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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Calgon Carbon Corporation's second-quarter 2014 results conference call. At this time all participants have been placed in a listen-only mode, and the floor will be opened for your question following the presentation. (Operator Instructions)

It is now my pleasure to turn the floor over to Gail Gerono, Vice President of Investor Relations. Please go ahead.

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

Thank you. Good morning and thank you for joining us. Our speakers today are Randy Dearth, Calgon Carbon's Chairman, President, and CEO; Bob O'Brien, our Chief Operating Officer; and Steve Schott, our CFO.

Before we begin, I would like to remind you that the Private Securities Litigation Reform Act of 1995 provides a Safe Harbor for forward-looking statements. Today's presentations, or perhaps some of the comments that Calgon Carbon's executives make during the Q&A, may contain statements that are forward-looking.

Forward-looking statements typically contain words such as expect, believe, estimate, anticipate, or similar words indicating the future outcomes are uncertain. Statements looking forward in time, including statements regarding future growth and profitability, price increases, cost savings, broader product lines, enhanced competitive posture, and acquisitions are included in the Company's most recent annual report pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested during 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 affect 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 and environmental requirements, changes in foreign currency exchange rates, borrowing restrictions, the 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 discussion 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 - Chairman, President, CEO*

Thanks, Gail, and good morning, everyone. In the second quarter we continued to make progress in building a stronger Calgon Carbon, and I'm pleased with the results. Both top and bottom line showed improvement sequentially and quarter over quarter.

In fact, as noted in the news release that we issued earlier this morning, we had one of the best sales quarters in our Company's history. I am extremely pleased with our efforts to consistently expand gross margin, which increased quarter over quarter by 1.4 percentage points and year over year by 1.7 percentage points. In fact, we have improved gross margin in six of the last seven quarters.

On a year-to-date basis both operating income and EBITDA improved by approximately 5% as compared to the same period in 2013. Our aggressive cost improvement program has been a major factor in our success. We are on track to reach our goal of $40 million on an annual basis by the end of 2016. And we continue to look for additional opportunities to improve costs.

Our success has not been limited to improving results. Our investments in new product development have positioned Calgon Carbon to take full advantage of opportunities provided by two regulatory-driven emerging markets: mercury removal and ballast water treatment. There were some important developments in each of these markets during the second quarter which I would like to report on today.

First, mercury removal: in April the US Court of Appeals upheld MATS, concluding that the regulation was appropriate and necessary. In July the plaintiffs announced that they would petition the US Supreme Court to review the lower court's decision. There is no deadline for the Supreme Court to decide whether or not it will review the lower court's ruling. If the Supreme Court decides to review the case, we believe it should take several months to a year for the appeal to proceed.

The requests for quotation for our FLUEPAC products ramped up in the second quarter, and we expect activity to further increase in the third quarter. Feedback on our advanced products continues to be very positive, and additional tests at utilities are scheduled.

Based on the RFQs received to date, it appears that the length of the contracts will average 2 to 3 years. We continue to expect some contracts to be awarded by the fourth quarter of 2014.

Let's switch to ballast water. There were several positive developments in our ballast water treatment business in the second quarter. We received 27 orders, including four for our new Hyde Gold system. To date in 2014 we have received a total of 59 orders, which represents the largest number of orders placed for Hyde systems over any two-quarter period.

This is very encouraging. In fact, if we include orders placed in July, the dollar value of orders received in 2014 already exceeds the value of orders received in 2012 and also exceeds the value of orders booked in 2013.

A significant portion of Hyde Marine sales have come from repeat business with both shipyards and ship owners. Eight Hyde Marine customers have ordered GUARDIAN systems for 14 or more vessels in their fleets.

In the aggregate, orders from these repeat customers represent approximately 30% of all Hyde orders to date. We consider this a testament to the ability of Hyde Marine to satisfy customers and to support their efforts to comply with ballast water regulations.

As for the International Maritime Convention, prospects for ratification appear to be improving. Following a recent meeting of the International Maritime Organization, it was reported that Argentina, Italy, Japan, and Turkey had declared that they will ratify the Convention before the end of 2014. This would bring the percent of the world's ship tonnage represented by flagged states that have ratified the Convention to 34.2%.

As a reminder, 35% is needed for the Convention to go into force. Indonesia, the Philippines, Belgium, and Finland, which in the aggregate represent over 2% of the world's tonnage, have also indicated that the ratification process is underway.

Turning to the US Coast Guard's ballast water treatment regulations, we continue to work with other ballast water treatment companies to develop a test protocol for UV-based systems which would be acceptable to the Coast Guard. Testing on a proposed protocol is underway at three laboratories.

We remain excited about both the mercury removal and the ballast water treatment opportunities and their potential to significantly contribute to Calgon Carbon's future. Now let's move to the second-quarter financial review, and I will have Steve take over.

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

Thanks, Randy. Good morning, everyone. Total sales for the second quarter of 2014 were $145.1 million versus $140.4 million in the second quarter of 2013, an increase of $4.7 million or 3.3%. Currency translation had a positive impact of $1.7 million, primarily on activated carbon and service and consumer sales for the second quarter of 2014, due to the stronger British pound sterling and euro.

Regarding our segments, sales in the activated carbon and service segment increased $6 million or 4.8% for the second quarter of 2014 compared to 2013's second-quarter. The increase in sales is principally due to higher demand in the environmental water market of $5.3 million, which includes sales of $3.2 million to our water remediation customer in the Americas region.

Sales were higher in the industrial process market by $2.8 million, which was driven by volume increases, primarily in Europe. Also contributing to the increase was higher demand in the food market of $1.6 million, primarily for sweetener customers in the Americas. Partially offsetting these increases was lower volume in the specialty carbon market of $3.6 million, which was primarily due to lower demand in the Americas region for respirator carbon products as a result of a slowdown in US government purchases.

Equipment sales declined $2.5 million or 17.2% for the second quarter of 2014 compared to 2013's second quarter. The decrease was due to lower sales of ion exchange systems of $2 million and traditional UV systems of $2.1 million as a result of several large contracts that were completed during the quarter ended June 30, 2013. Partially offsetting these decreases was an increase in sales for the Company's traditional carbon absorption equipment and ballast water treatment systems of $1.4 million and $700,000, respectively, as a result of new contracts that were awarded in 2014.

Net sales for the quarter ended June 30, 2014 for the consumer segment increased $1.2 million or approximately 58% as compared to the second quarter of 2013, due to higher demand for activated carbon cloth from a single large customer.

Consolidated gross profit before depreciation and amortization as a percentage of net sales was 34.4% in the second quarter of 2014 compared to 33% in the second quarter of 2013, an increase of 1.4 percentage points. The increase was primarily in the activated carbon and service segment and included an estimated $600,000 from price increases in the Americas region that were instituted in March of 2013.

The second quarter of 2014 also benefited from a more favorable product mix, particularly in Europe, where margins improved by an estimated $300,000, as more 2014 sales were for products produced by the Company versus a higher percentage of outsourced carbon products that were sold during the second quarter of 2013. In fact, our carbon and service production volume increased by over 12% in 2014 compared to the second quarter of 2013.

Finally, the second quarter of 2013 included unfavorable adjustments that increased the estimated cost to complete of several projects that were in process in the equipment segment that totaled approximately $700,000.

Depreciation and amortization expense was $7.5 million in the second quarter of 2014 compared to $7.3 million in the second quarter of 2013. The increase was due to depreciation related to the Company's Gila Bend, Arizona, reactivation facility that was placed into service during the second quarter of 2013.

Selling, administrative, and research expenses were $21.2 million during the second quarter of 2014 versus $18.9 million in the second quarter of 2013, an increase of $2.3 million or 12.2%. The increase was primarily due to $1.1 million of expense related to our SAP reimplementation project in 2014. Also in the second quarter of 2013 we realized a $900,000 benefit from the reduction of a multi-employer pension plan liability that did not repeat in the second quarter of 2014.

The income tax rate for the second quarter of 2014 was 27.3% versus 34.4% for the second quarter of 2013. The current year's second-quarter tax expense included a $1.4 million benefit or approximately $0.025 per share related to the completion of an IRS examination and the effect of settlement and release of uncertain tax position liabilities. The Company's tax rate absent this discrete event was approximately 34%.

In summary, net income for the second quarter of 2014 was $15.2 million versus net income of $13 million for the second quarter of 2013, an increase of $2.2 million or 17.2%. On a fully diluted share basis earnings per common share were $0.28 for the second quarter of 2014 as compared to $0.24 for the second quarter of 2013, an increase of 16.7%.

Turning briefly again to our business segments, the activated carbon and service segment recognized $28.6 million in operating income before depreciation, amortization, and restructuring in the second quarter of 2014 compared to $27.7 million in the second quarter of 2013. The increase was primarily due to the previously discussed price increases and more favorable mix of products sold.

The equipment segment recognized a $600,000 operating loss before depreciation and amortization in both the second quarter of 2014 and 2013. Our equipment backlog at June 30 was $20.9 million but is expected to grow by at least 15% in July based on orders for ballast water treatment and traditional carbon absorption systems.

The consumer segment recognized $800,000 in operating income before depreciation and amortization in the second quarter of 2014 compared to $400,000 in the second quarter of 2013. The increase was related to higher sales volume from a single customer.

Regarding our balance sheet, cash increased during the second quarter of 2014. At June 30 we had approximately $43 million of cash. Inventories were $109.2 million for the second quarter of 2014, comparable to the year end of 2013.

As of June 30 the Company had total debt outstanding of $57.9 million, which represents an increase of $23.6 million from year-end. The increased borrowings are in part due to our 2014 share repurchases. During the second quarter we spent $9.7 million for the purchase of approximately 472,000 shares. Year to date our purchases totaled approximately $30 million for 1,485,000 shares.

Cash flow -- operating cash flow was strong, totaling $30.2 million for this year's second quarter as compared to cash flow provided by operations of only $18.4 million in 2013. The $11.8 million increase was primarily due to improved income from operations and $7.9 million of favorable working capital changes. For the first six months of 2014, our operating cash flow was over $22 million better than 2013's cash flow.

Capital expenditures totaled approximately $16.8 million for the second quarter of 2014 and were primarily for improvements to the Company's Catlettsburg, Kentucky; and Burlington, Mississippi virgin carbon manufacturing facilities. For 2014 capital spending is now estimated to be $70 million to $75 million.

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

Thanks, Steve. Bob O'Brien is next with the operations review. Bob?

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

Thanks, Gail, and good morning, everyone. I would like to begin by commenting on the performance of our plants in the second quarter. Production at our virgin carbon manufacturing plants slightly exceeded last year's second-quarter volume despite a 21-day maintenance turnaround at our Pearl River facility. The increase was due to productivity improvements from capital investments made in 2012 and 2013 and the implementation of recommendations on operating methods and procedures from consultants that we engaged last year. We are very pleased with our progress in reducing costs and improving yields, but we continue to be capacity constrained and expect in the future to utilize more outsourced products to meet demand in Europe and Asia.

On our call to discuss fourth-quarter results, I spoke about some major projects underway at our Big Sandy, Kentucky, plant to improve our manufacturing efficiency, reduce costs, and at the same time increase virgin carbon production by approximately 19 million pounds of granular and powdered products. I would like to review the status of two of those projects.

First, we are implementing a project to improve the consistency of our steam supply, which will increase annual production of virgin carbon by approximately 1.5 million pounds. Construction is underway and the project should be complete by the end of this year.

Next, building on the success of the modifications to our Pearl River, Mississippi, plant in 2012, we are upgrading one of the three existing production lines at Big Sandy in order to continue to reduce costs and increase production by approximately 8 million pounds per year. The project will be executed in two phases, with the final phase being completed by mid-2015.

In addition to these Big Sandy projects, we continue to evaluate construction of another production line at Pearl River. The decision to go forward with this project will be largely determined by our commercial success in markets such as mercury removal.

Shifting to reactivation, those facilities also performed well in the second quarter. As previously announced, we intend to upgrade two of these facilities. The modernization and expansion of our potable water reactivation facility at Tipton in the UK is proceeding as planned. Completion and startup of the first phase is scheduled for the fourth quarter of 2014.

Engineering work on the complete refurbishment of our Neville Island, Pennsylvania, industrial reactivation facility is underway. Actual construction will begin once our permitting work is completed. We will strive to minimize the time that the plant is out of service. The cost of this project is expected to be approximately $30 million, and it will expand the capacity of the facility by 40%.

In New York the North Tonawanda potable reactivation facility, which we started up in March, performed very well in Q2. We expect it to operate at a high percentage of capacity throughout the remainder of the year. Similarly, the industrial reactivation kiln at our Suzhou, China, plant ran at a high percentage of capacity during the quarter and is also expected to operate at a high rate through the remainder of the year.

In the second quarter the city of Palmdale awarded us our fourth 10-year contract to reactivate carbon that has been used to control DBPs. We had supplied Palmdale's initial fill with approximately 2.5 million pounds of GAC and had been reactivating that carbon under a five-year contract. We are pleased with the opportunity to extend our relationship with the city for an additional 10 years.

Shifting to the topic of tariffs, I would be remiss if I neglected to mention that in May the US Department of Commerce or the DOC announced preliminary tariffs on coal-based activated carbon imported from China to the US. The average tariff announced, which was based on a period of review from April 1 of 2012 to March 31, 2013, was calculated to be $1.42 a pound, the highest rate since tariffs were first introduced in 2006. The current average tariff rate is $0.075 per pound.

Certain exporters, which are under review, have challenged the surrogate values used in the calculation of the tariff. After considering this input and other information, the DOC will issue final tariff rates in October or November of this year. Whatever the outcome, Calgon Carbon will be assigned the average tariff rate.

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

Thanks, Bob. Next, Steve will make some comments about the third quarter.

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

Thanks, Gail. Following our strong sales in the second quarter, typically our best sales quarter, we believe that our third-quarter sales could decline sequentially by approximately 2% or 3% margins. Our net sales, less cost of products sold before depreciation and amortization, is expected to increase sequentially to approximately 35%.

In the second quarter we did not quite achieve the margin improvement that we had expected. This was due primarily to temporarily higher natural gas prices in the latter part of the first quarter that caused an unexpected increase in our inventory costs, which in turn impacted the second-quarter cost of sales.

Operating expense -- we expect a small increase in these costs sequentially. Finally, our income tax rate is expected to be approximately 34% in the third quarter.

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

Thanks, Steve. Next, we hear from Randy.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President, CEO*

Thanks, Gail. Calgon Carbon has been selling activated carbon products in Central and South America for decades through agents and distributors. A few years ago we decided to look closely at the market there to determine if we could significantly increase our sales, particularly in Brazil, which is the region's largest economy.

The current market for activated carbon in Brazil is approximately 75 million pounds, and a high percentage is powdered product. This provides the opportunity for us to introduce the use of granular activated carbon with reactivation in our service model.

We now have in place the key components to successfully conduct business in Brazil, which includes the hiring of a Director of Business Development who has a proven track record for growing businesses in Central America and South America as well as Brazil. With our experience in activated carbon and a business plan that focuses on making activated carbon technology both easy to use and cost-effective, we believe that the South and Central American and regions, especially Brazil, will provide an excellent environment in which to grow our core business.

We are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

Randy, can we just go back to mercury and your comment about the Supreme Court there? Just to be clear, how does this change, if at all, your thinking about the April deadline? You mentioned maybe as much as a year process here, if in fact the Court takes up the case. I'd like to get a little more clarity on your thoughts there, and how that is impacting how your customers are planning to treat with the deadline just about eight months away now.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President, CEO*

Well, Kevin, as noted, we are looking at this as a long-term issue, if an issue at all. And we do not believe that that is playing into the decisions of the end users, the power utilities, in terms of what carbon and how much carbon they need. So to go back to my comments, we are not too concerned that this is going to be a short-term issue.

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

And so, then, as a follow-up, how do you see this playing out? It sounds like you had a little bit better order rates coming in. You have all along been thinking Q4 is when that would really take off.

Is that still how you see this playing out? The customers don't need to procure the product sooner than that, given, again, that we are eight months out from having to treat?

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

Right. This is Bob O'Brien. I think the market is moving along the way we expected. We are working actively with a number of utilities that have issued requests for quotes.

We are seeing that they are taking a lot of time to make decisions. They are really doing their homework. They are evaluating our products, and I'm assuming the competition as well.

So I think the number of projects that we are involved with is in line with our expectations. Perhaps a little bit surprised that it is taking the utilities as long as it's taking them to make a decision, but we think we are basically following the track that we expected.

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

Okay. Bob, and just finally, is pricing in line with your expectations as well and your win rates as well?

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

Well, I'm not going to comment on pricing, because we are in the middle of a number of discussions. So I don't think it's really prudent for me to say anything.

I think there really haven't been decisions made. So there really is no track record on a win or loss at this point to say whether it's meeting or not meeting our expectations.

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

Okay. All right, I'll get back in queue. Thank you.

Operator

David Rose of Wedbush Securities.

David Rose - *Wedbush Securities - Analyst*

I was hoping you could possibly work through on the margin expectations on the equipment side. You have been struggling to get to profitability on this. And given the ramp, I was expecting to see a little bit more profitability. Maybe you can help me understand what are the puts and takes, and what the expectations are for the back half of the year?

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

This is Steve. I think when you look at the revenue from the equipment segment, it remains relatively low this year compared to last year and the year before. We do expect to ramp up in the second half of the year and hope by year's end we can get that revenue number close to where we were a year ago.

So that would suggest a fairly significant improvement. And as I indicated in my prepared remarks, we have certainly seen some good activity in the early part of July. As for margin capacity --

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David Rose - *Wedbush Securities - Analyst*

Can you get to profitability? Sorry.

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

I think we can be close. I think if you look at having lost $1 million or so in the first quarter, that has dropped to $600,000 in the second quarter. And as we mentioned, I think, on the first-quarter call, we have a number of cost improvement issues directed really at our Hyde and UV business, which we believe will take effect in the second half of the year.

So could we get to profitability? Yes. I think it will be, certainly, an improving scenario as we look out the second half of the year.

David Rose - *Wedbush Securities - Analyst*

Okay. And then my follow-up question is on the opportunities in South America, particularly Brazil. You talk about serving that market, but at the same time, I understand that you would still have to outsource more product. So your commentary around Europe -- margins are probably going to go down because you have to outsource more product. How do you supply Brazil if you don't have product?

Randy Dearth - *Calgon Carbon Corporation - Chairman, President, CEO*

Well, I think we're looking at a longer-term approach to this. We realize we are not going to walk in and have this business overnight. As I mentioned in my remarks, there's not a lot of granulated activated carbon today that's being sold. So we have to develop the market, we have to hire the staff, we have to really understand and sell the value of activated carbon, and granular activated carbon, and reactivation. That's not going to happen right away.

If you tie that to our other comments, looking in our capacity going forward -- as you know, that's a discussion that we have quite a bit here internally. And so anything we do in Brazil obviously would play into that.

David Rose - *Wedbush Securities - Analyst*

So on the margin comment, from -- or at least the implication on margins from outsourcing, you should see more margin pressure as you outsource more product to serve the European market. Is that right?

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

That is true, yes.

David Rose - *Wedbush Securities - Analyst*

All right, thank you.

Operator

Hasan Doza of Water Asset Management.

Hasan Doza - *Water Asset Management, LLC - Analyst*

Just a quick follow-up. On your third-quarter commentary, did you have an estimate for your gross margin for the third quarter?

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

Yes, we did. We suggested it would be about 35%, so a slight improvement, a little over 50 basis points from the second quarter.

Hasan Doza - *Water Asset Management, LLC - Analyst*

And can you explain to me how the increase in nat gas prices led to higher inventory costs in the second quarter?

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

I'd be happy to. And again, that's a comment made against our own expectations. And I think in the February and March time frame, the Polar Vortex caused gas prices -- you know, the prolonged, cold winter caused gas prices to rise somewhat, at least for us, unexpectedly.

While we didn't see that in the first quarter results, those gas prices were incurred in the production of our inventory, which then was sold in the second quarter. And so we simply had a higher cost of sales than we had forecasted to have. Pleased to report that's stabilized since, and that is not an ongoing issue.

Hasan Doza - *Water Asset Management, LLC - Analyst*

Got it. Thank you.

Operator

(Operator Instructions) Dan Mannes of Avondale.

Dan Mannes - *Avondale Partners - Analyst*

First, maybe more of a comment -- I guess I'm surprised that you are surprised that utilities are taking their time. (Laughter)

But I do want to -- I would like to touch first -- and I apologize; I missed the first couple minutes of the call. Can you maybe go back on your commentary as it relates to ballast water orders?

And also, if you can just remind me on the current status of the regulations? Because our understanding is IMO is still kind of up in the air, though it seemed like some progress was made in terms of revising the timeline to make it a little more achievable. But if you can remind me of where that stands, I'd appreciate that.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President, CEO*

Okay. Well, to date in 2014 we've received 59 orders. Okay? And as I mentioned in my comments earlier, that's really the largest number of orders over any two-quarter period, which is very encouraging to us.

So we are excited things are moving in the right direction. We are continually marketing as much as we can market globally to make sure that we are positioned for the retrofit market; positioned, also, with the newbuilds, which we have been successful in. And, yes, we are waiting for the IMO to get closer.

And I know you've heard us say that quarter after quarter. And we are just optimistic at some point in time that this ballast water will get over the hurdle, and we'll be able to sell product.

Dan Mannes - *Avondale Partners - Analyst*

But given, I think, some of the changes to the IMO before ratification, what are the new expected timeline in terms of installations? And how stretched out, if at all, will it be versus maybe what you previously expected?

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

This is Bob. I think it's still the same time frame; it's just a matter of when that time frame starts. And again, as Randy mentioned, you have heard others and ourselves make projections of when the IMO is going to get ratified.

Things we are hearing could make that as early as the end of the year. And then the clock would start about a year after that. So if it would be the end of this year, we would expect to see, then, orders starting right at the beginning of 2016 and probably with something like seven-year time frame to have all the ships equipped.

Dan Mannes - *Avondale Partners - Analyst*

And then if you will indulge me, I was going to ask one more question on mercury. Given the amount of time utilities have had to look at things -- you know, we continue to see new products and solutions come out of the woodwork, whether they be fixed bed like GORE's product; or other sorbents, like the amended silicates; not to mention other activated carbon sources, like some of the biomass sources.

So I'm just wondering; I don't know if you can frame any changes in terms of the mercury market from maybe what you previously expected? Or do you still view path number one as the primary solution, and all these other things are kind of just sidelines?

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

This is Bob again. I think I would say we would be in line with your latter comment. We believe that powdered activated carbon is going to be the dominant or the most utilized technology, I'll say, in meeting the mercury issue. And there are other people that look to enter the market, because it is a large market. And I think our expectation is there will be people who will try and enter it with different technologies.

But at this point we still feel very convinced that activated carbon, powdered activated carbon, is going to be the solution. And we continue to be convinced our products will have value in the marketplace and will get a good share of our business.

Dan Mannes - *Avondale Partners - Analyst*

Sounds good. Thank you very much.

Operator

(Operator Instructions) JinMing Liu of Ardour Capital.

JinMing Liu - *Ardour Capital Investments - Analyst*

Just a quick follow-up on the natural gas cost impact on your margins in the second and first quarter. I was just trying to get some idea of how big the impact natural gas have on the cost of active carbon production. And also, do you currently have any hedging position in place on natural gas?

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

We do hedge. We don't necessarily discuss how much we hedge, but we do have hedges that go out 18 months. The impact, JinMing Liu, on the second-quarter cost was over $0.5 million.

And if we look at the aggregate impact of natural gas, in terms of our product costs, it impacts reactivation as a percent of total costs more than it does virgin carbon. But it's important to both. But it's less than a third of the cost of coal. So, to be sure, it's not by any means the largest input factor.

But we did see an unexpected increase at the end of the first quarter, which impacted Q2, as I noted. And as I also noted, that will not continue for the rest of the year. It has stabilized.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. My next question just relates to your virgin granular capacity. With your capacity constrained, is there anything imminent for you to build a new, larger virgin capacity?

Randy Dearth - *Calgon Carbon Corporation - Chairman, President, CEO*

Yes. And I think in our prepared remarks, we talked about the fact that we continue to look at that. We focus mostly at the moment on expanding our Pearl River production capacity by potentially adding another line. And in the meantime we are making some fairly significant capital investments to, as Bob O'Brien mentioned in his remarks, add as much as 19 million pounds of capacity over the next year or two by expanding some of our virgin production, principally at our Big Sandy plant.

JinMing Liu - *Ardour Capital Investments - Analyst*

Yes. Well, that was because before you mentioned the potentially greenfield or brownfield virgin capacity. So is that still on the table?

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

Yes. Right now we are spending a tremendous amount of time, both at the management level as well as on the engineering side, looking at all of our options around the world, looking at greenfield sites, looking at expansion of existing sites, looking at debottlenecking. This is a very high priority for us.

We want to make sure that we have the right product at the right place at the right time. And like you said, we will continue to focus on that. We will announce to you as we can announce -- whether it be a debottlenecking project, or perhaps even in the future a greenfield. But at the moment we are just continuing our analysis and doing the work we need to do.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay, got that. Thanks.

Operator

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

Randy Dearth - *Calgon Carbon Corporation - Chairman, President, CEO*

Let me just say thank you all for joining us today for our Q2 call. We do look forward for you to hear again from us in the fall about what's happening with Calgon Carbon as we continue to build a strong company. Thank you all for joining us and have a great weekend.

Operator

Thank you. That does conclude today's Calgon Carbon Corporation second-quarter 2014 results conference call. You may now disconnect.
