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CCC - Q4 2014 Calgon Carbon Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 19, 2015 / 3:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning. My name is Christy, and I will be your conference operator today. At this time I would like to welcome everyone to the Calgon Carbon Corporation fourth quarter 2014 results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. (Operator Instructions). Thank you. Ms. Gerono, you may begin your conference.

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

Thank you, Christy. Good morning everyone, 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 that today's presentation or some of the comments that Calgon Carbon's executives make during the Q&A may contain statements that are forward-looking. Forward-looking statements are subject to risks and uncertainties, and Calgon Carbon's actual results may differ materially from those expressed in the forward-looking statements. A list of factors that could affect Calgon Carbon's actual results can be found in the news release that we issued earlier this morning, and are discussed more fully in the reports we filed with the Securities and Exchange Commission. Particularly in our last Annual Report on Form 10-K. These filings as well as this morning's news release can also be found on the Investor Relations page of our website. Randy.

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

Thanks Gail. Good morning everyone. Welcome to our first call of 2015. Let me begin by saying that I am pleased with Calgon Carbon's financial performance for both the fourth quarter and the year 2014. Margins, operating income, net income, and earnings per share, all showed significant improvement from the comparable periods in 2013. Of particular note was a sequential increase in gross margin before depreciation and amortization to 35.9%, which represents margin improvement in eight of the last nine quarters.

There were a number of developments in the fourth quarter and in January of 2015 that I'm really excited to share with you. Let me begin with mercury removal. Since November we have won four new supply agreements, and successfully renegotiated four existing contracts to supply carbon to utilities for mercury removal, and we are already seeing an impact on our financial results. Sales to the mercury market in January of 2015 were $3.2 million, as compared to $2.4 million in January of 2014, reflecting a number of new customers year-over-year. In addition, we were awarded four contracts in the fourth quarter valued at $4 million to supply virgin granular activated carbon, for control of disinfection by products. Our Hyde Marine business sold a record number of ballast water treatment systems in 2014, including 22 in the fourth quarter, and I'm happy to say that we successfully executed all components of our global cost improvement program, and expect to reach our goal of reducing costs by $40 million on an annual basis in 2016. In 2014 we met our target of reducing inventories to under $100 million. This is a 10% improvement by the way to where we started in 2014, and a 29% improvement since January of 2012.

We are pleased that we generated strong operating cash flows of approximately $84 million, and consistent with our commitment to return capital to shareholders, we purchased over 445,000 shares of Calgon stock in the fourth quarter. And earlier today our Board of Directors reinstated our quarterly dividend program, declaring a cash dividend of $0.05 per share for shareholders of record as of March 5th, which we paid on March 15th. We will discuss these highlights in more detail later in the call. This is a very exciting time at Calgon Carbon, and over the past two years we have improved our Company's financial performance and our cost structure, creating a solid platform for sustained future growth. And now I will ask Steve to review the fourth quarter financials in detail. Steve.

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

Thanks Randy. Good morning everyone. Total sales for the fourth quarter of 2014 were $140.6 million versus $133.1 million in the fourth quarter of 2013, an increase of $7.5 million, or 5.7%. The increase was muted by the negative impact from foreign currency translation of $5 million, primarily on the activated carbon and service sales for the fourth quarter of 2014, due primarily to the Euro and the yen. Regarding our segments, sales in the activated carbon and service segment increased $9.8 million, or 8.4% for the fourth quarter of 2014 compared to 2013's fourth quarter. The increase was principally due to $8.3 million of higher sales in the potable water market, driven by an increase in volume of approximately 25%. This occurred primarily in the Americas and Asia.

Also contributing to the increase were higher sales in the industrial process market of $5 million, due to volume increases in all geographic areas, as well as higher sales in the environmental air market of $2.3 million, principally from mercury removal in the Americas. Partially offsetting these increases was lower volume in the environmental water market of $4.2 million as the fourth quarter of 2013 included a large carbon fill that did not repeat in the fourth quarter of 2014. Sales in the specialty carbon market also declined $1.4 million, which was primarily due to lower demand for respirator products. Equipment sales declined $1.1 million, or 8.22% for the fourth quarter of 2014 compared to 2013's fourth quarter. The decrease was due to lower sales of traditional carbon absorption systems of $2.5 million, as a result of several large contracts that were completed during the fourth quarter of 2013. Partially offsetting these decreases was an increase in sales for ballast water treatment systems of $1.5 million, as a result of new contracts that were awarded in 2014.

The consumer segment sales for the fourth quarter ended December 31st, 2014 declined approximately $1.2 million as compared to the fourth quarter of 2013 due to lower demand for activated carbon cloth. Consolidated gross profit before depreciation and amortization as a percentage of net sales was 35.9% in the fourth quarter of 2014, compared to 34.3% in the fourth quarter of 2013. An increase of 1.6 percentage points. The increase was primarily in the activated carbon and service segment, resulting from lower manufacturing costs as a result of our cost improvement programs, and to a lesser extent the ongoing impacts from previously implemented price increases, primarily in the Americas region.

Depreciation and amortization expense was $8.3 million in the fourth quarter of 2014, compared to $7.5 million in the fourth quarter of 2013. The increase was due to depreciation related to virgin activated carbon plant improvements that were placed into service throughout 2014, and for our North Tonawanda reactivation facility placed into service during the first quarter of 2014. Selling, administrative and research expenses were $23.3 million during the fourth quarter of 2014, versus $22.2 million in 2013, an increase of $1.1 million, or 4.7%. Reasons for this increase include 2014 costs for our SAP reimplementation project, which commenced in January 2014 and totalled $900,000, as well as $1.3 million of pension charges, $900,000 of which related to a pension settlement for certain deferred vested employees of our salary pension plan who elected to receive their pension benefits in a lump sum cash settlement, as well as $400,000 related to a European multi-employer plan.

Income tax rate for the fourth quarter of 2014 was 33.3%. In summary, net income for the fourth quarter of 2014 was $12.1 million versus net income of $11 million for the fourth quarter of 2013, an increase of $1.1 million, or 10%. On a fully diluted share basis earnings per common share were $0.23 for the fourth quarter of 2014, as compared to $0.20 for the fourth quarter of 2013, an increase of 15%. Turning briefly to our Company's business segments, the Activated Carbon and Service segment recognized $26.9 million in operating income before depreciation and amortization and restructuring in the fourth quarter of 2014, compared to $22.9 million in the fourth quarter of 2013. The increase was primarily due to lower manufacturing costs and price increases in the Americas region.

The equipment segment recognized a $200,000 operating loss before depreciation and amortization in the fourth quarter of 2014 which was comparable to the fourth quarter of 2013. Backlog for the equipment segment was $19.8 million as of December 31st. The consumer segment recognized $400,000 in operating income before depreciation and amortization in the fourth quarter of 2014, compared to $800,000 in the fourth quarter of 2013. The decrease was related to lower sales volume for activated carbon cloth. Now regarding our balance sheet cash increased during the fourth quarter and as of December 31st, 2014 we had approximately $53 million of cash. Receivables were $95.2 million for the fourth quarter of 2014, which was approximately $1.8 million lower than year-end 2013. Inventories were $98.4 million for the fourth quarter of 2014, which was $11.1 million lower than the year-end 2013.

As of December 31st, 2014 the Company had total debt outstanding of $71.3 million, which represents an increase of $37 million from year end 2013, and primarily relates to borrowings under our US credit facility for our share repurchases that totalled $39.7 million in 2014. Operating cash flow was $23 million for the fourth quarter of 2014, and $84.3 million for the full 2014 year. In 2014 operating cash flows increased $17.6 million, or 26% compared to 2013, due primarily to a reduction in inventory, higher earnings, and lower restructuring payments.

Capital expenditures totalled approximately $20 million for the fourth quarter of 2014, and were primarily for improvements to the Company's Catlettsburg, Kentucky and Pearlington, Mississippi manufacturing facilities, as well as for our SAP reimplementation project. On a year-to-date basis capital expenditures totalled nearly $64 million. Bob is next with an operations review Bob,

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

Thanks, Steve. I would like to begin by discussing some of our regional successes in the fourth quarter, and first note that Europe's financial performance was excellent for the quarter and throughout 2014. Activated carbon sales as well as margins increased year-over-year. In fact, Europe's success was a major contributor to Calgon Carbon's improved performance in 2014. In Asia we benefited from the delivery of $2.9 million pounds of granular activated carbon to a municipal customer in Korea, and we are scheduled to complete that order by supplying 4.3 million-pounds in the first quarter of this year. In China, demand for industrial reactivation in 2014 was very strong, and our Suzhou, China industrial reactivation kiln is now operating near its full capacity.

To capitalize on an increasing demand for industrial reactivation in the fourth quarter we applied to Suzhou Environmental Protection Bureau for permission to convert our second kiln to have been dedicated to potable reactivation to industrial use as well. Our request appears to have been favorably received by the Bureau, and we are targeting a June conversion. Also in December our Suzhou facility received an environmental recycling award of $628,000 from the Suzhou Wuzhong Economic Development Zone, where our facility is located.

In the fourth quarter we continued to make progress with our initiative to grow through geographic expansion. We now have six fully trained employees serving Latin America, a region whose annual demand for activated carbon is about 145 million-pounds. In Brazil we established a legal entity, which now allows us to supply reactivation services and absorption equipment, as well as activated carbon products. The expanded commercial team has identified, and is pursuing significant new opportunities, and recently signed agreements valued at $500,000 for business in the food and beverage, drinking water, and industrial refinery markets.

Next let's discuss the status of our initiatives to increase the availability of virgin activated carbon. At the end of 2014 and reflecting improvements made during 2014, our total production capacity for virgin granular activated carbon was 156 million pounds. That number is based on a typical product mix of virgin granular activated carbon, and of course we have the ability to convert any of that production to powdered activated carbon. Our de-bottlenecking activities at our Big Sandy and Pearl River plants are progressing as planned, and we expect to add approximately 6 million-pounds of incremental capacity in 2015. With de-bottlenecking and other projects already underway, our total annual production capacity for virgin granular activated carbon should reach 172 million-pounds in 2017. A decision to add another production line at our Pearl River plant will not be made, however, until the longer-term status of the mercury market is clear. In addition to increasing production capacity at our own manufacturing plants, we are firming up significant new supply arrangements for coconut and coal based carbon products from the Asia-Pacific region, to provision carbon for all of the geographic regions that we serve.

Moving to mercury, next I would like to address a recent development in the regulatory environment related to the EPA's mercury and air toxic standards, known as MATS. In the fourth quarter of 2014 the US Supreme Court announced that it would review an April ruling by the US Court of Appeals that upheld MATS. The court will focus on the single question of whether the EPA unreasonably refused to consider the electric utility's cost to comply with MATS. All arguments are scheduled for March with a ruling expected by the end of June. The utilities were generally surprised by the Supreme Court's decision to hear the case, but those who must initiate mercury control in 2015 under MATS are continuing to prepare for compliance by that date.

Let me remind you that this market will be comprised of three phases. The existing market, the market that will be created by the EPA's 2015 compliance date, and the market that will develop in 2016 as a result of one year extensions that were granted to utilities. The existing market of approximately 150 million-pounds of standard or first generation products was created in 2008 and 2009m by 19 states and certain Canadian provinces that promulgated their own mercury control regulations prior to MATS. We estimate our share of this market expressed in dollars to be approximately 30%, with 2014 sales of approximately $29 million. And as contracts for this business have expired, we have maintained our existing customer base. As a reminder our approach to serving this growing market is to offer superior products, at prices that reflect this high performance. Our advanced products offering two more times the mercury capture pound for pound versus competing standard products, routinely provide the lowest total cost of compliance to our customers.

In fact, acceptance of our advanced products has been growing, as more utilities invest in testing to validate this performance. As such we believe in 2015 that our share of the existing 150 million pound standard market will increase, and our annual revenue will grow for this segment from $29 million in 2014, to at least $35 million in 2015, and expect an increase of at least 20%. The second phase effective April of this year should require about 170 million additional standard pounds of powdered activated carbon annually. We have been actively pursuing this market, and the response from potential customers has been very encouraging. We believe it is reasonable for Calgon to capture at least 30% of this market. The third stage will result from purchases by utilities that to-date have been awarded one year extensions to 2016. We also expect to capture at least a 30% share in dollars of this future business, and we are actively involved with discussions with numerous utilities to supply their needs in 2015 and beyond. Some utilities are being very deliberate about choosing their carbon supplier.

In addition, to the agreements that Randy mentioned earlier in the call, we are providing carbon to customers for long-term trials on a purchase order basis, so that they may build an experience base with us, before making a longer term commitment. We are pleased with our success to-date and our approach to this rapidly growing market is working.

Moving to ballast water treatment, let's review developments that are happening in this regulatory driven market. In the fourth quarter Georgia the country, signed the initial international maritime organization's ballast water treatment convention, that would require ships to operate ballast water treatment systems. To-date 44 flag nations have signed the convention. However, their combined tonnage of 32.86% still falls short of the 35% needed for ratification. In another positive development, the International Chamber of Shipping, the global trade association for merchant ship owners announced in December, that it would no longer actively discourage members from ratifying the IMO's convention. The ICS's position changed, because the IMO agreed to address the shipping industry's concern about the implementation of the convention.

Turning to Hyde Marine's performance, I am pleased to report that Hyde had a good fourth quarter in 2014, having sold its 400th system in December. As for the year Hyde sold a record 1113 ballast water treatment systems, including 49 Hyde GOLD systems. To prevent the transfer of invasive species from one ecosystem to another, the GOLD system employs UV light and filtration using screened filters. Hyde's alternate offering Hyde GUARDIAN uses UV light and stacked disk filters. The GOLD system was introduced in December of 2013, and was very favorably received by ship owners, in part because of its small footprint. In fact, approximately 80% of Hyde Marine sales in the second half of 2014 were for GOLD systems. That concludes the operations review. Next Steve will make some comments about the first quarter.

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

Thanks Bob. I would like to begin by discussing the possible impacts of foreign currency exchange on our first quarter of 2015. As I said earlier during my remarks, foreign exchange had only a modest impact on 2014's full-year-results. However, the strengthening of the US dollar may lead to a more significant impact on our 2015 results when compared to 2014. While it's impossible to predict the full year impact at this time, by applying the current foreign currency exchange rates to our previously reported first quarter 2014 results, we would have seen lower revenue of approximately $9 million, but in spite of these foreign currency exchange headwinds, we believe we will grow our first quarter 2015 revenues by 3% to 5% as compared to 2014's first quarter.

Mercury related sales for this growing market along with potable water sales in the Asia region will drive our first quarter growth, and later on in the call Randy will discuss our initiatives to grow our full year 2015 sales. Margins. Our gross margins pre-depreciation and amortization are expected to be approximately 35% during the first quarter. Depreciation and amortization, we expect depreciation and amortization to increase by approximately $1.1 million versus the first quarter of 2014. Of this increase $600,000 will result from an acceleration of depreciation, primarily related to certain information technology assets that are becoming obsolete upon completion of our SAP reimplementation project, that is now scheduled to go live around the middle of the year. Operating expenses. Operating expenses expressed as a percent of revenue, are expected to increase slightly over the first quarter of 2014 due to the ongoing SAP reimplementation costs that will increase during the first half of 2015 prior to the mid-year go live. First quarter SAP related costs are estimated to be $1.1 million in 2015, versus $700,000 in the first quarter of 2014, an increase of $400,000. The operating expense burden associated with this project will end during the third quarter of 2015. We expect our effective tax rate for 2015 to be approximately 34%, and I will now turn it over to Randy.

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

Thanks Steve. So before we take your questions, I would like to spend a few minutes on three topics. The new cost savings initiative, our capital allocation program, and sales growth. Let's begin with cost savings initiatives. Earlier in the call, I said that we had successfully concluded our $40 million cost improvement program. I am pleased to announce today that we have identified additional opportunities, and are launching a new initiative to realize annual savings of $10 million beginning in 2016, with the full annual benefit coming in 2017. The program will include global warehouse optimization, benefits from our SAP reimplementation project, and alliances for enhanced product procurement. You will hear more about our progress in implementing these programs on future calls.

Now I would like to talk about capital allocation. Although our Board has not declared a dividend in almost a decade, it has been an agenda item on every regularly scheduled quarterly meeting of the Board that I have attended beginning in 2007. At our most recent meeting the Board decided to reinstate a quarterly dividend to shareholders at a rate of $0.05 per share. With that decision dividends become another component for our comprehensive program to return capital to shareholders, a program that will continue to include reinvestment in existing and new facilities, share repurchases, and acquisitions that are consistent with our core business.

I am very pleased with the Board's decision. It is an acknowledgement that over the past two years Calgon Carbon has been transformed into a Company that can generate significant sustainable earnings and cash flows. Based on recent successes in the mercury removal market, it is also a Company that can convert significant market opportunities to profitable sales growth. Therefore, it is appropriate that our shareholder's share in our current successes by a quarterly cash dividend. Regarding the other components of our capital allocation, our 2015 capital expenditures are expected to be between $80 million and $85 million. Much of which is dedicated to capacity expansions or our reactivation and virgin carbon production facilities. We expect to continue our share repurchase program, and have remaining Board authorization for approximately $107 million. Finally we will be more active than we have been in the pursuit of acquisitions that are consistent with our core business.

Let me conclude by talking about sales growth. In our last call, I said that our key initiative going forward would be global revenue growth. Of course, we expect sales to electric power plants for mercury removal to be a significant part of that growth. And despite the delays and the ratification of the IMO's ballast water treatment convention, as well as the US Coast Guard's delay in the beginning of the type approval process, we expect that ballast water treatment will eventually be required on a global basis. In fact, we expect the US Coast Guard will begin awarding type approvals later this year, and we plan to begin the testing process for the USCG type approval in the spring. Our activities in Brazil are our first step in growing sales through geographic expansion. We will continue to look for opportunities to sell our products and services, in regions where we currently have little or no business, and there are still a few to focus on. And also through strategic alliances with other carbon manufacturers, we intend to expand our product portfolio and enter markets in which we do not currently participate. This is part of our focus on retaining our leadership position as a significant activated carbon supplier.

In 2015 we remain committed to ongoing margin improvement, and are also focused on growing our top line. We expect top line improvement of at least 5% in spite of foreign currency headwinds. I am very excited about the direction and pace at which Calgon Carbon is moving. With improvement in our financial results, and an ambitious but achievable plan for top line growth, I believe that we will create significant shareholder value going forward. So before we take your questions, I would like to point out that we are conducting this call on webcast from our new headquarters in Moon Township, Pennsylvania, the move was part of a global effort to consolidate and optimize space. So for the first time in our Company's history, our R&D group, and our various corporate departments and business units will be integrated into one building, which should promote closer collaboration, by leasing three floors in the new LEED-certified building, in fact one of the most environmentally friendly buildings in Pittsburgh, we have significantly improved our employee's work environment, and at the same time reduced the space we occupied by about 22,000 square feet. So I would like to invite each of you to visit us at our new headquarters, which is only a few miles from the Pittsburgh airport. So thank you, and we will now take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question comes from Kevin Maczka with BB&T.

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

Thanks, good morning.

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

Morning, Kevin.

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

Morning.

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

First question just a clarification. So even despite the currency headwinds, you're expecting 4%, or sorry 5% revenue growth for the year for the total Company, and 3% to 5% in the first quarter?

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

Regarding the first quarter, Kevin, that's right. We guided 3% to 5%, and we certainly expect that we will be able to grow full year revenues as well, although it's early too make a prediction as to exactly where that will land, we will certainly watch FX along the way and keep you informed of its impacts.

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

Right. But did I miss that, did Randy did you not just say 5% for the full year despite FX?

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

Exactly. Yes.

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

Okay. Got it. Got it. So in terms of the carbon segment, can you get a little more granular there, in terms of how you expect to grow that business? You're adding 6 million-pounds through de-bottlenecking. That's about 4% of additional capacity. You have been sold out for some time, so that's the only new capacity you have available to fill. If you're going to grow beyond that, I guess you have got to do more de-bottlenecking or outsourcing or something else. So can you talk about that, and specifically how much outsourcing do you expect because that's usually lower margin?

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

Right. This is Bob. We are continuing to de-bottleneck our plants, and I think we gave in the script the amount that we really can expect from our de-bottlenecking and process improvement opportunities. The rest of our growth in the short-term is coming from outsourcing products, that will allow us to expand the markets that we participate in. So we won't be just looking to buy products that are duplicative of what we make, but also have some different properties that will allow us to go to markets that we may not have been in for the last five or ten years, and that could be some significant volume. Many millions of pounds that would enable us to add to our overall growth, so it will not be an insignificant amount of product that we will be sourcing, and that we have a fairly high level of confidence that we will be able to have success in the marketplace, and I have been to a few of our sales meetings just in the past few weeks, where the sales team knows of the products that we will be able to bring to them from other manufacturers, and I think they're pretty excited about taking them into the marketplace.

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

And let me add to that, for competitive reasons I'm not going to say a lot, but we are looking at this I think different strategically, and we are very excited about these partnerships that we're building.

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

Okay. Randy, on mercury did anything change in your 2015 plan, because it seems like you're still expecting a pretty healthy market share about 30%. I thought I remembered a comment about maybe as much as doubling that market in 2015, and now we're talking about 20%.

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

20%, I'm sorry in terms of? Because we're still looking right now at least of gaining in dollars of a market share of 30%.

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

Well let me answer this. It's Bob. Our 20% growth that I quoted, was just an increase in the share of the current business, or the current business that is driven by states and Canadian operations. So again, if we sort of think of the mercury market in three phases, existing business driven by state and Canadian regulations, business starting in 2015 that will occur because of the EPA MATS regulation, and then more business in 2016 for those plants that got a one year extension in MATS. So we actually expect to grow our share and increase our sales by 20% for those customers currently using activated carbon, and we expect to have additional growth for those customers that will be coming online and be required to feed activated carbon in April. So I think previously we said that we would expect to be able to double our business in 2015 over 2014, and I would say we're pretty much still in line with that thinking.

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

Okay. Great. Great. That's clear now. Just final question from me then. As you take on those additional sales to the mercury market, again I know you're de-bottlenecking, you're freeing up some new capacity, but are you just diverting that capacity that was previously used for other customers, or should we think about this mercury growth in 2015 as incremental growth?

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

This is Bob again. It should be incremental growth to our Company. We are to a certainty point utilizing our capacity for mercury in lieu of supplying that carbon to other customers, but what we're going to do and again I think we've talked about this at other calls, the customers that were, the customer base that we have in Europe, and the customer base that we have in Asia, we will begin to supply more products to them that we outsource. So we will be keeping more of our US production in the US in the Americas, and more of our business in Europe and Asia, that had been a mixture of what we produced in the US and what we outsourced, will begin to shift to more outsourced product. So we don't expect to lose customers but we do expect to change how we are going to supply some of those customers.

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

And the question of how you geographically expand when you're in this situation, that's exactly the answer as well, is with again the ability to bring in outsourced products, it is not going to hinder our activities of in Brazil or Latin America or any other region we want to go to at all.

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

And, Kevin just to finalize the response, we will and plan to also add another 7 million-pounds of capacity into the 2015 year, so we expect our virgin capacity to grow from 156 million-pounds in 2014 to 163 million-pounds in 2015.

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

And just sorry, if I can squeeze in one more on this topic. So as you are doing that, you're providing product to the mercury market presumably because that's coming at margin that's attractive to you, but yet we're also taking on more outsourced product internationally to offset that. So net/net is that a positive for margin, because again outsourced product is usually lower?

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

We think in total for the year we will end up with a positive gross margin pre outcome when we compare to the 2014 year when we set out for the $40 million of cost improvement programs that are now $50 million, our goal initially was to get to a gross margin pre-D&A that was at least 35%, and we are hopeful that for the full year 2015 that we will achieve that result. Obviously we have a ways to go, but we think that's achievable in spite of outsourcing additional carbons to serve our global needs.

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

Okay. Great. Thank you.

Operator

Thank you. Your next question comes from Ben Kallo with Robert Baird.

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

Hi. Thanks for taking my question. Could you guys just talk about sales in the Europe, and how comfortable you are there, if you're seeing any sign of weakness across any of your end markets? And then I have a follow-up.

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

This is Bob. I was just at our European sales meeting ten days ago, and there were no noticeable signs of weakness in any of the markets that we're currently in or currently targeting, so I don't see a downturn in our sales. Our only issue of course, as Steve just mentioned in Europe is the currency.

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

Great. Good. And then with the dividend you guys might have addressed this, but as far as should we read that too as far as capital needs that you guys for future expansions can work off of either debt on your balance sheet or your free cash flow, and it definitely eliminates kind of your need to ever tap the equity market?

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

Yes. Ben. This is Randy. I laid this out over I think the last year to year and a half to say, that we're looking at various means by which returning capital to shareholders, and this is really just an additional tool. It's not displacing anything else. We will continue as I said in the call, or said in my remarks, we're going to continue with the stock repurchase, we're still continuing with putting capital back into the plants, so like you said, I would do an acquisition if we found something strategic that really made sense and could bring value for shareholders. So this in no way displaces any other thing. It's just an additional tool.

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

(multiple speakers). Sorry. Go ahead.

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

I was only going to add that if we execute the plan fully including over $80 million of capital investment into our plants, then we will have more leverage at the end of the year.

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

Okay. Great. And then just as a far as the acquisition front, should we there I of stuff in the water space, or air treatment, or something just broader in the chemical space?

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

We are looking at everything. As we have we are increasing those efforts right now. I think now is the right time to do that and we are looking at a lot of businesses that are similar to what we do, and also a little bit beyond that. So everything is on the table, it's got to create value and it's got to be the right thing.

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

Okay. Thanks guys. Good quarter.

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

Thank you. Thanks.

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

Thanks.

Operator

Thank you. Next question comes from Chris Kapsch with Topeka Capital Markets.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Good morning. Just had some follow-up questions on the mercury removal topic. So here we are it's almost March. The regulation goes into effect mid-April. Based on your comments about the next wave of market development for mercury removal, it sounds like there hasn't really been much change in behavior on behalf of utilities, in spite of the Supreme Court's decision to hear this appeal. So I'm just wondering can you get a little bit more specific. Have you seen any of your customers that you're either serving already, or in conversations with, look to ask for the one year extension, or does it look like it's basically nothing really has changed in spite of the Supreme Court's decision?

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

This is Bob. I think our view of the market is really at this point in time, nothing really has changed. Again, if we think about the sort of three distinct markets, the companies that are using activated carbon because of state or Canadian regulations that doesn't, is not affected by the MATS regulation to a large extent. A little bit because they may have to comply with some other components of MATS, but that remains in place. The companies that have an April 2015 deadline which are those that did not apply for extensions, they are onboard to treat, they've all installed their carbon feed equipment, and they have either contracted with a supplier for carbon, or they're going through the testing. I mentioned that's some of the people we're supplying on purchase orders right now, getting ready to have them in place for 2015. So things are progressing the way they have been, and we're not aware that there was any rush of utilities to try and file extensions to go to 2016.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Okay. And then I mean from what I've gleaned it sounds like anywhere between, I don't know a third and 40% of existing non-compliant facilities have asked for that extension, so based on what the projections that you talked about which I think I heard 170 million of incremental pounds annually in this second stage of adoption, that would suggest that the market more than doubles sort of this year, and then basically more than triples once all of the boilers are in compliance, effective in April of 2016. I just want to make sure I understand that?

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

Yes. I would say that that's our view, yes. I think you've pretty much understood the way we are understanding the market.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Got you. And then just a follow-up. And sort of also in follow-up to Kevin's questions. If you do get 30% share of what you expect the market will develop this year, that's north of 50 million-pounds annually, and based on your existing capacity of virgin carbon there's a big delta there, and I understand the conversation about increased outsourcing of other products to free up your active, but it's not clear what you're saying about the net effect to margins from that overall? I expect I mean you did say margins you expect to be better year-over-year, but some of that is get you're getting better operating leverage from better throughput, and some of the changes you made to your manufacturing footprint. I'm just wondering from the shift to the increased mercury removal sales, and the shift to outsourced, the net effect, the net margin effect of that mix shift is that beneficiary to overall Company mix?

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

Yes. And I would say of course there's a lot we don't know yet, Chris, right? We don't know the pricing of the contracts that we will get, we don't yet know which contracts that we have will serve with outsourced, so I would say it's a little premature. I think we can look forward as best we're able, and show for the full year that we can grow our margins and improve them. But to get very specific with the compact implications of the mercury removal compared to other opportunities I think is a little premature at this point to try and do that. Net/net it will be a positive. That's how we're looking at it. We're excited and you're right. There's cost improvement programs that enter into the equation, there is as Randy pointed out, new outsourcing initiatives that we have to procure our outsourced carbons at better prices, and result in better margins, we have got alliances that we're working on. I think in total it will be a positive, and that's the message that we wanted to deliver to all of you this morning.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Okay. Thank you.

Operator

Thank you. Your next question comes from David Rose with Wedbush Securities.

David Rose - *Wedbush Securities - Analyst*

Good morning. Thank you for tabling the questions. I had a question on Q1 for the mercury the expectation for the sales. Is the boost in Q1 largely from an initial fill, or should we kind of expect that same trajectory year-over-year each and every quarter for the next four quarters?

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

I think, David, it's fair to assume that if things stay on track the way we see them currently that we will have a consistent improvement in our mercury sales the first quarter of 2014 for mercury specific sales in the Americas region was just under $7 million, and we are of a belief at this point that our first quarter 2015 sales will be over $10 million, and we certainly expect for the year to continue to grow that business.

David Rose - *Wedbush Securities - Analyst*

Okay. And the comments are in the press release that you would say that you have tens of millions of sales associated with these four orders. Is that because it's a multi-year contract? Can you give us some idea in terms of timing is this a two-year, three year, just to kind of reconcile the press release?

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

Well, yes. They are multiple year contracts some of them certainly. Some are POs that we're working through for the current year, so it's a variety of outcomes. We're trying to focus on the dollars of revenue and not the pounds offered, given the products that we sell. And to answer your question directly, it is in fact a mix of a variety of contracts and purchase orders.

David Rose - *Wedbush Securities - Analyst*

Okay. And then getting back kind of to the margin questions that we've had on the call, is this a similar profile just to be clear of what we had in the past, or have you seen further pressure on margins for these initial orders?

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

No, we haven't seen additional pressure for margins. We're selling a high product value to the customers who appreciate that product and its performance and we have talked for years about how we look at our virgin capacity, and how we look on our furnished unit profitability basis, and certainly provisioning into the mercury market fits into that dynamic, and in the same evaluatory process that we use for all of our sales and potential sales.

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

And let me to talk about that, Steve's point in terms of the focus on the dollars, we have learned this more and more recently. This is a very very complex market. This there is not one utility that's universal, there is not one unit that's universal, there is not one carbon that can be sold app again our focus has been on that high end high performance products, and so therefore, but we also offer the standard products. We offer the full range of whatever the customer needs to fulfill their requirement to get to abate the mercury, so hence that is why we focus on the dollars going forward, and I think it makes the most sense.

David Rose - *Wedbush Securities - Analyst*

Okay. And Randy if I may just moving on to the equipment side, it seems like you're marching toward profitability but you're not there yet. Can you help frame the expectations for 2015? I'm assuming you will be somewhat profitable. Can you give us an idea of what sort of margin profile we should expect on the Equipment business?

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

This is Steve, David. You noted correctly that we have seen a very nice improvement in the Equipment business throughout 2014, and if you would reflect back on the year our losses from operations pre-D&A were almost $1 million in the first quarter, and dropped to just over $200,000 in the fourth quarter so a really nice improvement. We implemented a number of cost improvement programs specifically oriented to the Equipment business that are absolutely showing results. We certainly have a goal to make this business profitable. We have talked on prior calls that part of that will be the revenue that we achieve, and certainly in 2014 it was a relatively low revenue year, the lowest in the last three, we do expect improvement in revenue in 2015. We will continue with our cost vigilance to ensure that we can improve margins and improve the profile, and we certainly strive to be profitable. We will take it one quarter at a time. We will let you know, a lot of it will depend on ballast water, and how quickly those sales ramp-up.

David Rose - *Wedbush Securities - Analyst*

Okay. And then last one. The CapEx you provide pretty good color for 2015, and I don't want to get too far ahead, but as you think about the business is this sort of the run-rate of CapEx, and we've always talked about maintenance CapEx being significantly lower but do we expect to see that drop-off next year, or based on what you're doing to grow the business we should expect these levels to be sustained for the next couple of years?

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

It's pretty high level in 2015. We have a lot of projects underway, we underspent against our expectations in 2014, and to be sure some of that carried into 2015. I would like at 2015 as a high water mark and only say that might be contingent upon whether or not we elect to expand at Pearl River with another line, but if we do not I think 2015's high water mark we will see it look out three or four years it could be significantly less.

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

I agree with that, and again the efforts right now in terms of the new plant Bob said it in his remarks, is really just let's wait and see how this mercury market continues to develop.

David Rose - *Wedbush Securities - Analyst*

Okay. I'm all finished. Thank you very much.

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

Thank you.

Operator

Thank you. Your JinMing Liu with Ardour Capital.

JinMing Liu - *Ardour Capital Investments - Analyst*

Good morning. Thanks for taking my question.

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

Good morning.

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

Good morning.

JinMing Liu - *Ardour Capital Investments - Analyst*

First just related to the mercury products. How easily can the utility change back and forth between your high performance and the regular powdered products, whether there's any costs associated with that?

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

There is no switching costs from the standpoint the equipment that utilities will be used to feed powdered carbon, basically can feed any of the products. It's just the rate at which they're fed is the key. That depends on how well the products perform in the application. As Randy mentioned earlier, no two utilities, no two electric power facilities basically are either constructed or operating identical, and so the choice of the products that best helps them meet their environmental requirements is based on all the different factors which make up a plant's operations. So they can switch back and forth between products, but as they get into testing and they get experience, as long as they're consistently burning the same coal, they're probably going to find the product that works best for them, and then they're going to stick with it.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. That's what I'm looking for. Switch to Europe. The foreign exchange thing. What are the impacts you guys are looking for just mainly translation, or some transactional, because actually a related question is, what kind of supply situation do you have in Europe, how much do you export into Europe and how much was sourced, is sourced locally?

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

So from a P&L basis we're looking at transactional exchange rate differences that will impact our 2015 year. Europe itself has a great deal of reactivation capacity not only by us but by our competitors, and very little virgin carbon manufacturing, and so they are reliant, Europe is reliant on receiving carbons not only from us in the United States, but also from China. And so the playing field is level in spite of the currency headwinds, and so that is not necessarily problematic for us. Keep in mind that as we do provision more of our current capacity to a mercury market, we will be more limiting in terms of the carbons that we will send to Europe, and potentially to parts of Asia, and that will minimize the impact that we will have for Europe purchasing our products, but it is a level playing field.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. I see. Switch to your Equipment segment. You highlight the Hyde Marine sales, but it looks like your traditional UV Equipment sales decreased, am I right, or is there something else happening there?

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

No. They did decrease. So did our traditional carbon sales in 2014, and we certainly look for improved, carbon equipment sales, I'm sorry, so not only UV but also traditional carbon equipment both declined in 2014, and we expect both to perform better in 2015.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. And you mentioned that you will try to sell equipment in South America like Brazil. How do you handle that domestic component requirement like that?

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

In terms of manufacturing equipment more than likely the manufacturing of that equipment would be in that region. It would be outsourced to a third-party.

JinMing Liu - *Ardour Capital Investments - Analyst*

Oh, I see. Okay. Got that. Thanks.

Operator

Your next question comes from Hasan Doza with Water Asset Management.

Hasan Doza - *Water Asset Management - Analyst*

Good morning guys. How are you?

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

Hey Hasan.

Hasan Doza - *Water Asset Management - Analyst*

I just wanted to clarify a couple of FX assumptions. On the previous question aside from the translation issue, I just wanted to understand your answer. In terms of matching your costs and revenues the question is, the carbon that you sell in revenues in Euro in Europe, or in yen in Japan, are any of them produced in the US in dollars? If any, how much of that that you sell in Europe or Japan is produced if any in the US?

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

Yes. There always have been lots of carbons sold into those regions produced by us in the US. We have not disclosed how much, and we don't intend to disclose exactly how much for competitive reasons.

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

Well, what I was going to say just to clarify the point that Steve made, there is very, very little virgin carbon manufactured in Europe, so all of the virgin carbon that comes into Europe for sale is basically purchased in dollars, whether it comes from the US, whether it comes from China, or whether it comes from other points of southeast Asia that the coconut carbon manufacture, so as a continent, everyone who sells product, virgin carbon product in Europe is buying their product in dollars. So the marketplace at some point in time will have to reflect the decline in the Euro, by most likely having some price corrections that account for that, and so it will affect us, it will affect all of the other companies that we compete against in Europe.

Hasan Doza - *Water Asset Management - Analyst*

Great. And just so I understand your answer, when you're selling the carbon to a client in Europe, you're selling it in Euros, right?

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

Correct. Yes.

Hasan Doza - *Water Asset Management - Analyst*

But you are producing that carbon in the US, and so your cost is in dollars, right?

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

That's correct. Yes.

Hasan Doza - *Water Asset Management - Analyst*

Okay. That's what I wanted to.

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

Well. Yes. We're outsourcing it from China or southeast Asia, and we're also buying that in dollars, and the competition is doing the same thing, so all of the virgin carbon that is sold in Europe, the price base or the cost basis is basically in dollars. So we have that headwind, but all of the competition has that same headwind.

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

And we do hedge some of our exposure for that, so we look at the forward needs in Europe, and we have always hedged at least a portion of their needs, so we do have some hedges is those purchases currently.

Hasan Doza - *Water Asset Management - Analyst*

Okay. That's one. Now coming back to the translation effect on your FX, Steve, in your guidance for the first quarter, what is the FX rate you're assuming for the Euro and the yen?

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

My comments on the call reflected a current rate of about 1 Euro being equivalent to $1.13 or $1.14, and the yen being around 119 to a US Dollar.

Hasan Doza - *Water Asset Management - Analyst*

Okay. And I would love to understand your sensitivity, let's just for example say the Euro moved by 5% during the quarter versus your 113, and the yen moved by the same amount. So what's like a 5% change in both of those currencies? What is the sensitivity to your earnings-per-share or revenues for that matter?

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

Obviously I don't have those calculations in front of me. A 5% move wouldn't be that material to our bottom line. If we looked at a $9 million drop, I think in my call so I was clear, I said if we applied knows current rates I just indicated to last year's first quarter, we would have had $9 million less in revenue and on an earnings-per-share basis that would have been $0.02 or $0.03 per share, so hopefully that will answer your question.

Hasan Doza - *Water Asset Management - Analyst*

Perfect. Okay. Got it. Thank you. Thank you again appreciate.

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

You're welcome. Thank you.

Operator

Thank you next question comes from Christopher Butler with Sidoti & Company.

Christopher Butler - *Sidoti & Company - Analyst*

Hi. Good morning everyone.

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

Hi Chris.

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

Morning.

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

Morning.

Christopher Butler - *Sidoti & Company - Analyst*

Thanks for squeezing me in. Just a question on the reactivation side of the equation as you look to more volume growth this year, are you seeing movements from your water customers towards reactivation that could free up some capacity for powder or other products?

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

Yes. This is Bob. That continues to be a focus of ours, and again, in all of the sales meetings that I have been attending recently, we have reactivation capacity available in all of our regions, and so that continues to be a strategy that we're pushing. We've had success in the US on the municipal area. We keep converting more traditionally just virgin buyers to reactivation. We have been converting some food processing companies to reactivation, that had traditionally used carbon on a just a virgin basis with a disposal, or sending it back to us for activation but using it in other markets. So that is an area that we continue to grow, both potable and industrial, and we will have capacity in all of the regions. So that's a focus of our efforts.

Christopher Butler - *Sidoti & Company - Analyst*

And my understanding of the reactivated carbon is that the price point is lower, but the margins are at least comparable to virgin carbon?

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

Yes. I would say that's correct. Yes.

Christopher Butler - *Sidoti & Company - Analyst*

And if you can do this quickly with the limited time, sort of a big picture question on your market share expectations for the powdered market. Could you talk through the idea of holding that 30% market share going forward? I can understand holding on to the customers that you have currently as you move forward, but I would think that as this market develops over the next few years and tightens that there may be opportunity for this to become more profitable in time, in which you may want to have a greater share than 30%. Are you viewing this differently than that?

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

Let me first say that 30%, I want more than that. I will be quite honest with you, but we're going to strive for that, but we position ourselves as we said before, as the expert, the technical expert the high performance product offering, or the full product offering supplier, and we will be there. And we believe as well that there will be instances going forward where whatever configuration changes at the plants, or they're having difficulties getting containment, they will be knocking on our door, and we can grow along those lines, and be able to solve a need that's there.

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

I was just going to say the same thing the 30% is our, I would say our minimum target. Not every plant is going to, not every utility is going to see the same benefit from our more sophisticated products, and so certainly there are going to be those plants, those utilities that will very happily use standard products from us or our competition, but we're basing that 30% on some early results that we see, and if the results continue to look good, people who test our product like it, we could potentially certainly go above that, we're not setting that as a cap. We're just trying to set that maybe as an expectation, that we're going to try and certainly improve on.

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

I said before that this mercury market we are learning is a very complex market. Calgon Carbon does really well with complexity, we are a Company with R&D efforts and our field personnel, and our sales folks, I mean we bring a problem on and we can tackle it, so I'm excited with the complexity.

Christopher Butler - *Sidoti & Company - Analyst*

Alright. Appreciate your time.

Operator

Thank you. Your next question comes from Dan Mannes with Avondale.

Dan Mannes - *Avondale Partners - Analyst*

Hey everybody.

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

Hey Dan.

Dan Mannes - *Avondale Partners - Analyst*

So I have some follow-up questions on mercury. I guess I'm little confused so please help me out, and I missed a couple of minutes of your early commentary. The contracts that you guys locked in the fourth quarter, number one does that all relate to MATS compliance, or was that any of that re-ups of kind of pre-MATS state level compliance?

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

It's both, Dan. It was both.

Dan Mannes - *Avondale Partners - Analyst*

Okay. Got it. So that's number one. Number two, in response to your other question, Steve you kind of said that you expected mercury sales to be up roughly $3 million year-over-year in the first quarter versus last year, and hopefully at a faster cadence. When you talk about your 5% growth and a lot of that is obviously mercury, or a piece of that, how much of that is based on the contracts you already have, versus things that maybe you anticipate getting later this year?

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

I'm sorry for the generic answer, but it's both. So we certainly don't have enough--

Dan Mannes - *Avondale Partners - Analyst*

Sorry. Go ahead.

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

No. I was going to say we don't have obviously enough contracts yet to be able to tell you that we can achieve those outcomes. Those are estimates based on awards that we have, purchase order purchases that we're filling, as well as expectations based on what is transpiring in the market today, there are still a whole bunch of utilities that haven't made decisions, and we're in the game for those, so it's all of those things, Dan.

Dan Mannes - *Avondale Partners - Analyst*

Okay and then on a follow-up question, here we are again sitting here in late February, theoretically compliance starts in a month and a half. Given your commentary on how tight you are, you're sold out, you're looking to add capacity, are you surprised there is not more concern on the utility side about locking up capacity, or do you think they feel like they have more time, given that maybe there's still the ability to defer some of this demand to 2016?

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

Well, I think -- well.

Dan Mannes - *Avondale Partners - Analyst*

Or alternatively, competitors supply?

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

Yes. I think in general, the utilities believe that there will be sufficient capacity to meet their needs. So I don't think they are in a panic mode that they have to enter into a contract, for two to three years from now the product won't be available. We certainly want the utilities to make sure they're taking their time when they make a decision on purchasing carbon, and give us the opportunity to make sure that they have tested our products, so that they come to the decision that hopefully is in their best overall interest. So I think going back six years or so when the first regulation was kicking in, there was a firm belief that there wasn't going to be enough product available so that there was more aggressive buying by utilities to make sure they got their share. Now I think that there's a belief that products will be available, and all of the manufacturers who we think we're in the lead, but all of the manufacturers are doing things to improve their products and make them more effective. So that helps to mitigate perhaps the concern the utilities have on will there will there be enough product available in two or three years.

Dan Mannes - *Avondale Partners - Analyst*

Okay. And I think you did confirm this, I want to make sure I understood. Relative to the Supreme Court decision you have not seen any change in behavior, they were deliberate before they're deliberate now?

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

Yes. I would say that's correct. We vent seen a change in behavior.

Dan Mannes - *Avondale Partners - Analyst*

That's fair. And then quickly on ballast water, you mentioned you plan to start testing for Coast Guard type approval in the spring. Can you talk at all about has the Coast Guard completed their, I guess they were doing a working group to assess how to correctly test UV based systems, is that complete, or is that, or is just testing kind of waiting on the results of the working group?

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

Well, the working group is not complete, but we think they're fairly far enough down the road that is worth us to start our testing at this time. So there's some risk involved in that if we, and this testing is not inexpensive. If we start the testing, are we going to have to maybe repeat something. There is some risk, but we think from a competitive standpoint we need to start doing it now, and we think that the Coast Guard is far enough along with their development of their procedure, that it is a worthwhile risk to start testing in the spring. There also aren't a lot of slots. There are only two companies basically that could offer the types of services to comply with testing. We're going to go with the one that's based in Norway, and their name escapes me for the moment, but there's only so many slots you can get. If you don't sign up then you're delayed for a pretty long time, so that's another reason why we think it's prudent in our interest to start the technology testing in the spring.

Dan Mannes - *Avondale Partners - Analyst*

And given your understanding of the type approval process for the Coast Guard, if you start in spring what's a realistic timeline for you guys to get that approval, and where do you think you are relative to peers in terms of pursuing the type of the Coast Guard type approval?

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

It's going to take a while. Certainly I think the testing goes basically through the rest of the year, right? So it's at least a nine month process, and if I had my UV guys here they would know exactly, but it's at least that long. There may have been some companies that have taken some risks, and done more testing ahead of us, not that many but maybe a couple. And it will be yet seen whether they in fact have done the right tests, so their work may have given them a little head start, or it may require them to go back to the drawing board. Anything that they do, however, and these are companies who would have UV technology, if they would be successful in getting approval a few months ahead of us, their work would essentially give all of the purchasers, all of the ship owners confidence that the UV technology is going to be successful, and actually we don't necessarily think that will be that big of a hurdle for us to overcome in selling in the marketplace. So we think we're doing it at the right time. We didn't want to go too early and jeopardize a lot of money that we might regret so I think that we are at the right time.

Dan Mannes - *Avondale Partners - Analyst*

And that cost I same that's going to run through R&D. Is that already in sort of your thought process, in terms of the kind of 16% plus or minus SG&A, or it premature to kind of talk about that for the second half of the year?

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

Well, a little premature, Dan. It will get spread out over a series of months and I don't expect much in the first quarter.

Dan Mannes - *Avondale Partners - Analyst*

Got it and then last lay on ballast water and then I'm done. Do you view someone hopefully you getting the type approval from the Coast Guard, is that going to be sort of a breakthrough moment, because one of the things that we continue to read, is that ship owners don't want to commit just for fear that AMS only lasts for five years, and they don't want to have to replace the systems. So how much--

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

Right.

Dan Mannes - *Avondale Partners - Analyst*

Of a break through is the potential type approval for the first guy. or first group of guys?

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

Well, again, I think it's important, you don't want to be too far behind, that's why we're starting our testing now. I think there will be some harmonization, if that's the correct way to say it, between accepted approval in the Coast Guard and US, and accepted approval on a global basis. So I think having the approval from the US Coast Guard will give ship owners confidence that it will be the standard that will work throughout the world, for as long as they would be operating their system. So it's a good thing to have. We think we're well placed, we may not be the first, but frankly we will ride the coat tails if we're not first, we're going to do the same thing from a technology standpoint, and we don't really think that will put us at a disadvantage. Getting approval will be really important of the overall market move forward though.

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

Yes, Dan and for the US compliance obviously there are hundreds of ship owners who have been granted extensions, hundreds of ships, and hopefully with the first type approval whenever it occurs, we will see a cessation to the liberal granting of extensions.

Dan Mannes - *Avondale Partners - Analyst*

That's kind of what I was pointing to. Perfect. Thanks, guys.

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

Okay. You are welcome.

Operator

Your next question else a follow-up from Chris Kapsch with Topeka Capital Markets.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Yes. My follow-ups are sort of housekeeping, but just you mentioned the D&A step-up there is some accelerated depreciation associated with the SAP reimplementation. Did that also affect the fourth quarter? I'm not sure I caught that, and then how many is this a one-time thing, or does this run through a couple of quarters here?

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

Yes, Chris. Thanks. It did not forget the fourth quarter. We made some decisions later in the year as to which assets wouldn't survive the go live, and we now have the date for the go live, so no impact on the fourth quarter. It will be limited to the first six months of the year, provided go live remains on track for mid-year, and for the ITS, that's a loan it was about $0.5 million a quarter. Coupled with other assets I think my number was a little higher. We did as Randy mentioned move into a new building, there were some costs in the first quarter related to that, some prior leaseholds that had to be amortized away related to the old building, but it is a first half of the year issue for us.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Got you. So an incremental $600,000 in the first two quarters?

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

Correct.

Chris Kapsch - *Topeka Capital Markets - Analyst*

And then just your tax rate guidance sounds like there's implied roughly 200 basis points of tax rate creep. Is that just sort of jurisdictional profit expectations, maybe more?

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

Yes. And the guidance of 34% may be high. A range of 33% to 34% is probably appropriate on a full year basis this year we benefited quite a bit from a resolution of a prior IRS audit that lowered our rate by I think 1.9%, so it will be certainly impacted by permanent items, but probably more so by the mix of income and where it's generated, but 33% to 34% is a pretty fair estimate for this point.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Got you. Then finally on share repurchases I think they were nil in the third quarter. You bought back more opportunistically or aggressively in the fourth quarter. Can you comment on anticipated cadence if possible in 2015, based on your CapEx needs for addressing your growth opportunities and then just what was the actual diluted shares outstanding at the end of the fiscal 2014? Thank you.

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

I will start with the diluted share count at the end of the year is around 53.2 million shares. We will see some dilution with equity orders granted in the first quarter, and our repurchases that we ultimately undertake in 2015, I guess at this point I will say only that they should be enough to more than offset any of the dilutive effects, and we will approach it quarter-over-quarter, and keep you apprised of our specific plans.

Chris Kapsch - *Topeka Capital Markets - Analyst*

Thank you.

Operator

Thank you. A follow-up from Kevin Maczka with BB&T Capital.

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

Okay. Thanks. I will be quick, but just two quick follow-ups here. So on the original $40 million cost plan, I think you had $15 million remaining spread over 2015 and 2016. Can you give a little more color on what is incremental here in 2015?

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

Let me recap that. The $40 million program that we've just concluded will have a full year effect in 2016. Right a full year annualized effect. We're seeing a lot of that now, but on a full year basis. The new $10 million program that I introduced today, we will have a full year annualized effect of 2017. A lot of it again being after the implementation of our new SAP system.

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

So, Kevin, the impacts in 2015 and 2016 they should be about equal with the $15 million we have to go. We will see some savings incrementally from coal, and principally from capital investments, so obviously you see the rather robust capital expenditure program that we not only had in 2014 but will continue in 2015, and many of those projects are related to our virgin plants, some to our reactivation facilities, but much that is discretionary spend aimed at either giving us more capacity and/or improving our margins, and so those are the drivers for the next two years, and then we will have the third program that will start to take effect in 2016 as well.

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

And then just finally just so we're all clear, so 5% revenue growth outlook including the currency headwinds for the year, suggest maybe something closer to 10% excluding currency, which is much better than the flattish that we have seen the last two years. I know there are a lot of things going on here. Do you expect Equipment to be better, mercury is ramping, Randy made some comments about geographic expansion and reactivation. Can you sort of directionally frame those buckets, is mercury the biggest driver here, or all of the above, or something else I didn't mention?

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

Yes. You are definitely correct in saying mercury is a very big driver in the growth that we're going to see, and not unexpected. On the geographic expansion, we're seeing some smaller successes, but I think on a significant base, it's going to take us some time to build-up a customer base and build up teams and get that focus. I really see that as up and coming going further. Obviously the ballast water, waiting to see what is going to happen this year, with everything we have said today. But mercury is going to be our biggest driver. We're still looking for reactivation, where we can get reactivation customers converted over, oh yes and also the fact that we said in the call, we're talking about the fact of getting into some new and different markets we have never been in before. We hope that happens sooner than later, and through our strategic alliances and these new partnerships I referred to, I think that will provide some opportunities to not displace what we're currently doing, but to actually add on to revenue.

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

Okay. Great. Thank you.

Operator

Thank you. Our next question comes from Steve Schwartz with First Analysis.

Steven Schwartz - *First Analysis Securities - Analyst*

Good morning everyone.

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

Morning.

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

Morning.

Steven Schwartz - *First Analysis Securities - Analyst*

Bob, just going back to Chris' line questioning on reactivation, can you quantify for us what share or pounds of your virgin capacity in 2014 were converted over to reactivation?

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

I don't have that number in front of me, Steve. I couldn't come up with a number.

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

Steve, I will try and help. This is Steve. We grew our carbon and service volume by about 9 million pounds year-over-year, and a simple view if we took 6 million-pounds of virgin than we produced, then the rest came from reactivation, that's probably as granular as we're going to be able to get at the moment.

Steven Schwartz - *First Analysis Securities - Analyst*

No. That's exactly what I was looking for. I'm just wondering if you think that's kind of a trend that we should have in our minds as you go through 2015 and 2016?

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

From a from a virgin pound standpoint we would expect very similar outcomes, I think I referenced earlier that we would add as much as 7 million-pounds to our 2015 capacity compared to 2014, with another increment coming in 2016, so clearly there are some step changes coming. They seem to be in or around that 6 million pound a year range, and we have plenty of capacity available on reactivation. We will grow that as much as we can. I think we referenced some positive changes in China that will help, and we will continue to try and focus on filling our reactivation plants in the US as well.

Steven Schwartz - *First Analysis Securities - Analyst*

Okay. And then if I could ask a follow-up then just related to the Supreme Court decision that's pending in June, what is the worst outcome that could happen there? If you could just presuming what do they do overturn the EPA's power?

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

Yes. This is Bob. The worst outcome for carbon suppliers would be that they would say, the EPA erred in how they constructed the regulation, and they would send it back to them to basically redo it, right? And if they do that, we can speculate that would require them to go through their rigorous process, and it could take years again for it to resurface as a regulation. Now that stunts the future growth in the market that certainly we're hoping is going to take place. It doesn't change the fact that the states that already have mercury regulations in place, or in Canada, that will stay in place or that won't change. If the court throws it back to the EPA, will additional states feel that they need to step in and control mercury, that's a possibility but we certainly don't know whether or not that would happen, but that could be a possibility to pick up a little bit, but the existing market would remain in place. It obviously would then delay the new market by potentially years.

Steven Schwartz - *First Analysis Securities - Analyst*

And Bob, do you dare opine what the probability of that outcome is? I mean are there rumblings that if the Supreme Court goes against the EPA, is the probability of that considered extremely low right now, or is it a real possibility?

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

Well, I don't know that we really can, our opinion is more valid than any other opinion you could find. I think there is general surprise that the Supreme Court agreed to hear the case, because recently they have been supporting regulations set by the EPA. So there was probably a relatively low number of people that thought that this issue would actually get to the Supreme Court. So two, I think there have been two appellate courts have upheld the MATS regulation, so it's a decision that the Supreme Court is going to have to make. Are they going to, they basically have to say that the two appellate courts erred in their decision, and they have to do that as a matter of law, so we'll see.

Steven Schwartz - *First Analysis Securities - Analyst*

Yes.

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

We certainly are hoping that they make a decision that up holds the EPA regulation.

Steven Schwartz - *First Analysis Securities - Analyst*

Okay. Thank you all for making the time. Very helpful call.

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

Thanks.

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

Thank you.

Operator

Thank you. We have no further questions at this time.

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

Okay. Let me just say again, I am really excited that the direction that we're going, I'm really pleased with the team here at Calgon Carbon, and all they're doing to help us grow our business. We thank you for your interest in Calgon Carbon, and have a great afternoon.

Operator

Thank you. This does conclude today's conference call. You may now disconnect.