CALGON CARBON CORPORATION
Form 10-Q
May 10, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended March 31, 2006

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	**25-0530110**
(State or other jurisdiction of incorporation or organization)	**(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 91 days.

Yes x 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 ¨ an accelerated filer x or a non-accelerated filer ¨

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 x

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

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 May 9, 2006
Common Stock, $.01 par value	39,712,438 shares

Table of Contents

CALGON CARBON CORPORATION

FORM 10-Q

QUARTER ENDED March 31, 2006

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.

INDEX

Table of Contents

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 and subsidiaries (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, 2005, as 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, which are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first three months of 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Table of Contents

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Dollars in Thousands Except Share and Per Share Data)

(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net sales	$ 76,579	$ 73,055
Cost of products sold (excluding depreciation)	57,411	52,816
Depreciation and amortization	4,798	5,534
Selling, general and administrative expenses	14,372	15,831
Research and development expenses	1,197	1,070
Gulf Coast Facility impairment charge (Note 3)		2,158
Restructuring charge	6	252
	77,784	77,661
Loss from operations	(1,205)	(4,606)
Interest income	86	181
Interest expense	(1,574)	(1,092)
Other expense net	(844)	(401)
Loss from continuing operations before income taxes, equity in income from equity investments, and minority interest	(3,537)	(5,918)
Income tax benefit	(316)	(1,267)
Loss from continuing operations before equity in income from equity investments and minority interest	(3,221)	(4,651)
Equity in income from equity investments	188	273
Minority interest	15	
Loss from continuing operations	(3,018)	(4,378)
Income from discontinued operations net of tax	3,016	969
Net loss	(2)	(3,409)
Common stock dividends		(1,177)
Retained earnings, beginning of period	101,833	112,804
Retained earnings, end of period	$ 101,831	$ 108,218
Basic and diluted loss from continuing operations per common share	$ (.08)	$ (.11)
Income from discontinued operations per common share	$ .08	$ .02
Basic and diluted net income (loss) per common share	$ .00	$ (.09)
Weighted average shares outstanding		
Basic and diluted	39,854,726	39,200,362

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

Table of Contents

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except share data)

(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,383	$ 5,446
Receivables (net of allowance of $2,336 and $2,172)	55,223	51,224
Revenue recognized in excess of billings on uncompleted contracts	5,515	5,443
Inventories	69,461	67,655
Deferred income taxes current	9,877	8,448
Other current assets	5,747	6,044
Assets held for sale	4,123	21,340
Total current assets	154,329	165,600
Property, plant and equipment, net	107,964	108,745
Equity investments	7,507	7,219
Intangibles	9,587	10,049
Goodwill	33,881	33,874
Deferred income taxes long-term	16,449	18,684
Other assets	3,756	3,697
Total assets	$ 333,473	$ 347,868
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt	$ 68,574	$
Accounts payable and accrued liabilities	38,093	36,502
Billings in excess of revenue recognized on uncompleted contracts	3,000	3,933
Payroll and benefits payable	11,153	11,396
Accrued income taxes	11,165	10,783
Liabilities held for sale	3,101	6,683
Total current liabilities	135,086	69,297
Long-term debt	2,925	83,925
Deferred income taxes long-term	1,105	1,389
Accrued pension and other liabilities	43,040	42,697
Total liabilities	182,156	197,308
Commitments and contingencies		
Shareholders equity:		
Common shares, $.01 par value, 100,000,000 shares authorized, 42,499,696 and 42,459,733 shares issued	425	425
Additional paid-in capital	70,061	69,906
Retained earnings	101,831	101,833
Accumulated other comprehensive income	7,117	6,442
Deferred compensation	(757)	(917)

	178,677	177,689
Treasury stock, at cost, 2,819,690 and 2,787,258 shares	(27,360)	(27,129)
Total shareholders equity	151,317	150,560
Total liabilities and shareholders equity	$ 333,473	$ 347,868

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

Table of Contents

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31, 2006	2005
Cash flows from operating activities		
Net loss	$ (2)	($3,409)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain from sale of assets, pre-tax	(6,078)	
Depreciation and amortization	4,800	5,815
Non-cash impairment and restructuring charges		2,373
Equity in income from equity investments	(188)	(273)
Distributions received from equity investments		254
Employee benefit plan provisions	1,154	1,348
Changes in assets and liabilities - net of effects from purchase of business and non-cash impairment:		
Increase in receivables	(1,803)	(399)
Increase in inventories	(2,683)	(3,776)
Increase in revenue in excess of billings on uncompleted contracts and other current assets	(713)	(1,042)
Decrease in accounts payable and accrued liabilities	(838)	(1,059)
Increase (decrease) in long-term deferred income taxes	1,422	(3,225)
Other items net	492	1,008
Net cash used in operating activities	(4,437)	(2,385)
Cash flows from investing activities		
Purchase of business - net of cash		(530)
Proceeds from the sale of assets	19,120	
Property, plant and equipment expenditures	(3,093)	(1,740)
Proceeds from disposals of property, plant and equipment	52	396
Net cash provided by (used in) investing activities	16,079	(1,874)
Cash flows from financing activities		
Proceeds from borrowings	32,300	23,500
Repayments of borrowings	(44,726)	(20,400)
Common stock dividends		(1,177)
Common stock issued through exercise of stock options	335	1,679
Net cash (used in) provided by financing activities	(12,091)	3,602
Effect of exchange rate changes on cash	(614)	(381)
Decrease in cash and cash equivalents	(1,063)	(1,038)
Cash and cash equivalents, beginning of period	5,446	8,780
Cash and cash equivalents, end of period	$ 4,383	$ 7,742

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

CALGON CARBON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

(Unaudited)

1. Acquisition

In May 2005, the Company formed a joint venture company with C. Gigantic Carbon to provide carbon reactivation services to the Thailand market. The joint venture company was named Calgon Carbon (Thailand) Ltd. and is 20% owned by the Company after an initial investment of $0.2 million. It is accounted for in the Company s financial statements under the equity method.

2. Discontinued Operations and Assets and Liabilities Held for Sale

The Company s financial statements for all periods presented were significantly impacted by activities relating to the planned divestiture of two of the Company s businesses.

On February 4, 2005, the Company s Board of Directors approved a re-engineering plan. In order to allow the Company to focus on its core activated carbon and service related businesses, the plan included the divestiture of two non-core businesses. In the fourth quarter of 2005, management concluded such divestitures are probable and the Company reclassified the following businesses from continuing operations to discontinued operations and assets held for sale for all periods presented: Charcoal/Liquid in Bodenfelde, Germany and Solvent Recovery in Columbus, Ohio; Vero Beach, Florida; and Ashton, United Kingdom. The Charcoal/Liquid and Solvent Recovery businesses were reported in the Company s Consumer and Equipment segments, respectively.

On February 17, 2006, Calgon Carbon Corporation, through its wholly owned subsidiary Chemviron Carbon GmbH, executed an agreement (the Charcoal Sale Agreement) with proFagus GmbH, proFagus Grundstuecksverwaltungs GmbH and proFagus Beteiligungen GmbH (as Guarantor) to sell, and sold, substantially all the assets, real estate, and specified liabilities of the Bodenfelde, Germany facility (the Charcoal/Liquid business). The facility includes the production of charcoal for consumer use and liquids that are recovered during charcoal production. The products are sold to retail and industrial markets. The aggregate sales price, based on an exchange rate of 1.19 dollars per Euro, consisted of $19.1 million of cash and is subject to a potential working capital adjustment. The Company provided guarantees to the buyer related to pre-divestiture tax liabilities, future environmental remediation costs related to pre-divestiture activities and other contingencies. Management believes the ultimate cost of such guarantees is not material. An additional $5.0 million could be paid contingent upon the business meeting certain earnings targets over the next three years. As of March 31, 2006, the Company recorded a pre-tax gain of $4.7 million or $3.1 million, net of tax, on the sale of the Charcoal/Liquid divestiture.

On April 24, 2006, the Company completed the sale of the assets of its Solvent Recovery business to MEGTEC Systems, Inc., a subsidiary of Sequa Corporation. The Solvent Recovery unit provides turnkey on-site regenerable solvent recovery systems, distillation systems, on-site regenerable volatile organic compound concentrators, vapor-phase biological oxidation systems, and related services on a worldwide basis. The purchase price of $1.9 million included cash proceeds of approximately $0.8 million and $1.1 million of retained assets, primarily accounts receivable. The gain on the sale is not expected to be significant and will be recorded in the second quarter 2006.

Table of Contents

The following table details selected financial information for the businesses included within the discontinued operations in the Condensed Consolidated Statements of Income and Retained Earnings:

(Dollars in thousands)	Charcoal/Liquid Quarter Ended March 31 2006	Charcoal/Liquid Quarter Ended March 31 2005	Solvent Recovery Quarter Ended March 31 2006	Solvent Recovery Quarter Ended March 31 2005
Net sales	$ 1,375	$ 6,377	$ 2,360	$ 3,973
Income (loss) from operations	(402)	932	20	549
Other income-net	4,716	14		(14)
Income before income taxes	4,314	946	20	535
Income tax expense	1,309	327	7	185
Income from discontinued operations	$ 3,003	$ 619	$ 13	$ 350

The major classes of assets and liabilities of operations held for sale in the Condensed Consolidated Balance Sheets are as follows:

(Dollars in thousands)	Charcoal/Liquid March 31, 2006	Charcoal/Liquid December 31, 2005	Solvent Recovery March 31, 2006	Solvent Recovery December 31, 2005
Assets:				
Receivables	$	$ 1,059	$ 2,700	$ 4,018
Inventories		6,924	113	113
Property, plant and equipment, net		7,310	40	42
Goodwill			1,000	1,000
Other assets		181	270	693
Total assets held for sale	$	$ 15,474	$ 4,123	$ 5,866
Liabilities				
Accounts payable and accrued liabilities		2,604	3,101	3,157
Other liabilities		922		
Total liabilities held for sale	$	$ 3,526	$ 3,101	$ 3,157

3. Gulf Coast Facility Impairment Charge

In 2003, the Company temporarily suspended construction of a new facility in the Gulf Coast region of the United States as it evaluated strategic alternatives. On March 22, 2005, the Company concluded, and the Board of Directors approved, that cancellation of this project was warranted and that construction of such a facility should be suspended for the foreseeable future. Accordingly, the Company recorded an impairment charge of $2.2 million in 2005.

4. Inventories:

	March 31, 2006	December 31, 2005
Raw materials	$ 18,050	$ 16,501

Finished goods	51,411	51,154
	$ 69,461	$ 67,655

5. Supplemental Cash Flow Information:

	Three Months Ended March 31, 2006	2005
Cash paid during the period for:		
Interest	$ (1,574)	$ (1,283)
Income taxes paid net	$ (2)	$ (38)

7

6. Dividends:

The Company s Board of Directors did not declare or pay a dividend for the quarter ended March 31, 2006. Common stock dividends declared and paid during the quarter ended March 31, 2005 were $.03 per common share.

7. Comprehensive income (loss):

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net loss	$ (2)	$ (3,409)
Other comprehensive income (loss), net of taxes	675	(2,954)
Comprehensive income (loss)	$ 673	$ (6,363)

The only matter contributing to the other comprehensive income during the three months ended March 31, 2006 was the foreign currency translation adjustment of $0.8 million and the change in the fair value of the derivative instruments of ($0.1) million as described in Note 9. The only matters contributing to the other comprehensive loss during the three months ended March 31, 2005 were the foreign currency translation adjustment of ($2.9) million and the change in the fair value of the derivative instruments of ($0.1) million.

8. Segment Information:

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 air and water 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 March 31, 2006	Three Months Ended March 31, 2005
Net Sales		
Carbon and Service	$ 65,185	$ 59,326
Equipment	8,441	10,194
Consumer	2,953	3,535
	$ 76,579	$ 73,055
Income (loss) from continuing operations before depreciation, amortization, impairment, and restructuring		
Carbon and Service	$ 5,048	$ 3,760
Equipment	(1,659)	(751)
Consumer	210	329
	3,599	3,338
Depreciation and amortization		
Carbon and Service	4,449	4,874
Equipment	210	297
Consumer	139	363

		4,798		5,534
Loss from continuing operations before impairment and restructuring	$	(1,199)	$	(2,196)
Reconciling items:				
Gulf Coast Facility impairment charge				(2,158)
Restructuring charges		(6)		(252)
Interest income		86		181
Interest expense		(1,574)		(1,092)
Other expense net		(844)		(401)
Consolidated loss from continuing operations before income taxes, equity in income from equity investments, and minority interest	$	(3,537)	$	(5,918)

Table of Contents

	March 31, 2006	December 31, 2005
Total Assets		
Carbon and Service	$ 275,115	$ 267,408
Equipment	41,049	44,607
Consumer	13,186	14,513
Total assets from continuing operations	$ 329,350	$ 326,528
Assets held for sale	4,123	21,340
Consolidated total assets	$ 333,473	$ 347,868

9

9. 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 sixteen foreign currency forward exchange contracts outstanding at March 31, 2006 and none of these contracts qualified for hedge accounting treatment. The Company held fifty-seven foreign currency forward exchange contracts at March 31, 2005 of which eighteen qualified and were treated as foreign exchange cash flow hedges regarding payment for inventory purchases. The change in the fair market value of the effective hedge portion of the foreign currency forward exchange contracts of ($56) thousand for the period ended March 31, 2005 was recorded in other comprehensive (income) loss (see Note 7). It was released into operations over 12 months based on the timing of the sales of the underlying inventory. The release to operations was reflected in cost of products sold. During the periods ended March 31, 2006 and 2005, the Company recorded an immaterial gain in other income for the sixteen and remaining thirty-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 of ($0.1) million and ($0.1) million, respectively, for the periods ended March 31, 2006 and 2005 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 $0.3 million and $0.7 million, respectively, as of March 31, 2006 and 2005.

No component of the derivatives gains or losses has been excluded from the assessment of hedge effectiveness. For the periods ended March 31, 2006 and 2005, the net gain or loss recognized due to the amount of hedge ineffectiveness was insignificant.

10. Contingencies

In August 2005, the Company s Pearl River plant was impacted by Hurricane Katrina. The Company has both property and business interruption insurance coverage for this plant. Management is in the process of filing claims with its insurance carrier to recover damages for both property and business interruption related to this event. In the first quarter of 2006, the Company had incurred $2.4 million for damages which the Company deems recoverable from insurance of which $1.1 million was recorded as additions to property, plant and equipment. The aforementioned amounts result in the following totals to date; $1.0 million for costs which are not recoverable from insurance and $9.2 million for damages which the Company believes are recoverable from insurance of which $4.9 million is recorded as recoverable for additions to property, plant and equipment. During the three months ended March 31, 2006, the Company received an advance on its claim of $2.0 million from its insurance carrier for property damage. In April 2006, the Company received an additional advance on its claim of $1.0 million from its insurance carrier for property damage bringing the total advances received to date on the claim to $4.5 million.

On December 31, 1996, the Company purchased the common stock of Advanced Separation Technologies Incorporated (AST) from Progress Capital Holdings, Inc. and Potomac Capital Investment Corporation. 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. Based upon information obtained since the acquisition and corroborated in the course of pre-trial discovery, the Company believes that it has a reasonable basis for this claim and intends to vigorously pursue reimbursement for damages sustained. Neither the Company nor its counsel can predict with certainty the amount, if any, of recovery that will be obtained from the defendants in this matter.

The Company is also currently 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) or 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 seeking a declaratory judgment that it does not infringe the Company s U.S. Patents and alleging unfair competition by the Company. This matter is currently pending in the United States District Court for the District of New Jersey. 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 defendant is practicing the method claimed within the U.S. Patents without a license. In the third case, the Company has filed suit against the City of North Bay, Ontario, Canada (North Bay) and Trojan in the Federal Court of Canada alleging infringement of the 525 Patent by North Bay and inducement of infringement by Trojan. The trial for this case was conducted and completed in April 2006. A decision is expected to be rendered sometime within the ensuing two quarters. Neither the Company nor its counsel can predict with any certainty the outcome of the three matters.

The Company has received a demand from the Pennsylvania Department of Environmental Protection (PADEP) that the Company reimburse PADEP for response costs the agency alleges have been take at a site owned by a third party and located in Allegheny County, Pennsylvania (Site). The letter also included an unspecified amount for interest and for any future costs that might be incurred by PADEP at the Site. The Company understands that the response costs are approximately $1.3 million. Based on information provided by PADEP, the Site is approximately 8 acres and was used from the 1950s until the 1960s as a disposal site for coke or carbon sweepings and other industrial wastes. The Company has been in discussions with PADEP regarding the Company s position that it is not the entity that disposed of materials containing the contaminants identified by PADEP at the Site and that any materials that may have been deposited by the Company s predecessor did not contain actionable levels of hazardous substances identified by PADEP. PADEP has advised the Company that it is prepared to settle the matter for payment of $475,000. The Company believes PADEP s position is not meritorious, and the demand is unwarranted. The Company intends to continue to vigorously defend the matter.

In September 2004, a customer of one of the Company s distributors demanded payment by the Company of approximately $340,000 as reimbursement for losses allegedly caused by activated carbon produced by the Company and sold by the distributor. The claimant contends that the activated carbon contained contamination which adversely impacted its production process. The Company is in the process of evaluating the claim, and at this time, cannot predict with any certainty the outcome of this matter.

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 if it is probable that a liability has been incurred and an amount is reasonably estimable. Management believes, after consulting with counsel, that the ultimate liabilities, if any, resulting from such lawsuits and claims will not materially affect the consolidated results of operations, cash flows, or financial position of the Company.

In conjunction with the 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 March 31, 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 and retained earnings for the three months ended March 31, 2006. The Company has not incurred any environmental remediation expense for the three months ended March 31, 2006 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 over the upcoming months. 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 yet to make a determination that it will proceed with remediation efforts in 2006.

The Company owns a 49% interest in a joint venture, Calgon Mitsubishi Chemical Corporation, which was formed on October 1, 2002. At March 31, 2006, Calgon Mitsubishi Chemical Corporation had $9.1 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 March 31, 2006, the lender had not requested, and the Company has not provided, such guarantee.

11. Goodwill & Intangible Assets

The Company accounts for goodwill and intangible assets in accordance with Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets. This standard requires that goodwill and intangible assets with indefinite useful lives not be amortized but should be tested for impairment at least annually. Management has elected to do the annual impairment test on December 31 of each year. As required by SFAS No. 142, management has allocated goodwill to the Company s reporting units. No such impairment existed based on the Company s most recent test at December 31, 2005.

Table of Contents

The following is the categorization of the Company s intangible assets as of March 31, 2006 and December 31, 2005 respectively:

	Weighted Average Amortization Period	March 31, 2006 Gross Carrying Amount	March 31, 2006 Foreign Exchange	March 31, 2006 Accumulated Amortization	December 31, 2005 Gross Carrying Amount	December 31, 2005 Foreign Exchange	December 31, 2005 Accumulated Amortization
Amortized Intangible Assets:							
Patents	15.4 Years	$ 1,369	$	$ (732)	$ 1,369	$	$ (711)
Customer Relationships	17.0 Years	9,323	(186)	(2,642)	9,323	(206)	(2,316)
Customer Contracts	2.8 Years	664	(18)	(634)	664	(19)	(577)
License Agreement	5.0 Years	500		(242)	500		(217)
Other	7.9 Years	665		(282)	665		(270)
Unpatented Technology	20.0 Years	2,875		(1.073)	2,875		(1,031)
Total	15.8 Years	$ 15,396	$ (204)	$ (5,605)	$ 15,396	$ (225)	$ (5,122)

For the three months ended March 31, 2006 and 2005, the Company recognized $0.5 million and $0.5 million, respectively, of amortization expense. The Company estimates amortization expense to be recognized during the next five years as follows:

For the year ended 12/31/06	$ 1,763
For the year ended 12/31/07	$ 1,530
For the year ended 12/31/08	$ 1,330
For the year ended 12/31/09	$ 1,057
For the year ended 12/31/10	$ 914

The changes in the carrying amounts of goodwill by segment for the three months ended March 31, 2006 are as follows:

	Carbon & Service Segment	Equipment Segment	Consumer Segment	Total
Balance as of January 1, 2006	$ 20,534	$ 13,280	$ 60	$ 33,874
Foreign exchange	39	(32)		7
Balance as of March 31, 2006	$ 20,573	$ 13,248	$ 60	$ 33,881

12. Borrowing Arrangements

On January 30, 2006, the Company amended and restated its existing $125.0 million unsecured United States revolving credit facility. The amended $118.0 million facility consists of a $100.0 million revolving loan and an $18.0 million term loan. Current commitments from the lenders under the new agreement total $105.0 million with an additional $13.0 million available to the existing or new lenders. The amended and restated facility is secured by a blanket security interest in favor of the lenders and a pledge agreement in favor of the lenders with respect to the stock of certain subsidiaries. Borrowings under this facility were being charged a weighted average interest rate of 7.39% at March 31, 2006.

Included in the credit facility is a letter of credit sub-facility that cannot exceed $30.0 million. The interest rate is based upon Euro-based (LIBOR) rates with other interest rate options available. The applicable Euro Dollar margin ranges from 1.25% to 2.50%, and an unused commitment fee that ranges from 0.25% to 0.50% and is based upon the Company s ratio of debt to earnings before interest, income tax, depreciation and amortization (EBITDA). The credit facility s covenants impose financial restrictions on the Company, including maintaining certain ratios of debt to EBITDA, EBITDA to cash outlays (cash outlays as defined by the agreement include payments for income tax, interest, debt principal, dividends, and capital expenses) and operating assets to debt and minimum net worth. In addition, the facility imposes gross spending restrictions on capital expenditures, dividends, treasury share repurchases, acquisitions and investments in non-controlled

subsidiaries. The facility also contains mandatory prepayment provisions for the term loan and proceeds in excess of pre-established amounts of certain events as defined within the loan agreement.

On February 23, 2006, the Company, as required by the amended credit facility, repaid the $18.0 million term loan with the proceeds from the sale of the Company s Charcoal/Liquid business. The remaining $100.0 million revolving loan has $87.0 million of funding commitments from the Company s lenders.

In March 2006, the Company amended its U.S. credit facility to clarify elements of certain covenants and to finalize an amount used for one of the add-back provisions of the covenants that were required to be met as of December 31, 2005 as conditions to the closing of the facility. The Company was in compliance with these covenants as of December 31, 2005, as amended.

As of March 31, 2006 the Company was not in compliance with the Fixed Charge covenant ratio which is based upon the Company s ratio of trailing twelve months EBITDA to the sum of the Company s trailing twelve months payments for interest, taxes, dividends, and capital expenditures. The Company is not immediately seeking a waiver, but has reached agreement with its lenders to continue utilizing the facility with the same rights and privileges as it had prior to the violation while the lenders have reserved their rights to call the debt without further notice at any time during the period of violation. Should the lenders elect to exercise their rights and call the debt, the Company would be unable to satisfy the obligation without securing an alternative financing arrangement or arrangements. During the second quarter, the Company intends to work with its lenders to resolve this violation by trying to obtain a waiver and amendment to the facility or seek alternative financing arrangements should a resolution with the existing lending group prove unsuccessful. The Company has classified all borrowings under this facility as short term as of March 31, 2006.

13. Stock Compensation Plans

The Company has two stock-based compensation plans which are more fully described in Note 12 of the Company s 2005 Annual Report on Form 10-K. Prior to January 1, 2006, the Company accounted for awards granted under those plans following the recognition and measurement principles of Accounting Principles Board Option No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and related interpretations.

The Company adopted SFAS No. 123(R), Share-based Payments, on January 1, 2006 using the modified prospective application method. Under this transition method, compensation cost recognized in the quarter ended March 31, 2006 includes the applicable amounts of compensation cost of all stock-based payments granted prior to, but not yet vested as of January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in the pro forma footnote disclosures). Compensation cost in the future will also include stock-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123(R)). Results for prior periods have not been restated. Prior to the adoption of SFAS No. 123(R), no compensation cost was reflected in net income for stock options as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. In accordance with SFAS No. 123(R), compensation expense for stock options is now recorded over the vesting period using the fair value on the date of grant, as calculated by the Company using the Black-Scholes model. The nonvested restricted stock grant date fair value, which is the market price of the underlying common stock, is expensed over the vesting period.

(Dollars in thousands except per share data)		**Three Months Ended March 31 2006**
Stock-based compensation expense recognized:		
Selling, general and administrative expenses	$	165
Total		165
Tax effect		65
Increase in net loss	$	100
Decrease in basic and diluted earnings per share	$	0.00

14

Table of Contents

Prior period pro forma presentations

The following pro forma information is provided for comparative purposes and illustrates the pro forma effect on net income and earnings per share as if the fair value recognition provision of SFAS No. 123 had been applied to stock-based compensation prior to January 1, 2006:

(Dollars in thousands except per share data)	Three Months Ended March 31 2005
Net loss	