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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Calgon Carbon Corporation second quarter 2016 earnings call. During the presentation, all participants will be in a listen-only mode.

(Operator Instructions). It is now my pleasure to hand our program over to Dan Crookshank, Director of Investor Relations. Please go ahead.

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Thank you very much, Kristen. Good morning everyone and thank you for joining us for today's conference call.

Our speakers today are Calgon Carbon's Chairman, President, and Chief Executive Officer, Randy Dearth; our Senior Vice President and Chief Financial Officer, Bob Fortwangler; Executive Vice President and leader of our Core Carbon and Services business, Jim Coccagno; and Executive Vice President and leader of our Advanced Materials, Manufacturing and Equipment business, Steve Schott.

Before we begin, I would like to remind you that comments made by Calgon Carbon executives in their prepared remarks, as well as additional comments made 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 filed with the Securities and Exchange Commission, particularly in our latest 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 the call over to Randy for his initial remarks.

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

Thanks, Dan. And good morning everyone. I'm pleased to report this morning on our financial results for the quarter that we're in line with our overall expectations with total sales that were at the high-end of our expectations just slightly below our results from last year's second quarter. While we have yet to see our industrial end markets turn the corner due to persisting soft economic conditions, our performance this quarter demonstrates the results we can deliver due to the diversity of both our product portfolio and served end markets.

Our 10% sequential increase in sales from the first quarter was mainly due to a very strong quarter in the North American municipal water market. Not only were sales on the right track, but we captured a number of meaningful municipal water orders, including a large project with a new customer in Honolulu, Hawaii. In addition, activity in this market remains robust and is being triggered by the EPA's recent issuance of a health advisory limitation on perfluorinated compounds or PFCs, found in drinking water. Jim will have more on this later.

In other markets, the North American mercury removal market continued to move towards full market formation, and our sales were in line with our expectations, growing by approximately 35% sequentially. And we continue to believe we have captured at least a 30% share. Steve will have more on this later.

And in Asia, in addition to the 3.8 million pound virgin activated carbon drinking water order we will be filling late in the third quarter in Hong Kong, we were awarded a large municipal water carbon exchange projects in Japan that will also begin to deliver in the second half of the year, as well as into early 2017. The total value of this award is $3.6 million.

I'll come back at the end to give you an update on the progress of our planned acquisition, as well as more details on the in cost reduction program, and we're also announcing this morning's press release.

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Thank you, Randy. Now, we'll go to Bob for the financial review.

Bob Fortwangler - *Calgon Carbon Corporation - SVP and CFO*

Thank you, Dan. Good morning everyone. Let me start with our consolidated income statement results. Second quarter sales were $132.6 million, a decrease of $2.9 million compared to last year's second quarter sales of $135.5 million. The impact of currency translation for the quarter was not material. Compared to our 2016 first quarter sales of $120.2 million, our second quarter sales increased sequentially by $12.4 million or 10.3%. I will explain the increases during my segment review.

Net sales less the cost of products sold before depreciation and amortization as a percentage of net sales for the second quarter of 2016 was 33.9% compared to 37.5% for the second quarter of2015. Last year's result included a $1.2 million or an approximate one percentage point benefit related to an import duty refund in conjunction with the Trade Preferences Extension Act of 2015. The remaining decrease in the margin percentage was due to a decline in volume of higher margin products, including the absence of a high margin legacy contract that favorably impacted 2015.

Selling, administrative, and research expense for the second quarter of 2016 was $23.3 million,$0.7 million higher than last year's second quarter. The increase is primarily due to transaction-related costs attributable to the Company's planned acquisition of the European activated carbon and filter aid business of CECA of $1.3 million, and the $0.7 million pension plan settlement charge. These increases were partially offset by a decrease in expenses incurred in last year's second quarter related to the Company's SAP reimplementation project that was completed last year.

Depreciation and amortization expense for the second quarter was $9.5 million compared to $8.5 million for the same period last year, with the increase primarily due to fixed assets placed in service since last year's second quarter, including our new headquarters, improvements at our manufacturing facilities, and the reimplementation of our SAP system.

As a result, second quarter2016 income from operations was $12.2 million compared to $19.8 million for the same period last year.

Interest expense was $200,000 for the quarter compared to $100,000 in last year's second quarter; and other expense for the second quarter was a net zero compared to $600,000 of expense in the same period last year.

Based on a tax rate of 34%, net income for the second quarter of 2016 was $7.9 million or $0.15 per fully diluted share compared to net income of $12.6 million or $0.24 per share for last year's second quarter.

Second quarter 2016 operating income, net income, and earnings per share were negatively impacted by $2 million in pretax expense attributable to the planned business acquisition and the pension plan settlement.

Now, let's turn to our business segments and start with the activated carbon and service segment where sales for the second quarter of 2016 declined slightly to $121.1 million compared to $123.6 million for the same period a year ago. Potable water and specialty market sales were higher across all geographic regions. These increases were slightly more than offset by lower sales of powdered activated carbon for treating coal-fired power plant mercury emissions in North America, and lower sales to industrial and food market customers across all geographic regions. When compared to reported 2016 first quarter sales of $106.2 million, second quarter 2016 Activated Carbon and Service segment sales increased $14.9 million or 14%, as quarterly sales improved sequentially across most end markets, with a particularly strong improvement in the North American potable water market.

The segment's 2016 second quarter operating income was a $13.1 million compared to $19.6 million in last year's second quarter. The decline primarily resulted from the lower sales of higher margin products, the cost associated with the planned acquisition and the pension plan settlement charge, higher depreciation expense, as well as the absence of the duty refund that benefitted in last year's second quarter.

In the equipment segment, second quarter 2016 sales were $8.8 million as compared to$9.6 million for the same period a year ago. Higher sales of carbon adsorption equipment were more than offset by lower ballast water treatment system sales. The equipment segment recognized an approximate $1.3 million operating loss in the second quarter of 2016 compared to a loss of$200,000 for the same period last year. The decline in performance was primarily due to the lower sales and legal costs associated with the ballast water appeal to the US Coast Guard. Backlog for the equipment segment was $10.3 million as of June 30, 2016.

Sales in the consumer segment increased to $2.6 million in the second quarter of 2016 compared to $2.2 million in last year's second quarter due to higher sales of carbon cloth for defense applications. This 2016 second quarter operating income was $400,000, which was comparable to last year's second quarter.

Turning to our consolidated balance sheet, we ended the second quarter with $51.2 million in cash, $2.4 million lower than where we started the year, while our total debt outstanding decreased by $2.3 million to $109.1 million at the end of the second quarter. Looking at our cash flow, despite the lower earnings in the first and second quarters as compared to last year, we've generated $30.9 million in operating cash flow for the first six months of 2016 compared to$26.1 million last year. The increase is attributable to working capital improvements in accounts receivable and accounts payable. We've used this cash flow for $16.9 million of capital expenditures to repurchase $8.6 million of our common stock and to pay $5.1 million in dividends.

Our capital expenditures for the first six months of 2016 were$16.9 million compared to $33.9 million last year. The construction phase of our refurbishment and expansion project at our Neville Island reactivation facility has yet to get under way due to continued permitting delays. Based on where we are in that process, we anticipate spending will amount to only $5 million for the year. Accordingly, we are now expecting capital expenditures for the 2016 full year to be in the range of $30 million to $35 million compared to our previous expectation of $50 million to $60 million.

In addition and in continuation of our commitment to returning value to shareholders, on Wednesday, our Board of Directors authorized their seven consecutive $0.05 per share quarterly dividend to be paid in mid-September.

That concludes the financial review.

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Thank you, Bob. Now, we'll go to Jim for an update on core carbon and the service business activities.

Jim Coccagno - *Calgon Carbon Corporation - EVP, Core Carbon and Services*

Thank you, Dan. And good morning everyone. I'll get started on our North American municipal water business where we had a very strong quarter. And what typically is the strongest quarter of the year for this market area, higher sales, both year-over-year and sequentially were led by carbon exchange and reactivation customers, as well as new granular activated carbon or GAC installations. As is typical, we expect to see a sequentially lower third quarter followed by a stronger fourth quarter. In the end, we believe we'll have a full year growth in this market compared to last year.

Based on the pace of activity we see in this market, I'm bullish on its future and our ability to grow with it. We have converted two new customer sites to custom municipal reactivation and now have converted a total of 163 sites. The adoption of GAC as a water treatment continues for grow as approximately 3 million new pounds of GAC were put on line in the first half of the year in North America. As I mentioned on last quarter's call, activity related to treating PFCs found in drinking water was beginning to increase and the momentum in this area has continued to accelerate.

As a reminder, PFCs are man-made chemicals that are used in a variety of products including fire fighting foams and in the manufacture of various coating additives. They are very stable molecules that resist degradation, and as a result of their use end up accumulating in the environment including in ground water sources. These compounds, which have been included on the EPA's Contaminate Candidate List for a number of years, have been linked to adverse impacts to human health in a number of areas across the United States. In mid-May, based on its assessment of the latest peer-reviewed science, the EPA has established a health advisory level of 70 parts per trillion combined total for PFOA and PFOS -- the two most commonly produced PFCs. The environmental working group report released earlier this year shows that more than 90 municipalities including over 400 well sites have tested positive for traces of these forms of PFCs, with some testing above the advisory limit resulting in the issuance of "do-not-drink" alerts.

For more than a decade, Calgon Carbon's re-agglomerated bituminous coal-based GAC - specifically our filtrasorb product line - has established a proven track record for successfully treating perfluorinated compounds like PFOA and PFOS found in drinking water, waste water, and remediation applications. In contrast to other more costly technologies that produce a concentrated waste stream that quickly becomes a disposal concern, GAC, which is, in fact, recommended by the EPA as a treatment option, is recognized as an economical solution that can be quickly deployed and one in which the PFCs are safely removed and destroyed through reactivation. As a result, we're seeing a significant increase in project actively related to this issue. To date, we have won nine projects and are working on a much larger number of active opportunities.

This is a perfect example of just how unpredictable the impact of growth opportunities tied to specific contaminants can be on our business. While this set of contaminants is still not regulated, the prevalence and concentrations in drinking water sources along with the issuance of EPA Health Advisory Limit - and related "do-not-drink" alerts - has resulted in community water system's testing, and turning to GAC as an effective technical solution, increasing demand for both GAC and equipment.

Now, let me turn to our North American industrial and food and beverage business. Market conditions for industrial processes and waste water applications and environmental air projects remain subdued. Industrial production metrics continue to be flat to slightly declining in 2016 versus last year. While we are maintaining our share, most of our top customers are simply taking less carbon in the current year. We see this level of performance to be pretty steady for the remainder of the year as compared to the first half with an expected modest uptick in the fourth quarter, as we expect to see customers move forward on maintenance projects late in the year, as we have experienced in the past.

In the food market, we're performing well. However, the timing of customer orders and deliveries contributed to a lighter second quarter as compared to a stronger first quarter. We expect good performance to continue in the second half.

Moving to Latin America, sales were lower in the second quarter mainly attributable to a very strong Q2 last year. Despite extremely challenging economic conditions that continue plague Brazil, our revenues for the first half of 2016 remain on par with last year. We expect our strategy of focusing regional efforts in Mexico and other nations throughout Central and South America to result in revenue growth in the regions in the second half of 2016 and for the full year as compared to 2015.

In India, we continue to make solid progress with year-to-date revenue that has already doubled those of full year 2015 -- although off a low base. Across the rest of Asia, we had a modest growth in the second quarter compared to last year as our sales of activated carbon pellets for treating nitrogen and sulphur oxide emissions were higher due to contracts we won late last year. At the end of the third quarter, we'll begin shipping

GAC-related to the award we discussed last quarter to provide approximately 3.8 million pounds for a drinking water treatment facility project in Hong Kong. And lastly, we won a large Japanese water works activated carbon exchange order that totals $3.6 million. This will begin to ship in the second half of 2016. We expect these projects will lead to higher sales across Asia in the second half of the year as compared to the first.

That completes my remarks.

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Thank you, Jim. Now, we'll go to Steve for an update on the advanced materials, manufacturing and equipment business area.

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

Thank you, Dan. And good morning everyone. I'll start with our powdered activated carbon market for mercury removal in North America at coal-fired power plants. As expected, with the pickup in temperatures and electricity generation, and due to the addition of new customers that began to comply with MATS in April, second quarter revenues increased to $11.2 million compared to $8.2 million in the first quarter.

Also as expected, the low cost of natural gas and increased electricity generation from natural gas fired power plants, as well as a previously discussed loss of a significant legacy customer, our revenues were lower than the $15.4 million we earned in last year's second quarter. Most power plants that are beginning to comply with MATS in 2016 have made decisions on powdered activated carbon suppliers. And based on the outcomes to date and some opportunities that remain, we expect to achieve our target of capturing at least 30%of the market in terms of value.

As this market has formed over the last two years, we've gained considerable knowledge regarding the number of coal-fired EGUs that are expected to continue operating, and their expected powder activated carbon usage requirements. With this information, we now expect that the annual market size expressed in terms of standard product pounds will be in the range of 250 million pounds to 350 million pounds per year.

Looking ahead for the remainder of the year, we expect our third quarter mercury removal revenues to be comparable or slightly better than those in the second quarter with additional modest improvement, again, expected in the fourth quarter. Full year revenues are expected to be approximately $42 million to $48 million. Based on additional contracts recently won that we don't start supplying until January of 2017, we currently expect revenues in 2017 to be sequentially higher, comprehending normal weather conditions and little change in natural gas prices.

Turning to equipment. Let me start by updating you on the two ballast water management system regulations. The IMO regulations governing ballast water discharges at international ports continue to be in a pending state as we have not yet achieved ratification by countries representing 35% of the world's shipping tonnage. We currently stand at 34.87%, and many expect we will achieve ratification in October at the next round of IMO meetings. Countries rumored to be ready to sign on include Italy, India, and Panama -- each of which could potentially cause ratification of the convention on their own, as well as Finland and Argentina. With respect to the US Coast Guard regulation, last month the Coast Guard informed us and several other UV ballast water equipment manufacturers that our appeal to allow the use of the most probable number test method to test our systems for gaining US Coast Guard type approval was denied. We are currently considering other options for a path forward that could allow us to serve vessels that expect to discharge ballast water in US waters.

Given this continued regulatory uncertainty and ongoing low oil prices, our ballast water equipment revenues were lower year-over-year, and order intake in 2016 remains slow.

Our traditional UV disinfection equipment and carbon absorption equipment businesses continue to perform steadily. In traditional UV in addition to bidding on new drinking water disinfection system opportunities, we are also focusing more efforts on waste-water system projects and are so far having a modest level of success at winning these opportunities.

Now, turning to Europe, our performance continued to be steady. As expected, we saw growth in the second quarter of potable water market sales offset by lower year-over-year industrial and related waste-water market application sales as sluggish industrial market conditions continue to be impactful. Due to the typically slower activity in Europe over the summer, we expect revenues to be sequentially lower from the second quarter, similar to what we've experienced in prior years.

Finally, a quick comment on our US Virgin activated carbon manufacturing facilities. Our two Virgin carbon manufacturing plants continue to perform extremely well and are ahead of schedule on important measures including on-stream time and product quality owing to our ongoing commitment to maintenance and operational excellence.

And that concludes my comments.

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Thank you, Steve. Now, we'll go to Bob for the third quarter outlook.

Bob Fortwangler - *Calgon Carbon Corporation - SVP and CFO*

Thank you, Dan. Let me start with sales. While we expect our total sales for the second half of 2016 - - excluding sales from the planned acquisition - - to be 6% to 10% higher than our first half sales of $252.8 million; we expect sales for the third quarter of 2016 to decline by 3% to 6% from our 2016 second quarter sales of $132.6 million. As mentioned in the earlier commentary, the expected sequential decline is primarily due to the typically lighter summer demand patterns in North American municipal water activities and activities across our European business generally, as well as continued sluggishness in industrial market applications.

In Asia, we expect deliveries for the beginning of the Hong Kong and Japan water projects to slightly offset this decline. Due to the recent weakness in the British pound sterling resulting from the Brexit vote in June, we anticipate a negative impact from currency translation in the range of $500,000 to $1 million.

We expect our third quarter gross margin before depreciation and amortization to be in the range of 33% to 35%.

We expect our depreciation and amortization expense to decline slightly from our second quarter levels.

Excluding the impact of costs related to strategic initiatives including our planned business acquisition, third quarter selling, general, and research expenses are expected to be in line with the first two quarters when excluding costs related to the planned acquisition.

And finally, we expect our effective income tax rate to be in the range of 33.5% to 34.5%.

I'll turn it back to Randy for some final thoughts.

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

Thank you, Bob. While generating year-over-year revenue growth in the current economic and regulatory environment is proving to be challenging, we continue concentrating on things within our control. This includes focusing our investments and efforts on activities that will strengthen our core global franchise, improve our profitability and cash flow, and enhance shareholder value. In this regard, our value creation strategy includes investing in business opportunities that will expand our reach globally, into, emerging markets, and into complementary and adjacent technologies. In addition, we strive to operate as efficiently as possible and will continue to look to reduce costs.

Our planned acquisition of the CECA wood-based activated carbon and filter aid business is a perfect fit for our strategy, and our learnings over the last few months have only reinforced this view. It is a very steady and solidly performing business with a focus on unregulated end markets, with product solutions and manufacturing capabilities that are highly complementary to ours. This, combined with its European presence, will significantly enhance the diversity of our global platform, as well as make us less dependent on regulatory-driven opportunities.

Since we last spoke, we've made good progress on moving toward a fourth quarter closing on the planned acquisition. We signed the definitive asset and share purchase agreement, CECA has completed its works council consultations, as well, we expect no issues from an antitrust and regulatory perspective. We anxiously look forward to closing this accretive transaction and adding it to our global platform.

And, lastly, given the challenging conditions we are facing in a few of our end markets, we announce today an additional phase to our cost improvement program, which is expected to generate at least $10 million in annual savings, the majority of which are expected to be realized in 2017. This brings the total targeted annual cost efficiency improvements from all phases of the program to more than $60 million.

So operator, we're now ready for the questions.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, the floor is now open for your questions.

(Operator Instructions)

Our first question comes from Ben Kallo with Baird.

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

Hi. Thanks for taking my question. I have a couple here. Just starting on the gross margin side, I understand there's headwinds out there. The question was around the guidance. It seems like a pretty wide range from what you guys talked about in the past. Can you just walk us through some of the different variables there?

Bob Fortwangler - *Calgon Carbon Corporation - SVP and CFO*

Yes, sure, Dan. You know, right now --

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

Sorry. I'm sorry, it's Ben --

(Crosstalk)

Bob Fortwangler - *Calgon Carbon Corporation - SVP and CFO*

I'm sorry, Ben. Apologies. Markets have been tight. You know, we're seeing just a general slowdown, and ample supply, and just an overall delay of projects, and the reluctance to spend at this time which puts pressure on us and our competitors. So, as Randy or as Jim would say, we have not lost market share. And so we are doing everything we can to ensure that we keep our products moving.

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

And, again, let me just add to that if I could, Ben. I mean, 35% or better is where we want to go, but it's obviously the challenges we face such as product mix and market conditions play into that. The cost improvement is going to help, and that's why we're pleased to roll this out. And obviously, we're going to always continue to increase that more as we identify more opportunities.

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

And as guys you get the footprint in Europe as the acquisition closes, it is a bigger footprint and the product mix changes a bit. Can you just talk about that margin profile on the gross margin side and how that impacts your corporate gross margin? And then also, what that competitive environment because I think we're all familiar with the coal-based activated carbon here in the US, but the different types of product you are acquiring?

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

Ben, this is Steve. Sure, the European market for us has been steady. We've experienced over the last few years slight growth and slight improvement both in revenue and margins. This year looks to be pretty much on par with last year.

As we think about the acquisition, two pieces to it, of course, the diatomaceous earth in the filter aid business where their margins -- their EBITDA margins - - are actually better than what we enjoy today, so that will help. And when we look at the activated carbon side of the business, there's by our judgment, lots of room for improvement. And I think by integrating it in with what we do in Europe today, we will absolutely be able to see improvement there, and it should help. So certainly as we look at the consolidated Calgon Carbon, it should be in line or better with respect to what we're doing today.

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

And so in a competitive environment, just to finish that off, in that business.

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

I don't think their end markets are any more competitive than what we experience today and some are the very same markets.

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

Great. Thanks, guys.

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

Thank you.

Operator

Our next question comes from Gerry Sweeney with ROTH Capital.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Hey, good morning guys. How are you?

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

Good morning, Gerry.

Jim Coccagno - *Calgon Carbon Corporation - EVP, Core Carbon and Services*

Gerry.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

I apologize. Just jumping around a little bit, so if I missed to put out the comments, I apologize. But I did want to talk a little bit about the municipal side on two fronts, one in previous quarters, the municipal side, I guess, was weaker, there was some extension of sales and things like that. And you're also probably competing against a lack of large sales, which we understand that's lumpy. So curious as to is this quarter -- are we playing catch-up on some of the missed sales or how is that extension of sales going? Has that stabilized? Has it reversed back to normal? Just curious on that front.

Jim Coccagno - *Calgon Carbon Corporation - EVP, Core Carbon and Services*

Hi, Gerry. This is Jim. So a very good question. The strong second quarter -- definitely there was some impact from a slower first quarter. We had mentioned some project delays. So there is some of that built into our second quarter numbers. Generally though, the municipal market is quite robust right now with a lot of activity. We expect that activity to continue to equate to higher sales for us. The extensions, I would say have stabilized, and we're probably looking at a new normal right now with the exchange patterns, but we do not see further increase in extensions. I would say it's stabilized.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Okay.

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

If I can could, Gerry -- if I can add to that, I mean, we're really excited now, with all the focus on drinking water. The DBPs are still out there in areas that have not converted to GAC, could still convert, and we're hearing some rumblings that that is being looked at. And also this PFC activity that we're seeing in the nine projects, this was an issue a year ago that municipalities wouldn't have even dealt with or considered. And again, with our bituminous granular coal-based product, this is really going to be something exciting for us as we see this market evolve.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

On that PFC front, that was -- my next question, was I know you have these [nine projects] how big of an opportunity could it be? Is this a localized effect? I know sometimes know with the DBPs, sometimes in the warmer, more humid areas, it's just more prevalent, but just curious on the PFC front, how big an opportunity could it be?

Jim Coccagno - *Calgon Carbon Corporation - EVP, Core Carbon and Services*

Yes, we're trying to figure that out as we speak. The market is developing and the opportunity is developing right in front of us. It isn't based on weather or where it's at. It's across the country. It's really based on where these chemicals have been produced and used in the past. So we tout 400 wells. I think as time goes by, we'll see that number potentially increase. That's only wells that have tested for this compound. There are many municipalities that haven't even tested for this.

In addition, these fire fighting foams were used extensively on Department of Defense sites. So military bases used these foams for training purposes. And we have a lot of activity around the DOD sites, and how we can help them treat their water. So I guess, more to come. We don't understand what the total market is quite yet, but we do expect it to be a large opportunity.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Okay, great. And then one last question on the $10 million improvement program. I know you were looking at some improvement from the SAP implementation -- and pardon me, because I know you've been extending the improvement program as we've gone along, but is this $10 million on top of that, or does this include that? Maybe if you could refresh my memory sort of where one ends and one begins.

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

Sure, let's go to the $50 million that essentially was out there. And we have $5 million to $7 million that's still going to come in 2017 of that original $50 million. So this $10 million that I introduced today is on top of that, and mostly it will be seen in 2017.

To your question on our SAP implementation, absolutely. With the implementation now behind us, we're utilizing the power that we now have at our fingertips and where we can optimize in the supply chain area and the production area, we're absolutely using that technology, and it's working to our benefit.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

So in 2017, we're looking at $15 million to $17 million in total improvements. That's legacy $50 million that was out there plus this $10 million?

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

Exactly right.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Great. Thank you very much, I appreciate it.

Operator

(Operator Instructions). Our next question comes from Stefan Neely with Avondale Partners.

Stefan Neely - *Avondale Partners - Analyst*

Hi. Good morning, folks. Thanks for taking my questions.

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

Good morning, Stefan.

Stefan Neely - *Avondale Partners - Analyst*

I wanted to follow-up on the last question that was just asked. With this incremental $10 million in cost cuts, what exactly are you focusing on? How does it differentiate itself from I guess strategically from the prior $60 million that you have been working on?

(Crosstalk)

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

We're going to go back in -- sure, and a lot of the same initiatives that we've been focused on before, but again, either because of the systems or with more knowledge that we have now, we're going to be looking at the things like supply chain optimization, production optimization, and looking at our global organizations and how we move product. And so revisiting some of the things, again, we looked at before, and how now we can -- through technology -- better do that, so that's going to be part of it and -- but few other things we're looking at as well.

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

Yes, just to amplify some of Randy's comments, this is Steve. A lot of our prior improvements were predicated upon capital improvements and expansions at our plants which are providing terrific benefits. And as I noted in my comment, the plants are running incredibly well. Now, we're focused on not spending capital to improve the plants, but on process improvements by our process engineers, and we're finding additional opportunities to lower our raw material consumption and other costs. So it is as Randy said, a lot like the other programs categorically, but we have new opportunities.

Stefan Neely - *Avondale Partners - Analyst*

Okay, perfect. So I guess you probably kind of already answered this in your answer to my previous question, but I mean, if we're thinking about how these cost savings flow through your income statement, I mean, are these primarily going to flow through to the bottom line or do you maybe see kind of investing this incremental $10 million in other initiatives?

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

Well, if the question is where does that flip between gross margin and SG&A?

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

, No, Stefan, I think that what we'll see as we look into next year is we'll have this $15 million to $17 million of improvement. There will be other costs that will go up as they do every year -- wages for our employees, GDP type cost increases -- but we expect these benefits to flow through and be realized in our bottom line next year.

Stefan Neely - *Avondale Partners - Analyst*

Okay, perfect. Yes, that answers my question. Switching a little bit, if you don't mind, over to your mercury outlook for Q3. Unless I misheard you, I think you said that would be flat to modestly up sequentially in terms of sales. Can you maybe explain that a little bit? I mean, normally, I think Q3 is a little bit stronger in terms of overall coal utilization and coal output, and generation output across the country. Is there anything specifically you are seeing amongst your customers that maybe makes that different for you guys, or what's going on there?

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

I think it's probably partly fills that we had in Q2 -- in perhaps the latter part of Q2. And so I think it's just as we see it forecasted, but recall also that we indicated that Q4 we expect also to be better than Q3. So I would call it timing of when plants are running, timing of fills and still a good prognosis for the balance of the year, and as I indicated even better next year.

Stefan Neely - *Avondale Partners - Analyst*

Okay, perfect. And one last question if you don't mind, can you talk a little bit about the organic growth opportunities for next year. We talked a lot about CECA and the cost cuts, but can we maybe look at what you expect your base business to kind of be doing?

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

I think we have a lot of excitement, as Jim mentioned, around PFCs and disinfection byproducts, and we'll look for our drinking water markets to improve. We indicated in the core mercury market, as I did that that business is going to improve. Jim and his team have made outstanding progress in India, and we will continue -- we expect to grow in India, which will be an important market for us as we go forward. So just to name a few, we look at those as opportunities. Europe should be steady, perhaps slightly better all of this ignoring, of course, the CECA acquisition. And then we'll see how industrial does. It's been steady, but there are opportunities potentially if the economy picks up for that to grow for us as well. So we see improvement -- how much remains to be determined, and I'm sure we can provide more as we enter the latter part of this year.

Stefan Neely - *Avondale Partners - Analyst*

Excellent. Thank you. That's great color. I appreciate you taking my questions.

Operator

And we do have follow-up up questions from Gerry Sweeney with ROTH Capital.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Hey, thank you for taking my follow-up This is probably more directed towards the -- ballast water, it's been within inches of the goal line for quite some time. It sounded like the US Coast Guard denied the appeal on the most probable number. But I'm also seeing -- I think they're getting pressure from some trade groups, if not other countries, that sort of for lack of a better phrase, get in line. What's going to happen on this front? And how -- any idea -- if will they come around or is this really going to be a requirement for you guys to look at different options for the US market?

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

They have resisted coming around to date, even though we believe that the evidence is rather compelling that the most probable number method is completely satisfactory, and as a reminder, used for drinking water. Nevertheless, obviously, our disappointment in their denial is quite evident in our remarks. Gerry, we're fully committed to serving the market both internationally and in the US. We'll hopefully now be able to meet with the

Coast Guard given the denial of the appeal. We hope to do that with them to gain better perspective and insight into their thoughts, but I don't think we and other manufacturers can wait forever for them to adopt MPN. We think our system with some relatively minor modifications could attain Coast Guard type approval. That's an option. So I mentioned in my comments, considering our options, there are certainly other avenues that they may be persuaded by.

And so we're committed to the market. We'll do what we need to do to serve the market, which remains quite attractive. And we'll do what we can to convince the Coast Guard, but they remain rather abstinent in their views of test methods.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

I appreciate it, thanks, Steve.

Steve Schott - *Calgon Carbon Corporation - EVP, Advanced Materials, Manufacturing and Equipment*

Sure.

Operator (Operator Instructions)

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Thank you, Kristen. Are there any more questions in the queue?

Operator

No, sir, there are not.

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Okay. Well, we will be available here for follow-up calls for the rest of the day. And Kristen, I'll turn the call back to you to close it up.

Operator

Ladies and gentlemen, thank you for joining us. Please disconnect your lines at this time, and have a wonderful day.
