention. Germany represents 1.4% of the world's gross tonnage. In the third quarter, the US Coast Guard approved the first independent laboratory to type approve water treatment systems. The lab is scheduled to begin testing in the third quarter of 2013.

In the interim, ships whose ballast water treatment systems have IMO type approval may enter ports in the US for a period of five years if the systems have been designated as an alternate management system by the Coast Guard. To qualify for this status, the equipment supplier must possess an international type approval and must demonstrate to the Coast Guard that the equipment performs at least as well as balance water exchange. We have applied for AMS status for our Hyde guardian ballast water treatment system and have been notified that our application is now being reviewed by the second and final reviewing department. On to mercury removal. On the regulatory front, the mercury and air toxics standards, or MATS, remains in force but still faces legal challenges.

A federal appeals court vacated the cross-state air pollution rule, or CSAPR, and a replacement or modified rule is not expected to be promulgated by the EPA for at least three years. This was a positive development for the use of powdered activated carbon to remove mercury from power plant flue gas. CSAPR would establish limits on SOx and NOx emissions. Compliance could have been achieved by installing wet scrubbers which also would remove some of the mercury. This could reduce demand for PAC for the mercury removal application. As we wait for demand to increase as the MATS compliance date of 2015 draws nearer, we continue to make excellent progress improving the superiority of our advanced high performance FLUEPAC powered activated carbons.

Year to date, we have completed 21 trials which were successful in demonstrating that our advanced products reduce the amount of carbon required to achieve MATS compliance by 50% to 70% as compared to the competing products. Nine additional trials are pending, five throughout the rest of 2012 and four in 2013. That concludes the operations review.

Gail Gerono - *Calgon Carbon Corp. - VP, IRC*

Thanks, Bob. Next, Steve will comment on the outlook for the fourth quarter. Steve?

Steve Schott - *Calgon Carbon Corp. - CFO*

Let's start with sales. In contrast to the third quarter, I would categorize October sales as strong, at approximately $50 million. This was partly aided by some sales that, as we mentioned, had been delayed from the third quarter. November's and December's sales are expected to return to historical levels and thus we expect our fourth quarter sales to be higher sequentially and higher than the fourth quarter of 2011, mostly driven by the strong October start. Margins -- based on the sales forecast and the nonrecurring nature of certain costs incurred in the third quarter, we expect that margins will improve.

We expect our gross margin before depreciation and amortization to be approximately 30% for the fourth quarter of 2012. Gross margin benefits from our cost improvements programs will begin to yield benefits in the first quarter of 2013. Operating expenses. Excluding the third quarter charges, these expenses have been well controlled throughout this year and we expect this to continue as we continue to focus on other cost improvement initiatives. With respect to the restructuring related charges, as previously noted, we expect the reported charge for pension settlements of $1 million to $2 million. This charge will either be in the fourth quarter of 2012 or first quarter of 2013 depending on the timing of employee elections.

In addition, phase two of our cost reduction program that Randy will cover could include additional charges. Because we have not yet completed all of our plans around phase 2, we cannot yet estimate the amounts of the charges that will be incurred. However, we do not expect the charges to approach those of the third quarter. I will say that we expect to complete our phase 2 cost improvement initiatives during the fourth quarter of 2012.

Gail Gerono - *Calgon Carbon Corp. - VP, IRC*

Thanks, Steve. Our next speaker is Randy Dearth, Calgon Carbon's President and CEO. Randy?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Thanks, Gail. Bob mentioned three significant new business opportunities, the supply of activated carbon and reactivation services for a water provider in the UK, the Sentinel system for Los Angeles and activated carbon for potable water treatment in Singapore. These projects exemplify our commitment to grow our traditional business in all regions. The potential agreement with the water provider in the UK is also consistent with our strategy to grow through geographical expansion of our reactivation services.

Since our grace facility near London is operating at full capacity, we intend to reactivate the spent carbon at our Tipton plant which we purchased last year for $2.7 million. Tipton is located on four and a half acres in an industrial area and can be expanded as we continue to grow the reactivation business in the UK. Reactivation is transportation sensitive. And Tipton's location in the center of England near Birmingham should provide us with a competitive advantage from a transportation perspective.

So in order to run Tipton as efficiently and cost effectively as possible, some modifications to the facility are going to be necessary. Calgon Carbon 's Board of Directors has approved a $10 million capital request for upgrade and expansion of the plant's production capacity. We will be doing the modifications in stages, returning to operation in 2013, with additional capacity and planned upgrades to be completed in 2015. Now, let's move on to a progress report and our cost improvement program. During the quarterly call in August, I told you that we would immediately begin implementation of a program that would significantly improve the cost structure of the company.

I am happy to report that we have completed phase one and that we achieved our goal of $10 million. Let me break this down. $5.3 million of the $10 million will be coming from a worldwide reduction in personnel. $3.6 million is coming from virgin carbon manufacturing operational improvements. $600,000 as you heard earlier, will be come through the closure of the Datong facility. And $500,000 will be by a reduction in R and D spending. With a possible exception of the reduction in R and D spending, all are permanent reductions.

We have already begun to benefit from these actions and we will realize the full benefit on an annualized basis beginning early 2013. We have identified the major components of phase 2 of the cost improvement program and they too are expected to yield annual savings of approximately $10 million, most of which will benefit margins. The opportunities fall within five categories, process improvements, product rationalization, global procurement initiatives, asset optimization and further streamlining of our organization. With respect to our efforts to optimize assets, I have asked Calgon Carbon's leadership team to review and analyze certain non-core assets for possible divestiture.

Asset disposals would be conditioned upon receiving an attractive price. It is too early to comment further on what, if any, assets might be candidates for divestiture but we will keep you advised of the developments. I would like to spend a few minutes on changes to the organizational structure of our company that we are in the process of implementing. We made a very significant change in January as you know, with the establishment of the chief operating officer position, and we have seen major progress in eliminating the silos that prevented us from operating and making decisions on a global basis.

After having been involved in the day-to-day operations of Calgon Carbon now for three months, I think we can make some additional changes within the Americas organization that will allow us to run the company more efficiently and more cost effectively. During my career, I have worked in various organizational structures and I have been thinking about which concept might apply best to Calgon Carbon. My thoughts have been focused on a new structural design around sales, marketing and product management activities. Today at Calgon Carbon, with the exception of our UV technologies division, we are organized by function. For example, sales, marketing, supply chain, etc. After much consideration, we have decided that effective January 1, we will implement an organizational structure around four business units based on the following key markets.

Municipal water solutions, specialty carbon applications, industrial and food applications, and UV technology which includes our Hyde marine business. Realizing our future depends on capitalizing on market trends, the management team and I believe that this is the best approach. Each business unit will be structured to include the following functional responsibilities. Product management, market management, technical service, and customer and sales support. In addition, each business unit will also be assigned product responsibility so that they are accountable for global pricing, product availability and margins.

Our goal for the new structure is to be able to create a team environment focused on specific business objectives such as our marketing strategy. It's going to allow us to better promote our allocation of resources, facilitate product and customer rationalization, it's going to help us improve transparency and I do believe it's going to give us the ability to better globalize activities and functions which is one of my key objectives. And finally, last but not least, it will lead to cost savings and improved efficiencies and accountability. I have now talked about our phased approach to improve costs and I've talked about the realignment of our sales and marketing efforts.

Let me now outline other key focus efforts to improve our business, for example, plant optimization initiatives for both virgin production and our reac facilities have been started. Geographic expanse of our traditional businesses is being assessed. And the establishment of improved e-business channels with customers and vendors is underway. We continue to believe that the emerging markets will drive significant sales and earnings growth once the regulations are set. This is a time timing issue. What we need to do now is look elsewhere in the company for short-term improvements which is exactly what we are doing. I will continue to set the course which will put Calgon Carbon on the path for sustained profitable growth. Thank you.

Gail Gerono - *Calgon Carbon Corp. - VP, IRC*

We can start the Q and A now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). The first question comes from the line of Kevin Maczka of BB&T Capital Market.

Kevin Maczka - *BB&T Capital Market - Analyst*

The first question, it seems that revenues and volumes in the activated carbon segment this quarter were down maybe more sharply than what we saw in the recession. I know you talked about a difficult comp here and also some pushouts and it sounds like October is rebounding nicely but is it your message that this is business that is just delayed and pushed out into Q4 and Q1, or is there some underlying change happening in terms of either share or price in these markets, the drinking water and waste water markets?

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

This is Bob O'Brien. I think the only decline that we saw that would not be just a movement or a rolling of sales we will pick up later will be in the mercury market. There we have seen a decline and as I mentioned, it's basically because more natural gas fired units are being used to generate power than coal. So there has been a decline there which will eventually pick up in 2015 when the new regulations come. In the environmental markets, I think it's pretty much business as usual for us. I think pricing has remained steady. In the municipal market, you do see fluctuations in big projects, and so that can create some quarter-to-quarter or year-to-year changes. And I think that's what we are seeing here.

And we did have a couple, as I mentioned, big projects that we expected to go in the third quarter that, due to construction delays from the -- at the municipal plants being built, the orders were pushed out. But we will get them back. So we don't see any real structural change in the business.

Kevin Maczka - *BB&T Capital Market - Analyst*

And Bob, in terms of pricing, does your comment about it being relatively steady, does that apply to the carbon segment as a whole or just that subset of the market?

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

I think it applies to it on the whole. Again, the only area that, because the regulations for the mercury have not yet kicked in, and there is some overcapacity in that segment providing powdered activated carbon for mercury control, there is some price pressure being applied there and I think we had mentioned that in the past. In general, I think the pricing is pretty stable.

Kevin Maczka - *BB&T Capital Market - Analyst*

Okay. And just to be clear on this new phase 2, this additional $10 million, so phase 1 is complete, you got the $10 million that you had previously said you were after, and we should start to see the benefits of that kind of immediately in Q1?

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Right.

Kevin Maczka - *BB&T Capital Market - Analyst*

First, is that correct?And then what's the timing for the phase 2 benefit?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

No, that is correct, and phase 1, you will see benefits, as I said in my remarks, we are seeing it now but from an annualized basis you will see that starting January 1, 2013. In terms of phase 2, let me expand on that in terms of some of the initiatives and where we're coming from with these to give you some more background. I mentioned in my remarks product rationalization. You know, we are looking across our whole global portfolio of products and a global team has been in place now since April under Bob 's leadership. And we are actually at the point where we are looking at reducing our product portfolio by 50% between now and at some point in 2013 -- that all needs to be looked at.

What that's going to do is help us reduce our working capital, it's definitely going to improve in our warehousing and transportation costs and it's going to lead to improved margin. So that is a little more detail about one of those. I mentioned global warehousing is also an initiative. We expect globally that through optimization of we have warehouses, why we have warehouses, how we use them, we can also bring in at least over $1 million towards the $10 million by doing that initiative.

Processing cost improvements, especially at CCJ and at our virgin plants, we did a lot of work at Pearl as you heard, we have a lot of learnings that we could take to our big plant, Big Sandy, and we are going to be doing that throughout next year. I don't have a detailed timing when that will be implemented and when we will see the savings. The next call, I hope to be able to outline as I did today what exactly is in phase 2 and when we will see that implemented.

Kevin Maczka - *BB&T Capital Market - Analyst*

Randy, just to follow up and this will be my last question. Did you say 50% product rationalization, 5-0, and if so, that would be hundreds of products. What kind of revenue impact would that have? I can't imagine that all of those are very low runners.

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

This is Bob. We make a lot of products that are similar and so we have in the past tweaked mesh size, tweaked activity or surface area of our products which leads us to end up with higher warehousing costs, higher inventory costs, and perhaps less efficient manufacturing than would be optimal. As we have gone back and looked at this rationalization, we have found that we think we can combine a number of products under a given banner, so we are not looking at abandoning the products or abandoning customers, we are looking at trying to consolidate our product line and being able to offer products that serve their needs in a more efficient way. So there will be very few products that actually we abandon that will cause us to reduce our sales.

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

And let me expand on that. This is, again, an overall paradigm shift. Everything right now is being looked at -- the products we sell, where we sell the products, the customer we serve, how we sell to our customers, all of which this new organization I outlined is going to be able to help us facilitate and facilitate it much quicker.

Kevin Maczka - *BB&T Capital Market - Analyst*

Okay. Thank you.

Operator

Next question comes from Chris Kovacs from Robert Baird.

Chris Kovacs - *Robert Baird - Analyst*

My question, first just want to start out, mercury -- obviously demand there is still a tough given we're waiting on MATS, but can you maybe talk to any opportunities you identified to potentially find other markets to divert that capacity into?

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Well, this is Bob, we have been very prudent as to our expansion of virgin carbon production and one of things that I believe has been talked about numerous times in the past is that in our production lines, we have the flexibility to make granular or powdered products.

So as we go forward and we continue to rationalize products and look to determine where we can best sell products that we make on our production lines, you know, we will be looking at the municipal markets, the industrial markets on a global basis. So we have the opportunity if we're not utilizing the capacity for mercury, to be able to utilize it in other markets for granular products on a global basis.

Chris Kovacs - *Robert Baird - Analyst*

I want to make sure I heard this correctly. So Pearl River you said began operating as you would like it to or close to the levels you want it to in early September.

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Right.

Chris Kovacs - *Robert Baird - Analyst*

You said the cost reductions probably won't happen until Q1 or the benefits from that there, but when will we see the incremental capacity available? Will that be Q4?

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Well, yeah, we are actually starting to see the benefits from Pearl River now on everything that we are producing, you know, starting in September from the financial standpoint we made products that have gone into inventory so when we go into the fourth quarter some of our sales are being met with products that were produced before we started to see this benefit from Pearl. But we are actually, on a day-to-day basis, we are seeing the benefits that we expected with the modifications that we made to the Pearl River plant.

Chris Kovacs - *Robert Baird - Analyst*

Okay. And then lastly, you know, when we think about ballast ramping as a market, I think a lot of projections are out there for the market once the IMS standard goes through for the market to ramp pretty significantly, you know, as the retrofits go through here maybe mid to late teen years, however once the retrofits are done, obviously the size of the market declines as you can only do new builds. So how do you think about building out capacity to address such significant boom in the market followed by a pretty sharp downturn?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Well, I think that's obviously a very good question, something that we consider in our strategy. We will have a mix of manufacturing that we do ourselves in our own plants and facilities and a mix of components that we purchase from the outside. So we will try and make sure we have a good balance that will not put us in a position that when the market eventually starts to decline, that we will end up with fixed overhead expenses that we won't be able to utilize. So that is something that we are very much aware of and will be in our planning as we go forward.

Chris Kovacs - *Robert Baird - Analyst*

Thanks for the time, guys and look forward to having the conference on Monday.

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Thank you.

Operator

Our next question comes from Dan Mannes of Avondale.

Dan Mannes - *Avondale - Analyst*

Good morning, everyone.

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Hi, Dan.

Dan Mannes - *Avondale - Analyst*

So kind of moving forward and maybe going past phase 2, and I'm not asking for timing on phase 2 or if there's a phase 3, but can you maybe give us a bit of a road map as to, you know, maybe over the long term where you would like to target either gross margins going to or SGA as a percentage revenue? Just want to -- giving us maybe a long-term guideline as to where we think this can get back to. And I just want to understand this in the context of where margins have been in the past and maybe some of the differences in the business today as to where it was three to four years ago.

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Let me first say, Dan, 30% is not a gross margin I am happy with. And we definitely need to move beyond that and you rightfully point out we need to get back at leat to historical levels and we are working hard to do that. Various reasons, and we talked about mercury being one of those, has changed the environment for us. And we are also dealing right now with the global economic situation that we are trying to get our arms around and see what effect that's going to have on our 2013 business, Europe, Asia, as well as here in the Americas. So I can't at this moment in time say where we anticipate where we are going to be in 2013 in terms of our margins.

You have heard me outline I think in pretty good detail the things we are doing to make the margin better. I can guarantee to you that we are going to do everything we can to get there. Next week we start profit planning process where I get involved in looking at the detail. And that may lead to a phase 3. You know, we are not stopping with a phase 2 if indeed the business justifies the need for a phase 3.

Dan Mannes - *Avondale - Analyst*

Okay. So I guess, and I wasn't talking about 2013, I'm looking a little more long term. But maybe let me recharacterize it as, you know, how much of these improvements are really just going to offset maybe the margin degradation you have seen in the last few years rather than being truly incremental versus how much of this is sort of real bottom line improvement rather than just sort of staunching some of the bleeding.

Steve Schott - *Calgon Carbon Corp. - CFO*

I think -- Dan, this is Steve -- certainly we need to stop the bleeding and a lot what we are doing should go a long way to doing that. Some of what you will see in OPEX, a lot of phase 1 was to reduce OPEX. But that will be a meaningful longer term improvement and we would love to get that number down to 15%. We have been between 16% and 17% for the year. So to put a target on that, that's a good benchmark for us next to get to. And margins obviously we want to get back to levels we enjoyed historically which are several hundred basis points higher than the 30% that we target for Q4. A lot of moving parts, Randy mentioned our profit planning process that's underway, we will be looking at that, and that's our near-term goal as the mix of sales changes longer term, and there's more equipment, our expectations may change but that's years out.

Dan Mannes - *Avondale - Analyst*

Sure. Just one other topic real quick. I mean, the last couple years you have had a pretty substantial investment in assets, Feluy and Suzhou and now Phoenix and now you are talking about the UK. Today we haven't really seen it flow through from an earnings perspective. I guess what I'm wondering is, can you talk maybe about any changes you are looking at as it relates to either planned return on invested capital or anything like that as we think through maybe the next phase or lack thereof of capital investments.

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Let me first make it clear on Tipton and perhaps it didn't come out in the call. We are only going to make the investment in Tipton if we get this agreement with this UK water supplier. So I will be clear on that -- we are not investing unless that's there. So we will have then a long-term agreement to justify that capacity.

Dan Mannes - *Avondale - Analyst*

Sure.

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

This is Bob. I think as we look forward on capital, I would expect in the next few years that any capital investments we make other than this Tipton will tend to be focused on cost reduction activities, taking in part again what we learned at Pearl River and applying it to our Big Sandy plant, continuing to look for flexibility in manufacturing, driving our costs down, there may be some component of that that increases capacity but that won't necessarily be the focus. Our focus will be on cost reduction.

Dan Mannes - *Avondale - Analyst*

Got it. Thanks a lot.

Operator

Next question comes from Jinming Liu of Ardour Capital.

Jinming Liu - *Ardour Capital - Analyst*

Thanks for taking my question.

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Good morning.

Jinming Liu - *Ardour Capital - Analyst*

First I have a question regarding your pricing strategy for your carbon products. I remember maybe two calls ago you mentioned that potential for (inaudible) price increase, that combining with your current product portfolio optimization. What is your pricing strategy for your (inaudible) carbon product right now?

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

Well are, as Randy mentioned -- this is Bob -- we are going through our profit planning efforts and certainly looking at our pricing strategy going forward is going to be a key part of that. As in any company, we continue to look to try to maximize the return we get on the products that we sell. So that is something that certainly is in the front of my mind. We haven't had a general price increase in approximately two years so it is something that we are going to be looking at very strongly during the profit planning procedures.

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

And also, let me add to that, the product rationalization project is giving us an excellent opportunity to look across, again, not only the products we produce but how they're priced and are we getting the value for those products if indeed we decide to keep those and service key customers.

Jinming Liu - *Ardour Capital - Analyst*

Okay. My last question is regarding what happened in the third quarter regarding the coal power plants use less-- produce less electricity than use less of your carbon. My question is do you see, do you believe that trend will be a permanent structural change because of the availability of natural gas in the United States?

Bob O'Brien - *Calgon Carbon Corp. - EVP, COO*

This is Bob again. I don't think it's permanent. If I was an operator of a power plant or power facility and I had the option at least in the short term of using natural gas if it was cheaper than coal, I'm sure I would take that option. We buy natural gas so we track the pricing and I think our expectations over the next few years is that we will see, in fact, some increase in price of natural gas. So it's probably not going to remain at the current state that it's in. With the regulation of MATS taking effect in 2015, even if there is some small change in the amount of electricity that's generated through coal fired power plants, it's still the regulations will create a very large market for activated carbon in the US.

So there still is a lot of potential. And then we can't forget that mercury pollution is not just a problem in the US. I mean, it's a global problem. And there will be opportunities, we believe, because countries such as China and India and others are looking at mercury pollution. So even if the US market at the end of the day does not turn out to be quite as big as what may have been projected five or six years ago, there will be many opportunities, we believe, on a global basis that will more than offset that. We continue to believe that the efforts we spend making high performance products will have advantage in the US and then we continue to think the long term they will have opportunities for us to apply them outside the US.

Jinming Liu - *Ardour Capital - Analyst*

Okay. Thanks a lot.

Operator

(Operator Instructions). Your next question comes from David Rose Wedbush Securities. David, your line is open, please sate your question.

David Rose - *Wedbush Securities - Analyst*

Pardon me. I was hoping maybe you would get into a little more detail about how you are thinking about phase 2 in terms of matrix return on invested capital or is it pay back, is it one year, two year, three year, and help us -- I think this goes back to one of the previous questions in terms of guiding our expectations about margin improvement.

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Well, I think, again looking at some of the initiatives that I outlined for you that they could have immediate effect in 2013 once implemented and again, we are looking at $10 million on annualized basis, again, more than likely that will be a 2014 estimate from year over year. But as I said, in the next call we will outline as I did today in detail what those measures are but also what the impact they will have.

David Rose - *Wedbush Securities - Analyst*

So to be clear, that $10 million will ramp up on an annualized basis? We won't get $10 million in the first quarter on and annualized basis, right?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

That's correct.

David Rose - *Wedbush Securities - Analyst*

So we start to see that annualized number maybe in the back half of the year?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Yeah, David, that's a good assumption.

David Rose - *Wedbush Securities - Analyst*

Okay. That's fair. And then to be -- clarify another point, on Datong, how much should we see from savings from Datong, I didn't get that number correct.

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Yes, it's $600,000 with more than three-quarters of that being related to depreciation. We had already idled the plant so the ongoing costs -- and it's been idled for a year -- the ongoing costs were very low so it's mostly just depreciation, $600,000 in total.

David Rose - *Wedbush Securities - Analyst*

Really is that kind of noncash event?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Yes.

David Rose - *Wedbush Securities - Analyst*

Okay. And then lastly, if I may, on Hyde, as the business slows down, does this mean that you reduced the pace of the SGA increase to offset the lower (inaudible) cost absorption?

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Yes.

David Rose - *Wedbush Securities - Analyst*

Okay, great, thank you very much.

Operator

At this time there are no further questions. I will now return to call to management for closing remarks.

Randy Dearth - *Calgon Carbon Corp. - President, CEO*

Okay, thank you all again for joining us today. We had a lot to talk about. Hopefully we were able to answer a lot of your questions. As I said before, we are on the path I believe to making these improvements. I will commit our management team and my efforts to do so. Have a good afternoon.

Operator

Thank you for participating in Calgon Carbon Corporation's third quarter 2012 results conference call. You may now disconnect.
