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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Calgon Carbon's third-quarter 2015 earnings conference call. (Operator Instructions) It is now my pleasure to turn the floor over to Dan Crookshank, Director of Investor Relations. Please go ahead, sir.

Dan Crookshank - *Calgon Carbon Corporation - Director of IR*

Thank you, Lori. Good morning, everyone, and thank you for joining us for today's conference call. Our main speakers today are Randy Dearth, Calgon Carbon's Chairman, President, and Chief Executive Officer; Bob O'Brien, our Chief Operating Officer; and Steve Schott, our current Senior VP and Chief Financial Officer. Also joining us today is Jim Coccagno, our current Senior Vice President of Asia, Global Procurement, and Strategic Initiatives; and Bob [Fortlanglor], our current Vice President of Finance.

Before we begin, I would like to remind you that today's presentation, as well as the additional comments the Calgon Carbon executives will make during the Q&A portion of this call, 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 such 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 file with the Securities 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.

With that, I will now turn it over to Randy for his initial comments on the quarter and recent business developments.

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

Thanks, Danny. Good morning, everyone. Before we get started with the results for the quarter, I would like to briefly recap several senior management announcements that we made recently. I would like to start by congratulating Bob O'Brien on his retirement decision. We are greatly indebted to Bob for his many contributions to Calgon Carbon over his 42-year career. The impact of those contributions will continue to be evident as we move forward, and I'm happy to report that Bob has agreed to consult with the management of the Company for approximately 18 months after he officially retires in April. This is going to allow for a very smooth operational transition. Thanks, Bob.

In implementing this transition, we believe that instead of a one-to-one replacement for Bob, that he have two successors with two distinct focuses, which I will discuss in more detail later. Under Bob's tutelage, these two gentlemen have both gained extensive knowledge and experience and have established proven track record. With that, I would like to congratulate and welcome Jim Coccagno, our recently appointed Executive Vice President of our new core carbons and services division. And I would also like to congratulate Steve Schott, who will be participating on his last earnings call as our CFO, but will return next year in his new role as Executive Vice President of our newly formed advanced materials manufacturing and equipment division.

I also want to welcome and congratulate Bob Fortlanglor, who, effective on January 1 of 2016, will be our Chief Financial Officer. Neither Jim Coccagno or Bob Fortlanglor will have a formal speaking role today, but they will be available to participate in the Q&A at the conclusion of our remarks.

So moving on, I'll get started by commenting on our third-quarter financial results compared to the expectations we communicated last quarter and then spend a few moments taking you through several recent business highlights.

Overall, our third-quarter results were mixed. On the positive side, our FLUEPAC mercury removal product volumes were strong as we expected, and the strategy we built is working as our sales on a year-to-date basis have increased by approximately 125% from last year.

Excluding the negative impact of currency translation, our sales for the quarter were slightly ahead of last year's third quarter. Our pre-depreciation and amortization gross margins once again exceeded 36%, proving again that we are continuing to focus on improving the bottom line despite the impact of external headwinds. In our quarterly diluted earnings per share of $0.23, we're steady with last year. However, on the negative side, our overall revenues for the quarter fell short of our expectations as we continue to experience a slower-than-expected pace of demand primarily in our North American municipal water and industrial and food market volumes. Bob will discuss the drivers of this softness we are seeing in these markets later in the call.

While I'm disappointed in our ability to deliver on our top-line expectations for the quarter, I am pleased with our team's continued focus on efficient execution of our business. Our positions in our markets continue to be solid, and our overall results reflect our ability to leverage the combination of our diverse product solutions and end markets.

Now let me mention several business highlights for the quarter. I want to start with our FLUEPAC contracts. Last month, we announced the finalization of three multi-year agreements for the supply of FLUEPAC for mercury control that will contribute annualized revenues of approximately $20 million. Two of these agreements extended relationships with two current customers and will run through the end of 2017, and one is with a new customer that runs through September 2018. In total, we will be supplying 19 generating units under these agreements, 11 of which are new to us. As a result of full-scale product testing, we will supply our advanced third-generation products to most of the 11 newly added generating units. A majority of facilities are treating in accordance with state regulations.

In addition, I am happy to announce today that we recently signed a five-year extension with another power plant customer that is treating mercury emissions under state regulations. This is expected to provide revenues of approximately $1 million to $2 million annually.

Another bright spot this quarter was in Japan, where our sales reversed course and were higher year over year as compared to last year's third quarter. The main driver relates to recently finalized agreements with a Japanese firm for the supply of activated carbon pellets for the removal of sulfur and nitrogen oxide air missions. The two agreements, which run consecutive through the end of 2016, are expected to generate revenues in an annualized rate of approximately $6 million.

Despite the recession in Brazil and the continuing challenges presented by the weakness of the Brazilian real, our LatAm team successfully closed a multi-year full-service contract with a multinational food and beverage company. The value of is $500,000 in year one and $200,000 per year thereafter. This demonstrates our ability to implement our full-service model -- meaning carbon, equipment, carbon exchanges and related services -- in the Brazilian market even under these difficult conditions. We continue to work on a pipeline of projects across Latin America as we establish our platform to be prepared for when economic conditions in Brazil improve.

With that, I'll turn it over to Steve for the third-quarter financial review. Steve?

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

Thanks Randy. Good morning, everyone. Total sales for the third quarter of 2015 were $133 million versus $137.7 million in the third quarter of 2014, a decrease of $4.7 million, or 3.4%. Due to the stronger US dollar in the current year, translation had a negative impact of $5.9 million for the third quarter of 2015, primarily on sales in the activated carbon and service segment.

Regarding our segments, sales in the activated carbon and service segment decreased $3 million, or 2.4%, for the third quarter of 2015, compared to 2014's third quarter. The decrease in sales was principally due to the $5.8 million impact from foreign currency translation. Excluding the currency translation impact, segment sales increased by $2.8 million. Sales in the environmental air market increased by $12.3 million due mainly to the higher sales of powdered activated carbon for mercury removal. This increase was mostly offset by lower sales and other market areas. Potable water market sales were lower primarily in the Americas region due to several large orders from last year that did not repeat and lower demand, including the impact of adverse weather conditions. Sales were also lower in the food and environmental water markets due to certain non-repeat orders, and in the specialty carbon market due to the continued lower demand for respirators from the US government.

Moving to the equipment segment, sales decreased $1.1 million, or 10.6%, in the third quarter of 2015 versus the comparable 2014 period. The decrease was primarily due to lower sales of ballast water treatment systems as well as lower demand for carbon absorption equipment systems due to a decline in project-related discretionary spending by certain industrial customers, and lower disinfection byproduct-related equipment activity in the potable water market. These decreases were partially offset by higher sales of ion exchange systems due to several large projects.

Sales in the consumer segment decreased $500,000, or 21.3%, as compared to the third quarter of 2014 due to higher demand from a single customer in 2014 that did not repeat.

Consolidated gross profit before depreciation and amortization as a percent of net sales was 36.2% in the third quarter of 2015, compared to 34.6% in the third quarter of 2014, an increase of 1.6 percentage points. Approximately $1.2 million of improvement resulted from higher-margin products sold, including FLUEPAC products for mercury removal, coupled with a decline in volume of lower-margin products. The Company's cost improvement programs, including lower coal costs of approximately $0.5 million, contributed to margin improvement in all geographic regions.

Depreciation and amortization expense of $8.6 million in the third quarter of 2015, which was slightly higher than we had projected, increased by $1.1 million compared to last year's third quarter. This increase was primarily due to higher depreciation expense related to improvements to the Company's Catlettsburg, Kentucky, virgin carbon manufacturing facility and a July 2015 completion of the Company's SAP reimplementation project. Also contributing to the increase was accelerated depreciation expense of approximately $500,000 related to certain assets that have been or will be replaced as a result of new projects.

Selling, administrative and research expenses were $22.6 million during the third quarter of 2015, which, while in line with our expectations, increased by $1.4 million, or 6.6%, compared to last year's third quarter. Costs related to the Company's SAP reimplementation project was totaled $1.7 million in the third quarter of 2015, or approximately $600,000 higher than in last year's third quarter. In addition, higher employee costs of $700,000, which includes a $500,000 charge related to a pension plan settlement and $400,000 in higher outside consulting services, were partially offset by the favorable impact of $700,000 in foreign currency translation.

Other income and expense net for the third quarter of 2013 reflected income of $900,000, compared to expense of $400,000 last year. The improvement was primarily due to foreign-exchange gains in the current year versus losses in the prior year.

Our income tax rate for 2015's third quarter was 31.3% as compared to our outlook of 34%, reflecting the effect of adjusting to our current expectation of our full-year taxable earnings mix across various tax jurisdictions. This compares to the effective tax rate for the third quarter of 2014, which was 33.8%.

In summary, net income for the third quarter of 2015 decreased slightly to $12.1 million versus net income of $12.2 million for the third quarter of 2014. On a fully diluted share basis, earnings per common share were $0.23 for both the third quarter of 2015 and 2014.

Turning to the Company's business segments again, the activated carbon and service segment recognized $26 million in operating income before depreciation and amortization in the third quarter of 2015, compared to $26.8 million in the third quarter of 2014. The $800,000 decline was primarily a result of higher selling, administrative and research expenses, including the pension settlement charge previously mentioned.

The equipment segment recognized an approximate $800,000 operating loss before depreciation and amortization in both the third quarter of 2015 and 2014. Backlog for the equipment segment was $12.4 million as of September 30.

For the first nine months of 2015, this segment has been impacted by the slowness we have seen in the industrial, ballast water and North American municipal water markets. However, we have seen a pickup in activity in October of all of our equipment offerings and have booked $8.2 million of new orders during the month.

The consumer segment recognized approximately $300,000 in operating income before depreciation and amortization in the third quarter of 2015, compared to approximately $400,000 in the third quarter of 2014. The decrease was related to lower activated carbon cost sales volume.

Turning now to our balance sheet and cash flows. Our cash balance has held fairly steady in the range of $50 million to $55 million throughout this year and was approximately $55 million at the end of the third quarter. Receivables were $98.6 million at the end of the third quarter of 2015, which was approximately $3.3 million higher than at the end of 2014. Inventories were $108.3 million at September 30, an increase of approximately $10 million from the end of 2014. This increase is primarily due to higher quantities of outsourced materials related to our initiatives to sell more outsourced product into current and new market areas.

Cash flow provided by operations was $53 million for the first nine months of 2015, which is a decrease of $8.4 million compared to cash flow from operations for the first nine months of last year. The decrease was primarily due to the inventory increase that I just mentioned.

As of September 30, our total debt outstanding approximates $103 million, which represents an increase of approximately $13 million from the end of the last quarter and approximately $32 million from the end of last year. This increase relates to borrowings under our US credit facility and has supplemented our operating cash flow for our capital expenditure investments in returning value to shareholders through share repurchases and common stock dividend payments.

I would also like to point out that tomorrow, November 6, we will execute the final one-year extension option for our US credit facility, which moves the expiration date of the facility to November 2020.

Capital expenditures totaled approximately $15 million in the third quarter of 2015, primarily for improvements to the Company's Catlettsburg, Kentucky, activated carbon manufacturing facility, upgrades to the Company's Tipton facility in the UK, as well as expenditures related to the Company's new headquarters facility, including the research and development innovation center that opened in September. For the first nine months of the year, capital expenditures have totaled approximately $49 million.

During the third quarter, we continued to return value to shareholders. We paid our third $0.05 per-share dividend of the year. And through our open-market share repurchase program, we repurchased 872,000 shares for $14.5 million. Including the repurchase of an additional 308,000 shares through the end of October, the Company has used approximately $28 million this year to repurchase a total of 1.6 million shares and has approximately $79.4 million of remaining authorization for additional common stock repurchases. And that completes the financial review.

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

Thank you, Steve. Now we will hear from Bob O'Brien for the operations review.

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

Good morning, everyone. Let me start by providing an update on the regulatory front, first on the MATS regulation. As we discussed last quarter, MATS now lies in the hands of the US Court of Appeals for the District of Columbia circuit. And following a timetable outlined by the court, the parties submitted motions in late September, responses to the motions on October 21, and replies to the responses were to be filed yesterday, November 4. We expect the court to issue a ruling within the next month or so without holding any additional hearings.

As expected, the EPA's motions requested that the court remand the rule back to the agency to appropriately consider costs without vacating it, thus leaving the rule in effect. Based on the work that is already completed on the documentation of costs throughout the entire rulemaking process, EPA has stated that it believes it is, quote, at least a serious possibility, unquote, that it will be able to substantiate its decision to establish the mass regulation in a manner required by the US Supreme Court's June 2015 decision in Michigan versus the EPA. Considering this and analogous case law precedents, we continue to believe the decision by the court that keeps the rule in place while remanding it to the EPA is a reasonable possible outcome.

In the meantime, power plants with an April 2015 mass compliance date are continuing to eject powder carbon in order to meet the requirements of the regulation. Additionally, the vast majority of those plants required to comply in April 2016 are well advanced in their planning. This includes capital investments for PAC feed systems, testing and evaluation of hydrocarbon products, and the issuance of requests for quotes on these products.

As we have previously mentioned, we continue to expect our 2015 sales of powdered carbon for mercury control to be in the range of $55 million to $60 million. Our mercury control products sales were $19.3 million in the third quarter, an increase of 162% from last year's third quarter and are $46.3 million for the first nine months of the year.

Moving to balance and water discharge regulations, we still await the ratification of the IMO ballast water treatment convention. For the rule to go into effect, countries representing an additional 2.11% of the world's shipping tonnage need to ratify the regulation. We will be closely monitoring the IMO council and assembly meetings that are scheduled to take place later this month and in early December, as they could provide an excellent forum for countries to announce any ratification decisions.

With respect to the US Coast Guard regulations, they will be fully in effect on January 1, 2016 for all sizes of vessels discharging ballast water in the US waters. The Coast Guard, however, has yet to grant type approval for any ballast water treatment system to comply with its regulations. It has also yet to finalize the testing protocols upon which the type approval testing of UV technology-based systems will be evaluated. As a result, they have granted two-year compliance extensions to over 2,100 vessels. This is up from approximately 300 at the beginning of this year.

Testing for US Coast Guard type approval of our Hyde Marine ballast water treatment systems remains well underway, utilizing the type approval methodology that we and other UV-based system suppliers believe the US Coast Guard will eventually adopt. On this basis, our system has passed land-based testing, which is the more rigorous portion of the testing protocol. We will shortly begin shipboard testing and expect to be completed and ready to apply for type approval with the Coast Guard in the second quarter of next year.

Last quarter, we mentioned that our ballast water system order activity was very light but that we were seeing a pickup in request for quotations, and thus expected to be -- expected that to be a positive sign for order rates moving forward. In the third quarter, our order activity increased to 14 systems, up from 4 in the second quarter. The pace of orders so far in the fourth quarter has been good.

Tariff update -- moving on to the activated carbon tariffs on Chinese steam-activated carbon imported into the US, early last month we announced that the Department of Commerce determined that the final average separate rate tariff amount to be assessed on imports of activated carbon from China that ended the US between April 1, 2013 and March 31, 2014 was $0.476 per pound. This retroactively replaces the average separate deposit rate of $0.018 per pound that had been in effect for this period. This new tariff rate also now becomes the cash deposit rate applied to future imports of Chinese steam-activated carbon until the next Department of Commerce review, which we would expect to be completed in Q4 of 2016. We believe that the existence of the anti-dumping duties will continue to ensure fair pricing for activated carbon in the US market.

Turning to our municipal markets, as I mentioned last quarter, we continue to see more water treatment plants installing granular activated carbon for the controlled taste and odors, specific organic chemicals and disinfection byproducts. More than 5 million pounds of additional granular carbon has been placed online in the United States in 2015. As more granular carbon is placed online, our expectation has been the demand for our reactivation services would increase proportionately. Recent order patterns, however, have shown that certain of our drinking water customers have been able to lengthen the time between carbon reactivation while still meeting their treatment objectives, leading to the shortfall from our volume and revenue expectations in this market.

In the current year, and particularly in the last two quarters, we believe the primary drivers have been related to municipal customers processing less water due to higher-than-expected rainfall in the Eastern United States as well as lower demand in the West due to drought-based water restrictions placed on residents in that area of the country. By their nature, impacts such as these can be subject to variability over time.

Sales were also lower in the third quarter due to the postponement of an initial granular carbon fill at a municipality due to project construction delays.

Despite this recent, slower-than-expected base of demand, our North American municipal water revenues continue to be on par with last year through the first nine months of the year. We continue to believe that global municipal water market provides an opportunity for long-term growth for Calgon Carbon. Now the industrial and food market.

Across our North American industrial food markets, our volumes in the third quarter also lagged our expectations, primarily due to headwinds such as marked by continued low oil prices, strong dollar and general weakness in global economic growth, including deceleration in year-over-year US industrial production growth rates that occurred in the third quarter.

While we anticipated a bounce-back in maintenance and new capital projects, demand in this area remained muted, including demand for temporary service equipment. In addition, an environmental remediation project that we expected to execute on in the third quarter has now slipped to the fourth quarter. We continue to be well-positioned with our customer base in these markets and look forward to industrial project activities returning to more normalized levels as general economic conditions improve.

Now let me turn to several of our capital investment projects. At Tipton in the UK, we have begun to reactivate spent municipal drinking water carbons, and we expect to be up to full capacity in a few weeks.

With respect to our Neville Island expansion and enhancement project, as I mentioned last quarter, we are off to a slow start due to permitting issues. We now believe that we may have all necessary permits in hand by January. This would allow us to commence construction in Q1 of 2016. We expect this $30 million capital project will be completed approximately 15 months after its start. For the year, we now expect our capital expenditures to total approximately $60 million to $65 million. That concludes my remarks.

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

Thanks, Bob. And now we will go back to Steve for the fourth-quarter outlook.

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

Thank you, den. Let me start with revenue. We expect revenue for the fourth quarter to decline sequentially from the third quarter by several million dollars. The sequential negative FX impact is estimated to be approximately equal at $6 million. Mercury control revenues are expected to be lower by $5 million to $10 million sequentially due to seasonal requirements of our power plant customers, with most of our other Americas business units showing improvement. This includes higher revenues in municipal water and slightly higher industrial and food market revenues, reflecting our expectation that economic weakness in these markets continues with some modest improvement.

We expect depreciation and amortization -- we expect pre-depreciation and amortization gross margins to be approximately 34%, due primarily to a less-favorable sales mix in the fourth quarter as compared to the third quarter. We expect our depreciation and amortization expense as well as selling, general, and research-related operating expenses to be comparable sequentially. We expect other income and expense net to be more in line with our first- and second-quarter results of approximately a $500,000 net expense. And finally, we expect our effective income tax rate to be approximately 33%.

Now I will turn it back over to Randy for some final thoughts.

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

Thanks, Steve. In closing, I would like to discuss two final topics: our cost reduction program and on our new organization. We continue to make progress on our cost reduction initiatives. In October, we completed a warehouse consolidation in China that will provide annual savings of approximately $800,000, which are contemplated in our previously announced cost improvement program. Through the end of 2015, we will have achieved approximately two-thirds of our $50 million program. We continue to expect to achieve the remaining third of the targeted savings over the next two years.

Now let's talk about our new structure. To remind you, the new core carbon and services division to be led by Jim includes the oversight of our traditional carbon, industrial and municipal markets in the US, which also include reactivation, as well as our activities in the Asian and LatAm regions.

The advanced materials, manufacturing and equipment division to be led by Steve will include our specialty carbon business in the US and the global UV technologies business unit, as well as activities in the European region that operate under the name Chemviron Carbon. He will also have oversight of our virgin activated carbon and equipment manufacturing capabilities.

This structure is expected to do a number of things. It will enhance the successful North American business unit structures by combining the management of these areas with reactivation in field service activities that will allow a continued unified push of our full-service model. It retains our current regional structures but defies our leadership, which we expect will increase our focus in each region, accelerate our global expansion and growth strategy. It also improves overall asset utilization and investment through a sharper focus on optimization of virgin carbon and reactivation capacity and the way we provision equipment to customers.

In total, we believe it will provide a better opportunity for Calgon Carbon to succeed in executing our growth strategies, improving our profitability and creating incremental shareholder value.

Let me conclude today by saying that, despite the softness we are currently seeing in certain of our end markets, I continue to be excited about the opportunities for future growth at Calgon Carbon. This includes areas where we are already established, such as Mercury removal and municipal water treatment solutions, as well as executing strategies which include acquisitions to expand our product portfolio and increase our global presence. I believe the combination of our strong balance sheet and expected solid cash flows will enable us to fuel this growth while at the same time allow us to continue returning value to shareholders.

We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ben Kallo, Robert Baird.

Unidentified Participant

Hi, guys. This is Dave on for Ben. I was wondering if you guys could talk a little bit more about the mass ruling and where you see that going. I know you guys already talked about this a lot, but if you could just add a little more clearly there about some color on what we should expect, how we should model that.

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

This is Bob. As I mentioned, the ruling is now in the hands of the Court of Appeals in Washington, DC, so we can only, I think, state what we already have. We know the court has all the information now that they are going to consider. So we think that with an April 2016 deadline ahead for many power plants that were granted a one-year extension -- with that in mind, we think the decision from the court will be made relatively quickly. We estimate before the end of the year -- next month or two.

We have reason to believe, based on some EPA statements, that we are hopeful that the court will remand the decision back to the EPA to complete their cost analysis but keep the regulation in effect. And so that's our expectation, but obviously there are no guarantees when it comes to what the court will actually do.

Unidentified Participant

Okay. Thank you.

Operator

(Operator Instructions) At this time, there are no further questions. I will now return the call to Dan Crookshank for any additional or closing remarks.

Dan Crookshank - *Calgon Carbon Corporation - Director of IR*

Thank you, Lori. I would just like everybody to know that our 10-Q will be filed tomorrow. And myself and the management team will be available for calls to follow up the call. Thank you. Back to you, Lori.

Operator

Thank you. That does conclude today's Calgon Carbon third-quarter 2015 earnings conference call. You may now disconnect, and have a wonderful day.
