

CALGON CARBON CORPORATION
Form 10-Q
November 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007 or

Transition report pursuant to section 13 or 15(d) of the Securities Exchange act of 1934 for the transition period from _____ to _____

Commission file number 1-10776

CALGON CARBON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

25-0530110
(I.R.S. Employer
Identification No.)

P.O. Box 717, Pittsburgh, PA 15230-0717
(Address of principal executive offices)
(Zip Code)

(412) 787-6700
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes No

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 7, 2007
Common Stock, \$.01 par value	40,472,992 shares

CALGON CARBON CORPORATION
FORM 10-Q
QUARTER ENDED September 30, 2007

The Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Statements looking forward in time are included in this Form 10-Q pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company’s actual results in the future to differ from performance suggested herein. In the context of forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussion of risk factors detailed in, as well as the other information contained in the Company’s filings with the Securities and Exchange Commission.

I N D E X

		Page
PART 1 - CONDENSED CONSOLIDATED FINANCIAL INFORMATION		
Item I.	Condensed Consolidated Financial Statements	
	Introduction to the Condensed Consolidated Financial Statements	2
	Condensed Consolidated Statements of Operations (unaudited)	3
	Condensed Consolidated Balance Sheets (unaudited)	4
	Condensed Consolidated Statements of Cash Flows (unaudited)	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	25
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	32
Item 4.	Controls and Procedures	32
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	33
Item 1a.	Risk Factors	33
Item 2c.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 6.	Exhibits	33

SIGNATURES 34

CERTIFICATIONS

1

PART I - CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements included herein have been prepared by Calgon Carbon Corporation (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with the Company's audited consolidated financial statements and the notes included therein for the year ended December 31, 2006 filed with the Securities and Exchange Commission by the Company in Form 10-K.

In management's opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, and are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first nine months of 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

CALGON CARBON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands Except Share and Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 81,912	\$ 77,840	\$ 249,579	\$ 229,110
Net sales to related parties	2,949	1,840	6,740	7,659
Total	84,861	79,680	256,319	236,769
Cost of products sold (excluding depreciation and amortization)	57,642	58,897	175,622	176,270
Depreciation and amortization	4,427	4,719	13,019	14,311
Selling, general and administrative expenses	15,306	16,547	44,921	47,489
Research and development expenses	966	1,146	2,701	3,384
Gain on insurance settlement	-	(3,173)	-	(8,072)
Restructuring charge	-	-	-	7
	78,341	78,136	236,263	233,389
Income from operations	6,520	1,544	20,056	3,380
Interest income	455	233	1,157	553
Interest expense	(1,363)	(1,530)	(4,223)	(4,628)
Other expense—net	(482)	(660)	(1,293)	(2,018)
Income (loss) from continuing operations before income taxes and equity income	5,130	(413)	15,697	(2,713)
Provision (benefit) for income taxes	396	114	5,923	(1,156)
Income (loss) from continuing operations before equity income	4,734	(527)	9,774	(1,557)
Equity in income from equity investments	310	31	1,766	211
Income (loss) from continuing operations	5,044	(496)	11,540	(1,346)
Income (loss) from discontinued operations	(96)	38	(96)	1,910
Net income (loss)	\$ 4,948	\$ (458)	\$ 11,444	\$ 564

Net income (loss) per common share

Basic:

Income (loss) from continuing operations	\$	.12	\$	(.01)	\$	.28	\$	(.03)
Income (loss) from discontinued operations		-		-		-		.05
Net income (loss)	\$	.12	\$	(.01)	\$	.28	\$	.01

Diluted:

Income (loss) from continuing operations	\$	.10	\$	(.01)	\$	.24	\$	(.03)
Income (loss) from discontinued operations		-		-		-		.05
Net income (loss)	\$	.10	\$	(.01)	\$	.24	\$	.01

Weighted average shares outstanding

Basic	40,357,325	39,881,805	40,289,260	39,870,778
Diluted	50,358,179	39,881,805	47,324,443	39,870,778

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CALGON CARBON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except share data)
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,371	\$ 5,631
Receivables (net of allowance of \$3,113 and \$1,981)	55,806	53,239
Receivables from related parties	2,351	1,797
Revenue recognized in excess of billings on uncompleted contracts	6,454	7,576
Inventories	78,227	70,339
Deferred income taxes - current	9,902	5,761
Other current assets	3,713	4,369
Total current assets	175,824	148,712
Property, plant and equipment, net	103,187	106,101
Equity investments	9,006	6,971
Intangibles	8,212	8,521
Goodwill	27,965	27,497
Deferred income taxes - long-term	5,326	20,225
Other assets	4,401	4,337
Total assets	\$ 333,921	\$ 322,364
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 63,818	\$ -
Accounts payable and accrued liabilities	33,711	36,446
Accounts payable to related parties	-	168
Billings in excess of revenue recognized on uncompleted contracts	3,961	2,516
Accrued interest	542	1,440
Payroll and benefits payable	8,704	6,533
Accrued income taxes	2,765	8,423
Total current liabilities	113,501	55,526
Long-term debt	12,925	74,836
Deferred income taxes - long-term	-	1,679
Accrued pension and other liabilities	46,073	42,450
Total liabilities	172,499	174,491
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common shares, \$.01 par value, 100,000,000 shares authorized, 42,726,577 and 42,550,290 shares issued	427	425
Additional paid-in capital	73,861	70,345
Retained earnings	101,878	94,035
Accumulated other comprehensive income	12,650	10,305

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q

	188,816	175,110
Treasury stock, at cost, 2,845,012 and 2,819,690 shares	(27,394)	(27,237)
Total shareholders' equity	161,422	147,873
Total liabilities and shareholders' equity	\$ 333,921	\$ 322,364

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CALGON CARBON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
<u>Cash flows from operating activities</u>		
Net income	\$ 11,444	\$ 564
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on insurance settlement	-	(8,072)
Gain from divestitures	-	(6,719)
Depreciation and amortization	13,019	14,313
Equity income from equity investments	(1,766)	(211)
Distributions received from equity investments	739	-
Employee benefit plan provisions	947	2,283
Non-cash pension curtailment (gain) loss	(265)	788
Decrease in deferred income taxes	5,648	835
Changes in assets and liabilities:		
Increase in receivables	(1,890)	(81)
Increase in inventories	(6,513)	(3,024)
Increase in revenue in excess of billings on uncompleted contracts and other current assets	1,920	(1,772)
Decrease in accounts payable, accrued liabilities, and billings in excess of revenue	(2,566)	(4,724)
Decrease in accrued pension	(6,914)	(10,588)
Other items - net	3,086	1,327
Net cash provided by (used in) operating activities	16,889	(15,081)
<u>Cash flows from investing activities</u>		
Proceeds from divestitures	-	21,213
Property, plant and equipment expenditures	(7,639)	(9,989)
Proceeds from insurance settlement for plant and equipment	-	4,595
Proceeds from disposals of property, plant and equipment	187	676
Net cash (used in) provided by investing activities	(7,452)	16,495
<u>Cash flows from financing activities</u>		
Proceeds from borrowings	6,233	147,105
Repayments of borrowings	(4,326)	(149,337)
Treasury stock purchases	(157)	(108)
Common stock issued through exercise of stock options	1,213	464
Net cash provided by (used in) financing activities	2,963	(1,876)
Effect of exchange rate changes on cash	1,340	87
Increase (decrease) in cash and cash equivalents	13,740	(375)
Cash and cash equivalents, beginning of period	5,631	5,446

Cash and cash equivalents, end of period	\$	19,371	\$	5,071
--	----	--------	----	-------

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CALGON CARBON CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)
(Unaudited)

1. Inventories:

	September 30, 2007	December 31, 2006
Raw materials	\$ 17,847	\$ 16,587
Finished goods	60,380	53,752
	\$ 78,227	\$ 70,339

2. Supplemental Cash Flow Information:

Cash paid for interest during the nine months ended September 30, 2007 and 2006 was \$5.1 million and \$4.2 million, respectively. Income taxes paid, net of refunds, were \$0.8 million and \$0.7 million, for the nine months ended September 30, 2007 and 2006, respectively.

The non-cash vesting of restricted stock-based compensation was \$0.6 million and \$0.4 million for the nine months ended September 30, 2007 and 2006, respectively. The non-cash impact of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109," ("FIN 48"), which was adopted January 1, 2007, was \$4.3 million for the nine months ended September 30, 2007.

3. Dividends:

The Company's Board of Directors did not declare or pay a dividend for the three or nine month periods ended September 30, 2007 and 2006.

4. Comprehensive income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income (loss)	\$ 4,948	\$ (458)	\$ 11,444	\$ 564
Other comprehensive income (loss), net of taxes	(333)	(209)	2,345	3,534
Comprehensive income (loss)	\$ 4,615	\$ (667)	\$ 13,789	\$ 4,098

The only matters contributing to the other comprehensive income (loss) during the three and nine months ended September 30, 2007 were the foreign currency translation adjustment of \$0.1 million and \$2.2 million, respectively, the changes in employee benefit accounts of \$(0.3) million and \$(0.3) million, respectively, and the change in the fair value of the derivative instruments of \$(0.1) million and \$0.4 million as described in Note 6. The only matters contributing to the other comprehensive income during the three and nine months ended September 30, 2006 were the foreign currency translation adjustment of \$(0.3) million and \$3.6 million, respectively, and the change in the fair value of the derivative instruments of \$0.1 million and \$(27) thousand, respectively.

5. Segment Information:

The Company's management has identified three segments based on product line and associated services. Those segments include Activated Carbon and Service, Equipment, and Consumer. The Company's chief operating decision maker, its chief executive officer, receives and reviews financial information in this format. The Activated Carbon and Service segment manufactures granular activated carbon for use in applications to remove organic compounds from liquids, gases, water, and air. This segment also consists of services related to activated carbon including reactivation of spent carbon and the leasing, monitoring, and maintenance of carbon fills at customer sites. The service portion of this segment also includes services related to the Company's ion exchange technologies for treatment of groundwater and process streams. The Equipment segment provides solutions to customers' gaseous and liquid process problems through the design, fabrication, and operation of systems that utilize the Company's enabling technologies: carbon adsorption, ultraviolet light, and advanced ion exchange separation. The Consumer segment brings the Company's purification technologies directly to the consumer in the form of products and services including carbon cloth and activated carbon for household odors. The following segment information represents the results of the Company's continuing operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net Sales				
Activated Carbon and Service	\$ 72,322	\$ 67,869	\$ 215,728	\$ 200,489
Equipment	9,255	8,740	30,879	26,627
Consumer	3,284	3,071	9,712	9,653
	\$ 84,861	\$ 79,680	\$ 256,319	\$ 236,769
Income (loss) from continuing operations before depreciation, amortization, restructuring, and income taxes				
Activated Carbon and Service	\$ 10,705	\$ 6,776	\$ 32,197	\$ 20,885
Equipment	(215)	(848)	(955)	(4,520)
Consumer	457	335	1,833	1,333
	10,947	6,263	33,075	17,698
Depreciation and amortization				
Activated Carbon and Service	4,040	4,409	11,887	13,309
Equipment	254	180	737	598
Consumer	133	130	395	404
	4,427	4,719	13,019	14,311
Income from continuing operations before restructuring, equity in income from equity investments, and income taxes	6,520	1,544	20,056	3,387
Reconciling items:				
Restructuring charge	-	-	-	(7)
Interest income	455	233	1,157	553
Interest expense	(1,363)	(1,530)	(4,223)	(4,628)
Other expense - net	(482)	(660)	(1,293)	(2,018)
Consolidated income (loss) from continuing operations before				

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q

income taxes and equity in income from equity investments	\$	5,130	\$	(413)	\$	15,697	\$	(2,713)
--	----	-------	----	-------	----	--------	----	---------

7

	September 30, 2007	December 31, 2006
Total Assets		
Activated Carbon and Service Equipment	\$ 287,906	\$ 277,134
Consumer	32,874	34,031
	13,141	11,199
Consolidated total assets	\$ 333,921	\$ 322,364

6. Derivative Instruments

The Company accounts for its foreign exchange derivative instruments under Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended. This standard requires recognition of all derivatives as either assets or liabilities at fair value and may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses from changes in the fair value of derivative instruments.

The Company had fourteen derivative instruments outstanding at September 30, 2007 of which one was a foreign currency swap, six were foreign currency forward exchange contracts, and seven were cash flow hedges for forecasted purchases of natural gas. The Company applied hedge accounting treatment to the foreign currency swap and six of the cash flow hedges for forecasted natural gas. During the period ended September 30, 2007, the Company recorded, in other expense, an immaterial gain related to the foreign currency forward exchange contracts and an immaterial loss for the one cash flow hedge for forecasted natural gas that did not qualify for hedge accounting treatment. The Company had thirteen derivative instruments outstanding at September 30, 2006 of which one was a foreign currency swap, nine were foreign currency forward exchange contracts, and three were cash flow hedges for forecasted purchases of natural gas. The Company applied hedge accounting treatment to the foreign currency swap and the three cash flow hedges for the forecasted purchases of natural gas. During the period ended September 30, 2006, the Company recorded an immaterial gain in other income for the nine foreign currency forward exchange contracts that did not qualify for hedge accounting treatment.

On April 26, 2004, the Company entered into a ten-year foreign currency swap agreement to fix the foreign exchange rate on a \$6.5 million intercompany loan between the Company and its foreign subsidiary, Chemviron Carbon Ltd. Since its inception, the foreign currency swap has been treated as a foreign exchange cash flow hedge. Accordingly, the change in the fair value of the effective hedge portion of the foreign currency swap was \$27 thousand and \$0.2 million, respectively, for the three and nine month periods ended September 30, 2007 and \$0.4 million and \$0.3 million, respectively, for the three and nine month periods ended September 30, 2006 was recorded in other comprehensive income (loss). The balance of the effective hedge portion of the foreign currency swap recorded in other long-term liabilities was \$1.0 million and \$0.7 million, respectively, as of September 30, 2007 and 2006.

The change in fair value of the cash flow hedges for the forecasted purchase of natural gas recorded in other long-term liabilities was \$(0.1) million and \$0.2 million, net of tax, respectively, for the three and nine month periods ended September 30, 2007 and \$0.5 million and \$0.5 million, respectively, for the similar 2006 periods. The balance of the cash flow hedges for the forecasted purchase of natural gas recorded in other long-term liabilities was \$0.6 million and \$0.5 million as of September 30, 2007 and 2006, respectively.

No component of the derivatives gains or losses has been excluded from the assessment of hedge effectiveness. For the three and nine month periods ended September 30, 2007 and 2006, the net gain or loss recognized due to the amount of hedge ineffectiveness was insignificant.

7. Contingencies

The Company purchased the common stock of Advanced Separation Technologies Incorporated (AST) from Progress Capital Holdings, Inc. and Potomac Capital Investment Corporation on December 31, 1996. On January 12, 1998, the Company filed a claim for unspecified damages in the United States District Court in the Western District of Pennsylvania alleging among other things that Progress Capital Holdings and Potomac Capital Investment Corporation materially breached various AST financial and operational representations and warranties included in the Stock Purchase Agreement and had defrauded the Company. On January 26, 2007, a jury returned a verdict in favor of the Company and against the defendants in the amount of \$10.0 million, which has not been recorded in operations as of September 30, 2007. On September 29, 2007, the Court denied all post-trial motions, including the defendants' motion for a new trial and the Company's award of prejudgment interest, which could have been awarded at the discretion of the trial judge at the rate of 6% per annum (simple) from the date the complaint was filed. The Company and the defendants have appealed to the United States Circuit Court of Appeals for the Third Circuit.

The Company is a party in three cases involving alleged infringement of its U.S. Patent No. 6,129,893 and U.S. Patent No. 6,565,803 B1 ("U.S. Patents") and its Canadian Patent No. 2,331,525 ("525 Patent") for the method of preventing infection from cryptosporidium found in drinking water. In the first case, Wedeco Ideal Horizons, Inc. filed suit against the Company in the United States District Court for the District of New Jersey seeking a declaratory judgment that it does not infringe the Company's U.S. Patents on the grounds that the U.S. Patents are invalid and alleging unfair competition by the Company. On June 30, 2006, the District Court granted Wedeco's motion for summary judgment on the issue of validity of the U.S. Patents, denied the Company's motion for summary judgment on the infringement claim on the ground that there can be no infringement where there is no valid patent and granted the Company's motion for summary judgment on Wedeco's claim of unfair competition. On April 24, 2007, the United States Circuit Court of Appeals for the Federal Circuit affirmed the District Court's judgment. The Company did not appeal this decision. In the second case, the Company filed suit against the Town of Ontario, New York, Trojan Technologies, Inc. ("Trojan") and Robert Wykle, et al. in the United States District Court for the Western District of New York alleging that the defendants are practicing the method claimed within the U.S. Patents without a license. In the third case, the Company filed suit against the City of North Bay, Ontario, Canada ("North Bay") and Trojan in the Federal Court of Canada alleging infringement of the Canadian Patent by North Bay and inducement of infringement by Trojan. On November 14, 2006, after a bench trial, the Court dismissed the Company's claim for a declaration that the defendants infringed the Canadian Patent and the Company's claims for an injunction, compensation, damages, interest, and costs and declared that the Canadian Patent is invalid. In March 2007, the Company and Trojan entered into a settlement whereby in exchange for a nominal cash payment and relief from legal fees, the Company granted Trojan worldwide immunity from all current and future legal action related to Calgon Carbon's UV patents.

In conjunction with the February 2004 purchase of substantially all of Waterlink's operating assets and the stock of Waterlink's U.K. subsidiary, several environmental studies were performed on the Columbus, Ohio property by environmental consulting firms which identified and characterized areas of contamination. In addition, these firms identified alternative methods of remediating the property, identified feasible alternatives and prepared cost evaluations of the various alternatives. The Company concluded from the information in the studies that a loss at this property is probable and recorded the liability as a component of noncurrent other liabilities in the Company's consolidated balance sheet. At December 31, 2005, the balance recorded was \$5.3 million. Liability estimates are based on an evaluation of, among other factors, currently available facts, existing technology, presently enacted laws and regulations, and the remediation experience of other companies. During the first four months of 2006, the Company undertook a process of evaluating contractors and securing bids to perform the remediation work on the Columbus, Ohio property. As a result of the evaluation of the additional information gathered during that process, the Company reduced its estimate of its liability by \$1.3 million to \$4.0 million as of September 30, 2006. The reduction of the liability was recorded as a reduction of selling, general and administrative expenses on the Company's condensed consolidated statement of operations for the nine months ended September 30, 2006. The Company has not incurred any environmental remediation expense for the three and nine months ended September 30, 2007 and has

incurred a total of \$0.2 million of environmental remediation expense to date. It is reasonably possible that a change in the estimate of this obligation will occur as remediation preparation and remediation activity commences. The ultimate remediation costs are dependent upon among other things, the requirements of any state or federal environmental agencies, the remediation methods employed, the final scope of work being determined, and the extent and types of contamination which will not be fully determined until experience is gained through remediation and related activities. The accrued amounts are expected to be paid out over the course of several years once work has commenced. The Company has not yet determined when it will proceed with remediation efforts.

In January 2007, the Company received a Notice of Violation (“NOV”) from the United States Environmental Protection Agency, Region 4 (“EPA”) alleging multiple violations of the Federal Resource Conservation and Recovery Act and corresponding EPA and Kentucky Department of Environmental Protection (“KYDEP”) hazardous waste management rules and regulations. The alleged violations are based on information provided by the Company during and after a Multi Media Compliance Evaluation inspection of the Company’s Big Sandy Plant, located in Catlettsburg, Kentucky, conducted by the EPA and the KYDEP in September 2005, and concern the hazardous waste spent activated carbon regeneration facility located at the Big Sandy Plant. The Company submitted its initial written response to the NOV in June 2007. In August 2007, the EPA notified the Company that it believes there are significant RCRA violations that are unresolved by the information in the Company’s submittals. The EPA notice indicated that the EPA is in the process of evaluating its enforcement options and hopes to contact the Company within the next several months to explore a settlement. The EPA has not indicated whether or not it will take formal enforcement action, or whether such action would involve the assessment of civil penalties, and has not specified a monetary amount of any civil penalties it might pursue in connection with this matter. The Company is awaiting further clarification from the EPA and cannot predict with any certainty the outcome of this matter or range of potential loss, if any.

In June 2007, the Company received a Notice Letter from the New York State Department of Environmental Conservation (“NYSDEC”) stating that NYSDEC has determined that “Calgon Corporation” is a Potentially Responsible Party (“PRP”) at the Frontier Chemical Processing Royal Avenue Site in Niagara Falls, New York (the “Site”). The Notice Letter requests that “Calgon Corporation” (and other PRPs) develop, implement and finance a remedial program for Operable Unit #1 at the Site. Operable Unit #1 consists of overburden soils and overburden and upper bedrock groundwater. The selected remedy is removal of above grade structures and contaminated soil source areas, installation of a cover system, and ground water control and treatment, which is estimated to cost between approximately \$11 million and \$14 million. The Company has not determined what portion of the costs associated with the remedial program, if any, it would be obligated to bear and as such the Company cannot predict with any certainty the outcome of this matter or range of potential loss, if any. The Notice Letter also demands payment of all monies that NYSDEC has already expended for investigation and remediation of the Site, but does not specify the amount that NYSDEC has expended.

In July 2007, the Company received a Notice of Violation (“NOV”) from the KYDEP alleging that the Company has violated the KYDEP’s hazardous waste management regulations in connection with the Company’s hazardous waste spent activated carbon regeneration facility located at the Big Sandy Plant in Catlettsburg, Kentucky. The NOV alleges that the Company has failed to correct deficiencies identified by KYDEP in the Company’s Part B hazardous waste management facility permit application and related documents and directs the Company to submit a complete and accurate Part B application and related documents and to respond to KYDEP’s comments which are appended to the NOV. The Company is preparing a response to the NOV and KYDEP’s comments. The KYDEP has not indicated whether or not it will take formal enforcement action, and has not specified a monetary amount of civil penalties it might pursue in any such action, if any. On October 18, 2007, the Company received an NOV from the EPA related to this permit application and has until December 3, 2007 to completely respond to all deficiencies noted and to file a revised permit application. At this time the Company cannot predict with any certainty the outcome of this matter or range of loss, if any.

The Company owns a 49% interest in a joint venture, Calgon Mitsubishi Chemical Corporation, which was formed on October 1, 2002. At September 30, 2007, Calgon Mitsubishi Chemical Corporation had \$4.8 million in borrowings from an affiliate of the majority owner of the joint venture. The Company has agreed with the joint venture and the lender that, upon request by the lender, the Company will execute a guarantee for up to 49% of such borrowings. At September 30, 2007, the lender had not requested, and the Company has not provided, such guarantee.

In addition to the matters described above, the Company is involved in various legal proceedings, lawsuits and claims, including employment, product warranty and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters when it is probable that a liability has been incurred and the loss amount is reasonably estimable. Management believes that the ultimate liabilities, if any, resulting from such lawsuits and claims will not materially affect the consolidated financial position or liquidity of the Company, but an adverse outcome could be material to the results of operations in a particular period in which a liability is recognized.

8. Goodwill & Intangible Assets

The Company has elected to do the annual impairment test of its goodwill, as required by SFAS No. 142, on December 31 of each year or earlier if certain indicators exist. For purposes of the test, the Company has identified reporting units, as defined within SFAS No. 142, at a regional level for the Activated Carbon and Service segment and at the technology level for the Equipment segment and has allocated goodwill to these reporting units accordingly.

The changes in the carrying amounts of goodwill by segment for the nine month period ended September 30, 2007 are as follows:

	Activated Carbon & Service Segment	Equipment Segment	Consumer Segment	Total
Balance as of January 1, 2007	\$ 21,056	\$ 6,381	\$ 60	\$ 27,497
Foreign exchange	184	284	-	468
Balance as of September 30, 2007	\$ 21,240	\$ 6,665	\$ 60	\$ 27,965

The following is a summary of the Company's identifiable intangible assets as of September 30, 2007 and December 31, 2006 respectively:

Amortized Intangible Assets:	Weighted Average Amortization Period	Gross Carrying Amount	September 30, 2007		
			Foreign Exchange	Accumulated Amortization	Net Carrying Amount
Patents	15.4 Years	\$ 1,369	\$ -	\$ (856)	\$ 513
Customer Relationships	17.0 Years	9,323	67	(4,492)	4,898
License Agreement	5.0 Years	500	-	(391)	109
Product Certification	7.9 Years	1,682	-	(548)	1,134
Unpatented Technology	20.0 Years	2,875	-	(1,317)	1,558
Total	16.6 Years	\$ 15,749	\$ 67	\$ (7,604)	\$ 8,212

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q

	Weighted Average Amortization Period	Gross Carrying Amount	Foreign Exchange	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets:					
Patents	15.4 Years	\$ 1,369	\$ -	\$(793)	\$ 576
Customer Relationships	17.0 Years	9,323	11	(3,596)	5,738
License Agreement	5.0 Years	500	-	(317)	183
Product Certification	7.9 Years	665	-	(321)	344
Unpatented Technology	20.0 Years	2,875	-	(1,195)	1,680
Total	16.6 Years	\$ 14,732	\$ 11	\$(6,222)	\$ 8,521

For the three and nine months ended September 30, 2007, the Company recognized \$0.5 million and \$1.4 million, respectively, of amortization expense related to intangible assets. For the three and nine months ended September 30, 2006, the Company recognized \$0.4 million and \$1.3 million, respectively, of amortization expense related to intangible assets. The Company estimates amortization expense to be recognized during the next five years as follows:

(Thousands)

For the year ending December 31:

2007	\$ 1,785
2008	\$ 1,585
2009	\$ 1,312
2010	\$ 1,168
2011	\$ 824

9. Borrowing Arrangements

On August 18, 2006, the Company issued \$75.0 million in aggregate principal amount of 5.00% Convertible Senior Notes due in 2036 (the "Notes") and entered into a new revolving credit facility (the "Credit Facility"). The Company used \$68.4 million of the net proceeds from its offering of the Notes to fully repay indebtedness under the Company's prior revolving credit facility. Accordingly, all parties completed their obligations under the Amended and Restated Credit Agreement, dated as of January 30, 2006. The material terms of the Notes and the Credit Facility are described below.

5.00% Convertible Senior Notes due 2036

The Company initially issued \$65.0 million in aggregate principal amount of 5.00% Notes due in 2036 and granted the initial purchaser a 30-day option to purchase up to an additional \$10.0 million principal amount of Notes solely to cover over-allotments, if any. The initial purchaser exercised this option in full. Accordingly, \$75.0 million in aggregate principal amount of Notes were issued and sold on August 18, 2006. The Notes accrue interest at the rate of 5.00% per annum and are payable in cash semi-annually in arrears on each February 15 and August 15, which commenced February 15, 2007. The Notes will mature on August 15, 2036.

The Notes can be converted under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter) commencing after September 30, 2006, if the last reported sale price of the Company's common stock is greater than or equal to 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading-day period (the "measurement period") in which the trading price

per Note for each day in the measurement period was less than 103% of the product of the last reported sale price of the Company's common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the Offering Memorandum. On or after June 15, 2011, holders may convert their Notes at any time on the business day immediately preceding the maturity date. Upon conversion, the Company will pay cash for the principal amount of the Notes and shares of its common stock, if any, based on a daily conversion value (as described herein) calculated on a proportionate basis for each day of the 25 trading-day observation period.

For the period ended September 30, 2007, the last reported sale price of the Company's common stock was greater than 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ended September 30, 2007. As a result, as of September 30, 2007, the holders of the Notes have the right to convert the Notes into cash and shares of common stock. Although the Company does not anticipate that a significant amount of these Notes will be converted, if any, as of September 30, 2007 the Company was required to reclassify as a current liability that portion of the Notes that cannot be refinanced on a long-term basis as provided by SFAS No. 6, "Classification of Short-Term Obligations Expected to be Refinanced" which was \$62.4 million at September 30, 2007.

The initial conversion rate is 196.0784 shares of the Company's common stock per \$1,000 principal amount of Notes, equivalent to an initial conversion price of approximately \$5.10 per share of common stock. The conversion rate is subject to adjustment in some events, including the payment of a dividend on the Company's common stock, but will not be adjusted for accrued interest, including any additional interest. In addition, following certain fundamental changes that occur prior to August 15, 2011, the Company will increase the conversion rate for holders who elect to convert Notes in connection with such fundamental changes in certain circumstances. The Company considered EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," Issue 7, which indicates that if a reset of the conversion rate due to a contingent event occurs the Company would need to calculate if there is a beneficial conversion and record if applicable. Through September 30, 2007, no contingent events have occurred.

The Company may not redeem the Notes before August 20, 2011. On or after that date, the Company may redeem all or a portion of the Notes at any time. Any redemption of the Notes will be for cash at 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, including any additional interest to, but excluding, the redemption date.

Holders may require the Company to purchase all or a portion of their Notes on each of August 15, 2011, August 15, 2016, and August 15, 2026. In addition, if the Company experiences specified types of fundamental changes, holders may require it to purchase the Notes. Any repurchase of the Notes pursuant to these provisions will be for cash at a price equal to 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the purchase date.

The Notes are the Company's senior unsecured obligations, and rank equally in right of payment with all of its other existing and future senior indebtedness. The Notes are guaranteed by certain of the Company's domestic subsidiaries on a senior unsecured basis ("Subsidiary Guarantees"). The Subsidiary Guarantees are general unsecured senior obligations of the subsidiary guarantors ("Subsidiary Guarantors") and rank equally in right of payment with all of the existing and future senior indebtedness of the Subsidiary Guarantors. If the Company fails to make payment on the Notes, the Subsidiary Guarantors must make them instead. The Notes are effectively subordinated to any indebtedness of the Company's non-guarantor subsidiaries. The Notes are effectively junior to all of the Company's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness.

The Company sold the Notes to the original purchaser at a discount of \$3.3 million that will be amortized over a period of five years. The discount is reflected as a deduction from the face amount of the debt. As of the period ended September 30, 2007, the Company recorded interest expense of \$3.3 million, of which \$0.4 million related to the amortization of the discount and \$2.9 million related to the Notes. The Company incurred issuance costs of \$1.5 million which were deferred and are being amortized over a five year period.

Credit Facility

The Credit Facility was initially a \$50.0 million facility and included a separate U.K. sub-facility and a separate Belgian sub-facility. On February 5, 2007, the Credit Facility was amended to increase the commitment amount to \$55.0 million and was syndicated to include one additional lender. The Credit Facility permits the total revolving credit commitment to be increased up to \$75.0 million. The facility matures on May 15, 2011. The terms of the

syndicated Credit Facility were not materially different than the original facility prior to the February 5, 2007 syndication. Availability for domestic borrowings under the Credit Facility is based upon the value of eligible inventory, accounts receivable and property, plant and equipment, with separate borrowing bases to be established for foreign borrowings under a separate U.K. sub-facility and a separate Belgian sub-facility. Availability under the Credit Facility is conditioned upon various customary conditions.

The Credit Facility is secured by a first perfected security interest in substantially all of the Company's assets, with limitations under certain circumstances in the case of capital stock of foreign subsidiaries. Certain of the Company's domestic subsidiaries unconditionally guarantee all indebtedness and obligations related to domestic borrowings under the Credit Facility. The Company and certain of its domestic subsidiaries also unconditionally guarantee all indebtedness and obligations under the U.K. sub-facility.

As of September 30, 2007, the carrying amount of assets pledged as collateral was \$51.6 million. The carrying amount as of September 30, 2007 for domestic, U.K., and Belgian borrowers were \$40.9 million, \$6.3 million, and \$4.4 million, respectively. The Credit Facility contains a fixed charge coverage ratio covenant which becomes effective when total domestic availability falls below \$11.0 million. As of September 30, 2007, total availability was \$35.2 million. Availability as of September 30, 2007 for domestic, U.K., and Belgian borrowers was \$30.1 million, \$5.1 million, and zero, respectively. The Company can issue letters of credit up to \$20.0 million of the available commitment amount under the Credit Facility. Sub-limits for letters of credit under the U.K. sub-facility and the Belgian sub-facility are \$2.0 million and \$6.0 million, respectively. Letters of credit outstanding at September 30, 2007 totaled \$16.4 million.

The Credit Facility interest rate is based upon Euro-based ("LIBOR") rates with other interest rate options available. The applicable Euro Dollar margin in effect when the Company is in compliance with the terms of the facility ranges from 1.25% to 2.25% and is based upon the Company's overall availability under the Credit Facility. The unused commitment fee is equal to 0.375% per annum and is based upon the unused portion of the revolving commitment.

The Credit Facility contains a number of negative and affirmative covenants. For the period ended September 30, 2007, the last reported sale price of the Company's common stock was greater than 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ended September 30, 2007. As a result, as of September 30, 2007, the holders of the Notes have the right to convert the Notes into cash and shares of common stock. Although currently not anticipated by the Company, the ability of holders of the Notes to convert could be an event of default of the Credit Facility. Included in the Credit Facility is a provision for up to \$10.0 million where Notes converted up to that amount will not be considered an event of default and the Company was able to classify up to that amount as long-term debt as it has the ability and intent to refinance it under the Credit Facility. The Credit Facility also includes a provision for up to \$3.0 million of letters of credit under the Company's U.S., Belgium, and UK sub-limits that can be issued having expiration dates that are more than one year but not more than three years after the date of issuance.

The negative covenants provide for certain restrictions on possible acts by the Company related to matters such as additional indebtedness, certain liens, fundamental changes in the business, certain investments or loans, asset sales and other customary requirements. The Company was in compliance with all such negative covenants as of September 30, 2007 and is currently in compliance with such covenants.

Management cannot be assured that, after the September 30, 2007 financial statements have been provided to the lenders, there will not be any violation in future periods of the covenants contained in the Credit Facility.

Belgian Credit Facility

The Company maintains a Belgian credit facility totaling 4.0 million Euros which is secured by a U.S. letter of credit provided under the Credit Facility. There are no financial covenants, and the Company had no outstanding borrowings under the Belgian credit facility as of September 30, 2007. Bank guarantees of 0.8 million Euros were issued as of September 30, 2007. The maturity date of this facility is December 15, 2007. Availability under this facility was 3.2 million Euros at September 30, 2007.

United Kingdom Credit Facility

The Company maintains a United Kingdom unsecured overdraft facility totaling 200,000 British Pounds Sterling. There are no financial covenants and the Company had no outstanding borrowings under this overdraft facility as of September 30, 2007. This facility is reviewed annually. The bank, in its sole discretion, may cancel at any time its commitment to provide this facility.

14

Chinese Credit Facility

The Company maintains a Chinese credit facility totaling 11.0 million RMB which is secured by a U.S. letter of credit provided under the Credit Facility. There are no financial covenants. The maturity date of this facility is December 31, 2007. The facility was fully utilized at September 30, 2007.

Fair Value of Debt

At September 30, 2007, the Company had \$12.9 million of long-term debt which primarily consisted of \$10.0 million of fixed rate Senior Convertible Notes that were entered into in August 2006. The fair value of these Notes at September 30, 2007 was \$27.6 million. The increase in value is mainly due to the increase in the Company's common stock price and its impact on the conversion features of the Notes. The remaining \$2.9 million of long-term debt is based on prime rates, and accordingly, the carrying value of this obligation approximates its fair value.

At September 30, 2007, the Company had \$63.8 million of outstanding short-term debt. Substantially all of the Company's outstanding short-term debt at September 30, 2007 consists of \$65.0 million, excluding debt discount of \$2.7 million, of fixed rate Senior Convertible Notes that were entered into in August 2006. The fair value of these Notes at September 30, 2007 was \$179.5 million. The increase in value is primarily due to the increase in the Company's common stock price and its impact on the conversion features of the Notes.

Maturities of Debt

The Company is obligated to make principal payments on debt outstanding at September 30, 2007 of \$1.5 million in 2007, \$2.9 million in 2009 and \$75.0 million in 2011. See also the 5.00% Convertible Senior Notes due 2036 section related to the holders' optional conversion as of September 30, 2007.

10. Pensions**U.S. Plans:**

For U.S. plans, the following table provides the components of net periodic pension costs of the plans for the three and nine months ended September 30, 2007 and 2006:

Pension Benefits (in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Service cost	\$ 247	\$ 617	\$ 803	\$ 1,873
Interest cost	1,146	1,237	3,498	3,690
Expected return on plan assets	(1,288)	(1,152)	(3,746)	(3,281)
Amortization of prior service cost	63	88	186	225
Net amortization	75	188	263	644
Settlement	-	509	-	509
Curtailment	-	279	(265)	279
Net periodic pension cost	\$ 243	\$ 1,766	\$ 739	\$ 3,939

The expected long-term rate of return on plan assets is 8.00% in 2007.

Employer Contributions

In its 2006 financial statements, the Company disclosed that it expected to contribute \$3.2 million to its U.S. pension plans in 2007. As of September 30, 2007, the Company has contributed \$5.4 million and does not anticipate any further contributions for the remainder of 2007.

European Plans:

For European plans, the following table provides the components of net periodic pension costs of the plans for the three and nine months ended September 30, 2007 and 2006:

Pension Benefits (in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Service cost	\$ 185	\$ 249	\$ 555	\$ 747
Interest cost	434	389	1,302	1,167
Expected return on plan assets	(324)	(272)	(972)	(816)
Amortization of prior service cost	11	12	33	36
Net amortization	25	44	76	132
Net periodic pension cost	\$ 331	\$ 422	\$ 994	\$ 1,266

The expected long-term rate of return on plan assets ranges from 5.00% to 6.90% in 2007.

Employer Contributions

In its 2006 financial statements, the Company disclosed that it expected to contribute \$2.3 million to its European pension plans in 2007. As of September 30, 2007, the Company contributed \$1.5 million. The Company expects to contribute the remaining \$0.8 million over the remainder of the year.

Defined Contribution Plans

The Company also sponsors a defined contribution pension plan for certain U.S. employees that permits employee contributions of up to 50% of eligible compensation in accordance with Internal Revenue Service guidance. In September 2006, the Company announced the freezing of its defined benefit pension plan for all U.S. salaried employees replacing it with a defined contribution plan. Under this defined contribution plan, the Company makes a fixed contribution of 2% of eligible employee compensation on a quarterly basis and matches contributions made by each participant in an amount equal to 100% of the employee contribution up to a maximum of 2% of employee compensation. In addition, each of these employees is eligible for an additional Company contribution of up to 4% of employee compensation based upon annual Company performance at the discretion of the Company's Board of Directors. Employer matching contributions for non-represented employees vest after two years of service. For bargaining unit employees at the Catlettsburg, Kentucky facility, the Company contributes a maximum of \$25.00 per month to the plan. For bargaining unit employees at the Columbus, Ohio facility, the Company began making contributions to the USW 401(k) Plan of \$1.15 per actual hour worked for eligible employees when their former Barnebey Sutcliffe Employee USWA Local 23.08 401(k) Plan was discontinued and their defined benefit pension plan was frozen effective April 30, 2007. The Company realized a \$0.3 million curtailment gain as a result of freezing the aforementioned plan. Employer matching contributions for bargaining unit employees vest immediately. Total expenses related to the defined contribution plans for the three months ended September 30, 2007 and 2006 were \$0.6 million and \$0.1 million, respectively, and for the nine months ended September 30, 2007 and 2006 were \$1.4 million and \$0.3 million, respectively.

Effective December 31, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132[R] ("SFAS 158"). SFAS 158 required the Company to record a transition adjustment to recognize the funded status of postretirement defined benefit plans, measured as the difference between the fair value of plan assets and the benefit obligations, in its balance sheet after adjusting for derecognition of the

Company's minimum pension liability as of December 31, 2006. Although the Company adopted the provisions of SFAS 158; it incorrectly presented the effect of this transition adjustment of \$5,375,000 as a reduction to 2006 comprehensive income on its Consolidated Statements of Income and Comprehensive Income (Loss) included in Item 8 of its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (the "2006 Form 10-K"). The impact of removing the SFAS 158 transition adjustment from the 2006 Consolidated Statements of Income and Comprehensive Income (Loss) changes the reported comprehensive income (loss) from \$(3,935,000) to \$1,440,000. The reported net loss of \$(7,798,000) for 2006 and the related loss per share of \$(0.20) are unaffected by this change. The Company will report the impact of removing the transition adjustment in its 2007 Form 10-K.

11. Earnings Per Share

Computation of basic and diluted net income per common share from continuing operations is performed as follows:

<i>(Dollars in thousands, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Income (loss) from continuing operations available to common shareholders	\$ 5,044	\$ (496)	\$ 11,540	\$ (1,346)
Income (loss) from discontinued operations available to common shareholders	(96)	38	(96)	1,910
Net income (loss) available to common shareholders	\$ 4,948	\$ (458)	\$ 11,444	\$ 564
Weighted Average Shares Outstanding				
Basic	40,357,325	39,881,805	40,289,260	39,870,778
Effect of Dilutive Securities	10,000,854	-	7,035,183	-
Diluted	50,358,179	39,881,805	47,324,443	39,870,778
Net income (loss) per common share				
Basic:				
Income (loss) from continuing operations	\$.12	\$ (.01)	\$.28	\$ (.03)
Income (loss) from discontinued operations	-	-	-	.05
Net income (loss)	\$.12	\$ (.01)	\$.28	\$.01
Diluted:				
Income (loss) from continuing operations	\$.10	\$ (.01)	\$.24	\$ (.03)
Income (loss) from discontinued operations	-	-	-	.05
Net income (loss)	\$.10	\$ (.01)	\$.24	\$.01

The stock options that were excluded from the dilutive calculations as the effect would have been antidilutive were 6,100 and 3,938 for the three months ended September 30, 2007 and 2006, respectively, and 6,100 and 152,318 for the nine months ended September 30, 2007 and 2006, respectively.

The Company's obligation under its Senior Convertible Notes is to settle the par value of the Notes in cash and to settle the amount in excess of par value in its common shares. Therefore, the Company is not required to include any shares underlying the Notes in its diluted weighted average shares outstanding until the average stock price per share for the quarter exceeds the \$5.10 conversion price. At such time, only the number of shares that would be issuable (under the "treasury stock" method of accounting for share dilution) will be included, which is based upon the amount by which the average stock price exceeds the conversion price. For the first \$0.50 per share that the Company's average stock price exceeds the \$5.10 conversion price of the Notes, it will include approximately 1,300,000 additional shares in its diluted share count. For the second \$0.50 per share that the Company's average stock price exceeds the \$5.10 conversion price, it will include approximately 1,100,000 additional shares, for a total of approximately 2,400,000

shares, in its diluted share count, and so on, with the additional shares' dilution decreasing for each \$1 per share that the Company's average stock price exceeds \$5.10 if the stock price rises further above \$5.10 (see table below). As of September 30, 2007, the average stock price for the 90-day trading period was \$12.98 which was higher than the conversion price of \$5.10 therefore 8,928,396 shares were included in the dilutive share calculation for the period of time the Notes were outstanding for the three month period ended September 30, 2007. The year-to-date dilutive effect of the Notes was calculated based on the weighted average number of incremental shares included in each quarterly diluted earnings per share computation.

"Treasury Stock" Method of Accounting for Share Dilution

Conversion Price:	\$ 5.10
Number of underlying shares:	14,705,880
Principal Amount:	\$ 75,000,000

Formula: Number of extra dilutive shares created

$$= ((\text{Stock Price} * \text{Underlying Shares}) - \text{Principal}) / \text{Stock Price}$$

Condition: Only applies when share price exceeds \$5.10

Stock Price	Conversion Price	Price Difference	Included in Share Count	Share Dilution Per \$1.00 Share Price Difference
\$5.10	\$ 5.10	\$ 0.00	-	-
\$5.60	\$ 5.10	\$ 0.50	1,313,023	2,626,046
\$6.10	\$ 5.10	\$ 1.00	2,410,798	2,410,798
\$7.10	\$ 5.10	\$ 2.00	4,142,500	2,071,250
\$8.10	\$ 5.10	\$ 3.00	5,446,621	1,815,540
\$9.10	\$ 5.10	\$ 4.00	6,464,122	1,616,031
\$10.10	\$ 5.10	\$ 5.00	7,280,137	1,456,027
\$11.10	\$ 5.10	\$ 6.00	7,949,123	1,324,854
\$12.10	\$ 5.10	\$ 7.00	8,507,533	1,215,362
\$13.10	\$ 5.10	\$ 8.00	8,980,689	1,122,586
\$14.10	\$ 5.10	\$ 9.00	9,386,731	1,042,970
\$15.10	\$ 5.10	\$ 10.00	9,738,993	973,899
\$16.10	\$ 5.10	\$ 11.00	10,047,495	913,409
\$17.10	\$ 5.10	\$ 12.00	10,319,915	859,993

12. Other Financial Information

As described in Note 9, the Company has issued \$75.0 million in aggregate principal amount of 5.00% Convertible Senior Notes due in 2036. The Notes are fully and unconditionally guaranteed by certain of our domestic subsidiaries on a senior unsecured basis. All of the subsidiary guarantors are 100% owned by the parent company and the guarantees are joint and several. The Subsidiary Guarantees are general unsecured senior obligations of the Subsidiary Guarantors and rank equally in right of payment with all of the existing and future senior indebtedness of the Subsidiary Guarantors. If the Company fails to make payment on the Notes, the Subsidiary Guarantors must make them instead. The Notes are effectively subordinated to any indebtedness of the Company's non-guarantor subsidiaries. The Notes are effectively junior to all of the Company's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness.

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q

Condensed consolidating unaudited financial information for Calgon Carbon Corporation (issuer); Calgon Carbon Investments Inc., Chemviron Carbon Ltd., Waterlink (UK) Holdings Ltd., Sutcliffe Speakman Ltd., Lakeland Processing Ltd., Charcoal Cloth (International) Ltd., BSC Columbus LLC, and CCC Columbus LLC (guarantor subsidiaries); and the non-guarantor subsidiaries are as follows:

Condensed Consolidating Statements of Operations
Three months ended September 30, 2007

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	\$ 73,534	\$ 11,731	\$ 8,805	\$ (9,209)	\$ 84,861
Cost of products sold	52,776	8,486	5,589	(9,209)	57,642
Depreciation and amortization	3,561	276	590	-	4,427
Selling, general and administrative expenses	12,839	1,388	1,079	-	15,306
Research and development expense	873	92	1	-	966
Interest (income) expense - net	5,277	(4,052)	(317)	-	908
Other expense - net	161	515	(194)	-	482
Provision (benefit) for income taxes	(1,075)	211	1,260	-	396
Results of affiliates' operations	5,781	(163)	-	(5,618)	-
Equity income (loss) from equity investments	-	-	311	(1)	310
Income (loss) from continuing operations	4,903	4,652	1,108	(5,619)	5,044
Income (loss) from discontinued operations	45	(141)	-	-	(96)
Net income (loss)	\$ 4,948	\$ 4,511	\$ 1,108	\$ (5,619)	\$ 4,948

Condensed Consolidating Statements of Operations
Nine months ended September 30, 2007

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	\$ 220,765	\$ 34,822	\$ 36,576	\$ (35,844)	\$ 256,319
Cost of products sold	158,338	26,330	26,798	(35,844)	175,622
Depreciation and amortization	10,475	821	1,723	-	13,019
Selling, general and administrative expenses	38,046	4,012	2,863	-	44,921
Research and development expense	2,424	277	-	-	2,701
Interest (income) expense - net	15,783	(11,932)	(785)	-	3,066
Other expense - net	859	1,008	(574)	-	1,293
Provision for income taxes	3,300	889	1,734	-	5,923
Results of affiliates' operations	19,859	2,017	-	(21,876)	-
Equity in income from equity investments	-	-	1,766	-	1,766
	11,399	15,434	6,583	(21,876)	11,540

Income (loss) from continuing operations								
Income from (loss) discontinued operations	45	(141)	-	-	(96)			
Net income (loss)	\$ 11,444	\$ 15,293	\$ 6,583	\$ (21,876)	\$ 11,444			

19

Condensed Consolidating Statements of Operations
Three months ended September 30, 2006

	Consolidating and Eliminating					
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Entries	Consolidated	
Net sales	\$ 68,788	\$ 12,287	\$ 8,569	\$ (9,964)	\$ 79,680	
Cost of products sold	51,297	10,356	7,208	(9,964)	58,897	
Depreciation and amortization	4,279	357	83	-	4,719	
Selling, general and administrative expenses	11,254	1,269	851	-	13,374	
Research and development expense	1,055	91	-	-	1,146	
Restructuring	-	-	-	-	-	
Interest (income) expense - net	5,260	(3,774)	(189)	-	1,297	
Other expense - net	209	130	321	-	660	
Provision (benefit) for income taxes	(733)	4	843	-	114	
Results of affiliates' operations	(3,381)	117	-	3,264	-	
Equity income (loss) from equity investments	-	-	39	(8)	31	
Income (loss) from continuing operations	(452)	3,737	(509)	(3,272)	(496)	
Income (loss) from discontinued operations	(6)	(7)	51	-	38	
Net income (loss)	\$ (458)	\$ 3,730	\$ (458)	\$ (3,272)	\$ (458)	

Condensed Consolidating Statements of Operations
Nine months ended September 30, 2006

	Consolidating and Eliminating					
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Entries	Consolidated	
Net sales	\$ 208,518	\$ 33,052	\$ 32,399	\$ (37,200)	\$ 236,769	
Cost of products sold	158,874	27,734	26,862	(37,200)	176,270	
Depreciation and amortization	12,928	1,147	236	-	14,311	
Selling, general and administrative expenses	34,212	2,575	2,630	-	39,417	
Research and development expense	3,119	265	-	-	3,384	
Restructuring	7	-	-	-	7	
Interest (income) expense - net	15,444	(10,845)	(524)	-	4,075	
Other expense - net	941	358	719	-	2,018	
Benefit for income taxes	(209)	(35)	(912)	-	(1,156)	
Results of affiliates' operations	(17,254)	(5,493)	-	22,747	-	
Equity in income from equity investments	-	-	203	8	211	
Income (loss) from continuing operations	456	17,346	3,591	(22,739)	(1,346)	
Income from (loss) discontinued operations	108	67	2,723	(988)	1,910	

Net income (loss)	\$	564	\$	17,413	\$	6,314	\$	(23,727)	\$	564
-------------------	----	-----	----	--------	----	-------	----	----------	----	-----

20

Condensed Consolidating Balance Sheets
September 30, 2007

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash & Cash Equivalents	\$ 12,982	\$ 2,861	\$ 24,193	\$ (20,665)	\$ 19,371
Receivables	46,693	15,619	4,229	(8,384)	58,157
Inventories	64,436	8,539	5,219	33	78,227
Other current assets	17,423	1,273	1,373	-	20,069
Total current assets	141,534	28,292	35,014	(29,016)	175,824
Intercompany accounts receivable	53,806	174,944	4,211	(232,961)	-
Property, plant, and equipment, net	88,163	7,329	7,695	-	103,187
Intangibles	4,875	3,337	-	-	8,212
Goodwill	16,674	8,465	2,826	-	27,965
Equity investments	240,951	104,477	8,822	(345,244)	9,006
Other assets	3,936	2,422	3,369	-	9,727
Total assets	\$ 549,939	\$ 329,266	\$ 61,937	\$ (607,221)	\$ 333,921
Short-term debt	\$ 62,356	\$ -	\$ 1,462	\$ -	\$ 63,818
Accounts payable	27,607	19,678	4,377	(13,990)	37,672
Other current liabilities	32,009	231	2,142	(22,371)	12,011
Total current liabilities	121,972	19,909	7,981	(36,361)	113,501
Intercompany accounts payable	164,153	52,545	8,950	(225,648)	-
Long-term debt	12,925	-	-	-	12,925
Other non-current liabilities	89,467	12,067	12,787	(68,248)	46,073
Shareholders' equity	161,422	244,745	32,219	(276,964)	161,422
Total liabilities and shareholders' equity	\$ 549,939	\$ 329,266	\$ 61,937	\$ (607,221)	\$ 333,921

Condensed Consolidating Balance Sheets
December 31, 2006

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash & Cash Equivalents	\$ -	\$ 2,507	\$ 19,556	\$ (16,432)	\$ 5,631
Receivables	44,741	15,014	5,187	(9,906)	55,036
Inventories	57,143	7,323	5,840	33	70,339
Other current assets	14,927	1,549	1,230	-	17,706
Total current assets	116,811	26,393	31,813	(26,305)	148,712
Intercompany accounts receivable	54,887	157,438	384	(212,709)	-
Property, plant, and equipment, net	91,670	6,986	7,445	-	106,101
Intangibles	4,835	3,686	-	-	8,521
Goodwill	16,674	8,281	2,542	-	27,497
Equity investments	218,957	101,376	6,786	(320,148)	6,971
Other assets	17,156	3,870	3,536	-	24,562
Total assets	\$ 520,990	\$ 308,030	\$ 52,506	\$ (559,162)	\$ 322,364
Accounts payable	\$ 30,807	\$ 18,626	\$ 4,164	\$ (14,467)	\$ 39,130
Other current liabilities	31,256	666	3,424	(18,950)	16,396
Total current liabilities	62,063	19,292	7,588	(33,417)	55,526
Intercompany accounts payable	146,151	48,611	10,867	(205,629)	-
Long-term debt	74,836	-	-	-	74,836
Other non-current liabilities	90,067	12,292	9,539	(67,769)	44,129
Shareholders' equity	147,873	227,835	24,512	(252,347)	147,873
Total liabilities and shareholders' equity	\$ 520,990	\$ 308,030	\$ 52,506	\$ (559,162)	\$ 322,364

Condensed Consolidating Statements of Cash Flows
 Nine months ended September 30, 2007

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash (used in) provided by operating activities	\$ (6,724)	\$ 14,754	\$ 7,632	\$ 1,227	\$ 16,889
Investing activities:					
Property, plant and equipment expenditures	(6,584)	(750)	(305)	-	(7,639)
Investment (in) from affiliates	-	(450)	450	-	-
Other	187	-	-	-	187
Net cash (used in) provided by investing activities	(6,397)	(1,200)	145	-	(7,452)
Financing activities:					
Net borrowings (repayments)	5,576	-	1,458	(5,127)	1,907
Intercompany and equity transactions	18,191	(13,573)	(5,512)	894	-
Other	1,056	-	-	-	1,056
Net cash provided by (used in) financing activities	24,823	(13,573)	(4,054)	(4,233)	2,963
Effect of exchange rate changes on cash and cash equivalents	1,281	372	914	(1,227)	1,340
Increase (decrease) in cash and cash equivalents	12,982	354	4,637	(4,233)	13,740
Cash and cash equivalents, beginning of period	-	2,507	19,556	(16,432)	5,631
Cash and cash equivalents, end of period	\$ 12,982	\$ 2,861	\$ 24,193	\$ (20,665)	\$ 19,371

Condensed Consolidating Statements of Cash Flows
 Nine months ended September 30, 2006

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash (used in) provided by operating activities	\$ (24,667)	\$ 12,413	\$ (2,986)	\$ 159	\$ (15,081)
Investing activities:					
Proceeds from divestitures	778	-	20,435	-	21,213
Property, plant and equipment expenditures	(9,459)	(116)	(414)	-	(9,989)
Proceeds from insurance settlement for property and equipment	4,595	-	-	-	4,595
Investment from (in) affiliates	11,217	(823)	(10,394)	-	-

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q

Other	676	-	-	-	676
Net cash provided by (used in) investing activities	7,807	(939)	9,627	-	16,495
Financing activities:					
Net borrowings (repayments)	2,888	(607)	25	(4,538)	(2,232)
Intercompany and equity transactions	10,444	(13,672)	3,228	-	-
Other	356	30	-	(30)	356
Net cash (used in) provided by financing activities	13,688	(14,249)	3,253	(4,568)	(1,876)
Effect of exchange rate changes on cash and cash equivalents	1,798	844	(2,426)	(129)	87
(Decrease) increase in cash and cash equivalents	(1,374)	(1,931)	7,468	(4,538)	(375)
Cash and cash equivalents, beginning of period	3,049	3,681	9,836	(11,120)	5,446
Cash and cash equivalents, end of period	\$ 1,675	\$ 1,750	\$ 17,304	\$ (15,658)	\$ 5,071

13. Related Party Transactions

Net sales to related parties and receivables from related parties primarily reflect sales of activated carbon products to equity investees. Generally, transactions are conducted under long-term contractual arrangements. Related party sales transactions were \$2.9 million and \$1.8 million for the three months ended September 30, 2007 and 2006, respectively, and \$6.7 million and \$7.7 million for the nine months ended September 30, 2007 and 2006, respectively.

14. Income Taxes

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the adoption of FIN 48 and recognition of the cumulative effect of adoption of a new accounting principle, the Company recorded a \$5.7 million increase in the gross unrecognized income tax benefits and a decrease in retained earnings of \$4.3 million. In conjunction with the adoption of FIN 48, the Company has classified uncertain tax positions as non-current income tax liabilities unless the amount is expected to be paid within one year. The Company had previously recorded its tax contingencies as current liabilities. As of September 30, 2007, the gross unrecognized income tax benefits were \$12.2 million and the change from January 1, 2007 was primarily due to the addition of similar tax positions related to 2007 activity as well as the recognition of certain uncertain tax positions for which expiration of the statute of limitations occurred during the quarter ended September 30, 2007. If recognized, \$9.7 million of the gross unrecognized income tax benefits would affect the effective tax rate.

While it is expected that the amount of unrecognized tax benefits will change in the next twelve months, quantification of an estimated range cannot be made at this time. The Company does not expect this change to have a material impact on its results of operations.

The Company recognizes interest and penalties related to uncertain tax positions in the income tax provision (benefit) on its Condensed Consolidated Statement of Operations. As of September 30, 2007, the Company had approximately \$0.7 million of accrued interest and penalties related to uncertain tax positions included in the liability on the condensed consolidated balance sheet.

The tax years 2003 to 2006 remain open to examination by United States taxing jurisdictions, tax years 2003 to 2006 remain open to examination by state taxing jurisdictions, and the tax years 2003 to 2006 remain open to examination by foreign taxing jurisdictions.

15. New Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" (SFAS No. 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. SFAS No. 159 is effective as of January 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on its financial position, results of operations, and cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosure about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt

SFAS No. 157 as required for the fiscal year 2008 and expects that the adoption will not have a material impact on its financial position or results of operations.

16. Reclassifications

In accordance with SFAS No. 123(R), "Share-based Payments," ("FAS123(R)") the Company has reclassified deferred compensation, related to pre-FAS 123(R) options, to additional paid in capital on its Consolidated Balance Sheet from the prior year to conform to the 2007 presentation.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

This discussion should be read in connection with the information contained in the Unaudited Condensed Consolidated Financial Statements and Notes to the Unaudited Condensed Financial Statements.

Results of Operations

Continuing Operations:

Consolidated net sales increased by \$5.2 million or 6.5% and \$19.6 million or 8.3% for the quarter and year-to-date periods ended September 30, 2007, respectively, versus the quarter and year-to-date periods ended September 30, 2006. Net sales for the Activated Carbon and Service segment for the quarter and year-to-date periods ended September 30, 2007 increased \$4.5 million or 6.6% and \$15.2 million or 7.6%, respectively, versus the comparable 2006 periods. The increase for the quarter ended September 30, 2007 was primarily due to higher pricing for certain activated carbon products. The increase for the year-to-date period was primarily due to higher pricing for certain activated carbon products and services as well as increased demand in the industrial process and environmental air treatment markets of approximately \$13.3 million. Partially offsetting this increase was lower demand in the specialty carbon market of \$3.0 million. Foreign currency translation had a positive impact of \$1.8 million and \$5.5 million, respectively, for the quarter and year-to-date periods ended September 30, 2007. Net sales for the Equipment segment increased \$0.5 million or 5.9% and \$4.3 million or 16.0% for the quarter and year-to-date periods ended September 30, 2007, respectively, versus the comparable 2006 periods. The increase was primarily due to higher demand for odor control equipment and ultra-violet light (UV) equipment of \$1.1 million for the quarter ended September 30, 2007. Partially offsetting this increase was the decline in demand for traditional carbon adsorption equipment of \$0.4 million. The increase for the year-to-date period was primarily due to higher demand for UV and municipal odor equipment. Foreign currency translation was comparable for the quarter and year-to-date periods ended September 30, 2007. Net sales for the Consumer segment increased \$0.2 million or 6.9% and \$0.1 million or 0.6% for the quarter and year-to-date periods ended September 30, 2007 versus the comparable 2006 periods. The increase for both periods was attributable to higher demand for activated carbon cloth partially offset by lower demand for PreZerve® products. Foreign currency translation had a positive impact of \$0.2 million and \$0.6 million, respectively, for the quarter and year-to-date periods ended September 30, 2007. The total positive impact of foreign currency translation on consolidated net sales for the quarter and year-to-date periods ended September 30, 2007 was \$2.0 million and \$6.1 million, respectively.

Net sales less cost of products sold, as a percentage of net sales, was 32.1% for the quarter ended September 30, 2007 compared to 26.1% for the similar 2006 period, a 6.0% increase or \$6.4 million. The increase was primarily in the Activated Carbon and Service segment of 5.7% or \$6.1 million which was principally driven by higher pricing for certain activated carbon products and services. The Equipment segment increased 0.3% or \$0.3 million due to volume. The Consumer segment was comparable for the quarter ended September 30, 2007 versus the similar 2006 period. Net sales less cost of products sold, as a percentage of net sales, was 31.5% for the year-to-date period ended September 30, 2007 compared to 25.6% for the similar 2006 period, a 5.9% increase or \$20.2 million. The increase was primarily in the Activated Carbon and Service segment of 5.8% or \$19.8 million, which was principally driven by higher pricing for certain activated carbon products and services. The Equipment segment was comparable for the year-to-date period ended September 30, 2007 versus the similar 2006 period. The Consumer segment increased 0.1% or \$0.5 million due to product mix. The Company's cost of products sold excludes depreciation and amortization; therefore it

may not be comparable to that of other companies.

The depreciation and amortization decrease of \$0.3 million and \$1.3 million during the quarter and year-to-date periods ended September 30, 2007 versus the comparable 2006 periods was primarily due to an increase in the number of fully depreciated fixed assets.

25

Selling, general and administrative expenses for the quarter and year-to-date periods ended September 30, 2007 decreased by \$1.2 million and \$2.6 million, respectively, versus the comparable 2006 periods. The decrease in both periods was primarily due to decreased legal expenses as a result of the substantial completion of the Company's UV patent cases and anti-dumping petition related to steam activated carbon imports from China as well as decreased employee related expenses. The year-to-date 2006 period also included a \$1.3 million reduction related to the change in estimate of the Company's environmental liabilities assumed in the 2004 Waterlink acquisition (Note 7).

Research and development expenses for the quarter and year-to-date periods ended September 30, 2007 decreased \$0.2 million and \$0.7 million, respectively, versus the comparable 2006 periods primarily due to decreased employee related expenses.

The gain from insurance settlement of \$3.2 million and \$8.1 million for the quarter and year-to-date periods ended September 30, 2006 is related to the damage to the Company's Pearlinton, Mississippi plant which was caused by Hurricane Katrina in 2005.

Restructuring charges for the year-to-date period ended September 30, 2006 primarily related to charges associated with the closure of two small manufacturing facilities as a result of the Company's 2005 re-engineering plan.

Other expense- net for the quarter and year-to-date periods ended September 30, 2007 decreased \$0.2 million and \$0.7 million as compared to the 2006 periods. The decrease for the quarter ended September 30, 2007 was primarily due to a decrease in taxes other than income tax. The decrease for the year-to-date period is primarily due to the write-off of deferred financing fees associated with the Company's old credit facility that occurred during the quarter ended March 31, 2006 as well as the aforementioned decrease in taxes other than income tax.

Interest expense, net of interest income, for the quarter and year-to-date periods ended September 30, 2007 decreased \$0.4 million and \$1.0 million, respectively, versus the comparable 2006 periods. The decline in both periods is as a result of lower average borrowing levels and lower average interest rates paid on the Company's borrowings in 2007 versus the similar 2006 periods as well as increased interest income as a result of higher cash balances on hand.

Income tax expense for the quarter and year-to-date periods ended September 30, 2007 increased \$0.3 million and \$7.1 million, respectively, versus the comparable 2006 periods. This increase in both periods was caused primarily by increases to income from continuing operations before income tax and equity in income from equity investments.

The effective tax rate for the quarter and year-to-date periods ended September 30, 2007 was a provision of 7.7% and 37.7%, respectively compared to a provision of 27.6% and a benefit of 42.6%, respectively, for the quarter and year-to-date periods ended September 30, 2006. The tax rate for the quarter ended September 30, 2007 was impacted by the reduction in the Company's estimated annualized effective tax rate from 52.3% as of June 30, 2007 to 37.7% as of September 30, 2007, as discussed below. The year-to-date period ended September 30, 2007 tax rate was higher than the statutory Federal Income Tax Rate due to several factors. In foreign jurisdictions, the Company is in an income position without a corresponding benefit of a foreign tax credit in the United States which accounted for an 6.5% increase in the taxable rate. The impact of state taxes and other permanent, non-deductible expenses also increased the rate by approximately 0.4% and 3.3%, respectively. In addition to the aforementioned increases, the Company is no longer able to claim a benefit due to the expiration of the Extraterritorial Income Exclusion Benefit. Partially offsetting these factors was an 8.7% decrease due to recognition of certain uncertain tax positions for which expiration of the statute of limitations occurred during the quarter ended September 30, 2007. The year-to-date period ended September 30, 2006 tax rate was higher than the statutory Federal Income Tax Rate due to the Company's lower than expected profit for the quarter and the estimated full year and certain benefits, principally the exclusion provided under United States income tax laws with respect to the Extraterritorial Income Exclusion Benefit and recognition of state income tax benefits.

During the preparation of its effective tax rate, the Company uses an annualized estimate of pre-tax earnings. Throughout the year this annualized estimate may change based on actual results and annual earnings estimate revisions. Because the Company's permanent tax benefits are relatively constant, changes in the annualized estimate may have a significant impact on the effective tax rate in future periods.

The Company provides an estimate for income taxes based on an evaluation of the underlying accounts, its tax filing positions and interpretations of existing law. Changes in estimates are reflected in the year of settlement or expiration of the statute of limitations. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

Equity in income from equity investments for the quarter and year-to-date periods ended September 30, 2007 increased \$0.3 million and \$1.6 million, respectively, versus the similar 2006 periods. The increase was primarily due to lower cost of products sold and a favorable mix for products sold by the company's joint venture with Calgon Mitsubishi Chemical Corporation in Japan. The Company expects the joint venture's results for the fourth quarter of 2007 to be approximately breakeven.

Discontinued Operations:

Income (loss) from discontinued operations was (\$0.1) million versus \$38 thousand and (\$0.1) million versus \$1.9 million, respectively, for the quarter and year-to-date periods ended September 30, 2007 and 2006 and was primarily due to the gains (losses) recognized on the 2006 sales of the Company's Charcoal/Liquid and Solvent Recovery businesses.

Financial Condition

Working Capital and Liquidity

Cash flows provided by operating activities were \$16.9 million for the period ended September 30, 2007 compared to cash flows used in operating activities of \$15.1 million for the comparable 2006 period. The \$32.0 million increase is primarily due to improved earnings of \$10.9 million; a decrease in accrued pension of \$3.7 million; and, 2006 gains from the sales of assets of \$6.7 million and a gain on insurance settlement of \$8.1 million of which the cash effects are reflected in cash flows from investing activities. The cash flows discussed for the period ended September 30, 2006 include discontinued operations.

Total debt at September 30, 2007 was \$76.7 million, an increase of \$1.9 million from December 31, 2006. The increase was primarily the result of the addition of short-term debt of \$1.5 million related to the Company's operations in China and is more fully described in Note 9. The additional borrowings were used to finance normal working capital and capital expenditure activities.

Common stock dividends were not declared or paid during the periods ended September 30, 2007 and 2006, respectively.

On August 18, 2006, the Company issued \$75.0 million in aggregate principal amount of 5.00% Convertible Senior Notes due in 2036 (the "Notes") and entered into a new revolving credit facility (the "Credit Facility"). The Company used \$68.4 million of the net proceeds from its offering of the Notes to fully repay indebtedness under the Company's prior revolving credit facility. Accordingly, all parties completed their obligations under the Amended and Restated Credit Agreement, dated as of January 30, 2006. The material terms of the Notes and the Credit Facility are described below.

5.00% Convertible Senior Notes due 2036

The Company initially issued \$65.0 million in aggregate principal amount of 5.00% Notes due in 2036 and granted the initial purchaser a 30-day option to purchase up to an additional \$10.0 million principal amount of Notes solely to

cover over-allotments, if any. The initial purchaser exercised this option in full. Accordingly, \$75.0 million in aggregate principal amount of Notes were issued and sold on August 18, 2006. The Notes accrue interest at the rate of 5.00% per annum and are payable in cash semi-annually in arrears on each February 15 and August 15, which commenced February 15, 2007. The Notes will mature on August 15, 2036.

The Notes can be converted under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter) commencing after September 30, 2006, if the last reported sale price of the Company's common stock is greater than or equal to 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading-day period (the "measurement period") in which the trading price per Note for each day in the measurement period was less than 103% of the product of the last reported sale price of the Company's common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the Offering Memorandum. On or after June 15, 2011, holders may convert their Notes at any time on the business day immediately preceding the maturity date. Upon conversion, the Company will pay cash for the principal amount of the Notes and shares of its common stock, if any, based on a daily conversion value (as described herein) calculated on a proportionate basis for each day of the 25 trading-day observation period.

For the period ended September 30, 2007, the last reported sale price of the Company's common stock was greater than 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ended September 30, 2007. As a result, as of September 30, 2007, the holders of the Notes have the right to convert the Notes into cash and shares of common stock. Although the Company does not anticipate that a significant amount of these Notes will be converted, if any, as of September 30, 2007 the Company was required to reclassify as a current liability that portion of the Notes that cannot be refinanced on a long-term basis as provided by SFAS No. 6, "Classification of Short-Term Obligations Expected to be Refinanced" which was \$62.4 million at September 30, 2007.

The initial conversion rate is 196.0784 shares of the Company's common stock per \$1,000 principal amount of Notes, equivalent to an initial conversion price of approximately \$5.10 per share of common stock. The conversion rate is subject to adjustment in some events, including the payment of a dividend on the Company's common stock, but will not be adjusted for accrued interest, including any additional interest. In addition, following certain fundamental changes that occur prior to August 15, 2011, the Company will increase the conversion rate for holders who elect to convert Notes in connection with such fundamental changes in certain circumstances. The Company considered EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," Issue 7, which indicates that if a reset of the conversion rate due to a contingent event occurs the Company would need to calculate if there is a beneficial conversion and record if applicable. Through September 30, 2007, no contingent events have occurred.

The Company may not redeem the Notes before August 20, 2011. On or after that date, the Company may redeem all or a portion of the Notes at any time. Any redemption of the Notes will be for cash at 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, including any additional interest to, but excluding, the redemption date.

Holders may require the Company to purchase all or a portion of their Notes on each of August 15, 2011, August 15, 2016, and August 15, 2026. In addition, if the Company experiences specified types of fundamental changes, holders may require it to purchase the Notes. Any repurchase of the Notes pursuant to these provisions will be for cash at a price equal to 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the purchase date.

The Notes are the Company's senior unsecured obligations, and rank equally in right of payment with all of its other existing and future senior indebtedness. The Notes are guaranteed by certain of the Company's domestic subsidiaries on a senior unsecured basis ("Subsidiary Guarantees"). The Subsidiary Guarantees are general unsecured senior obligations of the subsidiary guarantors ("Subsidiary Guarantors") and rank equally in right of payment with all of the existing and future senior indebtedness of the Subsidiary Guarantors. If the Company fails to make payment on the Notes, the Subsidiary Guarantors must make them instead. The Notes are effectively subordinated to any indebtedness of the Company's non-guarantor subsidiaries. The Notes are effectively junior to all of the Company's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness.

The Company sold the Notes to the original purchaser at a discount of \$3.3 million that will be amortized over a period of five years. The discount is reflected as a deduction from the face amount of the debt. As of the period ended September 30, 2007, the Company recorded interest expense of \$3.3 million, of which \$0.4 million related to the amortization of the discount and \$2.9 million related to the Notes. The Company incurred issuance costs of \$1.5 million which were deferred and are being amortized over a five year period.

Credit Facility

The Credit Facility was initially a \$50.0 million facility and included a separate U.K. sub-facility and a separate Belgian sub-facility. On February 5, 2007, the Credit Facility was amended to increase the commitment amount to \$55.0 million and was syndicated to include one additional lender. The Credit Facility permits the total revolving credit commitment to be increased up to \$75.0 million. The facility matures on May 15, 2011. The terms of the syndicated Credit Facility were not materially different than the original facility prior to the February 5, 2007 syndication. Availability for domestic borrowings under the Credit Facility is based upon the value of eligible inventory, accounts receivable and property, plant and equipment, with separate borrowing bases to be established for foreign borrowings under a separate U.K. sub-facility and a separate Belgian sub-facility. Availability under the Credit Facility is conditioned upon various customary conditions.

The Credit Facility is secured by a first perfected security interest in substantially all of the Company's assets, with limitations under certain circumstances in the case of capital stock of foreign subsidiaries. Certain of the Company's domestic subsidiaries unconditionally guarantee all indebtedness and obligations related to domestic borrowings under the Credit Facility. The Company and certain of its domestic subsidiaries also unconditionally guarantee all indebtedness and obligations under the U.K. sub-facility.

As of September 30, 2007, the carrying amount of assets pledged as collateral was \$51.6 million. The carrying amount as of September 30, 2007 for domestic, U.K., and Belgian borrowers were \$40.9 million, \$6.3 million, and \$4.4 million, respectively. The Credit Facility contains a fixed charge coverage ratio covenant which becomes effective when total domestic availability falls below \$11.0 million. As of September 30, 2007, total availability was \$35.2 million. Availability as of September 30, 2007 for domestic, U.K., and Belgian borrowers was \$30.1 million, \$5.1 million, and zero, respectively. The Company can issue letters of credit up to \$20.0 million of the available commitment amount under the Credit Facility. Sub-limits for letters of credit under the U.K. sub-facility and the Belgian sub-facility are \$2.0 million and \$6.0 million, respectively. Letters of credit outstanding at September 30, 2007 totaled \$16.4 million.

The Credit Facility interest rate is based upon Euro-based ("LIBOR") rates with other interest rate options available. The applicable Euro Dollar margin in effect when the Company is in compliance with the terms of the facility ranges from 1.25% to 2.25% and is based upon the Company's overall availability under the Credit Facility. The unused commitment fee is equal to 0.375% per annum and is based upon the unused portion of the revolving commitment.

The Credit Facility contains a number of negative and affirmative covenants. For the period ended September 30, 2007, the last reported sale price of the Company's common stock was greater than 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ended September 30, 2007. As a result, as of September 30, 2007, the holders of the Notes have the right to convert the Notes into cash and shares of common stock. Although currently not anticipated by the Company, the ability of holders of the Notes to convert could be an event of default of the Credit Facility. Included in the Credit Facility is a provision for up to \$10.0 million where Notes converted up to that amount will not be considered an event of default and the Company was able to classify up to that amount as long-term debt as it has the ability and intent to refinance it under the Credit Facility. The Credit Facility also includes a provision for up to \$3.0 million of letters of credit under the Company's U.S., Belgium, and UK sub-limits that can be issued having expiration dates that are more than one year but not more than three years after the date of issuance.

The negative covenants provide for certain restrictions on possible acts by the Company related to matters such as additional indebtedness, certain liens, fundamental changes in the business, certain investments or loans, asset sales and other customary requirements. The Company was in compliance with all such negative covenants as of September 30, 2007 and is currently in compliance with such covenants.

Management cannot be assured that, after the September 30, 2007 financial statements have been provided to the lenders, there will not be any violation in future periods of the covenants contained in the Credit Facility.

Contractual Obligations

The Company is obligated to make future payments under various contracts such as debt agreements, lease agreements, and unconditional purchase obligations. As of September 30, 2007, with the exception of the addition of short-term debt as well as the reclassification of a portion of the Company's Notes to short-term, there have been no changes in the payment terms of lease agreements, and unconditional purchase obligations since December 31, 2006. The following table represents the significant cash contractual obligations and other commercial commitments.

(Thousands)	Due in						Total
	2007	2008	2009	2010	2011	Thereafter	
Short-term debt *	\$ 1,462	\$ -	\$ -	\$ -	\$ 65,000	\$ -	\$ 66,462
Long-term debt	-	-	2,925	-	10,000	-	12,925
Interest on Notes	3,750	3,750	3,750	3,750	2,369	-	17,369
Operating leases	4,127	3,056	2,673	2,357	2,000	10,604	24,817
Unconditional purchase obligations**	26,981	19,853	10,019	7,753	5,711	-	70,317
Total contractual cash Obligations	\$ 36,320	\$ 26,659	\$ 19,367	\$ 13,860	\$ 85,080	\$ 10,604	\$ 191,890

*The 2011 maturity excludes debt discount of \$2,645. See additional discussion in Note 9.

**Primarily for the purchase of raw materials, transportation, and information systems services.

The long-term tax payable of \$12.2 million pertaining to the FIN 48 tax liability has been excluded from the above table due to the fact that the Company is unable to determine the period in which the liability will be resolved.

The cash needs of each of the Company's reporting segments are principally covered by the segment's operating cash flow on a stand alone basis. Any additional needs will be funded by borrowings under the Company's credit facility. Specifically, the Equipment and Consumer segments historically have not required extensive capital expenditures; therefore, the Company believes that operating cash flows and borrowings will adequately support each of the segments cash needs.

Capital Expenditures and Investments

Capital expenditures for property, plant and equipment totaled \$7.6 million for the nine months ended September 30, 2007 compared to expenditures of \$10.0 million for the same period in 2006. The expenditures for the period ended September 30, 2007 consisted primarily of improvements to the Company's manufacturing facilities of \$6.5 million and customer capital of \$0.3 million. The comparable 2006 expenditures consisted primarily of \$6.1 million for improvements to manufacturing facilities, \$2.3 million related to the repair of the Company's Pearl River plant as a result of Hurricane Katrina, and \$1.4 million for customer capital. Capital expenditures for 2007 are projected to be approximately \$12.0 million and are expected to be funded by cash flows from operations.

In January 2006, the Company announced the temporary idling of its reactivation facility in Blue Lake, California in an effort to reduce operating costs and to more efficiently utilize the capacity at its other existing locations. The Company conducted an impairment review, in accordance with SFAS No. 144 of the plant's assets having a net book value of \$1.1 million in connection with the temporary idling of the facility and concluded that the assets were not impaired. It is management's intention to resume operation of the plant in the future as market conditions warrant it. If management should determine not to restart the plant, operating results would be adversely affected by impairment charges.

The September 30, 2006 proceeds from sales of assets of \$21.2 million, as shown on the statement of cash flows, represents the Company's sales of its Charcoal/Liquid and Solvent Recovery businesses.

Regulatory Matters

Each of the Company's domestic production facilities has permits and licenses regulating air emissions and water discharges. All of the Company's domestic production facilities are controlled under permits issued by local, state and federal air pollution control entities. The Company is presently in compliance with these permits. Continued compliance will require administrative control and will be subject to any new or additional standards. In May 2003, the Company partially discontinued operation of one of its three activated carbon lines at its Catlettsburg, Kentucky facility. The Company will need to install pollution abatement equipment estimated at approximately \$7.0 million in order to remain in compliance with state requirements regulating air emissions before resuming full operation of this line. In the fourth quarter of 2006, management authorized preliminary engineering work to be performed to more accurately assess the costs and length of time needed to make the idled activated carbon line operational again due to a favorable ruling by the International Trade Commission (ITC) on the Company's anti-dumping petition for steam activated carbon imported into the U.S. from China and subsequent expected increased demand of U.S. manufactured products. During the quarter ended June 30, 2007, management began discussions with the State of Kentucky regarding permitting. Management continues to refine its assessment regarding the start-up of this idled activated carbon line to address potential future market opportunities surrounding mercury removal. The Company currently estimates that the restart of this line, including enhancements, would cost between \$20.0 million and \$25.0 million and take approximately 13 months to complete and be funded by cash on hand as well as borrowings under its Credit Facility. If at any point it is determined that a shutdown of the full operation of the activated carbon line for other than a temporary period is warranted, the impact to current operating results would be insignificant.

In January 2007, the Company received a Notice of Violation ("NOV") from the United States Environmental Protection Agency, Region 4 ("EPA") alleging multiple violations of the Federal Resource Conservation and Recovery Act and corresponding EPA and Kentucky Department of Environmental Protection ("KYDEP") hazardous waste management rules and regulations. The alleged violations are based on information provided by the Company during and after a Multi Media Compliance Evaluation inspection of the Company's Big Sandy Plant, located in Catlettsburg, Kentucky, conducted by the EPA and the KYDEP in September 2005, and concern the hazardous waste spent activated carbon regeneration facility located at the Big Sandy Plant. The Company submitted its initial written response to the NOV in June 2007. In August 2007, the EPA notified the Company that it believes there are significant RCRA violations that are unresolved by the information in the Company's submittals. The EPA notice indicated that the EPA is in the process of evaluating its enforcement options and hopes to contact the Company within the next several months to explore a settlement. The EPA has not indicated whether or not it will take formal enforcement action, or whether such action would involve the assessment of civil penalties, and has not specified a monetary amount of any civil penalties it might pursue in connection with this matter. The Company is awaiting further clarification from the EPA and cannot predict with any certainty the outcome of this matter or range of potential loss, if any.

In June 2007, the Company received a Notice Letter from the New York State Department of Environmental Conservation ("NYSDEC") stating that NYSDEC has determined that "Calgon Corporation" is a Potentially Responsible Party ("PRP") at the Frontier Chemical Processing Royal Avenue Site in Niagara Falls, New York (the "Site"). The Notice Letter requests that "Calgon Corporation" (and other PRPs) develop, implement and finance a remedial program for Operable Unit #1 at the Site. Operable Unit #1 consists of overburden soils and overburden and upper bedrock groundwater. The selected remedy is removal of above grade structures and contaminated soil source areas, installation of a cover system, and ground water control and treatment, which is estimated to cost between approximately \$11 million and \$14 million. The Company has not determined what portion of the costs associated with the remedial program, if any, it would be obligated to bear and as such the Company cannot predict with any certainty the outcome of this matter or range of potential loss, if any. The Notice Letter also demands payment of all

monies that NYSDEC has already expended for investigation and remediation of the Site, but does not specify the amount that NYSDEC has expended.

In July 2007, the Company received a Notice of Violation (“NOV”) from the KYDEP alleging that the Company has violated the KYDEP’s hazardous waste management regulations in connection with the Company’s hazardous waste spent activated carbon regeneration facility located at the Big Sandy Plant in Catlettsburg, Kentucky. The NOV alleges that the Company has failed to correct deficiencies identified by KYDEP in the Company’s Part B hazardous waste management facility permit application and related documents and directs the Company to submit a complete and accurate Part B application and related documents and to respond to KYDEP’s comments which are appended to the NOV. The Company is preparing a response to the NOV and KYDEP’s comments. The KYDEP has not indicated whether or not it will take formal enforcement action, and has not specified a monetary amount of civil penalties it might pursue in any such action, if any. On October 18, 2007, the Company received an NOV from the EPA related to this permit application and has until December 3, 2007 to completely respond to all deficiencies noted and to file a revised permit application. At this time the Company cannot predict with any certainty the outcome of this matter or range of loss, if any.

New Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" (SFAS No. 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. SFAS No. 159 is effective as of January 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on its financial position, results of operations, and cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosure about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS No. 157 as required for the fiscal year 2008 and expects that the adoption will not have a material impact on its financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in the Company's exposure to market risk from December 31, 2006.

Item 4. Controls and Procedures

Disclosure Controls and Procedures:

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), at the end of the period covered by this Quarterly Report on Form 10-Q. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control:

There have not been any changes in the Company's internal controls over financial reporting that occurred during the period ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATIONItem 1. Legal Proceedings

See Note 7 to the unaudited interim Condensed Consolidated Financial Statements contained herein.

Item 1a. Risk Factors

There were no material changes in the Company's risk factors from the risks disclosed in the Company's Form 10-K for the year ended December 31, 2006.

Item 2c. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
July 1 - July 31, 2007	—	—	—	—
August 1 - August 31, 2007	622	\$ 11.70	—	—
September 1 - September 30, 2007	—	—	—	—

(a) This column includes purchases under Calgon Carbon's Stock Option Plan which represented withholding taxes due from employees relating to the restricted share awards issued on July 1, 2007. Future purchases under this plan will be dependent upon employee elections and forfeitures.

Item 6. Exhibits

Exhibit 31.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALGON CARBON CORPORATION
(REGISTRANT)

Date: November 9, 2007

/s/ Leroy M. Ball

Leroy M. Ball
Senior Vice President,
Chief Financial Officer

34

EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
