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CORPORATE PARTICIPANTS

Gail Gerono *Calgon Carbon Corporation - VP, IR*

Randy Dearth *Calgon Carbon Corporation - President & CEO*

Steve Schott *Calgon Carbon Corporation - SVP & CFO*

Bob O'Brien *Calgon Carbon Corporation - EVP & COO*

CONFERENCE CALL PARTICIPANTS

Operator

Kevin Maczka *BB&T Capital Markets - Analyst*

Steve Schwartz *First Analysis - Analyst*

Chris Kovacs *Robert W. Baird & Company, Inc. - Analyst*

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

Jinming Liu *Ardour Capital - Analyst*

Dan Mannes *Avondale - Analyst*

David Rose *Wedbush Securities - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Calgon Carbon Corporation fourth quarter 2012 results call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. (Operator Instructions). Thank you. I'll now turn the call over to Gail Gerono, Vice President of Investor Relations. Please go ahead.

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

Thank you. Good morning and thank you for joining us. Our speakers today are Randy Dearth, Calgon Carbon's CEO; Bob O'Brien, our Chief Operating Officer; and Steve Schott, our CFO. Before we begin, 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 that Calgon Carbon's executives 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 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 during the webcast.

Further, the Company operates in an industry sector where securities' values may be volatile and may be influenced by economic and other factors beyond the Company's control. Some of the factors that could affect future performance of the Company are changes in or delays in the implementation of regulations that cause a market for our products, acquisitions, high energy, and raw material costs, costs of imports and related tariffs, labor relations, capital environmental requirements, 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 webcast, please refer to the discussions of risk factors and other information detailed in as well as the other information contained in the Company's most recent annual report. Randy?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Thanks, Gail, and welcome everyone to the call. First, I would like to reiterate what I said in our earnings release, which was issued earlier today. Calgon Carbon's financial performance for the fourth quarter of 2012 was solid generating earnings per share of $0.16. We had a good quarter. We also made excellent progress on our corporate initiatives, especially in reducing cost. I'll review that progress and discuss future initiatives a bit later. First, Steve will review the Company's financial performance for the fourth quarter and then Bob will provide a review of operations. So, Steve.

Steve Schott - *Calgon Carbon Corporation - SVP & CFO*

Thanks, Randy. Good morning, everyone. Total sales for the fourth quarter of 2012 were $141.8 million compared to $138.2 million in the fourth quarter of 2011. The sales increase of $3.6 million or 2.6% was primarily due to higher sales in the Activated Carbon and Service segment of $5.1 million in spite of $1 million of unfavorable foreign exchange effects. The increased sales in the Activated Carbon and Service segment were partially offset by a decline in the Equipment segment sales of $2.1 million.

Regarding our segments. The Activated Carbon and Service segment sales increased $5.1 million or 2.6% (sic - see Press Release) for the fourth quarter of 2012 compared to 2011's fourth quarter. Most of the increase was in the Americas region where sales increased by $3.6 million or 6%. This increase was due primarily to increased specialty carbon sales where year-over-year volume increased 26%. Within the specialty carbon market, respirator carbon sales volumes increased by over 100%. Increases in this market were partially offset by a decrease in the environmental air treatment market where volume declined by 20% primarily due to a decrease in flue gas carbon sales where volumes declined by 15%. Asia Activated Carbon and Service sales increased $2.2 million or 6.8% in spite of the unfavorable foreign exchange impact related to Calgon Carbon Japan of almost $1 million. The increase in the Asia region was mostly related to the potable water market where sales increased by $2.7 million due to our 5.7 million pound virgin activated carbon supply contract with the Johor River Waterworks. Europe's Activated Carbon and Service sales decreased by $600,000 due to the unfavorable foreign exchange effects. Sales in the Equipment segment decreased approximately $2.1 million or 15% for the fourth quarter of 2012 compared to 2011's fourth quarter primarily due to lower revenue for ion exchange systems whose sales decreased by $1.7 million or 59%. Sales in the Consumer segment increased by $509,000 or 23% benefiting from a significant increase in activated carbon cloth sales.

Consolidated gross profit before depreciation and amortization as a percent of net sales was 31.2% in the fourth quarter of 2012 compared to 30.9% in the fourth quarter of 2011, an increase of 0.3 percentage points. The 2012 fourth quarter benefited from a tariff distribution received in November that had a favorable gross margin impact of 1.1 percentage points. However, as had been expected, 2012's fourth quarter gross margins continued to be burdened by higher costs due primarily to production issues at the Pearl River virgin carbon manufacturing plant. A brief maintenance outage in December for some repairs and adjustments at this plant has enabled it to run considerably better during January and February 2013. However, our 2013 first quarter gross margins will be burdened by the additional manufacturing costs we incurred related to our fourth quarter production at this facility as these products are sold during the first quarter.

Depreciation and amortization expense was $6.6 million in the fourth quarter of 2012 compared to $7 million in the fourth quarter of 2011. 2011's fourth quarter included some accelerated depreciation for several asset abandonments. Selling, Administrative, and Research expenses were $20.5 million during the fourth quarter of 2012 versus $27 million in the fourth quarter of 2011, a decrease of $6.5 million or approximately 24%. The 2012 fourth quarter costs were lower in many categories including fringe benefits, legal, research and development, and outside services. In addition, the 2011 fourth quarter included a $2.2 million separation charge.

In the fourth quarter of 2012, the Company recognized restructuring expense of $2.3 million. The fourth quarter expense included pension settlement and additional employee separation charges related to our Activated Carbon and Service segment. The Company recorded a tax provision of $4.9 million or 35% during the fourth quarter of 2012 versus a provision of $2.7 million or 35% for the fourth quarter of 2011. In summary, our net income for the fourth quarter of 2012 was $9.1 million or $0.16 per diluted share versus net income of $4.5 million (sic - see Press Release) or $0.09 per diluted share in 2011.

Turning again to our Company's business segments. The Activated Carbon and Service segment recognized $21.9 million in operating income before depreciation and amortization in the fourth quarter of 2012 compared to $16.4 million in the fourth quarter of 2011. The operating margin for this segment increased by 3.8 percentage points to 17.2% in 2012 as compared to 13.4% in 2011. The Equipment segment's operating results before depreciation and amortization reflected a loss of $1.2 million in 2012 as compared to a $600,000 loss in 2011. At year-end 2012, backlog in the Equipment segment had increased by $12.4 million from the end of the third quarter and is approximately $31.9 million. This increase is attributable to the $12.4 million contract with the Los Angeles Department of Water and Sewer announced on December 4.

Regarding our balance sheet. Cash declined only slightly from the end of the third quarter and at December 31, 2012, we had approximately $18.2 million of unrestricted cash. Receivables were $101.9 million at year-end 2012 or approximately $600,000 less than year-end 2011. Inventories have decreased by approximately $11.2 million from year-end 2011, primarily due to a decrease in granular activated carbon products. As of December 31, the Company's total debt outstanding was approximately $64 million which represents an increase of approximately $37 million from year-end 2011. During November 2012, the Company borrowed $50 million under its United States revolving credit facility in order to purchase $50 million of common stock through an accelerated share repurchase program. We expect that this program will conclude before the end of the third quarter 2013.

Cash flow, our cash flow was very good. Operating cash flow was $29 million for the fourth quarter of 2012 as compared to $20 million in the fourth quarter of 2011. The full-year operating cash flow for 2012 was approximately $73 million or $20 million better than 2011's operating cash flow. Favorable working capital change primarily related to inventory was the primary contributor to the year-over-year improvement. Capital expenditures totaled $15 million for the fourth quarter of 2012 and were approximately $61 million for the full year. Our estimated spending on capital for the full-year 2013 is currently estimated to be $40 million to $45 million including remaining capital expenditures of approximately $12 million for the Gila Bend, Arizona reactivation project.

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

Thanks Steve. Bob O'Brien is our next speaker. Bob?

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

Thank you, Gail. I'm going to provide a brief operations overview. Let's begin with developments at some of our production and reactivation facilities. At Pearl River, our major capital modifications initiated in 2012 have been completed. Although we continue to make adjustments to achieve optimal performance at this virgin carbon manufacturing facility in Mississippi, I am pleased to report that we are now achieving the goals that we set for this investment. At Neville Island near Pittsburgh, Pennsylvania, the industrial reactivation furnace at this site has been temporarily idled to better match our industrial react capacity with the demands of the market in the US. This decision is consistent with our strategy to prioritize the utilization of our reactivation plants based on processing efficiency and transportation costs.

At Gila Bend, Arizona, the construction of our reactivation facility to serve the Arizona and Southern California potable water markets is on schedule and on budget. We expect the facility to begin the operation in the second quarter. Once it is successfully up and running, we will temporarily idle our reactivation facility in Blue Lake, California. In Suzhou, China, we have received our formal operating permit for the reactivation facility. Also, our largest customer has received approval to transport their spent carbon across provincial boundaries to our Suzhou facility. Now that we and the Chinese administrators have a better understanding of the transportation approval process, new customers should be able to obtain permits for their transportation more quickly and easily. In Japan, we are pleased with our progress at Calgon Carbon Japan. The new management we put in place in 2012 is functioning well on both the operational and sales side. Profitability is beginning to improve as we continue to emphasize cost control in warehousing, transportation, and our plant functions.

Shifting to the commercial side of our global business, we are continuing to make progress on a long-term potable carbon reactivation contract, a virgin carbon supply contract, and a waste water carbon reactivation contract with a large water provider in the UK. We are currently supplying virgin carbon and reactivation services to this customer through specific purchase orders. Negotiating a contract with a large utility is a lengthy process, we are confident of the successful conclusion, but it will be most likely a few more months until we reach a final agreement on all three contracts. In the meantime, we continue to secure the necessary permits to expand and update our Tipton UK facility where we plan to reactivate this utility spent carbon.

I would like to call your attention to two recent regulatory decisions in the United States that could have an effect on the competitive environment in the activated carbon industry. First, in November of 2012, the Department of Commerce issued final tariffs on Chinese steam activated carbon imported into the United States. The decision was based on a review of prices for Chinese carbon imports from April 1 of 2010 to March 31 of 2011. The average tariff rate for that period was determined to be $0.47 per pound. The new rates will be in force until the next review period is completed in November of 2013. These are the highest average rates since the Department of Commerce first imposed tariffs on Chinese activated carbon in 2007. Calgon Carbon's tariff rate remains at zero. Second, two weeks ago the US International Trade Commission announced its unanimous decision to extend the anti-dumping order on imports of steam activated carbon produced in China. As a result, Chinese imports will be subject to anti-dumping duties for at least the next five years. Both announcements are very positive for the US activated carbon industry because they will support fair competition and fair prices on carbon products for an extended period of time.

Next an update on activity in our emerging markets. Let's begin with the US disinfection byproduct regulations in drinking water, which has an effect on both our UV and activated carbon business. In December, Calgon Carbon was awarded a $12.4 million contract from the Los Angeles Department of Water and Power to supply Sentinel Ultraviolet light systems for the disinfection of drinking water. The Sentinel systems will provide protection from pathogens and at the same time will permit the filtration plant to use less ozone and chlorine in order to comply with the US EPA's disinfectant and disinfection byproduct rule.

In our carbon business, we are continuing to actively promote the use of activated carbon with reactivation to water treatment facilities to help them minimize the formation of disinfection byproducts. Water systems that serve over 100,000 people needed to be in compliance with this regulation in January of 2013 and water systems serving between 50,000 and 99,999 people need to be in compliance by July of 2013.

Continuing on the topic of water treatment, Hyde Marine received orders for 16 ballast water treatment systems in the fourth quarter of 2012. For the full year, we received orders for 60 systems. Although lower than our earlier projections, the order rate remained steady with most of the systems to be installed on new ships. The number of RFQs that we receive for new builds and retrofits, which include firm delivery dates however has been increasing as the initial date for compliance with the US Coast Guard regulations of January 1, 2012 rapidly approaches. We expect orders and sales to increase later in 2013 as this deadline draws closer.

Following meetings and discussions with the Coast Guard, we believe that our Hyde guardian system will soon be granted Alternate Management System or AMS certification. This is an important step as this would mean that ships outfitted with Hyde guardian systems will be permitted to enter US ports in the US for a period of five years while the formal typed approval process for ballast water treatment systems is developed and implemented by the Coast Guard. We expect the Coast Guard to begin its typed approval process in the third quarter. As such, we also have had continuing discussions with them to ensure that the final approval process appropriately recognizes the methodology upon which UV technology disinfects water. As for the IMO's proposed convention, there was no change in the status in the fourth quarter. Ratification stands at 36 member states representing 29% of the world's shipping tonnage, 35% is needed for the convention to go into force.

Moving on to mercury removal. As I mentioned in our last quarter call, certain multi-year carbon supply contracts with the power industry expired at the end of 2012. For the past five years, we have provided FLUEPAC brominated carbon to a major Midwest power generator under a five-year take-or-pay agreement. That contract expired in December. We recently entered into a new contract with that customer to supply certain generating units with 100% of their activated carbon requirements for mercury removal for a period of two years. The value of that contract will be determined by the amount of carbon that is ultimately required while we estimate it to be between $16 million and $22 million. This agreement also includes an option to extend the contract through 2015 and provides for annual price escalation based on consumer price indices.

Regarding mercury regulations, the compliance date for MATS remains at 2015. However, an individual state permitting agency may extend the date to 2016 for a given utility if they demonstrate a valid need or hardship. In addition, the EPA finalized MACT rules for boilers, Portland cement facilities, and certain incinerators. The compliance date is expected to be required by 2016 for boilers and September of 2015 for cement facilities. The compliance date for solid waste incinerators will most likely extend to 2018. We continue however to maintain our projections for the eventual size of the overall mercury control market to be 380 million to 765 million pounds a year. We conducted 23 trials in 2012 using our FLUEPAC products with the majority of the trials focused on our advanced products. We are very pleased with the performance of these new products as well as the response from utilities where the trials were conducted.

That concludes my report. Next, Steve will comment on what we expect to see for the first quarter. Steve?

Steve Schott - *Calgon Carbon Corporation - SVP & CFO*

Thanks, Bob. As a reminder, our first quarter is typically our weakest quarter of the year as carbon change-outs by municipalities don't typically begin until the spring.

First, sales. We expect our first quarter sales in 2013 to be more than the $136.6 million we enjoyed in the first quarter of 2012, but slightly less than 2012's fourth-quarter sales of $141.8 million. Gross margins, we expect that our gross margins before depreciation and amortization will improve, but only slightly from the fourth quarter of 2012 where after adjusting for the $1.5 million tariff distribution, we had gross margins of 30.1%. As I previously mentioned, we are carrying higher product cost into the first quarter and our cost improvement programs are only now beginning to be realized. Operating expense, our operating expense is expected to be between 16% and 17% of first quarter sales, an expected improvement of at least 60 basis points as compared to the first quarter of 2012.

Next, Randy will provide a progress report on some of our corporate initiatives to reduce costs and increase shareholder value. Randy?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Thanks, Steve. There were several notable developments in November. On November 19, our Board authorized $100 million share repurchase program and we subsequently entered into an agreement with Morgan Stanley to implement a $50 million accelerated share repurchase plan. The ASR was funded through our US credit facility and was immediately accretive to earnings. The share repurchase program is just one component of our aggressive corporate-wide initiative to improve shareholder value.

On our last quarterly conference call, I reported that we had completed the first phase of our cost improvement program and had achieved our goal to permanently reduce costs by $10 million on an annualized basis. We are on track this year to realize 90% of this benefit. As for Phase II, I am pleased to report that we are also making excellent progress on implementation, which will remove another $10 million from our cost structure on an annualized basis. This phase places more emphasis on margin expansion. The breakdown includes $3 million to $4 million from lower transportation cost attained through better usage of global third-party outsourced freight expertise; our product rationalization project should contribute approximately $2.5 million by reducing the number of SKUs we produce by close to 50%; global procurement and warehouse optimization savings should be over $3 million; and further personnel reduction should contribute between $1 million and $2 million.

In 2013, we expect to achieve approximately 60% of the savings with realization of the full $10 million benefit planned for 2014. We have already identified the components of Phase III. High-level programs that we believe will benefit the Company include an IT re-engineering project that will optimize how we use our SAP system; our third-party plant efficiency study that will focus on how we run our operations; implementation of new investment projects at our Pearl River and Big Sandy sites; and a project to look at longer-term coal supply opportunities.

We believe that some of the projects in Phase III will require capital investment and may take a few years to complete. More details will be given in future calls. Our savings target for the three phases is at least $30 million and I would like to have all phases implemented by the end of 2014. As CEO of the Company, I'm the owner of these initiatives and will ensure that we have the right resources and expertise to realize results as quickly as possible.

I would also like to comment on a planned significant price increase we are now in the process of implementing. Given changes in raw materials, labor and transportation costs, the price increase on coal-based activated carbon products in our reactivation services is necessary. We have been sending letters to customers informing them of the increase.

So turning to changes in our organizational structure. Our four business units in the US and those being again municipal water solutions, specialty carbon applications, our industrial and food applications unit, as well as our UV technology business unit are in place and we are exploring ways to expand this organizational structure on a global basis. We are already seeing some of the expected improvements in teamwork, market focus, and transparency. I am also assembling a strategic concepts team that's going to be comprised of senior managers from across the Company who will be charged with addressing strategic issues such as global positioning, corporate structure and M&A philosophy.

I'm also happy to report that Calgon Carbon is pursuing Responsible Care Certification through the American Chemistry Council. This three-year certification process shows our commitment to improve our health, our safety, and security performance to the highest levels possible. This initiative will also allow us to focus on sustainability at a new level in our Company.

So in closing, let me say that in the fourth quarter we initiated and implemented changes consistent with our goals to significantly improve Calgon Carbon's margins and profitability, but there's more to do. Management teams around the globe are looking at everything we do and how we do it with those common goals in mind. As a result, in the last six months we have eliminated sales offices, warehouses, low-margin products, and a manufacturing plant. We have put increased focus on procurement, supply chain, sales and marketing, plant performance, responsible care, and our emerging opportunities. We have momentum and I am confident that by working as a global team, we will achieve our objectives of margin expansion and profitability. Thank you.

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

We'll now take a call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kevin Maczka, BB&T Capital Markets.

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

Good morning.

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Morning.

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

Randy, interesting comment on price there. I'm just wondering it maybe early if this hasn't even been implemented yet, but can you any more about the magnitude of increase you're looking for, kind of what your experience has been? I know it's been a while since you've done a significant increase, but your experience in realizing that and kind of competitor response when you've done that.

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Sure. I'm going to turn it over to Bob. Since operations is under his helm, he can answer that.

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

You're correct, we haven't had a general price increase since late in 2010 and as Randy mentioned, we've had some cost increases that we need to recover. So our intent is to raise price on our coal-based products that we manufacture in our reactivation services on a global basis, but our biggest opportunity really is in the US. And our planned increases, they're going to vary based on the particular products that we're offering and the type of reactivation that we're doing, but we're certainly looking in those areas that we're increasing price by having it more than 5%.

We'll feel the impact of the price increase over 2013 and the reason is that we have a number of existing contracts that we have to fully fulfill and honor and also in our municipal business, there are a number of contracts that were bid in 2012 so pricing has already been established. So, it takes a while for us to actually fully implement the price increase, that will be happening during 2013. We believe competition seems to see the same type of cost structure and cost increases that we have. So in the past when we've announced price increases in general, we've been able to have success in implementing them and so I think we have a decent degree of confidence that we'll be able to do the same thing as we announce our price increase this month.

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

I appreciate the Q1 guidance, I'm just wondering as you look out to all of 2013, can you give a little more color around some of your major end markets in terms of the volume outlook there? A lot of course is going on right now with the Company on the cost side, but the topline environment is still a bit sluggish so I'm thinking maybe the water markets, drinking and wastewater and industrial, if you can just kind of touch on what generally we might expect there going forward.

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

This is Bob again. Many of our markets traditional probably track G&P in the countries that we operate in such as the food, industrial areas. Where we're focusing our efforts for growth are in the water treatment market, again particularly in the US with disinfection byproducts which are driving municipalities to install carbon. Another big area for growth is the mercury, but that probably will remain relatively stable for the next two years and we won't really start seeing big increases in that area until 2015 when the regulations in the US start to kick in. So we're aggressive in Asia, it's a smaller -- outside of Japan; it's a smaller portion of our business, but we're aggressively pursuing opportunities there. But basically, it's the larger opportunities that we've talked about where we expect to see growth over the next two to three years.

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

And finally from me, Bob, can you touch on the equipment market and how we ought to think about that segment going forward? That softened in Q4 as expected. If it kind of stays at this level, then that of course, those are some very difficult comps in the first half of the year for most of 2013.

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

I think we can sort of break our equipment business down into maybe three components. We have our UV and Hyde ballast water treatment systems, we have our systems that we sell in carbon adsorption for both vapor and liquid phase treatment and water treatment, and then we have our ion exchange business. And in particular, the ion exchange business probably fluctuates more than the other two and so I think in the fourth quarter we saw some -- a drop in our ion exchange sales, but we still think that's an attractive business and that reasonably they'll pick back up in 2013.

Our carbon adsorption systems business is very much in line, particularly in the US with the disinfection byproduct regulations and as municipalities look to install activated carbon for disinfection byproduct control, many of them will have to put in adsorption systems to hold the activated carbon so that business is actually on an upswing. In the UV ballast water treatment system, sales there as we've previously reported have slowed down somewhat due to the fact that the IMO regulation had not been adopted in the timeframe that everyone expected. But with the Coast Guard regulations starting to take hold in January 1 of 2014, we expect to see that business starting to pick back up, particularly as we get near the end of the year.

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

Okay. Thank you.

Operator

Chris Kovacs, Baird.

Chris Kovacs - *Robert W. Baird & Company, Inc. - Analyst*

Guys, thanks for taking my questions. I guess on Gila Bend, as that ramps up or starts production mid-year and then you're obviously going to be taking down Blue Lake a little bit, what do we think about the potential margin impact of those plants -- that plant coming online and then utilization getting ramped down at Blue Lake?

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

I think we'll see in the short term the margin impact will be flat. We'll be bringing the carbons that we're currently reactivating at the Phoenix area to the Gila Bend plant, but there are some price adjustments that are made in our contract once we start doing that. As we grow our business there and are able to fill up the capacity at the Phoenix plant, then we should see better margins over the long term, but probably no change in the short term.

Steve Schott - *Calgon Carbon Corporation - SVP & CFO*

Yes, Chris, this is Steve. Just to add to Bob's comments, we'll see a little burden in the first quarter where we're hiring the workers, we're training them. With the plant not starting until the second quarter, we'll have some overhead costs that we're going to absorb in the first quarter and that's also part of our discussion of the first quarter results and why there's not even more improvement. But the plant will be ready and running in the second quarter and as Bob indicated, we think over time there will be improvement in our overall profitability, but it will take some time.

Chris Kovacs - *Robert W. Baird & Company, Inc. - Analyst*

Randy, congratulations on the effort on Phase I of the cost reduction program. It looks like Phase II has less of an emphasis on headcount reductions and such. But with that considered, how do we think about any restructuring charges throughout 2013 as you put that into place?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

I think they'll be significantly less than what we incurred in 2012 and I would emphasize significantly and I can't say there won't be some. We are working as quickly as we can to improve our cost profile and therefore, our margins. So I'm sure there will be some charges, but they won't be anywhere near the order of magnitude we had in this past year.

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

Yeah, let me comment on that, Chris, if I could. I mean when you look at the three projects, the first project really focused on OpEx. The second project and the third project really is going to be focusing on margin improvement so a little difference there.

Chris Kovacs - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then as a last question, I know you're going to give more details later. But in terms of the Phase III stuff you're looking at, you mentioned implementation of some new investment projects. Can you guys give us a sense of what those are? Are they similar to the (inaudible) at Pearl River? Can you kind of give us better color on that?

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

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Well, right now, the teams are looking at that and we've charged them with actually going into the plants, looking at where they've either perhaps over the years maybe delaying some projects, where they didn't have the time for the projects, we're now bringing those to the forefront. It's everything. It's going to be how we use our energy, it's going to be handling systems, and perhaps even some capacity expansions.

So more is to come on that, you'll hear more. Tied into that and I alluded to this in my remarks that I've had good experience in the past by bringing in experts who truly on a day-to-day basis go into folks' plants and they look at these things. And we're hoping to do that very shortly that we would hire essentially a consultant that's an expert in this field and there are many out there and I worked with a few that could come in and provide us with a short-term kind of overview of where they see quick hits. But also, I'm sure they'll have some investment suggestions that we could look at to see if we want to indeed spend the money to get some good return.

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

Okay. Thanks, guys, appreciate it.

Operator

Steve Schwartz, First Analysis.

Steve Schwartz - *First Analysis - Analyst*

Hi. Good morning, everyone.

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Good morning.

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

Good morning.

Steve Schwartz - *First Analysis - Analyst*

If I could ask you to drill down a little bit on one of Kevin's questions with respect to the US municipal market. What are the indications for this year? How are municipalities doing?

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

I mean that's a pretty broad question. I think in terms of our business, we are making good progress on developing new customers who are interested and required to reduce their disinfection byproducts. We're also having continuing success in converting customers who normally were buying just virgin carbon from us to meet their needs, takes note of our disinfection byproducts and we're continuing to have success in converting them to our reactivation business.

So we know that the municipalities are facing maybe some tough economic times. I don't think that we're really seeing that impact delaying projects that they are required to do to meet regulations and our reactivation strategy basically offers them a way to in fact save money on their use of activated carbon. So I think our strategy fits into the situations that the municipalities and water treatment facilities find themselves in. With more pressure on their budgets, we're trying to give them a way to in fact save money while still maintaining high-quality water product and also allow them to meet the regulations that they're facing.

Steve Schwartz - *First Analysis - Analyst*

Okay. So, Bob, I mean from a US municipality standpoint, there were two elements to their treatment programs, right. The new legislated stuff for DBPs and then there's this legacy treatment business that I think is a major part of what makes up your Activated Carbon and Service business, is that right? And it sounds to me like the legacy or base business is still reasonably stable despite budget headwinds.

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

Right. I think that would be an accurate statement. And again, it's the legacy business also that we're offering reactivation services to them so we're going to them and offering them some opportunities to in fact save money on their overall activated carbon budget.

Steve Schwartz - *First Analysis - Analyst*

What's happening with your reactivation business? It's just not gaining traction it seems, if you're going to be shutting down Blue Lake, when you open Arizona. I think you maybe expected more traction, what has happened there?

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

Whenever you bring a new plant on, it's difficult to have it completely filled and we took steps to make sure that our contracts that we signed with Phoenix and other cities, Scottsdale and the area, meant that we were going to have our plant that we're building in Gila Bend pretty substantially filled. But overall when we're trying to make sure we're operating our mix of reactivation systems the most cost effectively, we still had some capacity at Gila Bend and frankly, our Blue Lake plant is pretty far out from a transportation standpoint, from a location standpoint. So it makes it in the short-term more economical for us to work to completely fill up the Gila Bend plant and idle Blue Lake until we continue to grow our sales and then we'll need to start it back up.

Steve Schwartz - *First Analysis - Analyst*

Okay. And then if I could ask one last one and hopefully this will be a quick answer for you. So you've announced this FLUEPAC arrangement with an existing customer. That five-year take-or-pay, can you give us an idea of what the revenue change is and what's happening generally with pricing in that market?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Well, the revenue change overall, I think you heard us say in the call that we're hoping our total revenue in this market will be about flat as we look at 2013 compared to 2012. Certainly for that particular contract, we'll see a significant decline in the revenue and therefore in our margin, but overall we hope to hold the revenue relatively flat 2012 to 2013.

Steve Schwartz - *First Analysis - Analyst*

Oh, very good. Okay. Thank you for taking all the questions.

Operator

Dan Mannes, Avondale.

Dan Mannes - *Avondale - Analyst*

Hey, good morning, everyone.

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Good morning, Dan.

Dan Mannes - *Avondale - Analyst*

A couple of follow-up questions and my apologies in advance, I missed the first few minutes of your call. First, just a follow-up on the last question and I assume I think that was relating to the mercury market and the specific contract with Midwest Gen. When you talk about your total revenue staying flat year-over-year, is that assuming you're picking up share or is that assuming more of sort of the new higher price products? Can you maybe walk me through how you support your expectations of holding revenue flat in that market?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Well, it's probably a combination of both of those things which you've said, Dan. We're going to see a little bit of share increase not necessarily a great number, but we're also shifting some of the customers to our higher price products. Overall for them obviously, it's lower cost or they wouldn't make the change, but for us, we're getting -- expectations are at least one to two additional plants and using our higher advanced products. So overall, that will help us to maintain our sales margins at a pretty equal level.

Dan Mannes - *Avondale - Analyst*

You said both sales and margins should be about equal or would margins come down a little bit?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

There may be some margin compression, Dan, but I think we'll manage through it pretty well.

Dan Mannes - *Avondale - Analyst*

Okay. Another quick topic and Randy, appreciate all the color on the numerous undertakings you're doing in terms of controlling cost. But maybe one thing that would help me is can you maybe give us some guidepost or targets longer term on where you want either gross margin and/or EBITDA margins to get to? And I don't mean a specific number, we want X percent tomorrow, but as you look out over two to three years, where would you like this to end up?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Well, Dan, we don't give guidance in that regard and we don't give that number. I will tell you that as I've done in the last couple calls, I'll keep you updated on these projects and where we're at with these projects and how quickly we'll realize the savings for that and we'll go with that. But no, we don't give out those targets.

Dan Mannes - *Avondale - Analyst*

Okay. I was meaning it more just sort of guidepost or aspirations not sort of hard numbers, but I understand. One other quick question just walking through structuring. One of the other things you talked about when you came on board, anything that you're looking at from either a divestiture or restructuring standpoint in terms of your current portfolio of products including the equipment segment?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Yeah, I mean since I've been here, we said let's look over non-core assets and go through those and see would these assets have a better future with a different owner or a different home and we've come to the conclusion that if it makes sense for our shareholders, we indeed would go down that path. But we're not going to sell an asset just for the sake of selling the asset, it has to indeed create shareholder value so we'll constantly be reviewing that, constantly looking at that. And I would say the same for acquisitions, I mean there's been a few things that have passed my desk; if it makes sense for shareholders, if it fits our business model and would be a bolt-on acquisition that would add value, we would pursue that, but we're just not going to acquire it for the sake of acquiring.

Dan Mannes - *Avondale - Analyst*

Understood. One last question and this is sort of topical, there's some thought that maybe some of the assets you have might qualify for some advantageous tax treatment i.e. an MLP of maybe your US virgin carbon plants. I don't know how much of a stress that is either from a tax or from an operational perspective, but I thought it made sense to ask is that from you guys would consider or is that sort way off the reservation?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Well, Dan, since I've been here, I've been open to talking to folks outside and any ideas I'm willing to listen to and this is one that came up, this whole master limited partnership concept. And quite honestly, my first Initial reaction is we're probably not a textbook example of a company that would be considered an MLP. All that being said, I mean, I think it's worthy of our time and our effort to look into okay, what's behind it and does this is really make sense for our Company. With that, we went out to one of our investment bankers with that task and, Steve, I'll turn it over to you, we recently got some information that helps us at least better understand if this is indeed a fit.

Steve Schott - *Calgon Carbon Corporation - SVP & CFO*

Yeah. And I would say, Dan, the response would be at this time because I think we'll keep looking at it. But we did a deep dive on this, we looked at our Carbon and Service segment and assumed for sake of our modeling that all of it qualified, including the outsourced carbons and all of the service business. And after we took a deep look at this, it became clear that there probably would not be any value added at this time to forming an MLP. And a lot of reasons behind that, it would probably take too long to go through all of them. But foreign taxes, ongoing capital expenditure requirements, and what yields would be expected all contributed to our conclusion at this time that it wouldn't be something that would add value to our shareholders.

Dan Mannes - *Avondale - Analyst*

But then --

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

I am sorry, go ahead, Dan.

Dan Mannes - *Avondale - Analyst*

No, but it sounds like that is something you evaluated in the past and you'll continue to evaluate just (inaudible) necessarily anything to be right now.

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

That's correct.

Dan Mannes - *Avondale - Analyst*

Okay. No, that's great color. I appreciate that. Thanks.

Operator

Jinming Liu, Ardour Capital.

Jinming Liu - *Ardour Capital - Analyst*

Good morning. Thanks for taking my question.

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Good morning.

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

Good morning.

Jinming Liu - *Ardour Capital - Analyst*

Yeah. First, I have a question about how you are going to implement your price increase because I remember, last time lost some customers because of your competitors were cherry-picking some of your customers?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Well, I think as I mentioned, we're going to be instituting a price increase looking at the products and reactivation services that we offer. So we will vary the price increase based on the particular situation and competitive situation of our various product offerings. So our intent is obviously to be successful in doing it and we will evaluate our success as the year progresses and if necessary, modify our plans. But we're going forward with the belief that we can't be successful with the targeted price increase activity.

Jinming Liu - *Ardour Capital - Analyst*

Okay. And also you mentioned in the Phase III restructuring, you are look at your coal supply situation. Can you share with us more color on that, whether you want to change into a different type of coal or just you set up a long-term contract or hedging position for coal supply?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

At this point in time, we're looking at everything. We have a team in place that's actually going out and really evaluating various options and everything you mentioned would be part of that study. As I said, more -- yeah, please.

Jinming Liu - *Ardour Capital - Analyst*

Lastly, it is a housekeeping question. What is your share count right now?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Our share count?

Jinming Liu - *Ardour Capital - Analyst*

Yeah.

Steve Schott - *Calgon Carbon Corporation - SVP & CFO*

Well, if you -- we were on a diluted basis I think in the neighborhood of 57 million shares and having acquired 3.3 million, we're in the neighborhood of 54 million I think. When you look at the fourth quarter, I don't have it in front of me, we were over 55 million, I know it's in the press release, just because we only had a partial impact from the share repurchase in the fourth quarter. So I think it's in the neighborhood of 54 million as we go forward.

Jinming Liu - *Ardour Capital - Analyst*

Okay. Thanks a lot.

Operator

David Rose, Wedbush Securities.

David Rose - *Wedbush Securities - Analyst*

Good morning. A couple of quick follow-ups. First is on the Equipment margins. Obviously where your revenues are today, it's tough to make a lot of money, but can you provide us a little bit color of what sort of margin profile we should expect? Is it more like Q3, Q2, for the rest of the year? And then, I have a question on the mercury removal side.

Steve Schott - *Calgon Carbon Corporation - SVP & CFO*

Sure, David. This is Steve. In the fourth quarter, just as a reminder, we recognized our revenue in the equipment business on a percent completion basis. And in the fourth quarter in particular, we were burdened by approximately a $400,000 charge on a project that had neared completion, but for which some costs came in and we had to revise our estimates. So the fourth quarter did have a charge within it that I don't think we've talked about previously that certainly contributed to that loss pretty significantly.

As we go forward, I would expect that our margins would improve in that business over the course of 2013. In part we'll be looking at -- the equipment business is not excluded from our cost reduction programs, number one; and number two, we would expect over the balance or the course of the year that the Hyde marine activity will pick up particularly in the second half of the year. So, we're looking for improvement, I think it will come over time.

David Rose - *Wedbush Securities - Analyst*

Okay. That's helpful. And then on mercury removal side, how much in terms of dollar volume of contracts are up for renewal this year?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

I don't really know off the top of my head.

David Rose - *Wedbush Securities - Analyst*

Ballpark?

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Don't want to speculate because I don't think any of us have that with us. We are through our larger ones so that's good news for us. I couldn't speculate as to all of the other competitors right at this moment. There's always some activity out there in the market that we're able to look at and bid on.

David Rose - *Wedbush Securities - Analyst*

Okay, great. Thank you very much.

Operator

Michael Gaugler, Brean Murray.

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

Quick question here on the FLUEPAC for the Midwest Gen ops. It looks to me like B-lines getting pretty full in terms of its powdered activated carbon capacity. What are your thoughts in terms of switching back and forth between PAC and GAC at B-line this year? It looks like it could run pretty much six, seven, eight months just on powder.

Bob O'Brien - *Calgon Carbon Corporation - EVP & COO*

Well, this is Bob. When we make our projections for the year, I mean we believe we'll be pretty tight on capacity. So when we're looking at what we think we're going to sell, a combination of granular material and material that we then pulverize, we would project that we're going to be pretty tight. So what we're doing as a strategy is we're looking globally to make sure that we're using our capacity in the best possible way, whether that's to make feedstock we pulverize for the mercury market or for the water market in the US or for the water market in Europe or Japan or China. So what we put in place last year was a better way to be able to look at our opportunities on a global basis and make sure that we are pursuing them and offering prices to them that sell out our capacity at the highest possible price and thus generate the most money.

So we'll be shifting back and forth between powdered, we'll be shifting back and forth to a certain extent between the granular carbon that we make and to what market we send that granular carbon, whether it's in the US, not only market but region. So that's an area that maybe we haven't highlighted, but that essentially is really part of a price increase strategy also, just to make sure that we are looking on a global basis at our markets and making sure that we're using our assets to supply the customers frankly that will pay us the most money, that recognize the value in the products that we make.

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

That's all I had, gentlemen. Thank you.

Operator

At this time, there are no further questions. I will now like to turn the call to management for any closing remarks.

Randy Dearth - *Calgon Carbon Corporation - President & CEO*

Let me just say again I was very pleased with our fourth quarter results. But as I said in my remarks, there's still more to do and we will continue to be diligent. We will continue to focus on providing the best shareholder value we can as a management team and I look forward to 2013 as being the year that we can do that.

So with that, thank you all for joining our call.

Steve Schott - *Calgon Carbon Corporation - SVP & CFO*

Thank you.

Operator

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