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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Calgon Carbon's third-quarter 2014 earnings conference call. (Operator Instructions). It is now my pleasure to turn the call over to Gail Gerono, Vice President of Investor Relations. Gail?

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

Thank you, Maria. Good morning. 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 the formal presentations, I would like to remind you that the Private Securities Litigation Reform Act of 1995 provides a Safe Harbor for forward-looking statements. Today's presentations or perhaps some of the comments that Calgon Carbon's executives make during the Q&A may contain statements that are forward-looking. Forward-looking statements typically contain words such as expect, believe, estimate, anticipate or similar words indicating that future outcomes are uncertain.

Statements looking forward in time, including statements regarding future growth and profitability, price increases, cost savings, broader productlines, 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 the 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, cost of imports and related

tariffs, labor relations, capital environmental requirements, changes in foreign currency exchange rates, borrowing restrictions, (inaudible) of patents and other intellectual property and pension costs.

In the context of the forward-looking information provided in this call and webcast, please refer to the discussions of risk factors and other information detailed in as well as the other information contained in the Company's most recent Annual Report. Randy?

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

Gail, thank you very much and good morning, everybody. As I said in this morning's news release, we had a pretty solid quarter. There were sequential increases in gross margin before depreciation and amortization, operating income, net income and earnings per share, which were \$0.23 on a fully diluted basis. And operating expenses increased by only \$200,000 sequentially despite \$1.1 million in expenses related to our SAP reimplementation project. This exemplifies our ongoing emphasis on expense control.

Now let's talk about some of the key highlights in the third quarter. First, we continue to reap the benefits from our global cost improvement program, including savings in the coal costs due to favorable pricing in the five-year coal contracts that we negotiated late last year. Comparison of quarter-over-quarter coal costs should be favorable going forward. We expect to realize our goal of improving costs by \$40 million on an annual basis beginning in 2016. And as I've said before, we'd like to surpass that number.

Another highlight of the third quarter, which should contribute to revenue growth, is a recent award of significant contracts in our traditional markets, including an initial fill of 7.2 million pounds of granular activated carbon for a drinking water treatment plant in Korea, which we have been pursuing for several months. Delivery of the carbon is expected to begin in December and conclude in the second quarter of 2015. I want to point out again that this is our second major Korean contract in the past eight months.

Also, it is worth noting that we were awarded six contracts related to compliance with the EPA's disinfection byproduct rule -- 1.6 million pounds for a new fill in Texas and five contracts for carbon exchanges totaling 2.6 million pounds. In addition, we continue to make progress in converting US municipal customers that have traditionally used only virgin carbon to customer reactivation. Year-to-date, 20 customers have made the change. Bob will discuss this strategic initiative in more detail later in the call.

Ballast water treatment sales achieved a milestone in the third quarter. Hyde Marine received 24 orders in the quarter, which represents the largest number of orders received in any three-month period. Year-to-date orders totaled 82, 57 for Hyde GUARDIAN and 25 for the GOLD systems.

I would also like to highlight that, in the third quarter, Hyde signed a very important memorandum of understanding with Edison Chouest Offshore that guarantees availability of at least 250 Hyde GUARDIAN ballast water treatment systems to ensure that Edison's fleet will be in compliance with ballast water treatment regulations. This agreement is expected to generate approximately \$35 million of revenue over a seven-year period with high-rate purchasing beginning in 2016 when Edison's existing fleet must start to comply with US regulations.

The MOU clearly demonstrates Edison Chouest's confidence in our systems, as well as confidence that the US Coast Guard's ballast water treatment regulations will be in force going forward. The agreement is also significant because it supports our belief that some shipowners will select systems from a single supplier to be installed on their fleets. Edison Chouest is a repeat buyer having purchased 15 Hyde GUARDIAN systems before the MOU for the newbuild program. We expect that repeat business will be a characteristic of the ballast water treatment market. If this proves to be the case, the 400 systems sold to date by Hyde Marine could clearly provide a competitive edge in the marketplace. Not only are we seeing new contracts for carbon and reactivation services, but our ballast water treatment business is also moving in the right direction.

In addition to these successes in the third quarter, we have a number of strategic activities in progress that should play a very important role in the future of our Company. Two of the most important are the Mercury removal market and ongoing expansion of our virgin carbon supply. Bob will discuss these later in the call in detail. But first, I would like to have Steve review the third-quarter financials. Steve?

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

Thanks, Randy. Good morning, everyone. Total sales for the third quarter of 2014 were \$137.7 million versus \$139.4 million in the third quarter of 2013, a decrease of \$1.7 million, or 1.2%. Currency translation had a positive impact of \$600,000, primarily on activated carbon and service and consumer sales for the third quarter of 2014 due to the British pound sterling.

Regarding our segments, sales in the activated carbon and service segment increased \$1.3 million or 1.1% for the third quarter of 2014 compared to 2013's third quarter. The increase in sales is principally due to higher sales in the industrial process market of \$2.1 million driven by an increase in volume of approximately 12%, which was primarily in Europe and Asia. Also contributing to the increase were higher sales in the environmental water market of \$800,000 related to a water remediation customer in the Americas region. Partially offsetting these increases was lower volume in the specialty carbon market of \$1.6 million, which was primarily due to lower demand for metal recovery products as sales in 2013 did not repeat in 2014.

Equipment sales declined \$2.6 million, or 19.5% for the third quarter of 2014 compared to 2013's third quarter. The decrease was due to lower sales of both traditional carbon adsorption and traditional UV systems, up \$2.4 million and \$1.1 million respectively as a result of several large contracts that were completed during the third quarter of 2013 that more than offset new contracts in 2014. Partially offsetting these decreases was an increase in sales for ballast water treatment systems of \$600,000 resulting from new contracts that were awarded in 2014.

Net sales for the quarter ended September 30, 2014 for the consumer segment declined approximately \$400,000, or 13.8% as compared to the third quarter of 2013 due to lower demand for activated carbon cloth. Consolidated gross profit before depreciation and amortization as a percent of net sales was 34.6% in the third quarter of 2014 compared to 33.3% in the third quarter of 2013, an increase of 1.3 percentage points. The increase was primarily in the activated carbon and service segment and included approximately \$800,000 from price increases in the Americas region that were instituted in March of 2013. The third quarter of 2014 also benefited from lower coal costs of approximately \$700,000 and the continued favorable impact from our cost improvement programs.

Depreciation and amortization expense was \$7.6 million in the third quarter of 2014 compared to \$7.3 million in the third quarter of 2013. The increase was due to depreciation related to the Company's Gila Bend, Arizona facility that was placed into service during the second quarter of 2013. Selling, administrative and research expenses were \$21.2 million during the third quarter of 2014 versus \$21 million in 2013, an increase of only \$200,000 or 1%. The increase was primarily due to \$1.1 million of additional costs related to the SAP reimplementation project, which commenced in January of this year, aimed at improving the functionality of the Company's enterprise resource planning system. Partially offsetting that higher expense for the quarter was the favorable impact from our cost improvement programs.

The income tax rate for the third quarter of 2014 was 33.7% versus 31.5% for the third quarter of 2013. The increase in the effective tax rate compared to the prior year was primarily related to a less favorable mix of income earned in foreign jurisdictions whose tax rate is lower than the US, as well as uncertain tax position liabilities released in 2013 in excess of those released in 2014.

In summary, net income for the third quarter of 2014 was \$12.2 million versus net income of \$11.9 million for the third quarter of 2013, an increase of \$300,000 or 2.9%. On a fully diluted share basis, earnings per common share were \$0.23 for the third quarter of 2014 compared to \$0.22 for the third quarter of 2013, an increase of 4.5%.

Turning again to the Company's business segments, the activated carbon and service segment recognized \$26.8 million in operating income before depreciation and amortization and restructuring in the third quarter of 2014 compared to \$25 million in the third quarter of 2013. The increase was primarily due to price increases in the Americas region, lower coal costs and benefits from our cost improvement initiatives. The equipment segment recognized an \$800,000 operating loss before depreciation and amortization in the third quarter of 2014 and a loss of \$600,000 in the third quarter of 2013. The additional loss was primarily due to lower sales volume that I previously discussed. Backlog for the equipment segment was \$21.1 million as of September 30. The consumer segment recognized \$400,000 in operating income before depreciation and amortization in the third quarter of 2014 compared to \$800,000 in the third quarter of 2013. The decrease was related to lower sales volume from activated carbon cloth.



Regarding our balance sheet, cash increased as of the third quarter of 2014 and at September 30, we had approximately \$42 million of cash. Receivables were \$96.3 million for the third quarter of 2014, approximately \$700,000 lower than year-end 2013. Inventories were \$104.2 million for the third quarter of 2014, which is \$5.3 million lower than year-end 2013 as a result of lower finished goods inventory costs in 2014, as well as a reduction in our coal inventories.

As of September 30, the Company had total debt outstanding of \$54.2 million, which represents an increase of \$19.9 million from year-end and primarily relates to borrowings under our US credit facility. These additional borrowings were for share repurchases made during the first two quarters of 2014. While we did not purchase any shares during the third quarter, ongoing share repurchases remain a part of our capital allocation and we expect to resume share repurchases during the fourth quarter.

Operating cash flow was \$21 million for the third quarter of 2014, which was comparable to that of the third quarter of 2013. However, on a year-to-date basis, operating cash flow of \$61.4 million reflects improvement of \$22.2 million, or 57% over 2013 as a result of favorable working capital changes. Capital expenditures totaled \$18.4 million for the third quarter of 2014 and were primarily for improvements to the Company's Catlettsburg, Kentucky and Pearlington, Mississippi virgin carbon manufacturing facilities, as well as for our SAP reimplementation project. On a year-to-date basis, capital expenditures totaled \$43.8 million. Our estimated spending on capital for the full year is currently estimated to be \$70 million to \$75 million. And I will now turn it over to Bob.

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

Thanks, Steve. First, I would like to address the tariff on coal-based activated carbons imported to the US from China. On November 19, the Department of Commerce will announce final tariff rates covering the period from April 1, 2012 to March 31, 2013. These rates will also become the deposit rates for future imports. The preliminary average tariff, which was announced in May, was \$1.42 per pound. This was the highest rate tariff since tariffs were first imposed in 2006. Calgon Carbon will be assigned the average tariff rate.

Next, I would like to provide an update on our initiatives to increase our virgin carbon supply to meet the demands of our traditional and emerging applications, particularly those high growth opportunities such as the control of mercury that have developed in the US market. First, expansion of our US production. As I said on our last call, we have a number of capital projects underway at our Big Sandy plant, which will increase our virgin carbon production capacity, as well as reduce costs. The project to improve and increase our steam supply will be completed in early 2015 and add approximately 1.5 million pounds per year of capacity.

Another major project to increase the capacity of one of our three lines by 8 million pounds per year was initiated with the first phase of this project being completed in Q3 of this year. The entire project will be completed by the end of 2015. For the period of 2014 through 2017, we estimate that our debottlenecking and operational improvement projects at Big Sandy and Pearl River will add approximately 20 million pounds of granular activated carbon to our annual production and we aren't stopping there. We're continuing to investigate and develop additional production enhancement ideas.

We have also now completed the preliminary design and engineering work to construct a second production line at our Pearl River facility. This line would have a rated capacity of 60 million pounds per year of filter sorb quality granular activated carbon products. The actual capability of this line, however, would be highly dependent on the mix of products to be produced. Lower activity or products with lower surface area could be manufactured at higher rates. We expect a decision on whether or not to move forward with this project to be made in the first half of 2015.

Our second initiative involves the continuing conversion of US municipal drinking water customers from the use of virgin granular carbon to custom reactivation at one of our three potable reactivation sites in the US. We have made solid progress in the first 10 months of 2014 with 20 additional customers opting for reactivation over the use of virgin material. We have now provided reactivation services to 100 municipal water facilities in the US or approximately 25% of the 400 major water treatment facilities in the US using granular carbon. These conversions have allowed us to divert virgin carbon normally used in municipal markets to other opportunities.

Our third initiative, which is currently underway, will capitalize on our relationships with select Asia-Pacific carbon manufacturers to supply a larger portion of the needs of our new and existing virgin carbon customers in Europe and Asia. This will permit us to keep more of our Big Sandy and



Pearl River production in the US. We are very confident that as we implement these initiatives, we will have sufficient virgin activated carbon to meet the needs of the wide variety of the markets that we serve, including the mercury control market today and into the future.

Next, I would like to discuss developments in the mercury control market. We remain actively engaged with a number of utilities in the US and Canada for the supply of their powdered activated carbon needs. The rate at which we have been receiving requests for quotations continues to increase. To prospective electric utility customers, we offer a complete range of products from our standard or first-generation products to a suite of new advanced products, which we believe will provide them with significant performance and economic benefits.

As we have previously reported, many utilities have successfully tested our products and additional tests have been scheduled over the next few months. In several of these tests, our products have enabled the utilities to achieve very difficult mercury removal targets, which we believe could not be achieved with competing products. We believe we have about a 30% share in dollars of the current North American market for mercury removal. The existing market is slightly less than one-third of the total projected market of 350 million to 550 million pounds by the year 2017. In 2015, PAC used by utilities should grow to be about two-thirds of the ultimate total market. The full market will begin to develop in 2016 when utilities that have been granted one year's extension must be in compliance with the MATS regulation. We expect to retain our existing customer base and to maintain our current marketshare as additional electric utilities begin to initiate powdered carbon injection.

Our marketing strategy remains to provide the best value and lower overall cost solutions for mercury control to our utility customers, which, in many cases, does not mean just the lowest cost per pound of powdered activated carbon. We expect that our strategy will enable us to sign a number of supply contracts over the next several months, which will provide value to both our customers and our shareholders.

Moving on to ballast water treatment, there has been progress on the regulatory front regarding the International Maritime Organization's ballast water convention. In October, Turkey and Japan ratified the convention bringing the total number of signatories to 43 and increasing the world's shipping tonnage from 30.3% to 32.5%. Recall that 35% is required for adoption of the convention and it will enter into force one year after it is ratified. At a meeting of the IMO's environmental committee in October, the Secretary General stated that he expects the convention to be ratified, in his own words, very soon. His remarks were based on assurance from several member states that they are well along in the ratification process.

Work with the US Coast Guard and EPA on developing an acceptable test method for UV-based ballast water treatment systems continued in Q3. We are planning to test Hyde Marine systems for Coast Guard type approval beginning in the second quarter of 2015.

In addition to the MOU that was mentioned early in the call, in the third quarter, Hyde Marine also signed agreements with Goltens Green Technologies, Singapore-based Keppel Shipyards and SeaQuest Marine to carry out retrofit installations of Hyde GUARDIAN gold ballast water treatment systems. They guarantee the availability of gold systems in Oslo, Miami, Dubai, Singapore, Shanghai and the Netherlands. These partnerships position Hyde Marine to meet shipowners' retrofit needs in Europe and Asia when compliance with the IMO's convention is required.

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

Thanks, Bob. Next, Steve will provide some additional comments on our quarter and provide commentary on the fourth quarter.

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

Thanks, Gail. First, regarding our reported third-quarter results, beginning with revenue, the revenue we achieved was at least \$3 million less than we had anticipated at the time of our second-quarter earnings call. There were several reasons for this shortfall. First, our equipment business sales in the third quarter were \$3 million less than we had expected. Order intake and backlog has since improved. In particular, Hyde Marine's order intake has been very strong and backlog has increased from \$6.5 million at June 30 to \$8.1 million at September 30, an increase of \$1.6 million. In addition, our ion exchange business has also been seeing a recent improvement.

Second, the dollar strengthened more than anticipated against both the euro and the yen. We estimate this caused our revenue to be at least \$700,000 less than we had forecasted. Third and finally, our America's municipal group had several significant initial fills of virgin granular activated

carbon push out of the third quarter as the underlying construction projects were delayed. These revenues will be realized later this year or early in 2015.

Gross margins pre-depreciation and amortization, we had expected our margins to improve to 35%, but fell just short at 34.6%. Our overall margin performance in the third quarter was burdened by our equipment business, as well as increased competition in Japan from carbon manufactured in China. Nevertheless, we are pleased with our overall progress having improved this metric in seven of the last eight quarters. Going forward, we believe we will achieve margins of 35% or more as our cost-savings initiatives provide their anticipated benefits.

Now looking ahead to the fourth quarter. Revenue, we expect our fourth-quarter revenue to improve by several million dollars sequentially. The improvement is expected to come from a portion of the South Korean virgin carbon contract announced last week, as well as from the municipal water sales that moved from the third to the fourth quarter. Compared to 2013's fourth quarter, the anticipated sales levels should represent an improvement of at least 5%.

Gross margins pre-depreciation and amortization, we expect our gross margins will show continued modest sequential improvement for the fourth quarter. Operating expenses, we expect our operating expenses to increase sequentially to approximately 16% of revenue. This increase is likely to result from several corporate initiatives, including our SAP reimplementation project.

In addition, as our US pension plans have become more fully funded, we are beginning a process to mitigate our pension risk by offering a select group of former employees the opportunity to receive their defined benefit, pension benefits currently in cash. It is too early to determine the non-cash settlement charge that may result from this initiative. Income taxes, we expect our fourth-quarter income tax rate to approximate 34%.

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

Thanks, Steve. Before we go to Q&A, Randy will make some concluding remarks. Randy?

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

Thank you, Gail. As we conclude, I just want to say a few things. First, I want to say I am pleased with how things are developing at Calgon Carbon, especially what we've achieved this year. And as I've said to many of you, we are improving how we do business to prepare the Company for future growth, both in the regulation-driven, as well as our traditional markets. I am confident that we will be announcing some mercury contracts within the next few months, which will play a big role in transforming our Company. So with margins expanding, which you will recall was a key initiative of mine, we can now put more focus on our next key initiative and that's going to be global revenue growth. So we thank you for your attention and we will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Thanks, good morning. Randy, can we start with revenue? Based on the guidance that Steve just gave for Q4, we're looking like minimal revenue growth for the year after a slightly down 2013. I'm just wondering -- you're winning a number of awards, you're converting customers to reactivation to free up capacity, you're doing other things to expand your virgin capacity, but this will be two years in a row of really minimal revenue growth. And I know mercury is still mostly ahead of us, but can you just address that and when do you think we might see more robust revenue growth actually showing up here? Should that start to happen in the first half of 2015?



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

A lot of what we're focused on, as I ended my comments with, is how can we now position Calgon Carbon to really capitalize on opportunities and not only domestically, but around the world. You heard me talk last quarter about opportunities we potentially see in South America. I'm happy to say we have a team in place. They are actually here in the United States training; they are here in Pittsburgh. So I'm confident that that perhaps could happen quicker than we had thought.

A big focus, and you heard it in our results, is around our equipment business. So we're putting a lot of effort now in terms of understanding what opportunities are ahead of us. For instance, in our carbon absorption business, we're looking at DBP conversions with smaller utilities next year and they really could benefit from our equipment. So we are looking at upticks in that.

As we said, our Hyde Marine orders we hope to increase. That's on an upswing. Our ISEP business, although it's a bit smaller, we're focused on how we can improve that. And we're really focused a lot now on traditional UV. You know last year we had an LA contract that did not repeat itself and that's a big contributor why year-over-year we haven't been able to match that number, so looking with our UV folks at how we can find those next large UV installations that we could benefit from.

In terms of our carbon and service, with reactivation, I think Bob said it well. I mean we're still looking at a large number of customers that have yet to convert to reac. We have the capacity, we have the units over the last couple of years that we've installed. That's going to be a strategy as well to convert those to the benefits of reactivation. So there is a lot ahead of us, but, as I said, this is a key, key focus for us and you will hear more. Mercury, I think we outlined that pretty clearly. We hope to have a decent marketshare and see that grow not only into 2015, but into 2016 and 2017.

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

You mentioned a 30% marketshare number on the mercury side. That's been your experience to date. Is that kind of what you're expecting going forward as well as this starts to really mature because I think you made a comment about expecting to announce a number of awards in the not-too-distant future?

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

Yes, let me try to put that into perspective for you. So we've said this to the market in the past. Currently, of our carbon and service revenue, about 5% we could attribute to this market and we expect to double that. So I think that puts it into perspective for 2015.

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

And again, that's a specific 2015 goal, Randy, to double that 5% based on mercury?

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

Exactly. In dollars, in revenue.

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

Right. And just finally for me, any update in terms of the end of mercury customers here in terms of the numbers that are either getting the one-year delay or doing other things like considering converting to gas or closing altogether?



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

I'm going to defer to Bob and he can give you an update on what our knowledge tells us from the market.

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

I think we reported last quarter -- certainly there are utilities that have either shut down their operations or are planning to convert to gas. It's still a very large market and that's why even though we have the range, we still expect a lot of activated carbon to be used. Starting in 2015, we'd probably say about two-thirds of the utilities that will be required to use activated carbon to control their mercury will actually come online. So about two-thirds of the market by 2015 and the remaining third starting to inject in 2016.

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

Okay, got it. Thank you.

Operator

Ben Kallo, Baird.

Ben Kallo - *Robert W. Baird - Analyst*

Hi, good morning. Thanks for taking my question. Randy, when you look ahead to capacity expansions, the potential capacity expansions adding a third line, maybe Bob also, what is the go/no go decision and how quickly can you guys move forward with that? Is there any kind of risk that when you decide to move forward that you're late to the game and maybe you could just wrap in the competitive environment out there with the other players and their capacity situation? And then also my second question is on the front of ballast water. It's taken a couple of years for the IMO to get in gear here. How has the competitive market changed if it has changed over that timeframe leading up to the approval or the ratification of that? Thank you.

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

Yes, let's talk about capacity. And again, I want to point out that we've been looking at capacity for the last few years. We expanded Pearl River in 2012 by 8 million pounds. Bob laid out about 20 million pounds of standard granular product that we hope to have by next year, so we haven't been asleep at the wheel. We've been, in the most cost-effective way we can, expanding capacity.

That being said, to your question, as Bob said, probably in the first half of 2015, we will evaluate every piece of data that we have in terms of outsourcing availability, looking at how we've been able to increase our capacity and quite honestly product mix and just to define that is that my capacity changes, if I'm producing 100% granular activated carbon versus 100% powder, I can get more throughput the more powder I produce. So that's going to play into our decision as well looking at again how much of our capacity we need for particularly the FLUEPAC.

We are looking at other agreements and types of relationships around the world. Bob pointed that out all over the Asia-Pacific region where we believe there's activated carbon that meets our high standards and that as well can provide us with some leeway in terms of future expansion. So we have a lot on our plate in terms of data and we need to make the right decision that's going to create the best value going forward. In terms of the IMO, I think your question was, Ben, has it changed.

Ben Kallo - *Robert W. Baird - Analyst*

My question was how has the competitive market changed over the three years since we expected it to be ratified.

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

Yes, I'm going to have Bob answer that.

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

Ben, it's certainly an evolving situation. We've had new competitors enter the market. We've had some competitors leave the market because frankly you've had to have some staying power to be able to continue to serve this market. So I think we still believe we're in a leadership position. We think we've sold the most systems, we think we've established good relationships with many of the shipowners. We have systems that have been put online and are running with minimal, minimal issues; they are running fine. So we think we're in pretty good position relative to the competition. Obviously there's going to be a lot of business, there will be business for many manufacturers and just like mercury, we think we're going to get a good share in the ballast water treatment segment.

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

And again, I want to reiterate what we said in our comments and you also saw this in the press release a few months ago, but the relationship now with Edison Chouest I think is clearly a vote of confidence that we have a system that indeed works. And the whole concept of the fact now that we have shipowners and yards that just want to deal with one supplier, minimize their training, minimize their spare parts. I mean that's a good thing.

Ben Kallo - *Robert W. Baird - Analyst*

Great. Thank you very much.

Operator

Michael Gaugler, Brean Capital.

Michael Gaugler - *Brean Capital - Analyst*

Good morning, everyone. I'm looking through some of Bob's comments earlier, debottlenecking and expansion at Pearl River and totaling all that up in terms of capacity, it sounds like the building of a greenfield plant is probably off the table. Is that correct?

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

That is a correct assumption, Michael.

Michael Gaugler - *Brean Capital - Analyst*

Okay, otherwise, the rest of my questions have already been answered. Thank you.



Operator

David Rose, Wedbush Securities.

David Rose - *Wedbush Securities - Analyst*

Hi, good morning. Thank you for taking my call. A couple of follow-up questions and I guess starting with the pricing environment. You commented about the pricing benefits that you had in March and as we look to next year and think about volumes implicit in the growth rate this year, volumes are down, I would assume flattish to downish. So next year, how do you think about the headwinds that you might face in pricing? You had a nice increase this year. Is there room for you to do that next year or should we expect a pricing headwind?

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

Yes, I'm going to give you my perspective and I'm going to turn it over to Bob who runs the business and he can give you his. But we're constantly going to be looking at our value proposition across all of our products, all of our markets around the world; I mean that's part of our responsibility. And to answer that question, we will look at the situations as they evolve and make our decisions accordingly. Bob, do you want to add to that?

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

I don't know that I really have too much to add to that, Randy. I think we continue to evaluate the competitive landscape in the US and in Europe and in Asia. I think that we have I'd say less headwinds. I think we have some opportunities for next year and we will be certainly evaluating what the amount that we can get. But we're certainly going to be tasking our commercial people to see how we can maximize the pricing going forward.

David Rose - *Wedbush Securities - Analyst*

Okay. And then on backlog, I think in the last quarter you expected backlog would increase 15% in July. So just to be clear, the shortfall in that backlog number that didn't materialize in the quarter, was it Hyde or was it the traditional systems, just to be clear?

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

Yes, I think it's more the traditional UV systems and to a certain extent also our traditional carbon absorption systems. So those were the two areas where we're not seeing the rate of backlog intake that we would want at this point. We do think they will improve, but for the third quarter, clearly, net-net we didn't move the backlog number up the way we would have wanted.

David Rose - *Wedbush Securities - Analyst*

Okay. And Steve, that's helpful and then just a clarification. I understood in Randy's comments that this was the best quarter in terms of orders for Hyde, but I think last quarter you were at 27 orders, if I'm not mistaken. And this quarter you were at 24. Did I misunderstand something?

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

I have to go back and check; I don't have the second quarter with me.

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

Actually it was referring to all three months, not just one month, right?



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

No, a quarter.

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

Sorry, David. I don't think any of us have that number. So I apologize if we weren't accurate with it. Just don't have it in front of us to comment.

David Rose - *Wedbush Securities - Analyst*

Okay, no, that's fine. I mean I can follow up with you. And then lastly, if you can just paint some preliminary thoughts about CapEx for next year and maybe give us a ballpark high end, low end of what you're thinking.

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

Well, we're going to go through our planning process in the next month or so, so it would be premature. I will say we have underspent this year clearly probably by \$10 million to \$15 million and the nature of the projects are such that they will roll into next year because a lot of what we're doing right now are these capacity enhancements, not to mention that we're spending in reactivation improvements both at Neville Island and at our Tipton UK facility. So I would expect that our capital for next year will remain relatively high, but to put ranges around it I think it's a bit premature. So I would ask you to be patient. We'll give an update when we finalize our plan in early next year.

David Rose - *Wedbush Securities - Analyst*

Okay, great. Thank you and I'll get back in the queue.

Operator

JinMing Liu, Ardour Capital.

JinMing Liu - *Ardour Capital Investments - Analyst*

Good morning, thanks for taking my question. First is about -- the first question is about your CCJ, the Japan subsidiary. We haven't talked about that sub for some time, so what's going on there? How much -- also for the third quarter how much (inaudible) headwind was from Japan?

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

The third quarter definitely was a challenge for that business. We've seen more influx of Chinese carbons serving that market and while we still get good value for our US carbons, we are certainly seeing some pressure. I think our margin points were down perhaps 12 full percentage points in the third quarter. We don't expect that to continue, but it was a challenge and couple that with the weaker yen and clearly the sales that we're deriving from that entity are less, it's something that we're focused on. We expect it will improve from where we were in the third quarter, but it is a challenge for us. We had absolutely righted the operations. We rightsized the organization for the business we were enjoying, but there has been a dip and we're going to be taking a careful look at it.



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

I think one point I would like to add to that, and I think it's evident in Korea with our two contracts in Japan we could say the same, there is a tremendous value in American produced granular activated carbon, especially in the water space and we will continue to capitalize on that, as Steve said, where we can. Especially in the Japanese market, the competition in some of the other areas where that perhaps isn't the key attribute of the decision is tougher, no question.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay, so if I understand correctly, you didn't use source carbon from China with your Chinese sub there, but actually exported it from the US to Japan.

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

Well, it depends on the market. Some of the markets that we serve, a large particular market in Japan and in Asia, which is serviced out of Japan, is for the control of SOx and NOx emissions, which uses large pellet and we have a lot of technical expertise in that area. We are a leader in the market, but that is a product that we actually buy from China and then provide to our customers. And that's a particular area that has come under some price pressure. So in supplying the Japanese market, we both supply product from the US and we purchase product from manufacturers in China and Southeast Asia and it's probably the latter that has come under more price pressure than the former of the US product. But it is a more competitive market in the last six to nine months.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. Let's switch to the possible second line in Pearl River. Could you give us a potential CapEx number for that or you have not decided on that yet?

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

Well, I would say we haven't decided yet. We've always gone with the metric for our investors that is \$2 per installed pound of production. Bob referenced potentially a 60 million pound line. So that would suggest 120 million, but ultimately it will depend on all the bells and whistles that go with the plant, but it's going to be well over 100 million to the extent we build a plant the size of which -- a production line the size of which we discussed today.

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

No, I agree with that and again, there's still a lot of data points that we want to evaluate before we would make a decision to do that.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. Lastly, your ballast water equipment sales, from that specific productline, what is the gross margin, whether it's comparable to your traditional UV or carbon equipment (inaudible) has the lower margin?

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

We don't tend to give business unit detail within the equipment business. In general, it's been fairly comparable with the other pieces of our business.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay, got that. Thanks a lot.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - *Sidoti & Co. - Analyst*

Hi, good morning, everyone. I just wanted to be clear on the expectations on PAC demand going into 2015 and 2016. You had indicated that you thought two-thirds of the utilities would need to comply next year with an additional third in 2016. One of your peers seemed to indicate sort of a flip-flop of those numbers.

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

I don't know -- it's not the number of utilities; it's the pounds represented by the utilities who are to comply, just to be clear.

Christopher Butler - *Sidoti & Co. - Analyst*

I see. So it may be an apples-to-oranges comparison.

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

It could be.

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

Yes, I would say that, yes.

Christopher Butler - *Sidoti & Co. - Analyst*

And as we look at the profitability, the mix of added PAC sales next year, is it going to be comparable to the 5% that you're doing now?

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

Yes, that would be our expectation, yes.

Christopher Butler - *Sidoti & Co. - Analyst*

Shifting over to ballast water, I had heard some rumblings that there may be some possible changes to the regulation in order to speed up ratification. Could you speak to that and expectations on how that may affect you?



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

I don't really know that there is any substantive changes to the regulations. I know that the IMO is looking at the type approval process that they have in place and they may be looking to align it more closely with what the US Coast Guard has set for their type approval system. So there may be a merging from that standpoint. Other than the regulations and the timing, I think the timing remains relatively in place, somewhat dependent on when they finally ratify the regulation. But I think the timing is set and I think the only change is the one I mentioned, perhaps an aligning of the approval process, type approval process more closely with the US Coast Guard.

Christopher Butler - *Sidoti & Co. - Analyst*

All right. I appreciate the details. Thanks for your time.

Operator

Dan Mannes, Avondale Partners.

Dan Mannes - *Avondale Partners - Analyst*

Good morning, everyone. Hey, a couple follow-ups. First, as it relates to the guidance for the fourth quarter, can you talk at all about the impact on currency? I mean obviously we've seen some real strengthening in the dollar versus both the yen and euro. Is that fully encompassed in your numbers or is that a potential headwind that we should be thinking about?

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

Factored in, Dan. It is a headwind, but it's factored in, so it would have been better were it not for that.

Dan Mannes - *Avondale Partners - Analyst*

Okay. And the second part of that is given the fact that you produce a lot of the products domestically and ship overseas, how much is that playing in or is that something you can hedge out fairly effectively at least for already contracted product?

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

We hedge out 18 months, not 100% of what we will provision, but we do hedge it out 18 months and frankly that becomes less of an issue going forward as we expect to retain more of the US product in the US to serve the mercury market. So there will still be an ongoing impact to be sure, but it should get lessened by virtue of our strategic decisions.

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

And the other thing -- this is Bob, Dan -- the other thing to consider is that when we ship our product to Europe, if there is competition there, it's product that was imported from China and they are seeing the same effect of currency in that the Chinese currency is strengthening versus the euro. So there are cost pressures from a currency standpoint of both the US, but also the other sources of activated carbon supply.



Dan Mannes - *Avondale Partners - Analyst*

Got it. Real quick on the repurchase program, you weren't active during the third quarter. Any specific reason for that, whether it's stock price-related, cash flow-related? Any more color you can give us there?

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

Just that when we embarked on the program for this year, we had some targets in mind as part of our annual planning process and we were ahead of our pace through six months. So we paused for a quarter, no more than that.

Dan Mannes - *Avondale Partners - Analyst*

Got it. And then, lastly, on mercury, we have -- I appreciated your comments in terms of your confidence you will be picking up some awards. I was wondering maybe if you can comment at all on the pricing that's been experienced today because a couple of your peers have picked up some awards. And then number two, your positioning as it relates to any regions or anything like that where maybe you're better positioned versus peers given your product mix.

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

I certainly don't think it's appropriate to comment on pricing right now because, Dan, we're in the middle of negotiations with a number of utilities and I'd prefer just to stay away from that. Relative to where let's say where we think our products shine and where we've done very well in testing, again, utilities that burn coal that has a relatively high sulfur content makes it difficult for mercury to be removed. Our products do very well there.

Utilities where, when the plant was built, the contact time between where carbon could be injected and where it would be removed in a bag house or an electrostatic precipitator, that's short. Our products tend to do very well. Utilities that are looking to start to require the injection of other dry sorbents to either remove other contaminants or improve the operation of their electrostatic precipitators, our material tends to perform very well in those applications. And so there are quite a number of situations where we think our advanced products really shine and many of those are being tested. And again, at the end of the day, we're pretty confident we're going to get a good share of the market.

Dan Mannes - *Avondale Partners - Analyst*

Got it. If you'll indulge me one more quick one on mercury, one of the end markets historically has been coal plants that already have scrubbers. Have you seen activity from the already scrubbed plants in terms of looking for activated carbon to reduce mercury re-emission or is that market basically spoken for in terms of their current equipment?

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

We haven't seen a lot of requests for quotations from plants that already have scrubbers. Frankly, we do expect I think at the end of the day that there will be a number of plants that have scrubbers that will have to use activated carbon, not as much as an un-scrubbed plant, but we will have to use activated carbon. So we expect to see more, but we haven't seen it really to date.

Dan Mannes - *Avondale Partners - Analyst*

Got it. Thanks much.

Operator

Ben Kallo, Baird.

Ben Kallo - *Robert W. Baird - Analyst*

Thanks. Most of my questions have been answered, but a quick follow-up. As far as Europe goes, can you talk about any weakness there or just the overall business environment and how that could impact you on both equipment and on AC?

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

Let me start out with an overall comment. We're very pleased with Europe this year and how they've been able to manage their business despite the difficulties in some of the various regions of Europe. So we expect that to continue into 2015 on a positive way. Steve, do you want to add to that?

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

Just to give you -- it's been a very pleasant part of our outcomes for this year. Through September in local currency, we're up 12%. So Europe has been a definite bright spot. Our team there has done very well in a difficult environment and we're very happy with the results we've been achieving.

Ben Kallo - *Robert W. Baird - Analyst*

Great, thank you.

Operator

Steve Schwartz, First Analysis.

Steve Schwartz - *First Analysis Securities - Analyst*

Good morning, everyone. Bob, in your prepared remarks, you made some -- I just want to clarify one comment. It sounds like you are looking at potentially using Asian suppliers to serve Europe and that would free up your virgin capacity in the US for North America. Is that correct?

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

Correct.

Steve Schwartz - *First Analysis Securities - Analyst*

Okay. And just as a follow-on, regarding Mercury removal, just regarding the timing of when the mandate starts, April, I mean if I do some basic calculations, and these are just using some basic numbers you offered today, plus what's in your filings, you are already maybe shipping 40 million pounds a year. It looks like next year that could go up to 90 million pounds. If that is in fact the case, do you have the capacity to supply that because your virgin capacity right now is 100% utilized, is that correct?



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

We're basically selling what we can make, yes. We're continuing, as I mentioned, to have projects come to fruition that will allow us to expand capacity. So we will be having more capacity as we go on. We're shifting again -- as I mentioned in my remarks, we're shifting more of the carbon that we typically would supply to municipal drinking water plans to reactivation so that frees up some virgin capacity. And as you just asked, more of the carbon that we sell in Asia and in Europe we're expecting to, in the short term, outsource. I think Randy mentioned it's reasonable for us to expect we're going to double our business in the mercury market in 2015 from this year and yes, we believe we have the capacity available to meet that expectation.

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

And I reiterate that. That's right now not the concern we're looking at. We can service this market, no question.

Steve Schwartz - *First Analysis Securities - Analyst*

Are you at all concerned with the April deadline? That's also the start of your seasonal uptick for municipal. Do you expect any kind of crunch to maybe occur in the first or second quarter of next year?

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

Well, frankly, we hope we have that problem to worry about, but we're all over it. We're spending a lot of time looking at the logistics of being able to supply the mercury market and our traditional markets and we're convinced we will be able to do it.

Steve Schwartz - *First Analysis Securities - Analyst*

Okay, thanks, guys.

Operator

Hasan Doza, Water Asset.

Hasan Doza - *Water Asset Management - Analyst*

Hi, good morning, gentlemen. I have two quick questions. One is would you be able to quantify even at a high level to the best extent possible as to what was the extent of the pricing competition from these Chinese players in Japan in terms of like what is the price discount they're offering?

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

Well, I'll say and I'll turn it over to Steve, but again I'll reiterate what Bob said. We're really not going to get into pricing on this discussion in terms of what type of pricing is being offered by our competition whether domestic or international. Do you have anything to add to that?

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

No, nothing specific on pricing. We believe the quality of our product tends to be better. There are instances where a lesser product can be used that comes with a lower price and it's just an influx of competition we're seeing, but not going to comment specifically on pricing differences.

Hasan Doza - *Water Asset Management - Analyst*

No, that's not what I meant. I meant more like if you can give maybe like an order of magnitude. Was the pricing 3% to 5% lower, 5% to 10% lower than what you expected? I was hoping kind of order of magnitude in terms of the percentage decline as opposed to specific numbers, if that helps at all.

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

Well, I don't have that data to be able to tell it to you accurately, so I couldn't relay it even if I wanted to. I'm sorry.

Hasan Doza - *Water Asset Management - Analyst*

Okay. And is that -- second question on this topic. Is that a function of when we have tariffs implemented in the US, basically that extra Chinese carbon basically gets shipped to Japan. So is that going to be an issue for next year as well, something we should kind of consider?

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

I don't necessarily think that's a big consideration because one of the factors that's occurring is the overall demand for carbon in China is increasing too, so a lot more of the capacity that is in China for the production of carbon is going to be going to serve the Chinese market. And the situation on the tariff really isn't much different than it has been for the last five, six, seven years. So I don't think that there's any dynamic that's happening in the market relative to the tariff that is going to change where the Chinese would be marketing their products.

Hasan Doza - *Water Asset Management - Analyst*

And my last question, Steve, just a follow-up on the question about the FX assumption. You mentioned you had incorporated some FX into your fourth-quarter outlook. My question was would you be able to quantify as to what is the specific exchange rate you're assuming for both the euro and the yen versus the US dollar for the fourth quarter?

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

I don't have it in front of me, but I'll go from memory. I think we were about EUR1 equaling \$1.26 and in Japan, I think we were around \$1 equaling JPY110.

Hasan Doza - *Water Asset Management - Analyst*

So that's what you're using for your fourth-quarter revenue forecast?

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

That's correct.

Hasan Doza - *Water Asset Management - Analyst*

Okay, perfect. Thank you so much. I appreciate it.



Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - *Sidoti & Co. - Analyst*

Hi, thanks for taking my quick follow-up. I'm sorry if I missed it, but did you give any indication on the appeal process on MATS and how that seems to be working out?

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

Good question, Chris. We have no knowledge that things are proceeding. Obviously, there's an open period that that could still come back into play, but what we know right now, there's no challenges to the ruling.

Christopher Butler - *Sidoti & Co. - Analyst*

That's all I have. Thanks.

Operator

That was our final question. I'd now like to turn the floor back over to management for any additional or closing remarks.

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

We'd just like to thank you for joining us today and we will be available for follow-up questions if you have any during the day. Thank you very much.

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

Thanks.

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

Thanks, everybody.

Operator

Thank you for joining Calgon Carbon's third-quarter results call. You may disconnect your lines at this time and have a wonderful day.

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