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CORPORATE PARTICIPANTS

Gail Gerono *Calgon Carbon Corporation - VP-IR*

Stevan Schott *Calgon Carbon Corporation - CFO, SVP*

John Stanik *Calgon Carbon Corporation - Chairman, President, CEO*

CONFERENCE CALL PARTICIPANTS

Michael Gaugler *Brean Murray, Carret & Co. - Analyst*

Nicholas Prendergast *BB&T Capital Markets - Analyst*

Ben Kallo *Robert W. Baird & Company, Inc. - Analyst*

Steven Schwartz *First Analysis Securities - Analyst*

JinMing Liu *Ardour Capital Investments - Analyst*

Tim Peron *Janney Montgomery Scott - Analyst*

Unidenfied Participant *Wedbush Securities - Analyst*

Daniel Mannes *Avondale Partners - Analyst*

Karl Richter *AlphaOne Capital Partners - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Calgon Carbon first quarter 2012 earnings call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). I would now like to turn the conference over to Gail Gerono, Vice President of Investor Relations. You may begin your conference.

Gail Gerono - *Calgon Carbon Corporation - VP-IR*

Thanks, Paula. Good morning. Our first speaker today will be Calvin Carbon's CFO, Steve Schott. Steve will provide a brief review of our Company's first quarter financials. Next, John Stanik, our CEO, will give his perspective on the first quarter and report on developments that may have impact on results going forward. In order to give everyone an opportunity to ask a question, you will automatically be returned to the queue after one question and one follow-up question.

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

Statements looking forward in time; including 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 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&A.

Further, the Company operates in an industry sector where security 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; profit, imports and related tariffs; labor relations; availability of [topital] and environmental [requirements] as they relate to both our operations and to 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 web cast, please refer to the discussion of risk factors and other information detailed in as well as the other information contained in the company's most recent annual report and 10-K. Steve?

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

Thanks, Gail. Good morning, everyone. Total sales for the first quarter of 2012 were $136.6 million, versus $124.4 million in the fist quarter of 2011, an increase of $12.2 million or 9.8%. Sales in each of our three reportable segments increased in the first quarter of 2012 as compared to 2011. Currency translation had a small, negative impact of $300,000 on sales for the first quarter of 2012 due to the stronger dollar.

Regarding our segments, sales in the Carbon and Service segment increased $4.4 million or 3.9% for the first quarter of 2012 compared to 2011's first quarter. Contributing to the quarter-over-quarter increase was a higher demand in four of the Company's six markets; food, environmental air, environmental water and metals recovery. These increases were partially offset by a decline of $1.8 million in sales from Calgon Carbon Japan, whose sales totaled $19.6 million for the first quarter of 2012.

Equipment sales increased $7 million or 76.8% for the first quarter of 2012 compared to 2011's first quarter, primarily due to higher renew recognized for ballast water treatment systems and, to a lesser extent, increases in UV system and ion exchange system. These increases were partially offset by a small decline in revenue for traditional carbon absorption systems.

Consumer sales increased approximately $900,000 or 36.7% for the first quarter of 2012 compared to 2011's first 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 31.3% in the first quarter of 2012, compared to 33.3% in the first quarter of 2011, a decrease of 2 percentage points. The decline was primarily in the Activated Carbon and Service segment as a result of higher plant maintenance costs in 2012 due to the timing of scheduled maintenance activities and unfavorable product mix and increased raw material costs, primarily coal costs by increased by $1.2 million in 2012 compared to 2011.

Costs related to the repair of our two new reactivation facilities in Belgium and China also contributed approximately $700,000 to the overall margin decline, as did a higher proportion of our total revenue being attributable to the Equipment segment. With the successful return to service of our new furnace in Europe, a better sales mix and other cost improvements, we believe our second quarter gross profit for depreciation and amortization as a percentage of that sale may improve by 100 basis points sequentially and could approach the 32.8% we achieved in 2011's second quarter.

Depreciation and amortization expense was $6.5 million in the first quarter of 2012, compared to $5.5 million in the first quarter of 2011. The increase of $1 million or 17.6% is primarily the result of additional depreciation related to the capital improvements made at the Company's Feluy, Belgium, and Catlettsburg, Kentucky, facilities.

Selling, administrative and research expenses were $23.9 million during the first quarter of 2012, versus $22.3 million in 2011, an increase of $1.6 million or 7.2%.The increase was primarily related increase costs for a ballast water treatment business. As a percent of sales, these expenses improved to 17.5% in the first quarter of 2012 as compared to 18% for the first quarter of 2011. We expect these costs will continue to improve as a percent of sales during the second of 2012.

The Company recorded a tax provision of $4.2 million or 35% versus a provision of $4.7 million for the first quarter of 2011. The Company's full-year 2012 income tax rate is currently estimated to be 35%.

In summary, our net income for the first quarter was $7.7 million or $0.14 per diluted share, versus net income of $8.5 million or $0.15 per diluted share in 2011.

Turning briefly to the Company's business segments. The Activated Carbon and Service segment recognized $7.3 million (sic -- corrected later in call) in operating income before depreciation and amortization in the first quarter of 2012, compared to $19.1 million in the first quarter of 2011. The operating income for that segment declined from 16.9% to 14.8% in the comparison of those two periods for the reasons previously mentioned in the discussion of the consolidated results.

The Equipment segment recognized $500,000 in operating income before depreciation and amortization in the first quarter of 2012, despite a $1.5 million increase in its operating expenses, primarily related to our ballast water treatment business as we continue to execute our growth strategy for this business. The equipment segment had recognized an operating loss before depreciation and amortization of $400,000 in the first quarter of 2011. Equipment backlog was nearly $39 million as of March 31, 2012, and bid activity in the ballast water treatment business continued to be strong during the fist quarter.

The Consumer segment recognized $800,000 in operating income before depreciation and amortization for the first quarter of 2012, as compared to $200,000 in the first quarter of 2011. The increase was primarily related to higher demand for our activated carbon cloth.

Regarding our balance sheet. Cash declined slightly during the first quarter of 2012, and at March 31 we had approximately $13 million of unrestricted and restricted cash. Our receivables were $98.7 million for the first quarter of 2012, or $3.8 million lower than year-end 2011 as a result of improved collection. Inventories have increased $5.1 million from year-end 2011, primarily due to our preparation for the Company's municipal season. As of March 31, the Company has total debt outstanding of $31.1 million, which represents an increase of $3.7 million from year end.

Operating cash flow was $5.2 million for the first quarter, as compared to $7.6 million for the first quarter of 2011. The $2.4 million decrease is primarily due to unfavorable working capital changes, principally related to revenue and excess of billings on uncompleted contracts for our ballast treatment business. Capital expenditures totaled $11.8 million for the first quarter of 2012, and our estimated capital spending for the full year 2012 is currently estimated to be $65 million to $75 million. And I will now turn it over to John.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Before I begin, Steve, I think I may have misheard something. Maybe it didn't come out clearly. Could you report again what the operating income before depreciation was.

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

For the Activated Carbon and Service segment? $17.3 million.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Okay, thank you. Thank you, Steve. Good morning, everyone. We are back on track. As you may remember from our February call, based on the fourth quarter and January revenue trending, we had concerns about potential weakness in revenue in the American market. Five contracts for carbon and service, which were awarded and to be supplied in the first quarter, had been postponed. Only one of those contracts was reversed and executed in the first quarter. Nevertheless, our concern about weakness in revenue in the first quarter proved to be unfounded, as revenue grew nicely.

The bigger issue has to do with gross margins. Gross margins in the first quarter were approximately 200 basis points lower than Q1 of 2011, and some of this was expected. I realized that Steve went over this information, but because of its importance and -- I want to go over it again. There were several contributing factors, and I'll go through each of them.

The first was higher plant maintenance costs, which were simply due to timing. Furnace and kiln repair costs associated with our capital projects in Belgium and China. A very unusual product mix in the Americas in the first quarter. Raw material cost increases year-over-year. A higher proportion of equipment revenue to total sales in the quarter, and a higher proportion of revenue from Europe to total sales in the quarter.

The higher plant maintenance costs in the first quarter were just a matter of timing in the comparison year-over-year. We are not expecting any continuing issue nor any significant increase over plant maintenance expenses in 2011.

The cost of the new Feluy furnace and Suzhou kiln repairs were forecasted to you in the last call. The total that hit Q1 was $700,000. Both the Feluy furnace and the Suzhou first kiln are operating smoothly. Other than some small charges that will hit Q2 for the second Suzhou kiln, which will not be material, there should be no further impacts.

Regarding the third reason, the unusual product mix in the Americas, we experienced higher proportions of outsourced product sales versus lower proportions of Calgon produced products. Much of this can be contributed to the four large projects that were postponed out of the quarter, which shifted the overall mix. Nevertheless, we do not expect this to become a trend.

Coal and other input materials increased more than $1 million quarter over quarter. We expect this to improve gradually over future quarters as we use more of the newer, successfully tested coals and exhaust our stored supply. In fact, we continue to hope that for the year our coal costs decline from last year's total.

The next issue, the proportion of equipment revenue to the total, stems mainly from our success in the Hyde Marine ballast water business. We have stated numerous times previously that at the gross margin level, Carbon and Service margins are significantly higher than Equipment margins. Thus when the Equipment segment revenue proportion increases, overall gross margin percent will decrease. This is likely to continue as we grow our ballast water treatment business and our other equipment technologies.

The final item affecting gross margins is a bit confusing. It was the renew growth in Carbon and Service in Europe. Unfortunately, due to the low economic confidence level in Europe, the volume of business over the last few quarters has decreased. As the amount of business decreases, competition fights harder for share, and this depresses pricing. Thus European margins in recent quarters have been meaningfully lower than the Americas and Asia regions. We're uncertain how long this will continue, but we expect the second quarter to be similarly affected. And here's the confusing part. On a positive note, despite these negative trends in our new furnace-related costs in Q1, year-over-year revenue was actually up in Europe and so was our margin.

I will discuss later in my prepared comments our plans to address the profitability of the Company in the short term but before I do that, here are a few key updates. Let's begin with disinfection by-products. The contract with Phoenix has been finalized, and we expect to break ground for our new reactivation center late in Q2. We are close to finalizing a tenure contract very similar to Phoenix's with Scottsdale, Arizona. And also we have now begun discussions with Glendale, Arizona, for a reactivation service contract. In April, we began to reactivate Phoenix spent carbon at our existing facilities, so this project is now off and running.

We have been selected for two new significant carbon and equipment projects for disinfection by-products, exceeding $7 million. And finally, in general, the municipal marketing Q1 was strong.

Ballast water. New ship construction appears to be slowing due to current lower demand for cargo transport. However, proposal work for ballast water treatment systems continues to be very strong. The United States Coast Guard ballast water regulations are in place and the timetable is set. However, there are no new updates on the status of the IMO's regulation. And finally, for ballast water, we received 19 new orders for ballast water treatment systems in the first quarter.

Mercury. The EPA's [MATS] regulation was issued in Q1. As expected, there are legal challenges. In fact, the total is somewhere around 28 challenges, but we believe they will be aggregated into one argument. It is likely that the final legal discussion won't occur until Q3. Importantly -- this is important -- note that unlike the Cross-State Air Pollution Rule, none of the parties requested a stay. As expected, mercury market pricing remains low due to excess capacity. However, we were selected for a new contract for cement plant emissions that was priced within the guidelines we have set. Contract negotiations are just beginning.

Regarding our plans for capacity expansion, during Q2 we expect to complete the debottlenecking modifications to one of our virgin carbon production lines that will increase activated carbon capacity on a granular basis by as much as eight million pounds. Our plans to build a new plant are placed on hold until the court announces its decision regarding the stay of EPA's Casper regulation. As we have previously stated you can stated, if Casper goes into effect, we suspect it will negatively affect the size of the mercury removal market.

And finally, we completed an additional four trials of our differentiated mercury removable products in Q1. Two of these trials were paid for by Calgon Carbon and were included in our Q1 operating expense. The results of all the tests were extremely positive.

Let's look ahead to Q2. In Q2, we expect to increase revenue year-over-year and continue our string of growth quarters. Traditionally, the second quarter is our strongest revenue quarter in our annual seasonal cycle. We expect 2012 to be consistent with that pattern. Earlier in my commentary, I mentioned some unusual mix effects that occurred in Q1 that are not expected to recur in Q2. Consequently, we believe that margins will improve sequentially. We believe that gross margin could increase by 100 basis points or possibly even more, depending on the timing of certain projects.

We continue to work hard to manage operating expense. We do expect an increase year-over-year, primarily related to employee expense, but as Steve mentioned, an improvement as a percent of revenue is also expected.

Let's move to an important message that I want to provide today. It has to do with profitability and the fact that profitability is our 2012 top priority. As we stand back and look at our performance, we have been doing very well preparing our asset base, our technologies and our staffing for the major growth opportunities that will occur. And we have done well growing the Company. This is evident by our string of year-over-year growth quarters.

However, preparing for the growth opportunities have resulted in increased operating expense in 2010 and 2011. This, along with raw material inflation and economic uncertainty, particularly in Europe, has resulted in our earnings growth lagging behind top-line growth. We intend to change that. Since the beginning of this year, we have been working on a global analysis of all Calgon Carbon costs and expenses to determine how we can increase profitability. Asset optimization, pricing strategies, global unification, general expense reduction, and best practices are just some of the areas of concentration.

During Q2, we will finalize these evaluations and select the programs we will execute. The benefits from these efforts probably will not occur in Q2, because the action items will only be getting underway. Rather the benefits should occur in subsequent quarters. We seek to achieve an improved balance in top- and bottom-line growth. This program was contemplated when the January 1, 2012, reorganization was conceived months ago, as it provides the structure and ease of implementation to make improvements.

Thank you. We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from Michael Gaugler of Brean Murray, Carret.

Michael Gaugler - *Brean Murray, Carret & Co. - Analyst*

Good morning, everyone.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Hi, Michael.

Gail Gerono - *Calgon Carbon Corporation - VP-IR*

Hi.

Michael Gaugler - *Brean Murray, Carret & Co. - Analyst*

John, I'll roll two questions into one to save time.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Okay.

Michael Gaugler - *Brean Murray, Carret & Co. - Analyst*

I'm wondering if you can give us a UV backlog number, and if you've seen an improvement in the bid activity since the Coast Guard regs were announced?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

The answer to the first part, Michael, unfortunately is no. We've never broken down the difference. The answer to the second one is the proposal activity continues to be very strong. Right now for the ballast water treatment systems we're probably a little under $100 million per month. Somewhere between $75 million and $100 million per month. It goes up in some weeks, it goes down in some weeks. So things continue to be very strong. Obviously that's a higher number than what we have told you in previous quarters, and we are beginning to see more retrofit requests for pricing.

Michael Gaugler - *Brean Murray, Carret & Co. - Analyst*

All right. Thanks, John. I appreciate it.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

You're welcome.

Operator

Your next question comes from Nicholas Prendergast of BB&T Capital Markets.

Nicholas Prendergast - *BB&T Capital Markets - Analyst*

Hi, good morning.

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

Good morning.

Nicholas Prendergast - *BB&T Capital Markets - Analyst*

So, it looks like Equipment had a pretty good quarter. Can you give us any commentary around the sustainability or maybe how we should look at that going forward? Is this -- and it sounds like the ballast water treatment is going along pretty well. Is this just a function of quotes becoming actual orders? If you can provide a little color on that, that would be great.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

I think it is a combination of a number of things. Let's begin with the first part of the question. There will be quarter to quarter variation for sure, but our hopes and expectations for 2012 are a fairly significant increase over 2011 for the Equipment business as a whole. We continue to have success in ballast water. I mentioned that we received 19 new orders in the first quarter. That's a pretty healthy number.

But we're also doing fairly well in ion exchange, in conventional UV -- or I should call it traditional UV business, and I mentioned that we received two significant disinfection by-products orders in the first quarter and in April that totaled I think $7.2 million. And a large part of that was the equipment piece plus the initial fills of carbon. We feel like at the end of the year, we'll see a fairly substantial increase in the Equipment business overall. Not all of those projects that I described will, of course, be done by year end, but we should see that increase and we should continue to see an increase each year, primarily because of ballast water as we move forward and the US Coast Guard reg takes hold.

Nicholas Prendergast - *BB&T Capital Markets - Analyst*

Got it. One quick question on carbon pricing. I know you commented the pricing was stable. But if we have increasing demand, do you see a potential for price increases later in the year?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

It's possible. It would depend on a number of factors. It will depend on the general economy. It will depend on consumption. As you can see, Steve mentioned there were one or two subsegments that were a little lighter than we hoped. But with the municipal market being somewhat strong and with our manufacturing modifications coming in the second half and us having more product to sell around the world, we could see and we hope to see higher margins in the third and fourth quarter.

Nicholas Prendergast - *BB&T Capital Markets - Analyst*

All right, thank you very much.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

You're welcome.

Operator

Your next question comes from Ben Kallo of Robert Baird.

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

Hi, John.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Hi, Ben.

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

So, on the new plant, can you just update us on -- has it been paused completely, or are you guys still doing permitting? Give us an update there on what --

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

We're pretty much done with our preparations, Ben. We've got things put away. We've got our site. We've got things fairly well in order so that we're ready to move very quickly. But we think that the prudent way to go here is to find out what happens with the Cross-State Pollution Control Act. If it gets implemented, which everybody says is unlikely, then no worries. If it does get implemented quickly though, when you add the number of plant closures that have been announced recently, and assuming they will actually happen, the low end of the market could be somewhat lower than the 500 million pounds we've been talking about.

In fact, we've now produced a new low-end estimate, whereas we were talking about the market being in 2016, 500 million to 750 million pounds, we've now lowered that to 400 million to 750 million pounds. And part of that is because of the Cross-State Pollution Act impact, due to scrubbers, et cetera. And the other has to do potentially with us selling more of our differentiated products, which what makes them differentiated is less pounds are necessary to achieve the same amount of removal, which gives us the competitive advantage that we're looking for. So that combination has caused us to look at the numbers being a little lower on the low side.

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

Is there RFP activity in the mercury market right now?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Not big stuff. There is some activity. I think there's -- I don't have the latest report in front of me, but I think over the next few months, there's a possibility for a half-dozen or so projects. And then, of course, later in the year, we'll start the rebids from the initial five-year contracts that occurred in 2008.So there will be some activity in 2012.

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

Then on Phoenix. The build-out time line seems aggressive to me. Could you walk me through that, how you guys think you can meet your time line? And then just talk about the overall chances of getting both the Scottsdale and the other contract there?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

I think the fact that we said we're finalizing the contract with Scottsdale and the fact I guess that I didn't mention today that we've been reactivating their carbon now for more than a year, I think the likelihood of that 6 million to 7 million pounds per year is very high. Glendale is somebody that we have been working with also for two or three years now. We provided them with their initial supply of virgin carbon. And I can't remember whether Glendale was involved in the selection process with Phoenix. I know Scottsdale was. But nevertheless, I think that the chances are good that we will get Glendale. Their number will be smaller. I can't remember it exactly. It may be in the 2 million or 3 million pounds range per year.

Regarding the schedule for the plant, we expect to break ground I think in June. The contract provides a 14-month window for us to complete construction. That's a reasonable time for a react plant, especially when you don't have to worry about winter and some of the winter constraints that you have in other parts of the country, I think that's a pretty comfortable time. In fact, our guys may be able to do it in a little bit shorter time. If we do, there are contractual incentives where we share some profit that would be realized by starting the plant sooner with the municipalities that are involved.

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

Is there's still a chance you can get surrounding cities, maybe Las Vegas or Los Angeles?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes, we haven't given up on those opportunities. There's nothing from a decision standpoint that is imminent. At least nothing has been reported to me. There are some interesting movements going on in California about alternate forms of disinfection by-product treatment, namely core means and some chemical type of solutions that are really under fire. So I think that -- I think that there's still a good possibility that they will come around and go over to activated carbon.

Operator

Your next question comes from Steve Schwartz of First Analysis.

Steven Schwartz - *First Analysis Securities - Analyst*

Good morning, everyone.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Good morning.

Steven Schwartz - *First Analysis Securities - Analyst*

I guess first question is on SG&A expense. So you were up year-over-year about 7%, and revenue was up about 10%. And that was even with all of these additional costs, right, in Equipment? And I think you mentioned you were paying Suzhou employees even though the plant wasn't running and so forth. So what helped keep your SG&A expenses more in line? There had to be some things that you didn't have from a year ago.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Well, I froze salaries for one. And I guess going to the profitability piece of my presentation, we're -- let's see, how do I say this? We're restructuring the Company to strictly align its resources to our growth strategies. So in other words, we're -- we've begun this process maybe three, four months ago where we have been very consciously limiting our expense in every area other than disinfection by-products, ballast water treatment, mercury, et cetera. So I think it is that combination and just general management.

Steven Schwartz - *First Analysis Securities - Analyst*

What did the two trials add in the quarter?

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

Just a few hundred thousand.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes, I would expect $200,000 to $300,000.

Steven Schwartz - *First Analysis Securities - Analyst*

Okay. So is it safe for the remainder of the year it is $24 million to $25 million per quarter for total operating expense?Would you say $24 million to $25 million ?

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

Yes.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes, that's probably a decent number. Depending on where the profitability analyses come out, I think that there could very well be an operating expense component of what we're planning to complete in the second quarter and then execute.

Steven Schwartz - *First Analysis Securities - Analyst*

Okay. Then just as my follow-on, potable water I think was weak in the second quarter of 2011, at least according to my notes.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

It was.

Steven Schwartz - *First Analysis Securities - Analyst*

You mention that there's -- you guys both inventory. It certainly shows on the balance sheet. Can you break out how much of that is because of higher cost inventory versus volume, and maybe just give us a little bit of guidance on how you think the year-over-year potable water volume might look like in the second quarter?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

I would say that the cost of the inventory -- Steve will correct me if I'm wrong here. but I would say based on what's been reported, there has not been a significant cost increase in finished product inventory. In fact, on the raw material side, you could probably glean from my comments that we're exhausting higher priced -- or higher cost coal in the first quarter, and we're replacing that with lower cost coal.

The answer to your question is we grow -- and this happens every year -- our volume shift from our manufactured product begins to drop in November, and we run our plants as hard as we can to build inventory through March so that when we hit the municipal season in Europe and in the Americas, we have enough inventory. So our expectation is our inventory will begin to decrease in the second quarter and --

Now, we're going to bring on more capacity in Q3. So it's -- we haven't quite figured that part out yet. If we didn't have that increase in capacity coming on, we would expect the volume to continue to drop. And then we have to be careful we don't run out of capacity, as has been the case in the third quarter of the past few years.

Steven Schwartz - *First Analysis Securities - Analyst*

Okay, thanks, John.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

You're welcome. Your next question comes from JinMing Liu of Ardour Capital.

JinMing Liu - *Ardour Capital Investments - Analyst*

good morning.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Good morning.

JinMing Liu - *Ardour Capital Investments - Analyst*

My first question is related to your production capacity. First, the incremental 8 million pounds new virgin capacity, is that [really] to the Pearl River facility or is it someplace else.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

We wrote it in the queue, so I might as well eliminate the mystery. Yes, it is Pearl River.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. And also, is that [Suzhou] online, or is it still idling?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

It is still idle.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. Secondly, will there be incremental costs -- one-time costs associated with the efforts to improve profitability, say, in the second quarter, third quarter.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

It's possible. I can't give you any details about what we're planning because a couple of reasons. One, we haven't finished the analyses. There are going to be completed at the end of may. Secondly, we haven't presented them to our Board. So there is a lot of things -- well, I'll say it this way. Everything is on the table right now. We've been working on it for some period of time, especially Steve and I, so I don't want to give you the impression that it's willy-nilly but -- it is very specific actually.

But everything is on the table, and once we go through the analyses, complete those, we'll present them to the Board in June. I anticipate support from the Board in at least the majority of what we -- things we proposed, and then we'll begin to execute them as quickly as possible. I can't even give you an idea of whether there will be any significant charges other than the fact that I don't see at this point in time any closures or write-offs of major assets in the second quarter, which perhaps is the background of your question.

JinMing Liu - *Ardour Capital Investments - Analyst*

Thanks.

Operator

Your next question comes from the line of Ryan Connors of Janney Montgomery Scott.

Tim Peron - *Janney Montgomery Scott - Analyst*

Hi. This is actually [Tim Peron] filling in for Ryan. [If I could get your comments on what the affect might be of natural gas prices. Some of those utility plants moving to natural gas away from coal, and how would you see this] (inaudible)?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

You're coming through very faintly. Could you please repeat the beginning of the question? We didn't catch that.

Tim Peron - *Janney Montgomery Scott - Analyst*

Yes, I'm sorry. I was wondering what the affects of the low natural gas prices going forward on your facility market. Could you see that driving more power plants toward natural gas away from coal? And how would you see this affecting MATS related demands?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

I think that -- that's a complicated question. Everything I read would support that that is the case. But let me throw out some extraneous facts that are both -- on both sides of that argument. First of all, we've all been reading the number of plant closures that have been threatened or that are going to happen. We also know that even though there were force majeures and shutdowns of coal-based plants in the first quarter, our first quarter volume for carbon was higher than it was last year, so that's a positive for the mercury market.

Our consultants that help us make decisions about hedging natural gas in our Company are telling us that the natural gas pricing may actually bottom out in Q3 and begin to increase. Just another miscellaneous fact. Another miscellaneous fact is you're probably all aware that there are a number of companies who are trying to prepare, get approvals, et cetera, to liquefy and to ship internationally. These companies are making major investments in drilling. We're here in Pennsylvania with Marcellus Shale. Some of them are cracking, which gives them other economic advantages, some are not cracking into other gases. So there is a lot of capital being invested into natural gas, and I'm sure that returns are going to be desired. Very attractive returns.

So I think in the short term -- this is just my personal opinion -- in the short term, there may be some of that, but I think over the course of the next couple of years, before 2016, before MATS gets underway full boar, I think we'll see a change in natural gas pricing. But, again, that's just a personal opinion. But if that does occur and global natural gas pricing, like some of the other commodities that have changed over the past three or four or five years, I think it is going to equilibrate over the countries of the world, and that means the US will increase. But again, personal opinion. Do you have any comments, Steve?

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

No. That's good.

Tim Peron - *Janney Montgomery Scott - Analyst*

Thanks for that. That was helpful. Just one more question. One of your major competitors announced they're going public, with [proceeds soon to go to capacity]. How do you see this additional capacity coming online affecting overall [compliance] (inaudible).

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Well, I think it is a dangerous thing. We have always been very cautious about -- I shouldn't say always. Let's put it this way. In the last 10, 12 years, we've been very, very cautious about bringing on to capacity to make sure for the long-term that capacity will be desired. I still believe that over the course of the next several years the global demand for activated carbon is going to increase dramatically, and I think that additional capacity will be needed. Whether it's for mercury or not is almost beside the point.

The fact that I would like everybody to remember, at least because it's important to us, is we're the only company that has the flexibility to make powder and granular. And that eight million pounds that I reported as an increase for Pearl River could also be 20 plus millions of pounds of powder. So depending on where the profitability is, where the growth is, and what type of market and what type of carbon -- and we haven't even talked about pellets, by the way; they're an alter capacitor carbons -- there is going to be a need for capacity.

And whether competition builds plants or not, I like our flexibility and our ability to take what we make and what we decide to make and where we decide to make it to any type of market for any type of activity level. And maximize the profits of our Company. I hope that was a good answer for you. Maybe not.

Operator

Your next question comes from David Rose from Wedbush.

Unidenfied Participant - *Wedbush Securities - Analyst*

Hello. This is Michelle in for David. Can you hear me?

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

Hi, Michelle.

Unidenfied Participant - *Wedbush Securities - Analyst*

Okay, great. Can you please walk me through your objectives for Calgon Japan for the remainder of the year, and what impact you expect them to have on operating margins?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Major objectives for Japan; cost reduction, cost reduction, cost reduction, and perhaps cost reduction. It's -- Japan is -- in 2011 grew sales very nicely. We did improve our margins there. We have a lot more of margin improvement that we think we can get there. We're in the process of replacing our leadership. At this point we're supporting that organization with resources from the US. That's a strain on the Company. So our first objective, to be a little more serious, is to get the higher level leadership replaced. We've made some progress. We expect to finish that within hopefully a couple of weeks. So that will be the first objective.

The second objective will be to better integrate what they do and what they sell within the global unification of the Company, so that perhaps we don't do some of the things we've been doing in Japan from a manufacturing standpoint and instead do those in areas of lower cost. We've already have a price increase program going on in Japan. We're monitoring that closely, especially with our new SAP software. So that's another area. And then a couple of other things I really can't mention from a service business basis. But it is a combination of all of those things. But, I guess, seriously, bottom line, it is a cost-driven set of initiatives.

Unidenfied Participant - *Wedbush Securities - Analyst*

Great, thank you.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

You're welcome.

Operator

(Operator Instructions). Your next question comes from Dan Mannes of Avondale.

Daniel Mannes - *Avondale Partners - Analyst*

Good morning, everyone.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Hi, Dan.

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

Good morning, Dan.

Daniel Mannes - *Avondale Partners - Analyst*

First a quick one. Did you guys give what your backlog number was as of the end of the quarter?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes, 30 --

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

$39 million.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

$39 million.

Daniel Mannes - *Avondale Partners - Analyst*

Got it. And then real quick, a follow-up question on mercury. You said your overall volumes [of] mercury were up year-over-year. Was that because of customer growth? Can you comment at all on what the volumes were per customer given the reduced plan output?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

No, I don't think so.

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

I don't think we're armed with that information.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

I don't think we have that with us, Dan.

Daniel Mannes - *Avondale Partners - Analyst*

But you did quote -- you did say earlier that your volume --

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes, I did. Now, I'll also remind you that in the first quarter of last year, it was relatively weak. You guys probably don't remember that. But we had as many force majeure issues and plant maintenance closures as we did last year, and the encouraging things was our shipments were up. We are doing quite a bit of testing. We're shipping carbon to plants for testing. I said half of that was paid for. So that's a piece.

Daniel Mannes - *Avondale Partners - Analyst*

And you've also picked up some work since last year.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes. But I can't break it down by customer, and I don't think -- Steve's looking at our shipping report, and I don't think he can do it.

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

No.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

What was the first question again, Dan?

Daniel Mannes - *Avondale Partners - Analyst*

First, I asked about backlog, and second, I was asking on the mercury side, if you were seeing a change in usage pattern by existing customers. In light of the fact that you said overall trends were up.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

I would like to go back to backlog for a minute. One of the things that we probably never explained is our backlog numbers that we communicate with you are the projects that are contractually complete. In other words, we have a signed contract. Until that occurs, we could be selected for a number of projects and then not be in the backlog. So when you hear backlog numbers from us, I can't imagine a situation where the numbers aren't considerably higher than what we quote to you. For whatever that's worth.

Daniel Mannes - *Avondale Partners - Analyst*

Okay, great. Thanks, John.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

You're welcome.

Operator

Your next question comes from Karl Richter of AlphaOne Capital.

Karl Richter - *AlphaOne Capital Partners - Analyst*

Hi, thanks for taking my question. I really wanted to ask first about the ballast water opportunity. It seems like it is potentially a transformational situation for the Company if that market develops as some of the forecasts project over time. And specifically about how you are thinking about or planning for longer term operating margins in that business. I heard the comments earlier that your equipment gross margins are lower than your Carbon Service margins. I think that's kind of obvious given the segment reporting data that you've shown. It also looks like you've showed the first positive operating margins in over a year in Equipment kind of in this quarter. I'm guessing that's just higher sales volumes helping you absorb the fixed cost there. But thinking out and looking at longer term as or if the ballast water opportunity develops, what are the long-term targets there and what sort of revenue levels are needed to achieve them?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

We're -- it is a little difficult to answer that, Karl, because this Equipment business is -- has a lot of pluses going for it. In a traditional equipment business, generally one expects lower gross margins, very low to no depreciation and amortization, so moving down the P&L statement, you pick up some benefit there. But there's generally more SG&A involved with the Equipment business as there is compared to let's say carbon or reactivation.

In the case of ballast water in UV, we tend to offer very standardized equipment. There's very little customization per customer. There's some degree, but not a great amount. That tends to reduce the amount of overhead, the product development, the proposal, man hours that are necessary, which are an overhead function, in order to get business because we're basically selling standardized products.

So we have said in the past and we still believe that UV and Hyde Marine constitute the highest PGM Equipment businesses that we have. We expect that to continue, and again, because these are mostly standardized offerings, we think that our SG&A, which is very high now because we're not in balance with -- perfectly in balance with bringing on resources, people namely, with the business that we have. We're trying to grow a business, so we're not getting the optimal return per person, if you will.

So -- but the question I have in my mind is I don't know how much better that's going to get. If you look at equipment businesses, SG&A for an equipment business somewhere can be anywhere from 20% to 25%. Whereas for carbon business or manufacturing commodity business or consumable manufacturing business, you can find SG&A anywhere from 11% to 20%, depending on the level of R&D that takes place in those kinds of companies. I personally believe our SG&A is going to be less than 20%, and it may even be considerably less than 20%, because there is going to be a lot of repeat equipment systems for ballast water and for the three categories of UV -- those being drinking water, waste water and water reuse.

So, I'm sorry, I can't give you a crisp answer, but I do think when you get to the bottom line, I think that Carbon and Service will always be higher from an operating margin standpoint than Equipment. But I think that -- where were we? 4% or something like that for equipment. That's definitely going to improve, and it is going to improve by a significant amount.

Karl Richter - *AlphaOne Capital Partners - Analyst*

Sure. No, I would expect it to improve, or else you wouldn't be pursuing the opportunity. It also -- it makes sense you're investing heavily in that business given the multiples in which it can grow in the next few years. I'm just trying to get a sense for how you're managing to that operating target. Should we expect Equipment operating margins to remain positive through this year as you're continuing to invest ahead of opportunities further down the road, or is this something where there is going to be a step up in investment required that -- even beyond what you've shown so far?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

No to the latter question. We have plans to lease more manufacturing space, more warehousing space. We have plans to add more people. But nothing that would be a shock or a big incremental change. So no there. What are your thoughts [about this].

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

No, I agree. That with expected on-going revenue growth from this new market, we should (inaudible -- multiple speakers) --

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

With the caveat that I said earlier about you can't tell what the variation is from quarter to quarter, but we would expect that in this year, we're going to have a positive bottom line for Equipment. I'd be rather -- very disappointed if we didn't.

Karl Richter - *AlphaOne Capital Partners - Analyst*

In the long-term, wouldn't you expect to do as well as the 20%-ish best quarter op margins you've had in Carbon and Service, but you would expect it to be an awful lot higher than the sort of 3% you just showed in this quarter. Okay.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

That's what I'm trying to say.

Karl Richter - *AlphaOne Capital Partners - Analyst*

With respect to the Carbon and Service op margin performance, you talked about some of the factors that could turn -- that hurt you last year and could turn around become benefits this year in terms of coal cost improving as well as some of the Japan events and so forth. Can we see or do you think we could see a 20% op margin quarter in the Carbon and Service business this year?

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

Yes.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Maybe. Maybe this is an important clarification. We're not in this profitability improvement program, we're not looking for little numbers here. As I said before, I don't know where we're going to land, but with everything being on the table and this being a major significant effort for the Company, I won't say it is not possible. I just don't know. I don't think we have a calculation. Until we finish the analyses -- maybe it is a good question to ask in the second quarter call, because by then we'll probably have more numbers to talk to you about.

Karl Richter - *AlphaOne Capital Partners - Analyst*

Okay, great. Thanks very much.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

You're welcome.

Operator

Your next question comes from Steve Schwartz of First Analysis.

Steven Schwartz - *First Analysis Securities - Analyst*

Thank you for taking the follow-up. I'm not sure, John, if you answered this exactly in the Q&A, but with respect to the Equipment business and Hyde, was there a bulk shipment or was timing of shipments related to the significant increase in revenue in that business? And then, is it the same situation -- is there the same situation in the consumer with the military contract, because had a very nice bump in revenue there?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes, good question. No, I don't think -- while I'm not entirely sure, I don't think there were any Korean shipments for example in the first quarter. If I'm wrong, what should I do about that?

Stevan Schott - *Calgon Carbon Corporation - CFO, SVP*

It is not shipments per se. We recognize our revenue as we work on the jobs and percent completion. So it's not necessarily predicated on exactly when a given order would ship. It is just our on-going business activity level within --

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John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

As we complete engineering, as we buy raw materials to build the systems, as we build the systems, whatever the percentage of completion is, that's how we'll book the revenue. But I can't -- I think the spirit of your question is, was there anything unusual that happened in the first quarter that was big that -- honestly, I don't think there was. I think it was just a combination of a lot of projects that are moving through the system.

Regarding Consumer, our projections are that consumer will not be as big in the second quarter, but it wasn't due to the military contract, I don't think. There may have been some part of it that was due to that, but I think it was one or two of our large customers moving up in the year the forecasted business that they gave us, and with the expectation that in the second or the third quarter they were going to cut their requirements. So I'm not saying that Consumer is going to get worse as the year goes on, but I do think that part of the first quarter -- that's why we didn't make a big deal about it in the press release -- was that people just moved up some orders.

Steven Schwartz - *First Analysis Securities - Analyst*

Okay. So back to equipment then, do you think a quarterly revenue rate for the remainder of the year is above $15 million?

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

That's a good question. We don't have all of the business that we hope to get and execute in the year. In terms of all of our equipment businesses, we can get contracts and complete them within a calendar year. So I would say that number is not an unreasonable number, plus or minus each quarter. If you said could it be $50 million or $60 million over the course of the year and divided by four, I think that's -- yes, that certainly possible. But to get there, we'll have to get more business. During the course of the year and execute it.

Karl Richter - *AlphaOne Capital Partners - Analyst*

Okay. Thank you, John.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Okay, you're welcome.

Operator

At this time, there are no further questions. I would now like to turn the floor back over to Mr. John Stanik for any closing remarks.

John Stanik - *Calgon Carbon Corporation - Chairman, President, CEO*

Thank you. I have a very short closing remark. I want to re-emphasize, if it hasn't been clear, I'm very optimistic about 2012 and the years beyond. If we continue to succeed in growing revenue, and we align that success with profitability improvement programs I described -- and I'm confident we will -- we can look forward to better margins and earnings over the near term and over the coming quarters. Thank you.

Operator

Thank you. This concludes today's conference. You may now disconnect.