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CORPORATE PARTICIPANTS

Gail Gerono *Calgon Carbon Corporation - VP, IR*

Randy Dearth *Calgon Carbon Corporation - CEO*

Steve Schott *Calgon Carbon Corporation - CFO*

John Platz *UV Technologies - VP*

CONFERENCE CALL PARTICIPANTS

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

Kevin Maczka *BB&T Capital Markets - Analyst*

Hassan Tozat *Water Management Assets - Analyst*

JinMing Liu *Ardour Capital Investments - Analyst*

David Rose *Wedbush Securities - Analyst*

Dan Mannes *Avondale Partners - Analyst*

Christopher Butler *Sidoti & Company - Analyst*

Steve Schwartz *First Analysis Securities - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Calgon Carbon Corporation's first-quarter 2013 results 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. If you would like to ask a question during this time (Operator instructions).

Thank you. 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*

Thank you, Paula. Good morning and thank you for joining us. Our speakers today are Randy Dearth, Calgon Carbon's CEO, Steve Schott, our CFO, and a guest speaker, John Platz, Vice President, UV Technologies. Bob O'Brien, our Chief Operating Officer, is traveling and could not be with us today.

Before we begin, please be advised 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 posturing 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 or uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested during this 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 change future performance of the Company are changes in or delays in the implementation of regulations that cause a market for our products, acquisitions, higher energy and raw material costs, costs of imports and related tariffs, labor relations, capital environment 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 call and 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 - CEO*

Thanks, Gail. For those of you who did not see our news release that was issued earlier this morning, I am pleased to report that earnings per share for the first quarter of 2013 were $0.18. Our corporate-wide cost savings program on activated carbon products and services contributed to this strong performance. Sales were essentially flat primarily the result of a $3 million negative impact from foreign exchange.

At the end of today's call, I will address our strategy for sales growth and significant developments in the first quarter. But first, Steve will review the Company's financial performance for the first quarter. I will then provide a carbon and service update, and after that, John Platz will provide a commentary on the status of ballast water treatment regulations.

We want to present to you today a better understanding of the significance of alternative management system status which the US Coast Guard recently granted to our Hyde Marine ballast water treatment system. After John's comments and Steve's outlook, I will return to discuss progress on our cost reduction initiatives and other development.

So with that, let's get started.

Steve Schott - *Calgon Carbon Corporation - CFO*

Thanks. Good morning, everyone. Total sales for the first quarter of 2013 were $135 million versus $136.6 million in the first quarter of 2012, a decrease of $1.6 million or 1.1%. Currency translation had a negative impact of $3.1 million on the activated carbon and service sales for the first quarter of 2013 due to the weaker yen.

Regarding our segments, sales for the Activated Carbon and Service segment increased $1.7 million or 1.4% for the first quarter of 2013 compared to 2012's first quarter. Demand increased in all geographic regions. In the Americas, sales increased $3 million due to customers' use of carbon to meet the US EPA stage II disinfection byproducts rule which is being phased in for drinking water facilities over the next several years. Partially offsetting this increase was lower demand and pricing for mercury removal carbons, whose sales declined by $2.4 million.

Equipment sales declined $2.2 million or 13.7% for the first quarter of 2013 compared to 2012's first quarter primarily due to lower sales for ballast water treatment systems of $2.9 million and ion exchange systems of $2.6 million. The first quarter of 2012 included sales of $3 million for a single ion exchange system contract that did not repeat in the first quarter of 2013. Partially offsetting these decreases were increased sales for traditional UV disinfection systems and carbon absorption equipment. Consumer sales declined by $1 million or 31.3% for the first quarter of 2013 as compared to 2012's first quarter due to lower demand for activated carbon clock products. This decline is seen as temporary and largely limited to our first quarter.

Consolidated gross profit before depreciation and amortization as a percentage of net sales was 31.6% in the first quarter of 2013 compared to 31.3% in the first quarter of 2012, an increase of 0.3 percentage points. The increase was primarily in the Activated Carbon and Service segment in both Europe and Asia regions due to a favorable sales mix which helped to offset margin declined in the mercury market as long-term contracts had expired.

The first quarter of 2013 also included the favorable impact of $400,000 for the settlement of an insurance claim related to Hurricane Isaac. Depreciation and amortization was $6.7 million in the first quarter of 2013 compared to $6.5 million in the first quarter of 2012. Selling, administrative and research expenses were $20.9 million during the first quarter of 2013 versus $23.9 million in 2012, a decrease of $3 million or 12.6%. The decrease was primarily due to lower employee-related expenses due in part to the Company's cost reduction initiatives. Our operating expense as a percent of sales improved to 15.5%, 200 basis points better than the 17.5% we achieved during the first quarter of 2012.

The income tax rate for the first quarter of 2013 was 30.4% versus 35% for the first quarter of 2012. The lower tax rate for the first quarter of 2013 was due to activity related to the Company's Datong, China subsidiary which was sold in March of 2013. Going forward we expect our tax rate to be approximately 35%.

In summary, our net income for the first quarter was $9.8 million or $0.18 per diluted share versus net income of $7.7 million or $0.14 per diluted share in 2012.

Turning again to our Company's business segments. The Activated Carbon and Service segment recognized $20.9 million in operating income before depreciation and amortization in the first quarter of 2013 compared to $17.3 million in the first quarter of 2012. The increase was primarily due to lower employee cost related to the Company's cost reduction initiatives that I had previously mentioned as well as the favorable insurance claim settlement.

The Equipment segment recognized $400,000 in operating income before depreciation and amortization in the first quarter of 2013 compared to $500,000 in the first quarter of 2012, a slight decline. At March 31, 2013, backlog in the Equipment segment totaled $27.7 million down $4.2 million from year-end. The Consumer segment recognized $400,000 in operating income before depreciation and amortization in the first quarter of 2013 compared to $800,000 in the first quarter of 2012.

Regarding our balance sheet, cash decreased during the first quarter of 2013 and at March 31, 2013, we have $14.6 million of cash. Receivables were $110.9 million for the first quarter of 2013 which was $8.9 million higher than year end 2012. Much of the increase was in the Americas region due to a higher volume of billings for some significant equipment projects. We also benefited from increased sales volumes in Europe and Asia. The receivables in our equipment business and the Asia region generally have longer payment terms than the rest of our business.

Inventories were $105.6 million for the first quarter of 2013, which was $1.6 million lower than year end 2012. We expect our product rationalization project to continue to provide improvements to both our gross profit as well as our ongoing inventory levels.

As of March 31, the Company has total debt outstanding of $64.2 million virtually unchanged from year end 2012. Operating cash flow used in operations was $3.7 million for the first quarter as compared to operating cash flow provided by operations of $5.2 million in 2012. The $8.9 million decrease was due to unfavorable working capital changes primarily in Accounts Payable, which related to timing of payments for raw materials and outsourced carbons. Also contributing to the decrease were the receivable increases that I previously mentioned. Capital expenditures totaled approximately $10.6 million for the first quarter of 2013 and included $5.7 million related to the construction of the Gila Bend, Arizona, reactivation facility. Our estimated spending on capital for the full 2013 year is currently $40 million-$45 million.

Finally, I would like to provide an update on our accelerated share repurchase program. As a reminder, last November we deployed $50 million and received 3.3 million shares from Morgan Stanley. These shares were immediately removed from our outstanding share count for EPS purposes. However, the program contemplates that a final settlement of shares will be based on the daily weighted average price over the program execution period which is estimated to last into the third quarter of this year. To the extent the daily weighted average price over the full execution period exceeds the price represented by the initial shares delivered, we will be required to return shares to Morgan Stanley and our outstanding share count will increase.

At the end of the first quarter, our daily weighted average price from program inception was already above the program price and, accordingly, our diluted share count has been adjusted upward by 68,000 shares. Because of the possibility of having to return shares upon program completion, we expect to file a shelf registration statement this week to facilitate the delivery of registered shares later this year.

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

Thanks, Steve. Next, Randy will provide business review for the first quarter.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thanks, Gail. Let me begin with sales. We have made it known that the bottom-line is a key focus for us this year. However, we haven't forgotten about the top line. I would like to share with you the following strategy that has been developed for sales growth in our Carbon and Service segment. Sell smart, sell more and sell outsourced.

Sell smart. Sell products and services in the region where we can realize the highest price and margin. Sell more, generate more business for our re-activation facilities across the globe where we have available capacity. And sell outsourced. Distribute products manufactured by other activated carbon producers where it makes economic sense.

We also expect to grow sales and profitability through price increases. We initiated a price increase on activated carbon and service products earlier this year. We are targeting increases that will have an impact of more than $10 million in 2013 with a focus on optimizing prices on virgin carbon and reactivation. I am pleased to report that we believe we are on track to achieve that goal. We expect US sales to account for most of the increases.

Next, let's turn to recent developments at our reactivation plants. We started up our new reactivation facility in Gila Bend, Arizona, on April 1. The plant is operating well and it was completed on time and under budget. I visited the facility two weeks ago for the dedication ceremony which was attended by customers as well as state, county and local officials. It is a very impressive facility. The 25 million pound per year plant will re-activate carbon that was used to treat drinking water in Phoenix, Scottsdale and other communities in the Southwest. In order to optimize utilization of our reactivation assets, we intend to temporarily idle our plant in Blue Lake, California, and divert reactivation that would have typically been done there to Gila Bend. As a result, capacity utilization at Gila Bend in 2013 is expected to be between 80% and 90%.

In last quarter's call, Bob O'Brien reported that we had idled our industrial reactivation facility in Neville Island, Pennsylvania, to better match our industrial re-act capacity with demand. We restarted the plant in early April due to a stronger command than we projected and we expect it to continue to operate through mid-June.

Next, let me give you an update on activity in emerging markets and let's begin with the mercury removal market. On the regulatory side, the compliance date for the EPA's mercury and air toxic standards remains April, 2015. However individual states have privacy and can grant a one-year extension to power plants. So far we are only aware of two plants that have requested and received extensions.

Since our last quarterly call, the EPA raised the limits for mercury for new coal burning generating units. This was expected, it does not change our projections for the amount of activated carbon that will be needed to remove mercury under [mats].

In the first quarter, we were awarded a contract by a major US power generator to supply FLUEPAC powder activated carbon for mercury removal. The two-year contract following the expiration of a five-year take or pay agreement with the power generator. As expected, the price and margin for the new contract are significantly lower. However, the new pricing for the FLUEPAC carbon should generate margins that are consistent with our typical virgin carbon sales.

Next, some highlights on the disinfection byproduct market. The next regulatory milestone is July 1 of this year when water treatment systems serving more than 50,000 but less than 100,000 customers must be in compliance with the disinfectant and disinfection byproduct rule. This creates an opportunity for carbon and equipment sales.

In the first quarter, inquiries for equipment were much higher than usual and were consistent with the needs of midsized facilities to meet the July 1 compliance date. Gail?

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

Thanks, Randy. John Platz will now provide an update on the UV business. John?

John Platz - *UV Technologies - VP*

Thank you, Gail. Before I discuss the significance of the Coast Guard's Alternative Management System or AMS status, I would like to review the history of ballast water treatment and the attempts to regulate it.

First, why is there a need for this regulation? When a ship empties its cargo, it fills onboard tanks with ballast water. When that ship loads cargo, the ballast water is discharged. Ballast water poses a serious ecological and economic threat since aquatic species may be carried from port to port in a ship's ballast water. The best known example is the European zebra mussel which has infested a significant percentage of US waterways and has required more than $1 billion in expenditure on control measures.

To combat the spread of invasive species via ballast water, the International Maritime Organization or IMO adopted a convention in 2004 requiring treatment of ship's ballast water. The IMO convention is scheduled to take effect one year after it is ratified by at least 30 flag nations whose registered ships represent more than 35% of the world shipping tonnage.

To date, 36 flag nations have signed the IMO convention, but their combined tonnage falls short of the target by 5.9%. There are two unsigned flags of registration that on their own could surmount the shortage. Panama, with about 22% of the world shipping tonnage, and China/Hong Kong with approximately 7%. After that, Greece, the Bahamas, Singapore, and Malta each have between 4% and 5% of the world's tonnage and have yet to sign as well. Possible reasons that certain flag nations have not signed the convention may be poor economic conditions in the shipping industry and concerns about undefined enforcement methods. At this point, many in the industry expect the IMO convention to be ratified by early 2014.

Because of this delay in ratification, there are compliance dates in the IMO convention that have already come and gone. It is widely expected that the IMO compliance dates will be extended once the convention is ratified.

The IMO convention requires ships to operate ballast water treatment systems that have been approved by the IMO. There are currently 32 type approved systems. 13 of them employ UV technology, including Calgon Carbon's Hyde GUARDIAN ballast water system. Most of the others use chemicals as the disinfectant.

UV has been the technology of choice for a large portion of the ballast water treatment market. Approximately 2/3 of the systems sold to date use UV as the method for disinfections. Although the US is a member of the IMO, the US Coast Guard chose to develop its own regulation and it is already in force. Of course it applies only to ships that discharge ballast water in the United States. The US Coast Guard regulation requires vessels built after December of this year to treat their ballast water using US-approved equipment as soon as they are commissioned. Midsized vessels built before December must utilize US-approved equipment following their first dry dock after January of 2014. All other vessels must employ US-approved equipment following their first dry dock after January 2016.

Most ships are required to dry dock every five years, so we expect ships in the two sized classes to dry dock ratably over 60 months beginning in 2014 and 2016, respectively. There are two types of US-approved equipment. One is the AMS, mentioned earlier, and the other is US type-approved equipment. The US Coast Guard recognized that it would not be possible for systems to achieve US type approval before the first compliance dates. To manage this the Coast Guard's regulation includes a provision for alternative management systems or AMS.

Systems with AMS status can be used by ship operators in the US for five years following the ship's required compliance date. The five-year period is designed to give the manufacturer a time to pursue US type approval. To be eligible for AMS status, a system must have previously received IMO type approval and must have quality test data deemed satisfactory by the Coast Guard. The system must also meet US engineering and safety requirements.

For ballast water equipment customers, Hyde's AMS status is an important indicator of both our equipment's immediate applicability to meet current US requirements and Hyde Marine's strong position in the ballast water treatment market. Ship operators with US compliance dates just around the corner will look closely at the short list of AMS systems. Operators will most likely further weigh which AMS system providers will have the technical capability, long-term viability and commitment to achieve US type approval.

Of the nine ballast water manufacturers that have received AMS status, only three use UV technology including Calgon Carbon's Hyde GUARDIAN. The Hyde GUARDIAN is the only of these three to combine UV with disk filtration and its specialized capabilities to handle very heavy sediment loads. Additionally, Calgon Carbon is the only supplier on the AM list, AMS list that is basic in UV equipment and that has a decades-long history of UV technology leadership.

Hyde Marine's quoting activity remains strong and we continue to receive orders. However, the delay in IMO ratification as well as the soft, new build market has had a negative impact on orders for large Hyde GUARDIAN systems. We have consistently received orders each quarter for smaller systems, many from the offshore service vessel and crew ship markets. We have noticed an uptick in interest in systems to be retrofitted and we expect a significant increase in retrofit orders in the coming quarters driven by the approaching US compliance dates.

Detailed plans for ships' dry docking activities come into focus four to six months before their scheduled date and with January 2014 marking the first US retrofit compliance date, we expect to see increasing orders for ballast water treatment systems during the remainder of 2013 and beyond. Hyde GUARDIAN's AMS status and its use of UV technology puts us in an excellent position to participate in this market.

To date, we have sold more than 230 systems, a figure that places us in the top three or four on a units sold basis. We have developed supplier relationships and streamlined and standardized manufacturing methods in preparation for the market upswing. We are ready to take maximum advantage of this regulation-driven market.

Next, I would like to discuss our traditional UV business, the results of which in the first quarter of 2013 exceeded results in the comparable period of 2012. We are currently building the reactors for the first phase of the $12 million Los Angeles Drinking Water Disinfection Project as well as testing and commissioning our recent installation in Cincinnati. Drinking water bid activity has been strengthening with more projects coming from smaller municipalities as the compliance dates for the LT2 regulation, which mandates control of cryptosporidium and giardia draw near.

Our 24-inch SENTINEL competes well in the slower flow applications because of its efficiency and reliability. On the wastewater side, we continue to build on the success of our C3500 Delta Wing system and its Title 22 certification for reuse projects.

We recently shipped a Delta Wing system that uses 768 lamps and we will be commissioning it later this year. Our municipal backlog is strong and ahead of last year at this time. That concludes my presentation.

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

Thanks, John. Next, Steve is back to comment on the outlook for the second quarter. Steve.

Steve Schott - *Calgon Carbon Corporation - CFO*

Thanks, Gail. Sales. We expect our second-quarter 2013 sales to increase sequentially, but to total less than our second-quarter 2012 sales which were $148.4 million. Reasons for the year-over-year decline include a significant forecasted drop in equipment revenue, mostly related to Hyde Marine, of approximately $8 million; the weaker yen which is expected to lower our Carbon and Service revenue by at least $2 million and lower mercury removal revenue. In spite of the impacts from the weaker yen and lower mercury removal revenue, the Carbon and Service segment revenue is expected to be higher in the second quarter of 2013 compared to 2012. This improvement should result from stronger US municipal revenue as well as the initial effects of our price increase.

Margins. We expect our gross profit before depreciation and amortization as a percent of sales to continue to improve. As a reminder, our fourth-quarter gross profit was 31.2% and our first-quarter 2013 gross profit was 31.6%. We believe our gross profit in the second quarter of 2013 will show a sequential improvement of at least 100 basis points. Contributing being to this expected improvement will be the benefits from our phase II cost-reduction and initiatives as well as our price increase.

Operating expense. We expect our operating expense as a percent of sales to be approximately equal to our first-quarter 2013 result of 15.5%.

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

Thanks, Steve. Randy is up next with an update on our cost savings initiatives and other corporate programs.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thanks, Gail. We have made excellent progress on implementation of our $30 million three-phase cost savings program. We have completed phase I and should realize 90% or $9 million from those initiatives this year. I outlined each component of this space in our last quarterly call.

Phase II is well underway. We should begin to see savings from these initiatives in the second quarter and we expect to realize savings of 60% of the $10 million target in 2013. We are already beginning to see results.

For example, through product rationalization efforts, we have reduced the number of activated carbon products that we manufacture by 45% and we are beginning to see the positive effect on rates and yields at our plants. We are in the process of implementing changes that will significantly reduce our transportation costs and we have also renegotiated numerous supply contracts with vendors that should result in millions of dollars of savings. And we have reduced the number of warehouses worldwide that we either loan -- own or lease.

We plan to complete implementation of phase III by year-end 2014. The projects in this phase should also generate savings of approximately $10 million. They are longer term in nature and some will require us to incur costs before savings are realized.

For example, we have contracted with an operational consulting firm that has done preliminary work on a plant efficiency study of our virgin manufacturing facilities. They have identified opportunities for improvement that could result in significant savings and efficiencies at both Big Sandy and Pearl River.

As is typical with consulting firms, we will be required to pay fees to the firm before the savings are completely realized. In 2013, we expect that savings will be offset by those fees. However, significant net savings will be achieved in 2014.

Phase III also includes new capital investment projects and IT reengineering. More details about these initiatives will be given at a later date.

In an effort to optimize our global organization, we have also developed a new position, a Vice President position for business support services which will have responsibility for supply-chain, environmental health and safety, and business analysis on a global basis. The incumbent will also provide support to the Americas operations by directing our carbon and ion exchange equipment businesses and also field service. This senior level position will provide a great interface between our new business units, operations, and our regions.

In conclusion, let me say that the transformation of Calgon Carbon into a more profitable enterprise continues. In addition to our strong focus on cost improvement, we are now developing new approaches to how we sell our products and services globally. All of this combined will, in our opinion, lead to increasing value for our shareholders going forward. Thank you very much.

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

Thanks, Randy. We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Ben Kallo, Robert W. Baird.

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

Good morning.

First on Datong, could you give us your -- the reasons for you selling that plant and then if there is anything else in your portfolio that you are looking at, that maybe generally, if you can't get into details --?

Steve Schott - *Calgon Carbon Corporation - CFO*

Yes, the sale was just a logical follow-on to our having permanently shut that plant last fall. So we never intended to restart it and we are pleased to have completed the sale and there are no other assets in our portfolio that I would highlight on this call for being for sale. We are looking, as we have said, at all of our businesses to ensure that continuing in various parts of those businesses make sense. But there is nothing that we would highlight for this call.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Let me add to that, because the decision to close Datong occurred right after I joined last August and some of the data I looked at, when we made the decision in the early 2000s to go there, coal prices in China were the lowest in the world and there weren't many activated carbon producers at the time. Since then, coal prices in China have gone up substantially and we believe there's over 120 suppliers of activated carbon. So that all played into our decision to close Datong.

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

Sure. And then, how does that relate to your new reactor facility there in China? And then, if I could add one more, on your strategy for increasing sales you mentioned increasing the amount of outsourced carbon that you sold. We have heard about that in the past and we have seen a drag margin, so how do you balance the two?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Well, first let me respond to the Suzhou question. Suzhou is strictly a reactivation facility, we're essentially focused on customers, a lot of Western companies that have set up shop there and we are supplying the reactivation services, but we are now slowly trying to get into the Chinese municipal market and some of their other markets. So that was totally independent of Datong.

In terms of the next question, in terms of the outsourced material, yes. You are absolutely correct in that we have always sold out source material in some cases, coconut carbon to complement our portfolio, in some cases, coal-based. That will continue where it makes economic sense.

As we said in the call, we are now taking decisions totally different into where we get the highest margin for our product. And in certain regions of the world, if it makes sense to sell more outsourced then we will do so so that we can increase our marches on the product that we produce.

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

Thanks so much.

Operator

Kevin Maczka, BB&T Capital Market.

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

Good morning. I want to ask a question on SG&A. You've made a nice year-over-year improvement there in the quarter and Steve touched on it a bit as it relates to the second quarter outlook. But with the further phase II and III actions that are coming either in the dollar terms or percentage terms, is this something we ought to see continued improvement and either way you want to slice it there by dollars or percentage improvement as we get into the back half and beyond. Is that how we should be thinking about that SG&A line?

Steve Schott - *Calgon Carbon Corporation - CFO*

A lot of the phase I program initiative was focused on OPEX, more so than phases II and III. So while we will continue to look closely at our operating expenses in SG&A, and continue to look to improve them, I think the big step changes occurred pursuant to what we accomplished in the latter half of last year. And the coming phases that we are obviously working on -- phase II and phase III -- are very much more focused on margin improvement.

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

Okay. Shifting over to the topline, I think you called out in the release and on the call some strength in the municipal markets and industrial, and now you are restarting Neville Island. Can you just give a little more color there on what you are seeing specifically and how sustainable it is? I know the muni market has been sluggish for some time.

Randy Dearth - *Calgon Carbon Corporation - CEO*

No, we are really excited about what we are seeing in the municipal market and we truly believe that our value proposition of having the virgin carbon as well as our service business and also our engineering services and equipment, that this is valued by our customers and we are happy about that. In terms of the decision about the Neville Island plant, again we didn't anticipate the demand to be as high as it was and made the conscious decision to keep it going for a few more months. And again because customers value our products and services and would like us to continue to service them.

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

Bigger picture, Randy, in terms of capacity, you are restarting that plant, you've closed and sold Datong. You had some other moving parts here on the reactivation side with new CAPEX spend. Where are you in terms of your activated carbon capacity in general?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Well, right now we are running at a pretty good rate at both Big Sandy and Pearl. As you know we have expanded our Pearl River capacity. We did that last year, 20% capacity expansion. We are constantly looking at that. We are looking at where our next step should be. We formed a team, a strategic concepts team of senior managers here at Calgon and both from the folks here in the US, but from around the world. And we are going to ask ourselves that question. Where should that capacity be, when? I can -- you can trust me when I say it is probably not going to be a decision we make in 2013, but I think in 2014, 2015 we should probably really have a strategy of how we want to deal with that.

In the meantime, we have our outsourced products that we could sell to complement what we have and again, we are still pushing for reactivation. We believe that will free up capacity as well for us.

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

Thank you.

Operator

Hassan Tozat, Water Asset Management.

Hassan Tozat - *Water Management Assets - Analyst*

Good morning, Randy, thanks for all of the details in this call. Very much appreciated. I just have two questions. (technical difficulty). One, just wanted to better understand your path for second quarter results as Steve was giving the details. So the revenue you said would be less than the second quarter of last year and if I am not mistaken, second quarter of last year, your SG&A as a percent of sales was 15.6%. And I think Steve mentioned that you expect that a second quarter this year to be in line with the first quarter which was 15.5%. So if the SG&A as the percent of sales is roughly the same as last year and revenues are less than second quarter of last year, just wanted to get an understanding.

Do you expect EPS which was $0.19 last year, I believe, to be for this quarter, do you expect that the net income or EPS levels to be -- what is going to be your plan for that level as opposed to revenues and margins?

Randy Dearth - *Calgon Carbon Corporation - CEO*

In terms of guidance, I am not going to -- I can't give you that in terms of where we think the EPS is going to be next quarter. All of that being said, I think Steve outlined it clearly that the challenges we face in the second-quarter exchange currency, exchange fluctuations is going to play a part of it. And then the back log in the ballast water and John, I think, did a good job today of outlining where we are at with that.

Hassan Tozat - *Water Management Assets - Analyst*

Okay. I guess my second question would be, you did mention in the release about lower demand and pricing for the powder-activated carbon and in [Calbert] which owns [North] kind of mentioned last week that they experienced [7]% year over year decline in values for carbon in the powder generation markets. I was hoping would you be able to quantify the magnitude of the decline in volume and pricing per pound that you saw in impact year over year?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Let us just say that we have given numbers for the first quarter in terms of the decline and we have highlighted it as a decline in the second quarter, but I think everyone should have an understanding that this is a relatively small piece of our business and that on a full-year basis, looking at mercury removal revenue in North America, for Calgon, that business is less than 5% of our total revenue. So it is not a big driver to our bottom-line results. There's a far bigger impact from water, drinking water revenue.

Steve Schott - *Calgon Carbon Corporation - CFO*

Again I think this points to our diversification of the products that we sell and the fact that by having that diversification it helps us in situations like this.

Hassan Tozat - *Water Management Assets - Analyst*

Okay, thanks.

Operator

JinMing Liu, Ardour Capital.

JinMing Liu - *Ardour Capital Investments - Analyst*

Good morning. I have two questions related to working capital. First, accounts receivable increased this quarter. I think you mentioned that was mainly related to Equipment sales. And we noticed a few companies recently suffered some collection problem in emerging markets.

Can you give us more color on where those accounts receivable related to your equipment sales are in and specify which countries and how do you manage credit risk there?

Steve Schott - *Calgon Carbon Corporation - CFO*

Well, we -- first the increase in equipment billings would be around the world and where we are in emerging markets we try and have our counterparties provide letters of credit where possible to protect us from collection risk. So I am not concerned that we will not eventually receive those equipment revenues. In many cases there's retainage and whatnot that we deal with that's on an extended basis, but we try and manage our risk where we need to with letters of credit.

And the remaining part of the receivable increase is, I think we mentioned was we did have stronger sales in Asia and Japan as well where payment terms are much longer than we normally benefit from in the US and Europe.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay, good. Thanks for all that.

Next, relates to inventory. I noticed that the inventory decreased significantly very nice off that. Is there -- do you have a target level inventory or a base inventory outstanding?

Randy Dearth - *Calgon Carbon Corporation - CEO*

I would like to see it below $100 million. Obviously with coal and the challenges we face with coal, that provides some difficulty in getting there, but I've said that I would like to see us get below $100 million.

JinMing Liu - *Ardour Capital Investments - Analyst*

Thanks.

Operator

David Rose, Wedbush Securities.

David Rose - *Wedbush Securities - Analyst*

Good morning. Couple of quick questions I think. First of which is if you broke down your gains and and your margin -- well, at least the improvement in margins versus I think the guidance you provided you indicated in the fourth quarter that margins would be very challenged. You did a great job on the cog side; can you kind of lump in buckets where the performance came?

Steve Schott - *Calgon Carbon Corporation - CFO*

I will try, but that's pretty challenging. We highlighted the $400,000 insurance settlement which impacted favorably our margins. We certainly are seeing some benefit from our cost improvement programs although more modest in the first quarter. I think we had some favorable mix issues. Certainly, we have higher municipal sales. We have as we highlighted lower mercury removal sales which, frankly, had pretty attractive margins. So we have more than overcome that.

Beyond that I don't have that kind of information available for the call. So I don't think I would want to go further than what we just said. There might be a little more detail on our Form 10-Q.

David Rose - *Wedbush Securities - Analyst*

Okay and then with respect to your comment on pricing, you talked about pricing on reactivation. But I'm not sure if I understood it. You are getting pricing -- equal amount of pricing on virgin, both powder and granular or no?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Well, we are getting price increases on virgin carbon and reactivation. We don't break it out which is which, but we are pleased with the direction it is going.

Steve Schott - *Calgon Carbon Corporation - CFO*

I think you could assume for now we are not getting much pricing in powder.

David Rose - *Wedbush Securities - Analyst*

Okay, that's fair. Thank you.

Operator

Dan Mannes, Avondale.

Dan Mannes - *Avondale Partners - Analyst*

Good morning, everyone. First a quick follow-up on ballast water. I appreciate all of the color from John.

One question I had is when you talk about the two deadlines under the Coast Guard the 2014 and 2016 sort of deadlines for, I guess what you would call small and large ships. Can you maybe break out for us the number of ships in your forecast that fall under those two and the relative sizing? Because our impression is that the ships that fall under the 2014 are a good deal smaller and there may also be a smaller number of ships that fall under that versus the 2016s. But I would be interested in your thoughts on it.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Sure. The two sides categories relate to the ballast capacity. The first compliance date Jan. 14 relates to the midsize capacity systems, greater than 1,500 cubic meters and less than 5,000. Then in 2016, it is the less than 1,500 and the more than -- the small and the large combined for the second date. We are using a value of roughly 30% of the world's vessels fall into this first category. So if you want to pick a round number, 50,000 vessels to be retrofit, 30% of them would fall into this first compliance date.

Dan Mannes - *Avondale Partners - Analyst*

Okay and that is just for the US or is that under the (multiple speakers) IMO? (multiple speakers) or is it 30% for the US?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Understood. Yes. The 50,000 estimate is used by many to describe the worldwide retrofit requirement. And so, then one would have to make some estimation of what percentage of the world vessels will be coming to the US. And those estimates range from 20% of the world vessels in any one year and 60% of the world's vessels over life of vessel. So it makes for estimating exactly the US impact from this Jan. 14 compliance date challenging. But if one would work with 30% of the vessels in the size category and 30% of the vessels deciding to implement because they anticipate coming to the US in the next five years, then you can start to hone in on it.

Dan Mannes - *Avondale Partners - Analyst*

Got it. Thanks. And real quick, for Steve, you had about an $800,000 other expense item this quarter. Can you -- does that relate to either what was going on at Blue Lake or Neville, or is that something else or --? Just any more color on that would be helpful.

Steve Schott - *Calgon Carbon Corporation - CFO*

Foreign exchange. We last year had some small foreign exchange gains. This year we had some small foreign exchange losses, couple -- several hundred thousand dollars in both periods, related to unhedged position. And a lot of that was related to Japan.

Dan Mannes - *Avondale Partners - Analyst*

So this is a transaction, not translation?

Steve Schott - *Calgon Carbon Corporation - CFO*

That's right.

Dan Mannes - *Avondale Partners - Analyst*

Got it. And then, real quick, just in terms of the price increase you put through, you said $10 million for 2013. Does that imply that there's more outstanding potential for 2014 or is $10 million sort of the amount in totality?

Randy Dearth - *Calgon Carbon Corporation - CEO*

No, you are absolutely correct in that assessment. We expect more in 2014. As you know with contracts and when we can implement price increases that is going to be varied throughout the year. We are pretty comfortable with $10 million for this year. I would be upset if we didn't have more than $15 million for next year. But again the jury is still out because we are still working with the customers on that one.

Dan Mannes - *Avondale Partners - Analyst*

$15 million inclusive of the $10 million or $15 million in addition to the $10 million? (multiple speakers) inclusive of the $10 million.

I'm sorry, say that again.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Yes, $15 million inclusive of the $10 million that we are getting this year.

Dan Mannes - *Avondale Partners - Analyst*

Got it. Thank you very much.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - *Sidoti & Company - Analyst*

Good morning, everyone. Just staying on the same question on the price increases. As you say, $15 million. Is that assuming another round of price increases? Or is that sort of the $10 million looking for a slow build over the course of this year?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Exactly. And, again, given contracts and timing restrictions, again, that is going to fall into 2014 on an annualized basis. So no, we don't anticipate more price increases.

Christopher Butler - *Sidoti & Company - Analyst*

And looking at the air purification market with natural gas up modestly let's just say, could you talk to the pace of conversions, the thought of how this is going to play out here. Is there any real change there?

Randy Dearth - *Calgon Carbon Corporation - CEO*

We are watching it very closely. What excites us the most are the new advanced FLUEPAC products and where we think that is going to go. And we have done well over 20 trials and in all cases has come back that our advanced products do indeed provide some advantages. So we are excited to wait and see where that is going to go.

Christopher Butler - *Sidoti & Company - Analyst*

And on Hyde Marine, are there any further approvals that you are looking for? Or is Calgon Carbon ready to go just waiting for regulation at this point?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Well, now that we have the AMS, which is if you will an interim category for US compliance, we will be working towards the complete US type approval as the months unfold here.

Christopher Butler - *Sidoti & Company - Analyst*

And, finally, did you repurchase any shares during the quarter?

Randy Dearth - *Calgon Carbon Corporation - CEO*

We did not.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

Operator

Steve Schwartz, First Analysis.

Steve Schwartz - *First Analysis Securities - Analyst*

Good morning, everyone. If I could direct my first question to, John, and, John, thanks for the color on what is going on there. It is good to have you on the call. This builds a little bit off of Dan's earlier question. In your last analyst day you put a table with a timeline for when you thought units might come through and it showed a significant ramp somewhere around 2017 to 2019. Is that generally valid still for how you are seeing this market develop for you?

John Platz - *UV Technologies - VP*

yes, without question. If you think about the US requirement, the second one for the larger body of existing vessels starting in 2016 and ratably supplied to that large segment over five years would have the major retrofit market completed for winding down by '21, '22 with an absolute peak in the '17 to '19 range as you are now doing both the midsize and the small and large.

Steve Schwartz - *First Analysis Securities - Analyst*

All right. Well, it's good to know that we have that to work from in our modeling. I guess my second question then falls under disinfection byproducts. And in the prepared remarks you talked a little bit about moving from schedule 1 to schedule 2 and 3.

Personally, my impression was -- thinking that the biggest systems under schedule 1 is where you get the majority of your business. But it sounds like you are seeing the flow-through of potential business as being different, maybe stronger from schedule 2 and 3. Is that correct?

John Platz - *UV Technologies - VP*

well, we are -- actually both is the correct answer to that because we haven't given up on the larger municipalities who have made the decision to go the route of the chemical solution, but they can ultimately change their mind in the future to go to granular activated carbon. So we are still focused on that. But we have done a very strong marketing push at the smaller midsize to smaller municipalities in educating them about the advantages that activated carbon over a chemical solution and, again, from an equipment perspective, size perspective that might be a bigger target for us.

Steve Schwartz - *First Analysis Securities - Analyst*

And if I could ask one that I think will be a fast answer for you, when exactly did you take Blue Lake off and can you just remind us when you took Neville off and then, you said you turned it back on in April.

John Platz - *UV Technologies - VP*

Yes, Blue Lake is not off yet. It is not idle, it is still running. So that decision is yet to be made when it makes the most sense for our customers and for our business. Neville actually went off late last year.

Randy Dearth - *Calgon Carbon Corporation - CEO*

January.

John Platz - *UV Technologies - VP*

January and then again came up in early April for the reasons we outlined before. It is just our demand is greater than we had anticipated.

Steve Schwartz - *First Analysis Securities - Analyst*

Yes, so Neville is January offline, on in April and you had planned to take it offline in June?

John Platz - *UV Technologies - VP*

Mid-June.

Steve Schwartz - *First Analysis Securities - Analyst*

Okay, very good. Thanks are taking the questions.

Operator

Ben Kallo, Robert W. Baird.

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

Steve, I just wanted to be clear on the guidance. You said the sales were dropped to below Q2 of last year's level, margin would increase sequentially about 100 basis points or more and then OPEX would be the same as in Q1 on a percentage basis?

Steve Schott - *Calgon Carbon Corporation - CFO*

You got of those all correct. Yes.

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

Okay. Thanks, that's all I need.

Operator

At this time there are no further questions. I would now like to turn the floor back over to Randy Dearth for any closing remarks.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thanks. I would just like to conclude today by saying that during the past nine months I truly believe we have affected fundamental change at Calgon Carbon and I really expect this momentum to continue to build throughout the remainder of this year. I truly believe this is an exciting time for our customers, our employees and also our shareholders, so I am happy to be a part of it.

Thank you for your attention today and I do look forward to talking to everybody at our next quarterly call. Thank you.

Operator

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