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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Calgon Carbon Corporation's second 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. (Operator Instructions). Thank you. I will now turn the call over to Gail Gerono, Vice President of Investor Relations. Please go ahead.

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

Thanks, Lori. Good morning, and thank you for joining us. Our speakers this morning or Randy Dearth, Calgon Carbon's Chief Executive Officer, Bob O'Brien, our Chief Operating Officer and Steve Schott, our Chief Financial Officer. Before we begin the presentation, please be advised that the Private Securities Litigation Reform Act of 1995 provides a Safe Harbor for forward-looking statements. Today's presentation 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, private product lines enhanced competitive posture, and acquisitions are included in the Company's most recent Annual Report pursuant to the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995.

They involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested in the presentations or during the Q&A. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control. Some of the factors that could affect the Company's future performance are higher energy and raw material costs, cost of imports and related care, labor relations, availability of capital and environmental requirements as they relate both to our operations and to our customers, changes in foreign currency exchange rates, borrowing restrictions, 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 other information contained in the Company's most recent Annual Report and 10-K. We will go with Randy first for opening remarks.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thanks Gail. Welcome everyone. Let me begin by saying that I am very pleased with Calgon Carbon's performance for the second quarter of 2013 and for the six months that ended June 30th. The improvement in both gross margin and operating expenses versus last year's second quarter and first half are especially gratifying, as they are indicative of our progress in implementing our cost improvement initiatives, and our focus on re-engineering the corporation. I will provide more details on our initiatives later in the call. But first Steve will review the financials for the quarter followed by Bob's operational review. Steve.

Steve Schott - *Calgon Carbon Corporation - CFO*

Thanks Randy. Total sales for the second quarter of 2013 were $140.4 million versus $148.4 million in the second quarter of 2012, a decrease of $8 million, or 5.4%. Currency translation had a negative impact of $3.2 million on the activated carbon and service sales for the second quarter of 2013 due to the weaker yen. Regarding our segments, sales in the Activated Carbon and Service segment decreased $2.3 million, or 1.9% for the second quarter of 2013 compared to 2012's second quarter. In addition to the decline from currency translation, our activated carbon and service segment had lower demand for activated carbon in the environmental air and environmental water treatment markets. The decline in the environmental air treatment market was as a result of lower demand for powdered activated carbon for mercury removal from electric generating units in the Americas. As well as lower pricing on a large contract that was renewed in early 2013.

The environmental water market decline was principally due to a customer order in Asia that occurred in the second quarter of 2012, and did not repeat in the second quarter of 2013. Offsetting these decreases was an increase in demand in the potable water market in Japan, higher sales in the specialty market for respirator carbons, and our 2013 price increase. Equipment sales declined $5.6 million, or 15.5% for the second quarter of 2013 compared to 2012's second quarter primarily due to lower revenue for balanced water treatment systems of $7.6 million. Partially offsetting this decrease were higher sales of traditional ultra-violet light systems and ION exchange equipment.

Sales for the consumer segment were comparable quarter-over-quarter. Consolidated gross profit before depreciation and amortization as a percentage of net sales was 33% in the second quarter of 2013, compared to 31% in the second quarter of 2012, an increase of 2 percentage points. The increase was in the Activated Carbon and Service segment as a result of our 2013 price increase, lower plant maintenance costs, and favorable impacts from our corporate-wide cost improvement initiatives.

Depreciation and amortization expense was $7.3 million in the second quarter of 2013 compared to $6.4 million in the second quarter of 2012. The change was primarily due to increased depreciation related to the Company's new Gila Bend, Arizona facility that was placed in service in the early part of the second quarter 2013, as well as capital improvements made in 2012 including expenditures related to the Company's Pearl River virgin carbon manufacturing facility. Selling, Administrative and Research expenses were $18.9 million during the second quarter of 2013 versus $23.1 million in 2012. A decrease of $4.2 million. The decrease was due to lower employee-related expenses, in part due to the Company's cost reduction initiatives. SA&R expense for the second quarter 2013 also included an approximate $900,000, or 0.7% benefit from the reduction of the multi-employer pension plan liability.

Absent this benefit SA&R expense as a percentage of sales improved to 14.1% as compared to 15.6% for the second quarter of 2012. The income tax rate for the second quarter of 2013 was 34.4%, and the Company's full year 2013 tax rate is currently estimated to be between 34% and 35%. In summary, our net income for the second quarter was $13 million, or $0.24 per diluted share, versus net income of $10.9 million, or $0.19 per diluted share in 2012.

Turning again to our business segment, the activated carbon and service segment recognized $27.7 million in operating income before depreciation and amortization in the second quarter of 2013 compared to $20.3 million in the second quarter of 2012. The increase was primarily due to the previously discussed gross margin improvements and lower employee costs stemming from our cost improvement initiatives. This segment also benefited from the $900,000 reduction in our multi employer pension plan liability.

The equipment segment recognized a $600,000 operating loss before depreciation and amortization in the second quarter of 2013, compared to $2 million of operating income in the second quarter of 2012. The decline was primarily due to the lower volume of revenue for ballast water treatment systems, and an increase in estimated costs to complete several projects in process. The consumer segment recognized $400,000 in operating income before depreciation and amortization in the second quarter of 2013, compared to $500,000 in the second quarter of 2012.

Regarding our balance sheet, cash increased during the first six months of 2013, and at June 30th we had approximately $21 million of cash. Receivables were $100.5 million for the second quarter of 2013, which was slightly lower than year-end 2012, but $10.4 million lower than the balance as of March 31st, 2013. Inventories were $108.5 million for the second quarter of 2013, which was $1.3 million higher than year-end 2012. Our finished goods inventory decreased by $4.1 million, but this decline was more than offset by a $5.4 million increase in our raw material inventories. Primarily coal, as we secure a good quality coal for a more consistent supply to our virgin carbon manufacturing lines. We believe our product rationalization and other improvement initiatives will lead to lower inventory levels and improved cash flow.

As of June 30th the Company has total debt outstanding of $56.1 million, which represents a decrease of approximately $8 million from year-end, and relates both to Calgon Carbon Japan and borrowings under our US credit facility. Cash flows provided by operations were $18.4 million for the second quarter of 2013, versus $20.8 million in 2012. Capital expenditures totalled approximately $5.3 million for the second quarter of 2013, and our estimated spending on capital for the full year 2013 is $40 million to $45 million.

Finally, regarding our share repurchase program, as a reminder we will be required to return shares to Morgan Stanley if our daily weighted average price over the execution period exceeds the price represented by the initial shares delivered to us. If this program had been completed on June 30th, we would have been required to return 236,000 shares. We currently expect the program will conclude near the end of the third quarter, and by agreement will conclude no later than September 30th.

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

Thanks, Steve. Bob is next with operations.

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

Thank you, Gail. Concerning operations all plants ran well during the quarter, and we are realizing the benefits from the 2012 upgrades to our Pearl River virgin carbon plant. They include increased capacity and cost savings from changes that we have made to our manufacturing process. Both of our virgin carbon manufacturing facilities are operating at full capacity.

During the quarter we also reached an agreement on a four year contract with our employees at our Big Sandy plant that are represented by the United Steel Workers Union. We are pleased with the terms including increases in employee sharing of healthcare costs over the life of the contract. On the commercial side we also remain on track to achieve our planned $10 million price increase for 2013.

Now an update on emerging markets. Which are disinfection by-products, mercury removal, and Ballast Water Treatment. Let's start with disinfection by-products. We were awarded the virgin carbon supply on two DBT projects in the second quarter, and one also included the supply of carbon adsorption equipment. Our marketing efforts in the disinfection by-product market segment continued to be focused on smaller to medium facilities. We expect opportunities at larger facilities to increase, as the use of [core means] as a disinfectant becomes less desirable and more closely regulated.

Because we have been successful in convincing more municipal drinking water customers in the US to convert to the use of reactivated carbon, revenue from custom reactivation has grown significantly. In the first half of 2010 we reactivated about 2 million of carbon used to treat drinking water. In the same period in 2013 that number was 10.6 million. Increasing our reactivation volume is a very important component of our global long-term strategy. So we are pleased with our progress to-date.

Moving on to mercury in the second quarter the US EPA announced the MATS for ICI major, which is Industrial Commercial & Institutional facilities, and various source boilers, with compliance required by January 31st of 2016, and the MATS for portland cement with a combined date of September 9th, 2015. We estimate that these regulations will generate demand for 20 million to 30 million of activated carbon per year. This demand is included in our projections for the size of mercury removal market of 380 million to 765 million-pounds. As Randy mentioned in last quarter's call, the individual states have primacy in the implementation of the EPA's Mercury & Air Toxic Standards, commonly known as MATS.

There are approximately 900 coal fired generating units that must comply with MATS. We believe to-date that states have granted a little more than 100 requests for one year extensions. We expect that most utilities will release their compliance plans by the end of the first quarter of 2014. As the 2015 compliance date formats approaches, the number of trials for our advanced FLUEPAC powder activated carbon for mercury removal is increasing. During the first half of 2013 there were five trials. So far another six are scheduled for the second half of this year. This increased activity indicates that power generators have begun the process of selecting suppliers with activated carbon in order to meet the April 2015 compliance date for MATS. We believe that Calgon Carbon is the leader in advanced product, designed to reduce the cost and increase the performance of activated carbons for the mercury removal market. In the second quarter we were granted our fifth patent related to FLUEPAC technology. All five patents include claims directed to composition, use, and manufacture of high performance materials for mercury removal from FLUEPAC.

Okay. Now on the Ballast water treatment. In May a Committee of the International Maritime Organization, or IMO approved the resolution designed to facilitate ratification of its convention that would mandate treatment of ballast water on a global basis. The resolution adjusted the required compliance dates. These dates have come and gone because of the delays in the ratification for the convention were shifted into the future. Also, the period over which ships must achieve compliance was changed from 2.5 years to 5 years.

We believe these changes are positive because they reduce an onerous cost burden in the first year after ratification of the convention, and mitigate concern about a potential bottleneck for technology installation in the first year. Also, the compliance period in the convention now match those in the US Coast Guard's regulation. As a result of these changes many in the industry expect the IMO convention to be ratified by early 2014. Another second quarter development was in fact Germany's ratification of the IMO convention. There are now 37 signatories in the convention that represent 30.3% of the world shipping tons. 35% is required for the convention to go into force. Five individual countries have sufficient tonnage to achieve ratification of the convention. Panama, China Hong Kong, Greece, the Bahamas, and Singapore.

As for the activity in the second quarter related to the US Coast Guard regulation, the Norwegian Company became the second independent lab authorized to test ballast water treatment systems for Coast Guard type approval. the US Coast Guard regulation is in force, and compliance dates are approaching. Vessels built after December of this year must treat their ballast water as soon as they are commissioned. The mid sized vessels built before December must comply following their first dry-dock after January 2014, and all vessels must comply following their first dry-dock after January of 2016.

Reflecting these imminent compliance dates over the past six months, Hyde Marine has experienced a steady increase in the number of requests for proposals for Ballast Water Treatment systems. A percentage of those requests that are for retrofits of existing vessels has also steadily increased. Additionally in the second quarter we received more orders for Hyde Guardian systems than in any other previous quarter to-date. These orders were for smaller vessels, however, with the average price per system being approximately $180,000. We expect an increase in retrofit orders in the coming quarters, driven by these approaching US compliance dates.

Last week we announced a contract with Thames Water in the UK to reactivate approximately 11 million pounds per year of spent carbon for a period of ten years. Our customer Thames Water is the larger provider of drinking water in the UK, and it had been reactivating its own spent carbon. We intend to reactivate this carbon at our Tipton plant near Birmingham England after completion of a $9.5 million capital project to increase the plants' efficiency, and expand its production capacity. Until that project is completed, we will reactivate the Thames carbon at our facility in Feluy, Belgium.

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

Thanks, Bob. Steve is back now to comment on the outlook for the third quarter. Steve.

Steve Schott - *Calgon Carbon Corporation - CFO*

Thanks, Gail. Sales. We currently expect our third quarter sales to be approximately equal to our second quarter 2013 sales. Our Carbon and Service price increase should be offset by a sequential decline in equipment sales, with increases in Hyde Marine Ballast Water Treatment system sales not expected until at least the fourth quarter. In addition, market conditions in Europe remain challenging. Margins. We expect our gross profit before depreciation and amortization as a percent of sales to improve for the fourth consecutive quarter. We believe sequential improvement of at least 50 basis points is likely in the third quarter.

This improvement should come from our 2013 price increase, our cost improvement initiatives, and consistent good virgin carbon plant performance. Consultants costs for several of our Phase 3 initiatives and plant maintenance costs will somewhat limit our total third quarter margin improvement. Operating expense. We expect our operating expenses to be higher sequentially, and estimate they will be at least 15% of sales. Which will be approximately in line with our first quarter 2013 result. In the third quarter we expect increases in our research and development spending for further development of our advanced mercury removal products, and increases in other spending related to various corporate initiatives. And that concludes my report.

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

Thanks, Steve. And Randy is our next speaker.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thanks, Gail. It was a year ago almost to the day that I participated in my first quarterly conference call at Calgon Carbon. On that call I told you I was unhappy with the decline in the Company's gross margin, and that it was my intent to reverse that decline by identifying ways to reduce costs and improve efficiencies. This resulted in some fundamental changes in how we run our business. So let me review again some of the key changes. First, we re-engineered our organization, reducing headcount worldwide, and changing the organizational structure in the Americas to a market driven business unit configuration.

We also globalized procurement and supply chain activities to realize optimal value for the Company, and we implemented a global savings efficiency program to permanently lower our cost structure. Let's discuss each of these changes, beginning with the most ambitious initiative, the $30 million cost improvement program. I am happy too report that we are on track to realize $15 million in savings this year, $9 million from Phase 1, and $6 million from Phase 2. And we continue to believe that all three phases will be implemented by the end of 2014. We are currently evaluating additional opportunities that are not included in the $30 million of cost improvements that I hope to shed more light on during our next quarterly call.

Next, let's talk about procurement and specifically coal. Our number one key raw material. Obtaining a reliable supply of coal at an acceptable price is a key take for in improving and maintaining margins. Our global procurement group has been working to reduce our coal costs, and I am pleased that for the second quarter of 2013 they were down slightly versus last year's second quarter. Also, I would like to note that we now have more than 54% of our coal requirements under contract for the remainder of 2013, and we do not anticipate any major changes in the price of metallurgical coal through the first half of 2014. A team led by the head of Global Procurement group continues to explore every option for securing a long-term coal supply at favorable pricing.

The process consists of evaluating each option for quality of coal, accessibility, size of the reserves, and price. I am pleased with the work our procurement team has done, and believe they are on the right track to bring us more cost improvements. I want to also talk a little about our initiatives to expand our global presence. Let me start by updating you on our activities in Japan. The change in leadership at CCJ has had a significant positive impact on its performance. Through June sales and local currency are over 10% higher compared to 2012. Gross margins have improved and operating expense as a percent of revenue has improved by four-fold percentage points. I am pleased with what we are seeing in Japan.

Following that model we are hired a Chinese national who has been business experience with global companies, and he will direct our China operations. We are exploring expansion to other geographies as well where demand for activated carbon is expected to grow significantly in the short and long-term. Now let's talk about our balance sheet, our strong balance sheet and how we can create value by making the best use of it. These include options such as spending monies on capital investments, acquisitions, and stock repurchase programs. Let's discuss each. Capital investments. As you may recall, capital projects are included in the cost improvement initiative, and are a suitable use of our balance sheet.

Last week our Board approved a $19.4 million investment in two capital projects that should result in lower production costs at our Big Sandy plants. I have challenged our operations groups globally to further evaluate the best projects, of course with acceptable returns, to help support our strategic initiatives. Acquisitions. This is an area we have spent a lot of time discussing over the last year. To help us understand what could be an appropriate purchase, I have established a task force to begin to identify suitable candidates that would complement our existing portfolio, and of course this will be ongoing process for us, and we will report more as that occurs.

And last, a stock repurchase program. As you are aware, we initiated a $50 million program last November. Its completion is expected by the end of the third quarter. At that time we will review our options and proceed with an additional repurchase if it makes sense. So these are the key uses of our balance sheet that we are focused on currently.

On a different topic let's talk about our Board. Yesterday we announced that John Paro has joined our Board of Directors. John is a CEO of specialty chemical company HallStar, and I believe that he will be and excellent addition to our Board. He has sales, marketing manufacturing and M&A experience, and under his leadership, HallStar has shown consistent significant growth in both sales and profitability. Some of the highlights from John's career at HallStar include, transforming HallStar from an industrial chemical distributor to a specialty chemical producer, divesting HallStar's chemical distribution business, and acquiring six businesses in the personal care and industrial sectors. I think you can appreciate why I am so pleased to have John on Calgon Carbon's Board, and I look forward to having his perspectives.

I have one more announcement to make today. Calgon Carbon will hold an Analyst Day on November 7th in the Phoenix area. The focal point of this meeting will be our customer reactivation capabilities and strategy, but there will also be presentations about the other aspects of our business. We also plan to discuss some promising new applications for activated carbon that we are very excited about. In the afternoon we will visit a drinking water treatment plants that uses our granular activated carbon to prevent the formation of DBTs. We will follow that by a tour of our newest reactivation facility in Gila Bend. Gail is negotiating with hotels, and when arrangements are completed she will announce the details. You will be able to register to attend the event on our website. So I hope that you can join us. So that concludes my remarks, and we will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Ben Kallo of Robert W. Baird.

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

Thank you. Good quarter guys. Starting on activated carbon, can you talk to us about, you talked about capital investments at Big Sandy is there any way you do elaborate on maybe the returns on that investment, what they entail, and then as we look forward to when the mercury removal goes into full effect, what are the plans for any kind of a larger expansion to meet that market? And then I have a follow-up.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Well, let me start by saying, Ben, in terms of these projects and projects moving forward to the Board, they have to have a suitable return. Obviously well above our cost of capital is what we are basing that on, so I don't think we're going to give specific details as to what those returns are, but let me just say after thorough review they are projects that will indeed provide big value for Big Sandy and for the corporation going forward.

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

And they will be a little longer-term projects, so these in particular are not included in our Phase 3 savings, which we sort of truncated at the end of 2014. So these are a little longer dated.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Yes, but that being said I will go back to the fact that we have some other projects that are currently being done, a few smaller projects as well that will occur this year and next year, which indeed fit into our $30 million cost initiative program. I will defer to Bob in terms of capacity.

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

We continue I think we have said this in previous meetings. We continue to evaluate how we can debottleneck our existing facilities and get more out of them, and some of the capital that was just recently improved. In fact, does achieve that, but there are still more opportunities to go at our existing facilities. And we continue to explore other options to increase capacity in the US and other places, and that remains very high on our to do list. We are spending a lot of time looking at that. Nothing that we are ready to share now, but in the future we may be able to say more about our long-term plans.

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

Okay, and then when you look at the overall activated carbon market for mercury, how are you guys viewing any potential new regulations on coal-fired power plants and [US change to the total work there]?

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

We have looked at our estimates fairly consistent. We think we have been conservative in that area from day one so changes in regulations, or the potential for regulations that might force closures of power plants more than have perhaps been on the table, I think we have taken that into consideration or we have tried to take that into consideration. There are a lot of power plants out there, and their need for activated carbon will be strong certainly in the short-term. It is difficult to predict whether anybody is going to build another coal-fired plant in the near-term, but there is significant market size with existing plants that it is certainly enough to keep us busy, and keep our attention focused on that market.

Randy Dearth - *Calgon Carbon Corporation - CEO*

And if you recall Ben, we said at the last call that about 5% of our business is tied into this market. I mean we are fortunate in that the products we produce in our plants granular and also powder have different markets that are also growing and interesting to us, so we are going to follow the regulations, but we are going to do the things that we can fix, and that are under our control to make the Company stronger and better.

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

And then my final one was on Ballast water. It looks like there is progress being made, but with the elongated compliance period how do you guys view competition? Have you seen new entrants, and does that worry you that longer time for compliance allows more folks to come in there and compete with you guys? I will jump back in queue.

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

I think that is the reality, we had been the leaders, we still consider ourselves the leader in the market. It would have been better for us if things had moved ahead full speed quickly, but it is still a very, very large opportunity. We still think we are at the head of the pack from a technology standpoint, particularly with UV, and there are some new people entering the market, but certainly no one with the experience and background that we have, so we think long-term that our experience will be a key factor in a vessel owner's decision to make purchase decisions. So we still think we are in pretty good shape there.

Operator

Your next question comes from the line of Kevin Maczka of BB&T Capital Markets.

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

Thanks. Good morning.

Steve Schott - *Calgon Carbon Corporation - CFO*

Good morning.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Morning, Kevin.

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

Morning.

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

First a question on price. Mercury still a challenge it sounds like you are confident in the US that you will get the $10 million away from mercury that you previously planned to get. Can you talk in US about the pricing environment in general, and any plans that you might have to take a similar increase?

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

We are actually getting price increases in all regions, but we knew that most of our opportunity for increasing price was in the US, but we have been trying to improve price in all regions. We have seen definite signs that we have been able to do better in Asia. We also have some signs in, have gotten price increases in Europe as well, although Europe remains more challenged. Our biggest focus this year has been to make sure that we are providing our products to those areas and those customers again, that in fact value what we have to offer, and are willing to pay the best price. So in some cases we are not necessarily getting what might be called a traditional price increase, but we are in fact able to offer our products to the particular customers that are willing to pay for the value that we deliver. So most of the price increases in the US we are getting some in the other regions as well.

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

Okay. A question shifting over to SG&A. It looks like that was probably the line item that was more, provided more of the upside to you this quarter than we expected and it look it is better than what you maybe had thought, too. And I think I heard Steve say that will be a little bit higher in Q3 on higher R&D spend. Was there some push out there, or I guess just thinking about run rates going forward, is this kind of the run-rate we ought to be at now, because I think you said Phase 2 and 3 are not targeting that line item as much as Phase 1 did?

Steve Schott - *Calgon Carbon Corporation - CFO*

Yes. Kevin, the R&D I would characterize more as just timing as to when we undertake our efforts in further improving our products, and to a certain extent when trials are occurring. So that will be, we are probably well ahead of the $0.5 million target I think that we had set, or the target we had set in Phase 1. So we are well ahead of where we thought we would be, but to a certain extent we will catch up a little bit over the balance of the year. We have had excellent cost control in all parts of our business and I think that will continue, but we are spending on corporate initiatives as I also alluded to in our comments, for our long time run-rate if we could stay in the 15 to 15.5 percentage point basis, I think that would serve us well and we won't stop looking for improvements, though.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Yes. I will just chime in on that. And just to reiterate Phase 1 a lot of our SG&A reductions and now we are into the margins and we estimate this quarter, that it was probably about $1 million of margin improvement coming in from Phase 2 and a little bit from Phase 3.

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

Okay. And then finally for me on the gross margin line, Steve, the things you called out there that really helped this quarter, the price increase, the cost actions, those aren't going away, but maintenance cost, plants maintenance costs were favorable here as well, and those we know tend to bounce around sometimes quite a bit. How should we think about that going forward? Are we looking at any major initiatives or shutdowns or things like that, that may cause that line item to move significantly in the back half?

Steve Schott - *Calgon Carbon Corporation - CFO*

Yes. We'll have one in I think around the middle of the third quarter, so we tend to have on our virgin lines which are the most impactful, we tend to have around three of our five lines down in any one year, and so when those occur, which we will tend to talk about, as we reference that one quarter in advance, when they occur we will have an impact. Last year in the second quarter we actually had two, and I think that is why last year's second quarter reports results were particularly negatively impacted.

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

Okay. I will get back in queue. Thank you.

Operator

Our next questions comes from the line Steve Schwartz of First Analysis.

Steve Schwartz - *First Analysis Securities - Analyst*

Hey. Good morning, everyone.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Morning, Steve.

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

Morning.

Steve Schwartz - *First Analysis Securities - Analyst*

Can you give us an update on a Neville Island and Blue Lake? I think you had Neville Island on for a couple months, and then I think you were going to take Blue Lake down once Gila Bend came on?

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

Yes. This is Bob. Blue Lake is down as a result of our starting up Gila Bend, and probably will be down for the foreseeable future, until we build up enough volume to want to restart it. Neville Island we had expected would be down for most of the year, but our business has been strong enough that in fact we operated it, and we are operating it now, and probably will operate it for about a period of five months. That we actually did not expect, but we had enough volume that it made sense for us to operate it. We will probably take it down somewhere during the third quarter.

Steve Schwartz - *First Analysis Securities - Analyst*

Okay. Is it safe to say that the way your operations are running right now is a bit unexpected, in the sense that your virgin capacity is maxed out, and you are not completely filling the react capacity?

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

I don't know that that is unexpected. I think we basically have been fairly tight on virgin capacity for the last number of years, and so that is one of the reasons we are doing things like looking to incrementally expand production, looking at product rationalization, so we can get more product out of the door, and things like that. Our react strategy is one that, we have built capacity to try and take advantage of being first in markets, and that is really where our focus is now to try and grow that business, and try to fill up the capacity that we have in fact invested in. So I don't think it is a surprise. I think that is really just continuing to in fact implement our strategy.

Steve Schwartz - *First Analysis Securities - Analyst*

Okay. And then as my follow-up just on the equipment segment I think on a year-over-year basis from a revenue standpoint, you did a couple million higher than you expected from the last call, yet when you look at margin on a sequential basis, obviously, things went negative, and you did mention a few factors in there, but can you give us an idea of what is happening in that segment?

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Steve Schott - *Calgon Carbon Corporation - CFO*

Well, the adjustments that I referenced, Kevin, on the call were about $700,000 and we use percent complete, we had some cost increases on some projects in process, and that directly impacted the quarter, and obviously with the decline if you compare back to a year ago, we were $5 million more or less in equipment revenue, and we stocked up, ready for the Ballast water market, and we have to carry those costs and when the revenues are down that burdens the bottom-line for that business, and they also get allocated for corporate overhead but they also have to carry, so when the Ballast water picks up and we expect it will, we should see that segment return to profitability.

Steve Schwartz - *First Analysis Securities - Analyst*

But how is it you were positive in the first quarter with a similar level of revenue?

Steve Schott - *Calgon Carbon Corporation - CFO*

In the first quarter although it wasn't as big a number there were actually some positive adjustments in other contracts several hundred thousand dollars worth, that I think aided, and it could just be, I don't have it in front of me but maybe the margins on the jobs in process at that point were better. All of the jobs aren't exactly the same margin so it is probably a mix issue.

Steve Schwartz - *First Analysis Securities - Analyst*

Sure. Okay. So mix and timing. Okay. Very good. Thanks for the color, and I look forward to seeing you in Phoenix. Sounds like it will be a great day.

Steve Schott - *Calgon Carbon Corporation - CFO*

We are looking forward to it. Thanks.

Operator

Your next question comes from the line of Michael Gaugler of Brean Capital.

Michael Gaugler - *Brean Capital - Analyst*

Good morning everyone.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Morning Mike.

Michael Gaugler - *Brean Capital - Analyst*

Morning. Congratulations on the quarter. Randy, kind of go back to your previous comment this morning on acquisitions.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Okay.

Michael Gaugler - *Brean Capital - Analyst*

As I look at your Board including the recent addition, and the background, it is certainly heavy in chemicals experience. Are you signaling here that future transactions will be chemically oriented, or are equipment and service opportunities under consideration?

Randy Dearth - *Calgon Carbon Corporation - CEO*

No. Not at all. I am not signaling that. What I want to say is that first off, whatever we buy we are not going to buy for the sake of buying it. It has got to be something that is going to add value to our shareholders, but also something we believe that is close to our sweet spot, which is carbon service and equipment, and we have been looking at a few things over the last several months that hasn't met our criterion, and we will continue to do so. So anything within that sweet spot, if you will, we will evaluate.

Michael Gaugler - *Brean Capital - Analyst*

Okay. That is all I had. Again, congratulations. Nice quarter.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thanks, Mike.

Operator

Your next question our comes from the line of JinMing Liu of Ardour Capital.

JinMing Liu - *Ardour Capital - Analyst*

Good morning. Thanks for taking my questions.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Good morning.

Steve Schott - *Calgon Carbon Corporation - CFO*

Good morning.

JinMing Liu - *Ardour Capital - Analyst*

First question. Regarding your expectations for the low sales in Europe for third quarter. Is there a mix impact from your price increase in that region?

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

Well, I think actually [inaudible] has essentially been flat in Europe from quarter 2 to 3 2012, and I think for the year-to-date, so we probably lost a small amount of business, which I think one can expect if you try and drive price, you may occasionally give up a customer on the lower end, and

I am sure that has happened but we have been maintaining our business pretty constant from a sales standpoint, and even in face of the challenging economies that are in Europe. So I think our European team has been doing a pretty decent job from that standpoint.

JinMing Liu - *Ardour Capital - Analyst*

Okay. What was the [inaudible] by region for second quarter?

Steve Schott - *Calgon Carbon Corporation - CFO*

I don't have that in front ever me so we're not going to be able to answer that on this call.

JinMing Liu - *Ardour Capital - Analyst*

Okay.

Steve Schott - *Calgon Carbon Corporation - CFO*

We don't have it.

JinMing Liu - *Ardour Capital - Analyst*

That's alright. [inaudible] remember coal or paper [inaudible-microphone inaccessible] is there any progress to report?

Randy Dearth - *Calgon Carbon Corporation - CEO*

In terms of evaluating different types of coals?

JinMing Liu - *Ardour Capital - Analyst*

Yes.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Yes we are constantly looking at that, and I am very pleased with what I have seen in the year that I have been here, and our ability both from an R&D perspective and a plant perspective, as well as from a procurement perspective, in being able to successfully do that. I think that is critical for us going forward that we have a knowledge of all the coals that are available to us, and how to use the coals, and how to transport the coals, et cetera, and that will continue. We are living in a different world today, there are a lot of things happening as you are aware in the coal market, especially here in the United States, with closures and divestments and bankruptcies, so it is imperative that we continue have a strategy, and I think it is working.

JinMing Liu - *Ardour Capital - Analyst*

Okay. Thanks a lot.

Operator

Your next question comes in the line of Christopher Butler of Sidoti & Company.

Christopher Butler - *Sidoti & Company - Analyst*

Hi. Good morning everyone.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Morning.

Christopher Butler - *Sidoti & Company - Analyst*

Just staying on the coal question quickly, you had indicated that your inventory of coal in increased here in the quarter, but you also said that you were looking for sort of flat going forward, why were you building inventory? Were just securing a supply or what is the thought process there?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Yes. It was just favorable pricing at a given time, that it made absolute sense for us to more or less bring that on the inventory. As you know, we use a lot of different types of coal, not just one, so when pricing is good we are going to take advantage of it.

Christopher Butler - *Sidoti & Company - Analyst*

And as we look at the activated carbon segment in this quarter, could you give a sense to how much mix played here, as far as the environmental wastewater contract from last year versus increased reactive sales this quarter?

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

I am not sure I completely understand the question.

Steve Schott - *Calgon Carbon Corporation - CFO*

Let me,- I don't think mix had much of an impact so when we are looking at this quarter compared to what we would call an expected quarter in the Carbon and Service segment, mix wasn't an important driver, or we would have talked about it.

Christopher Butler - *Sidoti & Company - Analyst*

And just finally with natural gas coming down again, are you seeing an increase of conversions from coal to natural gas from utilities, or anybody who would have done that at this price level has already done that?

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

I don't think we are seeing any great recent movement. I think plants could easily switch to natural gas, or if a power company has had a mix of generating plants of natural gas and coal, they have been firing the natural gas plants probably at full capacity. I think it is difficult to make the conversion of coal to natural gas, and there is probably more expense involved that many might expect, so that is certainly something that the people who run power companies are going to have to keep in the forefront, and have in the decision making process, but I don't think we are seeing a rush of closures just due to any recent change in the price of natural gas.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

Operator

Your next question comes from the line of Dan Mannes of Avondale.

Daniel Mannes - *Avondale Partners - Analyst*

Hey everybody.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Hi Dan.

Daniel Mannes - *Avondale Partners - Analyst*

Hi. A couple follow-up questions. First on pricing it sounds like you are making good progress towards the $10 million. Just want to understand that in the context of we are seeing some softness on coal prices, which is usually not a great retirement to be raising price, and we have heard anecdotally that coconut AC pricing has been slipping. Have those been challenged at all, or have the price increase been taken fairly readily?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Keeping in mind that of all of the coal that is out there, there is just a small percentage of coal that is of our quality that we can use, the high grade met coal, so even though coal prices overall have come down, and you read about it, and hear about it, that really hasn't had a big impact on us.

Daniel Mannes - *Avondale Partners - Analyst*

Okay.

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

And relevant to coconut I think the coconut prices have dropped, Dan, in the marketplace. There seams to be some oversupply of coconut carbon on a global basis now. There are some markets obviously where coal and coconut carbons are interchangeable, and in those markets it would be difficult to drive any significant price increases for coal, but the majority of our products that we make, we make ourselves at Big Sandy and Pearl, don't compete directly in the coconut market so in those areas and in reactivation, we have been able to get some price increases, because I think the customers that we supply to appreciate our quality, value, service, timeliness of delivery, and all of that, and like any, if you raise price to anyone, I am sure there are customers who go out and check the market, and make sure that we are giving them value for the products that we supply, and we did lose a few, but we have lost very few customers as a result of our price increase initiatives.

Daniel Mannes - *Avondale Partners - Analyst*

Okay. That is good. Real quick on UK, you have kind of have been talking about this contract a little bit for a while, but can you just (multiple speakers). I wasn't trying to make light of it. I am happy you got it, but if you could just walk through, it sounds like number one from a revenue perspective this should be fully incremental, since they previously self reactivated, I guess the secondary question is, until your UK plant is up and running, will you be making meaningful margin on it, or do you have to ship it through Feluy, or do you have some kind of depressed margins until the UK plant is up and running?

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

I think once the UK plants is up and running we will have margins that are consistent with our normal reactivation business. We are going to see depressed margins when we are taking the carbon back to Feluy, because the transportation costs are significantly higher. So that will impact us.

Randy Dearth - *Calgon Carbon Corporation - CEO*

And we are looking at about a nine month time frame by which we want to get the plant upgraded and ready to go.

Daniel Mannes - *Avondale Partners - Analyst*

Okay. And then just a couple of sort of odds and ends. First of all, what was your backlog on equipment at the end of the quarter?

Steve Schott - *Calgon Carbon Corporation - CFO*

Just over $25 million.

Daniel Mannes - *Avondale Partners - Analyst*

So it's actually down sequentially in spite of what you have been seeing on the ballast water side?

Steve Schott - *Calgon Carbon Corporation - CFO*

That is why my commentary on third quarter revenue highlighted that the equipment will be down again sequentially.

Daniel Mannes - *Avondale Partners - Analyst*

Down again sequentially. Okay. Number two R&D expense can you actually give us your press, it is usually in your Q but not in your press release, can you walk us through what your R&D expense actually was in the second quarter, because it sounds like that you were going to see a bit of and uplift in the second half of the year?

Steve Schott - *Calgon Carbon Corporation - CFO*

Yes. R&D in the second quarter was about $1.5 million, about $1.46 million which was down from $2.5 million in 2012.

Daniel Mannes - *Avondale Partners - Analyst*

And we should, it is fair to expect that to increase sequentially?

Steve Schott - *Calgon Carbon Corporation - CFO*

That is correct.

Daniel Mannes - *Avondale Partners - Analyst*

Got it. And then the last one can you just remind us what the CapEx expectations are for the year and if you can give us any thoughts and next year, that would be helpful.

Steve Schott - *Calgon Carbon Corporation - CFO*

$40 million to $45 million for the full year, and it would be a little early to highlight what next year's might be because as Randy pointed out, we are looking very hard at all opportunities, believe me that is one of our absolute best uses to put our balance sheet to work, so we are scouring for opportunities that are very accretive to our earnings, our cost of capital we are finding some, and as we get approval for those from our Board if necessary, then we will be bringing them to your attention as we did today.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Yes this is really an exciting time, and again there are some projects that have been sitting there that we are now revisiting and hopefully in the next quarter or two, we will be able to talk a little bit more about those projects, and what it could mean for the future of this Company.

Daniel Mannes - *Avondale Partners - Analyst*

Okay, and I am sorry, one more follow-up on the AFR, is there any cash impact here, or you will include, it will be like a [claw back] of the shares effectively?

Steve Schott - *Calgon Carbon Corporation - CFO*

Yes. It will be a claw back to the shares. Not cash.

Daniel Mannes - *Avondale Partners - Analyst*

Okay. Thanks a lot.

Steve Schott - *Calgon Carbon Corporation - CFO*

Sure.

Operator

Next question comes from the line of Scott Blumenthal, Emerald Advisors.

Scott Blumenthal - *Emerald Advisers - Analyst*

Good morning, everybody. Great quarter.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thank you. Good morning.

Scott Blumenthal - *Emerald Advisers - Analyst*

I am not sure if this is a question for Randy or Bob, but I think it was Bob, no I think it was Randy who was talking about 54% of the coal requirements are under contract for 2013. And I would imagine you are probably competing mostly with steel manufacturers for that high grade met coal, and with the state of the steel industry right now, utilization rates being as low as they are, it would seem as though this would be a particularly good opportunity for you to be able to negotiate some of those long-term deals in lieu of what is going on. I was just wondering if you might be able to go through some of the pitfalls, some of the reasons why you haven't been able to get some more of that under contract, and would you want 100% of your requirements under contract, or do you think you might want to be able to go out on the spot market for some of that, just to maintain flexibility for example?

Randy Dearth - *Calgon Carbon Corporation - CEO*

Well that goes back to a comment I just made a minute ago, that there are so many things happening right now in the coal market, and to rely on one source or one scene I think right now is probably not the right thing to do, or one coal company for that matter, given all of the changes and I think there is so much risk to that. So that is why our strategy of diversifying our coal supply as much as possible as been indeed the right way to go, and we will continue with that. So the answer to your question, do I see 100% of our coal on one supplier, I don't see that happening.

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

This is Bob, we continue to evaluate options. We don't want to commit necessarily 100%, because then we could pass up potentially better options that are out there as a result of changes in the market. So we are continuing to look at opportunities and trying to lock in those that look good, not only from a cost per ton perspective but again, trying to understand how that coal processes through our facility, and what the final cost is from an end product standpoint.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Yes. We have and excellent team of folks here including an outside consultants who is with us full time, and whose full time job is just looking at the coal situation, and provides us with tremendous guidance, but this is a daily process to make sure we understand what is happening out there and that we are on top of things.

Scott Blumenthal - *Emerald Advisers - Analyst*

Got it. And I guess for Steve, Steve, in your comments you mentioned lower pricing on a contract that was renewed earlier this year. Which kind of is diametrically opposed to the goals of Phase 2 here, which is margin improvement, and I guess my question is, under what circumstances would you need to take a little more pricing on a contract, and was that a special circumstance?

Steve Schott - *Calgon Carbon Corporation - CFO*

Yes. Well, I would characterize that circumstance as being included in the mercury removal part of our business, and we had said that has been a challenging market. It is one where capacity exceeds the current supply opportunities for all of us participating in that space, and the contract related to that space got, that is a one-off limited circumstance of a contract that we had with that customer entered into five years ago. So it is just an evolution in that market. We think pricing will get better when MATS compliance comes into effect.

Randy Dearth - *Calgon Carbon Corporation - CEO*

And the fact that price went down was not a surprise. Certainly it was expected and we expected it.

Scott Blumenthal - *Emerald Advisers - Analyst*

Okay. Alright. And then one more if I may. I know that we are now into the regs for the sub-100,000 customer utilities to be implementing some of the DBT regulations, and I was wondering if you expected to see more of a bump in sales due to those things coming into effect, and if you think that there might be some period of catch-up here, or do you think we start no see some regulatory enforcement to go back after some of those municipal tease that might not be in compliance?

Randy Dearth - *Calgon Carbon Corporation - CEO*

I don't know that I can comment on the regulatory enforcement because it is tough for me to have the information, but I know there are in fact communities out there, water plants that aren't meeting the regs. What I can say is that the way I look at this market is our new plants putting activated carbon online, and as more plants continue to install activated carbon, and more activated carbon is in fact being used for treatment, that increases the marketplace for reactivation, and in the first half of this year in the US projects bid to install approximately 5 million pounds more activated carbon put online for disinfect and by-product control, so it shows me that the market is growing basically in line with our expectations. I think we have projections for the amount of activated carbon that will eventually be installed, and with 5 million pounds of new carbon being bid for the first half, pretty much following our expectations.

Scott Blumenthal - *Emerald Advisers - Analyst*

That is really helpful. I appreciate it. Thank you.

Operator

(Operator Instructions). Your next question comes from the line of David Rose of Wedbush.

David Rose - *Wedbush Securities - Analyst*

Good morning. I want to follow up on the question on margins for the equipment business, particularly the Ballast water system. If you start to see backlog or see backlog weaker, and you start to see more competitors in the marketplace, are you getting a sense that there is more pricing pressure, or is it just too early to tell just yet?

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

David, there has at times been competitive processes that have led to price pressure, particularly in advance of -- and much like mercury where we have more suppliers in the space, and the regulations are not yet in full effect so yes, there has absolutely been some pricing pressure.

David Rose - *Wedbush Securities - Analyst*

Are you starting to revise your long-term expectations for margins vis-a-vis where they were historically on the equipment side? Do you expect them to be perhaps trending lower than what you initially thought?

Steve Schott - *Calgon Carbon Corporation - CFO*

No. No, we are not revising our long term estimates at this time.

David Rose - *Wedbush Securities - Analyst*

Okay. Great. Thank you.

Operator

At this time, there are no further questions. I will return the call to Randy Dearth for any closing remarks.

Randy Dearth - *Calgon Carbon Corporation - CEO*

Thank you very much. Let me just say that in conclusion, I believe our second quarter results are starting now to demonstrate the success of the initiatives that we have implemented, which we are seeing as improving the profitability of the Company. Going forward we are going to continue to focus on these cost improvement initiatives, and we are going to hope to improve them not only in the short-term, but in the long-term the optimal growth and the performance of the Company. For the future I believe we are positioned well to capitalize on these regulated markets, and in doing so we will have a much better margin, bottom-line situation. So that concludes my remarks, and thank you all for joining us, and we will see you in Phoenix.

Operator

Thank you for participating in Calgon Carbon Corporation's second quarter 2013 results call. You may now disconnect.