

CALGON CARBON CORPORATION  
Form 10-Q  
August 08, 2013  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2013**

**OR**

- o 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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**P.O. Box 717, Pittsburgh, PA**  
(Address of principal executive offices)

**15230-0717**  
(Zip Code)

**(412) 787-6700**

(Registrant's telephone number, including area code)

**None**

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

**Class**  
[Common Stock, \$.01 par value per share]

**Outstanding at August 6, 2013**  
54,258,632 shares



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### CALGON CARBON CORPORATION

### FORM 10-Q

QUARTER ENDED June 30, 2013

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Forward-looking statements typically contain words such as expect, believes, estimates, anticipates, or similar words indicating that future outcomes are uncertain. Statements looking forward in time, including statements regarding future growth and profitability, price increases, cost savings, broader product lines, enhanced competitive posture and acquisitions, are included in this Form 10-Q and in the Company's most recent Annual Report on Form 10-K pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks and uncertainties that may cause Calgon Carbon Corporation's (the Company) actual results in future periods to be materially different from any future performance suggested herein. Therefore, you should not unduly rely on any forward-looking statements contained herein. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control. Some of the factors that could affect future performance of the Company are changes in, or delays in the implementation of, regulations that cause a market for our products, acquisitions, higher energy and raw material costs, costs of imports and related tariffs, labor relations, capital and environmental requirements, changes in foreign currency exchange rates, borrowing restrictions, validity of patents and other intellectual property, and pension costs. In the context of the forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussions of risk factors and other information detailed in, as well as the other information contained in the Company's most recent Annual Report on Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made and the Company does not intend to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by the Federal securities laws of the United States.

In reviewing any agreements incorporated by reference in this Form 10-Q, please remember such agreements are included to provide information regarding the terms of such agreements and are not intended to provide any other factual or disclosure information about the Company. The agreements may contain representations and warranties by the Company, which should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties should those statements prove to be inaccurate. The representations and warranties were made only as of the date of the relevant agreement or such other date or dates as may be specified in such agreement and are subject to more recent developments. Accordingly, these representations and warranties alone may not describe the actual state of affairs as of the date they were made or at any other time.

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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 audited 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 included herein 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, 2012, as filed with the Securities and Exchange Commission by the Company on 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 which are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first six months of 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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## CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands except Per Share Data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 140,432	\$ 148,403	\$ 275,472	\$ 285,011
Cost of products sold (excluding depreciation)	94,057	102,456	186,472	196,282
Depreciation and amortization	7,305	6,442	14,052	12,955
Selling, general and administrative expenses	17,391	20,568	36,917	42,770
Research and development expenses	1,460	2,524	2,862	4,268
Restructuring (Note 1)	(18)		(42)	
Litigation and other contingencies		(172)		(19)
	120,195	131,818	240,261	256,256
Income from operations	20,237	16,585	35,211	28,755
Interest income	12	17	136	29
Interest expense	(129)		(306)	(19)
Other expense net	(341)	(513)	(1,169)	(764)
Income before income tax provision	19,779	16,089	33,872	28,001
Income tax provision	6,809	5,205	11,088	9,379
Net income	12,970	10,884	22,784	18,622
Other comprehensive income (loss), net of tax (Note 5)				
Foreign currency translation	770	(4,337)	(5,518)	(2,343)
Derivatives	(15)	454	559	581
Employee benefit plans	1,713	(474)	1,335	(1,032)
Comprehensive income	\$ 15,438	\$ 6,527	\$ 19,160	\$ 15,828
Net income per common share				
Basic	\$ 0.24	\$ 0.19	\$ 0.42	\$ 0.33
Diluted	\$ 0.24	\$ 0.19	\$ 0.42	\$ 0.33
Weighted average shares outstanding				
Basic	53,799,261	56,639,330	53,710,300	56,575,779
Diluted	54,547,189	57,190,357	54,375,535	57,157,408

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





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## CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

(Unaudited)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 20,764	\$ 18,161
Receivables (net of allowance of \$1,646 and \$1,362)	100,521	101,918
Revenue recognized in excess of billings on uncompleted contracts	13,538	14,680
Inventories	108,505	107,166
Deferred income taxes - current	17,203	17,317
Other current assets	11,760	13,964
Total current assets	272,291	273,206
Property, plant and equipment, net	262,602	262,993
Intangibles, net	6,670	7,388
Goodwill	26,330	27,030
Deferred income taxes - long-term	3,675	3,558
Other assets	3,021	3,594
Total assets	\$ 574,589	\$ 577,769
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 56,257	\$ 76,214
Restructuring reserve (Note 1)	671	3,226
Billings in excess of revenue recognized on uncompleted contracts	5,556	3,865
Payroll and benefits payable	10,888	10,114
Accrued income taxes	2,403	2,666
Short-term debt	61	19,565
Total current liabilities	75,836	115,650
Long-term debt	56,049	44,408
Deferred income taxes - long-term	15,074	12,379
Accrued pension and other liabilities	52,597	54,035
Total liabilities	199,556	226,472
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common shares, \$.01 par value, 100,000,000 shares authorized, 56,799,893 and 56,450,632 shares issued	568	564
Additional paid-in capital	173,513	168,599
Retained earnings	293,295	270,511
Accumulated other comprehensive loss	(20,151)	(16,527)

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Treasury stock, at cost, 6,435,860 and 6,415,176 shares	447,225	423,147
	(72,192)	(71,850)
Total shareholders' equity	375,033	351,297
Total liabilities and shareholders' equity	\$ 574,589	\$ 577,769

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

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## CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
<b><u>Cash flows from operating activities</u></b>		
Net income	\$ 22,784	\$ 18,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,052	12,955
Employee benefit plan provisions	893	1,871
Stock-based compensation	1,659	1,390
Deferred income tax expense	1,384	755
Restructuring (Note 1)	(42)	
Restructuring cash payments (Note 1)	(3,091)	
Changes in assets and liabilities net of effects from foreign exchange:		
Increase in receivables	(2,351)	(935)
Increase in inventories	(4,399)	(922)
Decrease (increase) in revenue in excess of billings on uncompleted contracts and other current assets	4,392	(6,570)
Decrease in accounts payable, accrued liabilities, and accrued interest	(18,333)	(61)
Pension contributions	(1,182)	(931)
Other items net	2,033	(240)
Net cash provided by operating activities	17,799	25,934
<b><u>Cash flows from investing activities</u></b>		
Proceeds from sale of business (Note 1)	642	
Capital expenditures	(15,978)	(36,839)
Government grants received	1,709	947
Cash released from collateral		12
Net cash used in investing activities	(13,627)	(35,880)
<b><u>Cash flows from financing activities</u></b>		
Japanese Revolving credit facility borrowings short term (Note 10)		10,546
Japanese Revolving credit facility repayments short term (Note 10)	(16,291)	(8,411)
U.S. Revolving credit facility borrowings long term (Note 10)	43,900	41,900
U.S. Revolving credit facility repayments long term (Note 10)	(42,450)	(31,400)
Proceeds from debt obligations	10,268	
Reductions of debt obligations	(1,015)	(1,526)
Treasury stock purchased	(342)	(418)
Common stock issued	2,781	463
Excess tax benefit from stock-based compensation		(176)
Net cash (used in) provided by financing activities	(3,149)	10,978
Effect of exchange rate changes on cash and cash equivalents	1,580	1,969
Increase in cash and cash equivalents	2,603	3,001
Cash and cash equivalents, beginning of period	18,161	13,574

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Cash and cash equivalents, end of period	\$	20,764	\$	16,575
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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## CALGON CARBON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

(Unaudited)

**1. Restructuring**

During the third quarter of 2012, the Company adopted a worldwide strategy to reduce costs and realign the organization structure in response to the global economic slowdown, rising raw material and maintenance costs, and delays in implementation of environmental regulations, which have created a challenging business environment for the Company. As a part of this strategy, the Company permanently closed, and later sold, its Datong, China manufacturing facility, temporarily idled a reactivation facility in Blue Lake, California, and reduced headcount. The Company has also consolidated operations at certain locations and will evaluate non-core businesses for potential divestiture.

For the three and six months ended June 30, 2013, the Company recorded \$(18) thousand and \$0.5 million, respectively, of restructuring (income) charges which were all within the Activated Carbon and Service segment. The Company also recorded a pre-tax gain of \$0.6 million for the sale of its activated carbon manufacturing facility in Datong, China for the period ended March 31, 2013 which was in the Activated Carbon and Service segment. The gain on sale was comprised of the release of foreign currency translation adjustments of \$1.0 million which was partially offset by a \$0.4 million charge for the write-off of goodwill. The remaining restructuring cash outlays are expected to be made in 2013.

The following table summarizes the activity in the restructuring reserve for the period ended June 30, 2013:

(Thousands, except number of employees)	Employee Termination Benefits	Gain on Sale	Other	Total Restructuring Activity	Employees
Accrual at December 31, 2012	\$ 3,226	\$	\$	\$ 3,226	67
Restructuring charges (income)	444	(578)	92	(42)	4
Payments	(2,999)		(92)	(3,091)	(61)
Non-cash charges		578		578	
Accrual at June 30, 2013	\$ 671	\$	\$	\$ 671	10

**2. Inventories**

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June 30, 2013

December 31, 2012

Raw materials	\$	33,290	\$	29,353
Finished goods		75,215		77,813
	\$	108,505	\$	107,166

Inventories are recorded net of reserves of \$1.7 million and \$1.8 million for obsolete and slow-moving items at June 30, 2013 and December 31, 2012, respectively.

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Cash paid for interest was \$0.5 million for both the six months ended June 30, 2013 and 2012. Income taxes paid, net of refunds, were \$5.5 million and \$5.8 million, for the six months ended June 30, 2013 and 2012, respectively.

The Company has reflected a \$0.9 million decrease and a \$0.4 million increase in accounts payable and accrued liabilities for changes in unpaid capital expenditures for the six months ended June 30, 2013 and 2012, respectively.

**4. Dividends**

The Company's Board of Directors did not declare or pay a dividend for the three or six month periods ended June 30, 2013 and 2012.

**5. Accumulated Other Comprehensive Income (Loss)**

The following table provides details on the changes in the balances of each component of accumulated other comprehensive loss, net of tax, at June 30, 2013:

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefit Adjustments	Derivatives	Accumulated Other Comprehensive Loss
Balance at December 31, 2012	\$ 17,098	\$ (33,718)	\$ 93	\$ (16,527)
Other comprehensive income (loss) before reclassifications	(4,486)	115	564	(3,807)
Amounts reclassified from other comprehensive income (loss)	(1,032)	1,220	(5)	183
Net current-period other comprehensive income (loss)	(5,518)	1,335	559	(3,624)
Balance at June 30, 2013	\$ 11,580	\$ (32,383)	\$ 652	\$ (20,151)

The following table provides details on amounts reclassified out of each component of accumulated other comprehensive loss for the six months ended June 30, 2013:

**Amount Reclassified from**

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Details about Accumulated Other Comprehensive Loss Components	Accumulated Other Comprehensive Loss (1)	Affected Line Item in the Statement Where Net Income is Presented
<b>Derivatives (Note 7)</b>		
Foreign Exchange Contracts	\$	430 Cost of products sold (excluding depreciation)
Natural Gas Contracts		(406) Cost of products sold (excluding depreciation)
		24 Total before tax
		(19) Tax (expense) or benefit
	\$	5 Net of tax
<b>Pension Benefit Adjustments (Note 11)</b>		
Prior-service costs	\$	(38) (2)
Actuarial losses		(1,920) (2)
		(1,958) Total before tax
		738 Tax (expense) or benefit
	\$	(1,220) Net of tax
<b>Foreign Currency Translation Adjustments</b>		
Sale of foreign subsidiary (Note 1)	\$	1,032 Restructuring (3)
		1,032 Total before tax
		Tax (expense) or benefit
	\$	1,032 Net of tax
<b>Total reclassifications for the period</b>	<b>\$</b>	<b>(183) Net of tax</b>

- 
- (1) Amounts in parentheses indicate reductions to income/increases to losses.
- (2) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.
- (3) The adjustment for 2013 relates to the Company's sale of its activated carbon manufacturing facility in Datong, China.



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Foreign currency translation adjustments exclude income tax expense (benefit) for the earnings of the Company's non-U.S. subsidiaries as management believes these earnings will be reinvested for an indefinite period of time. Determination of the amount of unrecognized deferred U.S. income tax liability on these unremitted earnings is not practicable.

The income tax expense associated with the Company's pension benefits included in accumulated other comprehensive loss was \$19.3 million and \$20.0 million at June 30, 2013 and December 31, 2012, respectively. The income tax benefit associated with the Company's derivatives included in accumulated other comprehensive loss was \$(0.4) million and \$(29) thousand at June 30, 2013 and December 31, 2012, respectively.

The following table contains the components of income tax expense (benefit) included in other comprehensive income (loss):

(Dollars in millions)	Foreign Currency Translation		Pension Benefits		Derivatives	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
June 30, 2013	\$ (0.1)	\$ 0.1	\$ 1.0	\$ 0.7	\$ 0.3	\$ 0.4
June 30, 2012	0.2	0.1	(0.3)	(0.6)	0.3	0.4

## 6. Segment Information

The Company's management has identified three segments based on the 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' air and water process problems through the design, fabrication, and operation of systems that utilize the Company's enabling technologies: ballast water, ultraviolet light, advanced ion exchange separation, and carbon adsorption. The Consumer segment supplies activated carbon for use in military, industrial, and medical applications. The following segment information represents the results of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales				
Activated Carbon and Service	\$ 124,009	\$ 126,353	\$ 242,906	\$ 243,590
Equipment	14,302	19,887	28,210	36,005
Consumer	2,121	2,163	4,356	5,416
	\$ 140,432	\$ 148,403	\$ 275,472	\$ 285,011

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Income (loss) from operations before depreciation, amortization, and restructuring								
Activated Carbon and Service	\$	27,706	\$	20,526	\$	48,605	\$	37,829
Equipment		(624)		1,999		(231)		2,531
Consumer		442		502		847		1,350
		27,524		23,027		49,221		41,710
Depreciation and amortization								
Activated Carbon and Service		6,353		5,650		12,261		11,423
Equipment		789		632		1,466		1,213
Consumer		163		160		325		319
		7,305		6,442		14,052		12,955
Income from operations before restructuring		20,219		16,585		35,169		28,755
Reconciling items:								
Restructuring (Note 1)		18				42		
Interest income		12		17		136		29
Interest expense		(129)				(306)		(19)
Other expense net		(341)		(513)		(1,169)		(764)
Income before income tax provision	\$	19,779	\$	16,089	\$	33,872	\$	28,001

		June 30, 2013		December 31, 2012
Total Assets				
Activated Carbon and Service	\$	515,524	\$	510,550
Equipment		52,506		60,191
Consumer		6,559		7,028
Consolidated total assets	\$	574,589	\$	577,769

**7. Derivative Instruments**

The Company's corporate and foreign subsidiaries use foreign currency forward exchange contracts and foreign exchange option contracts to limit the exposure of exchange rate fluctuations on certain foreign currency receivables, payables, and other known and forecasted transactional exposures for periods consistent with the expected cash flow of the underlying transactions. The foreign currency forward exchange and foreign exchange option contracts generally mature within eighteen months and are designed to limit exposure to exchange rate fluctuations. The Company also uses cash flow hedges to limit the exposure to changes in natural gas prices. The natural gas forward contracts generally mature within one to eighteen months. The Company enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts. The Company does not currently offset derivative positions on these contracts. The Company accounts for its derivative instruments under Accounting Standards Codification (ASC) 815 Derivatives and Hedging.

The fair value of outstanding derivative contracts recorded as assets in the accompanying condensed consolidated balance sheets were as follows:



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<b>Asset Derivatives</b>	<b>Balance Sheet Locations</b>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Derivatives designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Other current assets	\$ 1,084	\$ 545
Foreign exchange contracts	Other assets	53	142
Total derivatives designated as hedging instruments under ASC 815		1,137	687
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Other current assets	746	433
Total asset derivatives		\$ 1,883	\$ 1,120

The fair value of outstanding derivative contracts recorded as liabilities in the accompanying condensed consolidated balance sheets were as follows:

<b>Liability Derivatives</b>	<b>Balance Sheet Locations</b>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Derivatives designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable and accrued liabilities	\$ 101	\$ 191
Natural gas contracts	Accounts payable and accrued liabilities		360
Foreign exchange contracts	Accrued pension and other liabilities	22	61
Natural gas contracts	Accrued pension and other liabilities	133	
Total derivatives designated as hedging instruments under ASC 815		256	612
Derivatives not designated as hedging Instruments under ASC 815:			
Foreign exchange contracts	Accounts payable and accrued liabilities	94	34
Total liability derivatives		\$ 350	\$ 646

In accordance with ASC 820, Fair Value Measurements and Disclosures, the fair value of the Company's foreign exchange forward contracts, foreign exchange option contracts, and natural gas forward contracts is determined using Level 2 inputs, which are defined as observable inputs. The inputs used are from market sources that aggregate data based upon market transactions.

The use of derivatives exposes the Company to the risk that a counter party may default on a derivative contract. The aggregate fair value of the Company's derivative instruments in asset positions as of June 30, 2013 was \$1.9 million, representing the maximum loss that the Company would recognize at that date if all counterparties failed to perform as contracted. The Company has entered into master agreements with counterparties for its foreign exchange contracts that may allow for netting of exposures in the event of default or termination of the counterparty agreement due to breach of contract. The Company does not net its derivative positions by counterparty for purposes of balance sheet presentation and disclosure.



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The gross and net amounts of derivative assets and liabilities were as follows (in thousands):

	June 30, 2013		December 31, 2012	
	Fair Value of Assets	Fair Value of Liabilities	Fair Value of Assets	Fair Value of Liabilities
Gross derivative amounts recognized in the balance sheet	\$ 1,883	\$ 350	\$ 1,120	\$ 646
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting				
Derivatives foreign currency contracts	(217)	(217)	(286)	(286)
Net amount	\$ 1,666	\$ 133	\$ 834	\$ 360

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings and were not material for the three and six months ended June 30, 2013 and 2012, respectively.

The following table provides details on the changes in accumulated OCI relating to derivative assets and liabilities that qualified for cash flow hedge accounting.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Accumulated OCI derivative gain or (loss) at April 1, 2013 and January 1, 2013, respectively	\$ 1,064	\$ 74
Effective portion of changes in fair value	109	1,142
Reclassifications from accumulated OCI derivative to earnings	(68)	(24)
Foreign currency translation	(36)	(123)
Accumulated OCI derivative gain or (loss) at June 30, 2013	\$ 1,069	\$ 1,069

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended June 30,	
	2013	2012
Foreign Exchange Contracts	\$ 211	\$ 222
Natural Gas Contracts	(102)	148
Total	\$ 109	\$ 370

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Derivatives in ASC 815 Cash Flow Hedging Relationships:	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Six Months Ended June 30,	
	2013	2012
Foreign Exchange Contracts	\$ 1,209	\$ 432
Natural Gas Contracts	(67)	(285)
Total	\$ 1,142	\$ 147

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Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Reclassified from Accumulated OCI in Income (Effective Portion) (1)		
		Three Months Ended		
		2013	June 30,	2012
Foreign Exchange Contracts	Cost of products sold (excluding depreciation)	\$ 260	\$	109
Natural Gas Contracts	Cost of products sold (excluding depreciation)	(192)		(464)
Total		\$ 68	\$	(355)

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Reclassified from Accumulated OCI in Income (Effective Portion) (1)		
		Six Months Ended		
		2013	June 30,	2012
Foreign Exchange Contracts	Cost of products sold (excluding depreciation)	\$ 430	\$	130
Natural Gas Contracts	Cost of products sold (excluding depreciation)	(406)		(922)
Total		\$ 24	\$	(792)

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2)		
		Three Months Ended		
		2013	June 30,	2012
Foreign Exchange Contracts	Other expense net	\$	\$	(1)
Total		\$	\$	(1)

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2)		
		Six Months Ended		
		2013	June 30,	2012
Foreign Exchange Contracts	Other expense net	\$	\$	(2)
Total		\$	\$	(2)

(1) Assuming market rates remain constant with the rates at June 30, 2013, a gain of \$0.7 million is expected to be recognized in earnings over the next 12 months.

(2) For the three and six months ended June 30, 2013 and 2012, the amount of gain (loss) recognized in income was all attributable to the ineffective portion of the hedging relationships.





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The Company had the following outstanding derivative contracts that were entered into to hedge forecasted transactions:

(in thousands except for mmbtu)	June 30, 2013	December 31, 2012
Natural gas contracts (mmbtu)	460,000	235,000
Foreign exchange contracts	\$ 48,313	\$ 42,399

Other

The Company has also entered into certain derivatives to minimize its exposure to exchange rate fluctuations on certain foreign currency receivables, payables, and other known and forecasted transactional exposures. The Company has not qualified these contracts for hedge accounting treatment and therefore, the fair value gains and losses on these contracts are recorded in earnings as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives Three Months Ended June 30,	
		2013	2012
Foreign Exchange Contracts *	Other expense - net	\$ 99	\$ (335)
Total		\$ 99	\$ (335)

Derivatives Not Designated as Hedging Instruments Under ASC 815:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives Six Months Ended June 30,	
		2013	2012
Foreign Exchange Contracts *	Other expense - net	\$ 681	\$ 370
Total		\$ 681	\$ 370

\*As of June 30, 2013 and 2012, these foreign exchange contracts were entered into and settled during the respective periods.

Management's policy for managing foreign currency risk is to use derivatives to hedge up to 75% of the forecasted intercompany sales to its European, Canadian, and Japanese subsidiaries. The hedges involving foreign currency derivative instruments do not span a period greater than eighteen months from the contract inception date. Management uses various hedging instruments including, but not limited to foreign currency forward contracts, foreign currency option contracts and foreign currency swaps. Management's policy for managing natural gas exposure is to use derivatives to hedge from zero to 75% of the forecasted natural gas requirements. These cash flow hedges currently span up to eighteen months from the contract inception date. Hedge effectiveness is measured on a quarterly basis and any portion of ineffectiveness is recorded directly to the Company's earnings.



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**8. Commitments and Contingencies**

**Waterlink**

In conjunction with the February 2004 purchase of substantially all of Waterlink Inc.'s (Waterlink) operating assets and the stock of Waterlink's U.K. subsidiary, environmental studies were performed on Waterlink's Columbus, Ohio property by environmental consulting firms that provided an identification and characterization of certain areas of contamination. In addition, these firms identified alternative methods of remediating the property 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. At June 30, 2013 the balance recorded as a component of accounts payable and accrued liabilities and accrued pension and other liabilities was \$0.2 million and \$1.0 million, respectively. At December 31, 2012 the balance recorded as a component of accrued pension and other liabilities was \$1.4 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 experts in groundwater remediation. It is possible that a further change in the estimate of this obligation will occur as remediation progresses. The Company incurred \$0.2 million and \$0.4 million of environmental remediation costs for the six month periods ended June 30, 2013 and 2012, respectively. Remediation activities are ongoing and are currently expected to be completed by the end of 2014.

**Carbon Imports**

**General Anti-Dumping Background:** On March 8, 2006, the Company and another U.S. producer of activated carbon (collectively the Petitioners) formally requested that the United States Department of Commerce investigate unfair pricing of certain thermally activated carbon imported from the People's Republic of China.

On March 2, 2007, the Commerce Department published its final determination (subsequently amended) finding that imports of the subject merchandise from China were being unfairly priced, or dumped, and that anti-dumping duties should be imposed to offset the amount of the unfair pricing. The resultant tariff rates ranged from 61.95% ad valorem (i.e., of the entered value of the goods) to 228.11% ad valorem. Following a finding by the U.S. International Trade Commission that the domestic industry was injured by unfairly traded imports of activated carbon from China, an anti-dumping order imposing these tariffs was issued by the U.S. Department of Commerce and was published in the Federal Register on April 27, 2007. All imports from China remain subject to the order. Importers of subject activated carbon from China are required to make cash deposits of estimated anti-dumping duties at the time the goods are entered into the United States' customs territory. Final assessment of duties and duty deposits are subject to revision based on annual retrospective reviews conducted by the Commerce Department.

The Company is both a domestic producer, exporter from China (through its wholly-owned subsidiary Calgon Carbon (Tianjin) Co., Ltd.), and a U.S. importer of the activated carbon that is subject to the anti-dumping order. As such, the Company's involvement in the Commerce Department's proceedings is both as a domestic producer (a petitioner) and as a foreign exporter (a respondent).

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The Company's role as an importer, which has in the past (and may in the future) required it to pay anti-dumping duties, results in a contingent liability related to the final amount of tariffs that are ultimately assessed on the imported product following the Commerce Department's periodic review of relevant shipments and calculation of the anti-dumping duties due. The amount of estimated anti-dumping tariffs payable on goods imported into the United States is subject to review and retroactive adjustment based on the actual amount of dumping that is found on entries made during a given annual period. As a result of proceedings before the Commerce Department that concluded in November 2011, the Company is currently able to import activated carbon from Calgon Carbon (Tianjin) into the United States without posting a cash deposit. As noted above, however, anti-dumping duties could be imposed on these shipments in the future, as a result of on-going proceedings before the Commerce Department.

As part of its standard process, the Commerce Department conducts annual reviews of sales made to the first unaffiliated U.S. customer, typically over the prior 12-month period. These reviews will be conducted for at least five years subsequent to a determination in 2013 finding that the anti-dumping duty order should remain in effect, and can result in changes to the anti-dumping tariff rate (either increasing or reducing the rate) applicable to any foreign exporter. Revision of tariff rates has two effects. First, it will alter the actual amount of tariffs that U.S. Customs and Border Protection ( Customs ) will collect for the period reviewed, by either collecting additional duties above those deposited with Customs by the importer at the time of entry or refunding a portion of the duties deposited at the time of importation to reflect a decline in the margin of dumping. If the actual amount of tariffs owed increases, Customs will require the U.S. importer to pay the difference, plus interest. Conversely, if the tariff rate decreases, any difference will be refunded by Customs to the U.S. importer with interest. Second, the revised rate becomes the cash deposit rate applied to future entries, and can either increase or decrease the amount of duty deposits an importer will be required to post at the time of importation.

**Period of Review I:** As an importer of activated carbon from China, and in light of the successful anti-dumping tariff case, the Company was required to pay deposits of estimated anti-dumping duties at the rate of 84.45% ad valorem to Customs on entries made on or after October 11, 2006 through March 1, 2007. From March 2, 2007 through March 29, 2007, the anti-dumping duty deposit rate was 78.89%. From March 30, 2007 through April 8, 2007, the anti-dumping duty deposit rate was 69.54%. Because of limits on the government's legal authority to impose provisional duties on imports prior to issuance of a final determination, entries made between April 9, 2007 and April 18, 2007 were not subject to anti-dumping duty assessments. For the period from April 19, 2007 through November 9, 2009, estimated anti-dumping duties were deposited at a rate of 69.54% ad valorem.

On November 10, 2009, the Commerce Department announced the final results of its review of the tariff period beginning October 11, 2006 through March 31, 2008 (period of review ( POR ) I). Based on the POR I results, the Company's ongoing duty deposit rate was adjusted from 69.54% to 14.51% (as further adjusted by .07% for certain ministerial errors as published in the Federal Register on December 17, 2009) for entries made subsequent to the announcement. The Department of Commerce determined an assessment rate (final duty to be collected) on the entries made in this period of 31.93% ad valorem, which is substantially lower than the original amounts secured by bonds and cash. Accordingly, the Company reduced its recorded liability for unpaid deposits in POR I

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and recorded a receivable of \$1.6 million reflecting expected refunds for tariff deposits made during POR I as a result of the announced decrease in the POR I tariff assessment rate. The Company had received the \$1.6 million as of December 31, 2012.

**Period of Review II:** On April 1, 2009, the Commerce Department published a formal notice allowing parties to request a second annual administrative review of the anti-dumping duty order covering the period April 1, 2008 through March 31, 2009 (POR II). Requests for review were due no later than April 30, 2009. The Company, in its capacity as a U.S. producer and separately as a Chinese exporter, elected not to participate in this administrative review. By not participating in the review, the Company's duty deposits made during POR II became final and are not subject to further adjustment.

On November 17, 2010, the Commerce Department announced the results of its review for POR II. Because the Company was not involved in this review its deposit rates did not change from the rate of 14.51%, which was established during POR I. The cooperative respondents involved in POR II that did not receive a company-specific rate received a deposit rate of \$0.127 per pound.

**Period of Review III:** On April 1, 2010, the Commerce Department published a formal notice allowing parties to request a third annual administrative review of the anti-dumping duty order covering the period April 1, 2009 through March 31, 2010 ( POR III ). On October 31, 2011, the Commerce Department published the results of its review of POR III. Based on the POR III results, the Company's ongoing duty deposit rate was adjusted to zero. The Company recorded a receivable of \$1.1 million reflecting expected refunds for duty deposits made during POR III as a result of the announced decrease in the POR III assessment rate. The Commerce Department continued to assign cooperative respondents involved in POR III a deposit rate of \$0.127 per pound. In early December 2011, several separate rate respondents appealed the Commerce Department's final results of POR III. The Company does not expect any of the appeals to be successful. However, in the event the court finds merit in the arguments raised in the appeals, the Company does not expect the revised rates to materially impact the anticipated \$1.1 million of expected refunds for tariff deposits it made during POR III. The main impact that a successful appeal would have is related to the amount of anti-dumping duties assessed on imports by the cooperative respondents that were entered into the United States between April 1, 2008 and March 31, 2009. An initial decision from the court in the POR III appeal process is expected during the third quarter of 2013.

**Period of Review IV:** On April 1, 2011, the Commerce Department published a formal notice allowing parties to request a fourth annual administrative review of the anti-dumping duty order covering the period April 1, 2010 through March 31, 2011 ( POR IV ). On November 9, 2012, the Commerce Department published the final results of its review of POR IV. Specifically, Commerce calculated anti-dumping margins for the mandatory respondents it examined ranging from \$0.20 per pound (Jacobi Carbons AB and its affiliates) to \$0.96 per pound (Ningxia Guanghua Cherishmet Activated Carbon Co., Ltd. and its affiliates), and it calculated an anti-dumping margin of \$0.47 per pound for the cooperative, separate rate respondents whose shipments of activated carbon to the United States were not individually reviewed. The Commerce Department also calculated a \$0.00 anti-dumping margin for Datong Juqiang Activated Carbon Co., Ltd. The Company, as a Chinese exporter and a U.S.

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importer, elected not to participate as a respondent in this administrative review. By not participating as a respondent in the review, the Company's tariff deposits made at a rate of 14.51% during POR IV became final and are not subject to further adjustment. The Company's ongoing deposit rate continues to be zero which was a result of the company-specific rate calculated in POR III. Appeals challenging the Commerce Department's final results for POR IV have been commenced before the U.S. Court of International Trade by Jacobi Carbons AB, Ningxia Guanghua Cherishment Activated Carbon Co., Ltd. and its affiliates; Tangshan Solid Carbon Co., Ltd.; Carbon Activated Corporation and Car Go Worldwide, Inc.; and Shanxi Industry Technology Trading Co., Ltd. The Company does not expect an initial decision from the court concerning these appeals before the end of 2013, and expects that this litigation will not directly impact the Company's operations.

**Period of Review V:** On April 2, 2012, the Commerce Department published a formal notice allowing parties to request a fifth annual administrative review of the anti-dumping duty order covering the period April 1, 2011 through March 31, 2012 ( POR V ). Requests for review were due no later than April 30, 2012. On July 11, 2012, the Commerce Department announced its selection of Jacobi Carbons AB and Ningxia Huahui Activated Carbon Co, Ltd. as the two mandatory respondents for POR V. Albemarle Corporation has requested a review of Calgon Carbon (Tianjin) for POR V. The analysis of POR V data began in 2012 and the preliminary results of the Commerce Department's review of POR V were announced on May 3, 2013. The Commerce Department calculated preliminary anti-dumping margins for the mandatory respondents that it examined ranging from \$0.13 per pound (Ningxia Huahui Activated Carbon Co.) to \$0.25 per pound (Jacobi Carbons AB and its affiliates), and as a result, it calculated a preliminary anti-dumping margin of \$0.19 per pound for the cooperative, separate rate respondents whose shipments of activated carbon to the United States were not individually reviewed. These preliminary margins are subject to change by the final determination, which will not be issued until mid-November 2013.

**Sunset Review:** In March 2012, the Commerce Department and U.S. International Trade Commission ( ITC ) initiated proceedings as part of a five-year sunset review to evaluate whether the anti-dumping order should be continued for an additional five years. The Company, and two other U. S. producers of activated carbon, participated in the review to support continuation of the anti-dumping order for an additional five years. The Company maintained that the continuation of the anti-dumping order was appropriate as the Commerce Department has determined that Chinese producers and exporters have continued and, absent continuation of the anti-dumping order, will in the future continue to sell activated carbon in the United States at unfairly low prices. This is demonstrated by the positive anti-dumping duty margins and deposit rates determined during the various annual reviews conducted by the Commerce Department since the anti-dumping order took effect in April 2007. The Company asserted that the disciplining effect of the order played an important role in maintaining fair market pricing of the activated carbon market overall. Without the anti-dumping order in place, the Company argued that Chinese producers and exporters would resume or increase dumping of certain thermally activated carbon in the United States. Since the anti-dumping order was published, the Company has reduced its imports of covered activated carbon products from China and has increased production of activated carbon in the United States. On June 6, 2012, the Commerce Department published in the Federal Register its final results in an expedited sunset review, and determined that absent continuation of the anti-dumping order dumping of Chinese

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activated carbon in the United States would be likely to continue or recur. As a result, it determined the order should be continued for an additional five years.

On June 4, 2012 the ITC voted unanimously to conduct a full review of the anti-dumping order. As a result, the agency utilized a process similar to its original injury investigation, where the agency distributed detailed questionnaires to gather information for its investigation from domestic producers, foreign producers, U.S. importers, and purchasers, and conducted a hearing on December 18, 2012. The Company and the two other U.S. producers of activated carbon, as well as a U.S. importer of activated carbon, participated in the hearing. Based on the information gathered by the agency during its review, the ITC reached a unanimous affirmative determination on February 8, 2013, voting to continue the anti-dumping order for an additional five years. The Commerce Department published a notice in the Federal Register on March 18, 2013, stating that the anti-dumping order will be continued for an additional five years.

**Period of Review VI:** On April 2, 2013, the Commerce Department published a formal notice allowing parties to request a sixth annual administrative review of the anti-dumping duty order covering the period April 1, 2012 through March 31, 2013 ( POR VI ). Requests for an administrative review were submitted to the Commerce Department in April of 2013. On June 26, 2013, the Commerce Department announced its selection of Jacobi Carbons AB and Ningxia Huahui Activated Carbon Co, Ltd. as the two mandatory respondents for POR VI. Albemarle Corporation has requested a review of Calgon Carbon (Tianjin) for POR VI. The analysis of POR VI will begin in the third quarter of 2013 and the preliminary results of the Commerce Department s review of POR VI are anticipated to be announced in late April or early May of 2014.

**Continued Dumping and Subsidy Offset Act Distributions:** Pursuant to the Continued Dumping and Subsidy Offset Act (CDSOA) of 2000 (repealed effective February 8, 2006), as an affected domestic producer, the Company is eligible to apply for a share of the distributions of certain tariffs collected on imports of subject merchandise from China that entered the United States from October 11, 2006 to September 30, 2007. As a result, the Company is eligible to receive a distribution of duties collected on imports of certain activated carbon that entered the United States during a portion of POR I. In June 2013, June 2012 and July 2011, 2010, 2009 and 2008, the Company applied for such distributions which are typically made in the fourth quarter of each calendar year. There were no additional amounts received by the Company for the years ended December 31, 2011 and 2010. In November 2009 and December 2008, the Company received distributions of approximately \$0.8 million and \$0.2 million, respectively, which reflected 59.57% of the total amount of duties then available and distributed by Customs in connection with the anti-dumping order on certain activated carbon from China.

CDSOA distributions related to POR I imports were on hold while the POR I final results for certain exporters were under appeal. All POR I appeals were subsequently resolved and Customs issued liquidation instructions in October 2011 for activated carbon entries affected by the appeal process involving POR I. The Company received \$1.8 million in December 2012 related to the CDSOA distributions of which \$1.5 million was reflected within the Company s consolidated statement of comprehensive income for the year ended December 31, 2012.



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On May 31, 2013, Customs announced the preliminary amount of duties available (as of April 30, 2013) for distribution under the CDSOA for fiscal year 2013. The preliminary amount identified for distribution related to certain activated carbon imported from China totaled \$86,765 which should be distributed to eligible parties in December 2013. The Company expects to receive 59.57% of the fiscal year 2013 distribution. The Company does not anticipate any further material CDSOA distributions subsequent to the distribution expected to be made in December 2013.

**Big Sandy Plant**

By letter dated January 22, 2007, the Company received from the United States Environmental Protection Agency (EPA) Region 4 a report of a hazardous waste facility inspection performed by the EPA and the Kentucky Department of Environmental Protection (KYDEP) as part of a Multi Media Compliance Evaluation of the Company's Big Sandy Plant in Catlettsburg, Kentucky that was conducted on September 20 and 21, 2005. Accompanying the report was a Notice of Violation (NOV) alleging multiple violations of the Federal Resource Conservation and Recovery Act (RCRA) and corresponding EPA and KYDEP hazardous waste regulations.

The alleged violations mainly concern the hazardous waste spent activated carbon regeneration facility. The Company met with the EPA on April 17, 2007 to discuss the inspection report and alleged violations, and submitted written responses in May and June 2007. In August 2007, the EPA notified the Company that it believed there were still significant violations of RCRA that were unresolved by the information provided in the Company's responses, without specifying the particular violations. During a meeting with the EPA on December 10, 2007, the EPA indicated that the agency would not pursue certain other alleged violations. The Company has taken action to address and remediate a number of the alleged violations. The Company now believes, and the EPA has indicated, that the number of unresolved issues as to alleged continuing violations cited in the January 22, 2007 NOV has been reduced substantially. The EPA can take formal enforcement action to require the Company to remediate any or all of the unresolved alleged continuing violations, which could require the Company to incur substantial additional costs. The EPA can also take formal enforcement action to impose substantial civil penalties with respect to violations cited in the NOV, including those which have been admitted or resolved.

By letter dated January 5, 2010, the EPA determined that certain residues resulting from the treatment of the carbon reactivation furnace off-gas are RCRA listed hazardous wastes and the material dredged from the onsite wastewater treatment lagoons were RCRA listed hazardous wastes and that they need to be managed in accordance with RCRA regulations. The Company believes that the cost to treat and/or dispose of the material dredged from the lagoons as hazardous waste could be substantial. However, by letter dated January 22, 2010, the Company received a determination from the KYDEP Division of Waste Management that the materials were not RCRA listed hazardous wastes when recycled, as had been the Company's practice. The Company believes that pursuant to EPA regulations, KYDEP is the proper authority to make this determination. Thus, the Company believes that there is no basis for the position set forth in the EPA's January 5, 2010 letter and the Company will vigorously defend any complaint on the matter. By letter dated May 12, 2010 from the Department of Justice Environmental and Natural Resources Division (the DOJ), the Company was informed that the DOJ was prepared to take appropriate enforcement action against the Company for the NOV and other violations under the

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Clean Water Act (CWA). The Company met with the DOJ on July 9, 2010 and agreed to permit more comprehensive testing of the lagoons and to share data and analysis already obtained. On July 19, 2010, the EPA sent the Company a formal information request with respect to such data and analysis, which was answered by the Company. In September 2010, representatives of the EPA met with Company personnel for two days at the Big Sandy plant. The visit included an inspection by the EPA and discussion regarding the plan for additional testing of the lagoons and material dredged from the lagoons.

The Company, EPA and DOJ have had ongoing meetings and discussions since the September 2010 inspection. The Company has completed testing of some of the material dredged from the lagoons and of materials in one of the lagoons. The results of this testing have been provided to the EPA and the KYDEP. The Company believes that the results are favorable. On March 9, 2012 the KYDEP issued a determination that the material dredged from the lagoons that comes from that portion of the stockpile that has been tested; material currently in the lagoons; and future generated material, no longer contains a hazardous waste. The determination further states that KYDEP will not regulate the material as a solid waste so long as the material is managed in accordance with certain agreed upon procedures. On April 2, 2012 the EPA issued a similar determination with respect to the material dredged from the lagoons that comes from that portion of the stockpile that has been tested.

On April 11, 2012, the Company met with the EPA to attempt to negotiate a comprehensive settlement including the extent, if any, of additional testing that should be done on any of the remaining material; the long-term plans for the lagoons including possible process modifications and civil penalties. The EPA indicated that such a comprehensive resolution may be possible but that the agency still expects significant civil penalties with respect to the violations cited in the NOV as well as the alleged CWA violations. The Company believes that the size of any civil penalties, if any, should be reduced since all the alleged violations, except those with respect to the characterization of the certain residues resulting from the treatment of the carbon reactivation furnace off-gas and the material dredged from the onsite wastewater treatment lagoons, have been resolved. The Company believes that there should be no penalties associated with respect to the characterization of the residues resulting from the treatment of the carbon reactivation furnace off-gas and the material dredged from the onsite wastewater treatment lagoons as the Company believes that those materials are not RCRA listed hazardous waste as has been determined by the KYDEP and the testing has shown that the material is not hazardous.

The Company accrued \$2.0 million as its estimate of potential loss related to civil penalties as of December 31, 2010. In the second quarter of 2012, the Company recorded a reduction of \$0.2 million to this estimate. Since April 2012, the Company and the EPA have continued to negotiate the issues. In November 2012 the parties met and agreed in principal to a total civil penalty of \$1.6 million. In July 2013 the EPA provided the Company with a draft consent decree. The Company is currently reviewing the draft consent decree and expects to sign a negotiated consent decree in 2013.

**Frontier Chemical Processing Royal Avenue Site**

In June 2007, the Company received a Notice Letter from the New York State Department of Environmental Conservation (NYSDEC) stating that the NYSDEC had determined that the Company is a Potentially Responsible

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Party (PRP) at the Frontier Chemical Processing Royal Avenue Site in Niagara Falls, New York (the Site). The Notice Letter requested that the Company 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 Company has joined a PRP group (the PRP Group) and has executed a Joint Defense Agreement with the group members. The PRP Group has approximately \$7.5 million in a trust account to fund remediation. In August 2008, the Company and over 100 PRPs entered into a Consent Order with the NYSDEC for additional site investigation directed toward characterization of the Site to better define the scope of the remedial project. The Company contributed monies to the PRP Group to help fund the work required under the Consent Order. The additional site investigation required under the Consent Order was initiated in 2008 and completed in the spring of 2009. A final report of the site investigation was submitted to the NYSDEC in October 2009 and revised in September 2010. By letter dated October 10, 2010, the NYSDEC approved the report and terminated the Consent Order. The PRP Group was issued a Significant Industrial User Permit by the Niagara Falls Water Board (NFWB) in November 2010. The permit allows the shallow ground water flow from the Site to continue to be naturally captured by the adjacent sewer tunnels with subsequent treatment of the ground water at the Niagara Falls Wastewater Treatment Plant.

The PRP Group has now proposed and the NYSDEC has agreed to permit onsite thermal treatment of the contaminated soil to achieve the soil clean-up standards. Estimated costs for thermal treatment of soils are \$7.5 million to \$8 million. In March 2013, the Company, along with over thirty other PRPs, entered into a consent decree with the NYSDEC pursuant to which the work plan for the remedial program was agreed upon. The Company has not determined what portion of the costs associated with the remedial program it will be obligated to bear and the Company cannot predict with any certainty the outcome of this matter or range of potential loss.

**Pearl River Plant**

In August 2012, the Company's Pearl River plant, located in Pearlington, Mississippi, was impacted by Hurricane Isaac. The Company has both property and business interruption insurance coverage for this plant. In January 2013, management filed a claim with its insurance carrier to recover damages for both property and business interruption related to this event. In March 2013, the Company settled its insurance claim and received \$0.4 million from its insurance carrier and recorded it as a deduction to cost of products sold (excluding depreciation) for the three months ended March 31, 2013.

**Accelerated Share Repurchase**

In November 2012, the Company's Board of Directors authorized an accelerated share repurchase of Company common stock under a share repurchase program (the Program). On November 20, 2012, the Company paid a purchase price of \$50 million and received 3,276,002 shares in connection with the inception of the Program. The actual number of shares that the Company will repurchase under the Program will be determined based on a discount to the arithmetic mean of the volume-weighted average prices (VWAP) of the Company's common stock for each observation date over the course of applicable calculation periods. The calculation period is expected to end no later than the end of September 2013. If the actual number of shares to be repurchased exceeds the number of shares previously delivered, the Company will receive a number of additional shares equal to such excess.

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following the conclusion of the calculation period. If the actual number of shares to be repurchased is less than the number of shares previously delivered, the Company will deliver shares equal to such excess following the conclusion of the calculation period. The Company also retains the right to settle any such deficit in cash. The Company's outstanding common shares used to calculate earnings per share will be reduced by the number of repurchased shares pursuant to the Program as they are delivered to the Company, and the \$50 million purchase price was recorded as a reduction in stockholders' equity upon its payment. Based on the Company's VWAP from Program inception through June 30, 2013, the number of shares to be repurchased is estimated to be 236,284 shares less than the shares that were previously delivered. Accordingly, the Company has increased its diluted shares outstanding.

**Other**

In addition to the matters described above, the Company is involved in various other 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.

**9. Goodwill & Other Identifiable Intangible Assets**

The Company has elected to perform the annual impairment test of its goodwill, as required, on December 31 of each year. For purposes of the test, the Company has identified reporting units, as defined within ASC 350, Intangibles—Goodwill and Other, 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 goodwill associated with the Consumer segment is not material and has not been allocated below the segment level.

The changes in the carrying amounts of goodwill by segment for the six months ended June 30, 2013 are as follows:

	<b>Activated Carbon &amp; Service Segment</b>	<b>Equipment Segment</b>	<b>Consumer Segment</b>	<b>Total</b>
Balance as of December 31, 2012	\$ 20,310	\$ 6,660	\$ 60	\$ 27,030
Restructuring (Note 1)	(419)			(419)
Foreign exchange	(192)	(89)		(281)
Balance as of June 30, 2013	\$ 19,699	\$ 6,571	\$ 60	\$ 26,330

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The following is a summary of the Company's identifiable intangible assets as of June 30, 2013 and December 31, 2012, respectively:

	Weighted Average Amortization Period	Gross Carrying Amount	June 30, 2013		Net Carrying Amount
			Foreign Exchange	Accumulated Amortization	
<b>Amortized Intangible Assets:</b>					
Patents	20.0 Years	\$ 676	\$	\$ (570)	\$ 106
Customer Relationships	15.9 Years	10,450	(254)	(8,548)	1,648
Product Certification	5.4 Years	7,905	(25)	(4,590)	3,290
Unpatented Technology	18.4 Years	3,183		(2,325)	858
Licenses	20.0 Years	964	8	(204)	768
<b>Total</b>	<b>12.9 Years</b>	<b>\$ 23,178</b>	<b>\$ (271)</b>	<b>\$ (16,237)</b>	<b>\$ 6,670</b>

	Weighted Average Amortization Period	Gross Carrying Amount	December 31, 2012		Net Carrying Amount
			Foreign Exchange	Accumulated Amortization	
<b>Amortized Intangible Assets:</b>					
Patents	20.0 Years	\$ 676	\$	\$ (548)	\$ 128
Customer Relationships	15.9 Years	10,450	(223)	(8,311)	1,916
Product Certification	5.4 Years	7,369	(3)	(3,917)	3,449
Unpatented Technology	18.4 Years	3,183		(2,191)	992
Licenses	20.0 Years	964	119	(180)	903
<b>Total</b>	<b>13.1 Years</b>	<b>\$ 22,642</b>	<b>\$ (107)</b>	<b>\$ (15,147)</b>	<b>\$ 7,388</b>

For the three and six months ended June 30, 2013, the Company recognized \$0.6 million and \$1.1 million, respectively, of amortization expense related to intangible assets. For the three and six months ended June 30, 2012, the Company recognized \$0.5 million and \$0.9 million, respectively, of amortization expense related to intangible assets. As of June 30, 2013, estimated future amortization expense of identifiable intangible assets is \$1.1 million for the remaining six months of 2013. The Company estimates amortization expense to be recognized during the next five years as follows:

**For the year ending December 31:**

2014	\$ 1,990
2015	1,393
2016	1,114
2017	337
2018	138

Table of Contents**10. Borrowing Arrangements****Short-Term Debt**

	June 30, 2013	December 31, 2012
Borrowings under Japanese Working Capital Loan	\$	\$ 18,611
Borrowings under China Credit Facility	61	
Borrowings under Japanese Term Loan		954
Total	\$ 61	\$ 19,565

**Long-Term Debt**

	June 30, 2013	December 31, 2012
U.S. Credit Facility Borrowings	\$ 45,700	\$ 44,250
Borrowings under Japanese Term Loan	10,193	
Belgian Loan Borrowings	156	158
Total	\$ 56,049	\$ 44,408

**U.S. Credit Facility**

The Company's U.S. Credit Facility (Credit Facility), which expires on November 17, 2016, contains a revolving credit capacity of \$125.0 million with a \$30.0 million sublimit for the issuance of letters of credit. So long as no event of default has occurred and is continuing, the Company from time to time may request one or more increases in the total revolving credit commitment under the Credit Facility of up to \$50.0 million in the aggregate. No assurance can be given, however, that the total revolving credit commitment will be increased above \$125.0 million.

Availability under the Credit Facility is dependent upon various customary conditions. A quarterly nonrefundable commitment fee is payable by the Company based on the unused availability under the Amended Credit Agreement and is currently equal to 0.25%. Total availability under the Credit Facility at June 30, 2013 and December 31, 2012 was \$77.1 million and \$78.6 million, respectively, after considering outstanding letters of credit and borrowings.

The interest rate on amounts owed under the Credit Facility will be, at the Company's option, either (i) a fluctuating base rate based on the highest of (A) the prime rate announced from time to time by the lenders, (B) the rate announced by the Federal Reserve Bank of New York on that day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day plus 3.00% or (C) a daily LIBOR rate plus 2.75%, or (ii) LIBOR-based borrowings in one, two, three, or six month increments at the applicable LIBOR rate plus 1.25%. A margin may be added to the applicable interest rate based on the Company's leverage ratio. The interest rate per annum on outstanding borrowings as of June 30, 2013 ranged from 1.25% to 1.45%.

Total outstanding borrowings under the Credit Facility were \$45.7 million and \$44.3 million as of June 30, 2013 and December 31, 2012, respectively, and are shown as long-term debt within the condensed consolidated balance sheets. The borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows.

The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to indebtedness, liens, guaranties, loans

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and investments, dividends, mergers and acquisitions, dispositions of assets and transactions with affiliates. The Company must comply with certain financial covenants including a minimum interest coverage ratio, maximum leverage ratio, and minimum net worth, as defined within the Credit Facility. The Credit Facility also provides for customary events of default, including failure to pay principal or interest when due, failure to comply with covenants, the fact that any representation or warranty made by the Company is false or misleading in any material respect, certain insolvency or receivership events affecting the Company and its subsidiaries and a change in control of the Company. If an event of default occurs, the lenders will be under no further obligation to make loans or issue letters of credit. Upon the occurrence of certain events of default, all outstanding obligations of the Company automatically become immediately due and payable, and other events of default will allow the lenders to declare all or any portion of the outstanding obligations of the Company to be immediately due and payable.

**Belgian Loan and Credit Facility**

On November 30, 2009, the Company entered into a Loan Agreement (the Belgian Loan ) in order to help finance the expansion of the Company's Feluy, Belgium facility. The Belgian Loan provided total borrowings up to 6.0 million Euros, which could be drawn on in 120 thousand Euro bond installments at 25% of the total amount invested in the expansion until December 31, 2011. Bond options not called by December 31, 2011 were obsolete and the loan was limited to the amount actually called by that date. The maturity date is seven years from the date of the first draw down which occurred on April 13, 2011 and the interest rate is 5.35%. The Belgian Loan is guaranteed by a mortgage mandate on the Feluy site and is subject to customary reporting requirements, though no financial covenants exist. The Company had 120 thousand Euros, or \$0.2 million, of outstanding borrowings under the Belgian Loan as of June 30, 2013 and December 31, 2012, respectively. No further bonds can be called on.

The Company also maintains an unsecured Belgian credit facility totaling 2.0 million Euros. There are no financial covenants and the Company had no outstanding borrowings under the Belgian credit facility as of June 30, 2013 and December 31, 2012, respectively. Bank guarantees of 1.0 million Euros and 1.2 million Euros were issued as of June 30, 2013 and December 31, 2012, respectively.

**United Kingdom Credit Facility**

The Company maintains a United Kingdom credit facility for the issuance of various letters of credit and guarantees totaling 0.6 million British Pounds Sterling. Bank guarantees of 0.4 million British Pounds Sterling were issued as of June 30, 2013 and December 31, 2012, respectively.

**Japanese Loans**

Calgon Carbon Japan (CCJ) maintains a Term Loan Agreement (the Japanese Term Loan ) and a Working Capital Loan Agreement (the Japanese Working Capital Loan ). The Company is jointly and severally liable as the guarantor of CCJ's obligations and the Company permitted CCJ to grant a security interest and continuing lien in certain of its assets, including inventory and accounts receivable, to secure its obligations under both loan agreements.





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The Japanese Term Loan provided for a principal amount of 722.0 million Japanese Yen, or \$7.7 million at inception. This loan matured on March 31, 2013 and was repaid. At December 31, 2012, CCJ had 82.0 million Japanese Yen or \$1.0 million outstanding and recorded as short-term debt within the condensed consolidated balance sheet. CCJ signed an agreement on May 10, 2013 to renew the Japanese Term Loan, which provides for borrowings up to 1.0 billion Japanese Yen, and bears interest based on the Uncollateralized Overnight Call Rate, which was 0.7% per annum at June 30, 2013. This loan matures on May 10, 2017. At June 30, 2013, CCJ had 1.0 billion Japanese Yen or \$10.2 million outstanding and recorded as long-term debt within the condensed consolidated balance sheet.

The Japanese Working Capital Loan provides for borrowings up to 1.5 billion Japanese Yen, and bears interest based on the Short-term Prime Rate, which was 1.475% per annum at June 30, 2013. This loan matured on March 31, 2013 and was renewed until March 31, 2014.

Borrowings and repayments under the Japanese Working Capital Loan have generally occurred in short term intervals, as needed, in order to ensure adequate liquidity while minimizing outstanding borrowings. The borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows. There were no outstanding borrowings under the Japanese Working Capital Loan as of June 30, 2013. At December 31, 2012, CCJ had 1.6 billion Japanese Yen or \$18.6 million outstanding and recorded as short-term debt within the condensed consolidated balance sheet.

**China Credit Facility**

The Company maintains an unsecured Chinese credit facility for working capital requirements totaling 10.0 million Renminbi ( RMB ) or \$1.6 million that matured on July 19, 2013 and was renewed until July 19, 2014. The interest rate per annum on outstanding borrowings as of June 30, 2013 was 5.32%. Total outstanding borrowings under this facility were 0.4 million RMB, or \$0.1 million at June 30, 2013 and are shown as short-term debt within the condensed consolidated balance sheet. There were no borrowings under this facility at December 31, 2012.

**Maturities of Debt**

The Company is obligated to make principal payments on debt outstanding at June 30, 2013 of \$0.1 million in 2013, \$45.7 million in 2016, \$10.1 million in 2017, and \$0.2 million in 2018.

Table of Contents**11. 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 six months ended June 30, 2013 and 2012:

Pension Benefits (in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Service cost	\$ 292	\$ 265	\$ 583	\$ 530
Interest cost	1,127	1,164	2,254	2,380
Expected return on plan assets	(1,667)	(1,522)	(3,334)	(3,081)
Amortization of prior service cost	19	(6)	38	13
Net actuarial loss amortization	909	876	1,818	1,710
Net periodic pension cost	\$ 680	\$ 777	\$ 1,359	\$ 1,552

The expected long-term rate of return on plan assets is 7.75% in 2013.

Employer Contributions

In its 2012 financial statements, the Company disclosed that it expected to contribute \$1.3 million to its U.S. pension plans in 2013. As of June 30, 2013, the Company made contributions of \$0.5 million. The Company expects to contribute the remaining \$0.8 million over the balance of the year.

European Plans:

For European plans, the following table provides the components of net periodic pension costs of the plans for the three and six months ended June 30, 2013 and 2012:

Pension Benefits (in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Service cost	\$ 79	\$ 42	\$ 157	\$ 84
Interest cost	382	439	756	878
Expected return on plan assets	(394)	(325)	(631)	(650)
Net actuarial loss amortization	126	4	102	8
Foreign currency exchange	2	(2)	8	(1)

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Net periodic pension cost	\$	195	\$	158	\$	392	\$	319
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The expected long-term rate of return on plan assets is between 4.50% and 5.40% in 2013.

Employer Contributions

In its 2012 financial statements, the Company disclosed that it expected to contribute \$2.1 million to its European pension plans in 2013. As of June 30, 2013, the Company contributed \$0.7 million. The Company expects to contribute the remaining \$1.4 million over the balance of the year.

Multi-Employer Plan:

In addition to the aforementioned European plans, the Company participates in a multi-employer plan in Europe. This multi-employer plan almost entirely relates to former employees of operations it has divested. Benefits are

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distributed by the multi-employer plan. In August 2012, the Company learned that the multi-employer plan had elected to reduce benefits to entitled parties. Also in August 2012, the Company learned that the local Labor Court had issued a judgment where it concluded that an employer was required to compensate its pensioners for the shortfall if benefits had been reduced by the plan. As a result, the Company has accrued a liability for the past shortfall to its former employees. The Company recorded a \$0.9 million reduction in this liability as of the quarter ended June 30, 2013. The Company cannot predict if future benefit payments to be made by the multi-employer plan will be reduced. As of June 30, 2013 and December 31, 2012, respectively, the Company has a \$0.8 million and \$1.7 million liability recorded to account for the reduction of benefits.

**12. Basic and Diluted Net Income Per Common Share**

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

(Dollars in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income available to common shareholders	\$ 12,970	\$ 10,884	\$ 22,784	\$ 18,622
Weighted Average Shares Outstanding				
Basic	53,799,261	56,639,330	53,710,300	56,575,779
Effect of Dilutive Securities	747,928	551,027	665,235	581,629
Diluted	54,547,189	57,190,357	54,375,535	57,157,408
Net income per common share				
Basic	\$ .24	\$ .19	\$ .42	\$ .33
Diluted	\$ .24	\$ .19	\$ .42	\$ .33

The stock options that were excluded from the dilutive calculations as the effect would have been antidilutive were 48,288 and 602,711 for the three months ended June 30, 2013 and 2012, respectively, and 381,396 and 355,338 for the six months ended June 30, 2013 and 2012, respectively.

**13. Income Taxes**

The effective tax rate for the six months ended June 30, 2013 was 32.7% compared to 33.5% for the six months ended June 30, 2012. The decrease in the six months ended June 30, 2013 effective tax rate from the six months ended June 30, 2012 effective tax rate was primarily due to net tax benefits from the sale of the Company's activated carbon manufacturing facility in Datong, China which occurred in March 2013 (Refer to Note 1).

Unrecognized Income Tax Benefits

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As of June 30, 2013 and December 31, 2012, the Company's gross unrecognized income tax benefits were \$4.3 million and \$4.1 million, respectively. If recognized, \$3.2 million and \$3.0 million of the gross unrecognized tax benefits would affect the effective tax rate at June 30, 2013 and December 31, 2012, respectively. At this time, the Company believes that it is reasonably possible that approximately \$0.3 million of the estimated unrecognized tax benefits as of June 30, 2013, will be recognized within the next twelve months based on the expiration of statutory periods all of which will impact the Company's effective tax rate.

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**14. Government Grants**

The Company's policy for accounting for government grants, including non-monetary grants at fair value, is to recognize them only when there is reasonable assurance that (a) the Company will comply with the conditions attached to the grants and (b) the grants will be received. A grant will be recognized as income over the period necessary to match it to the related costs, for which it is intended to compensate, on a systematic basis. Grants related to assets are presented by deducting them from the asset's carrying amount. A grant related to income will be deducted from the related expense.

On June 20, 2011, the Company was awarded a \$1.0 million grant from the Ohio Department of Development's Ohio Third Frontier Advanced Energy Program (OTF AEP) to support its activated carbon commercialization efforts. The objective of the project is to commercialize cost-effective activated carbon materials for use in energy storage applications and markets around the world. The grant is being utilized to upgrade capital equipment at the Company's Columbus, Ohio facility which will enable the manufacturing of highly demanded cost-effective activated carbon materials for use in energy storage markets. The Company has received \$0.3 million of the grant for each of the year to date periods ended June 30, 2013 and December 31, 2012. The Company recognized \$0.2 million of the grant received for each of the year to date periods ended June 30, 2013 and December 31, 2012, as a deduction from the carrying amount of the property, plant and equipment on its condensed consolidated balance sheets as well as \$0.1 million for each of the year to date periods as a reduction to research and development expenses on its condensed consolidated statements of comprehensive income.

On December 7, 2007, the Company was also awarded two separate grants with the Walloon region (the Region) in Belgium, where its Feluy facility is located. The awards are based on the Company's contributions to the strategic development of the Region through its investment in the expansion of the Feluy facility and creation of employment opportunities. The grants total approximately 2.6 million Euros or \$3.4 million. The Company received 0.5 million Euros or \$0.7 million of the grant as of the year ended December 31, 2012 and received an additional 1.2 million Euros or \$1.5 million for the six months ended June 30, 2013. The Company has recognized the grants as a deduction from the carrying amount of the property, plant and equipment on its condensed consolidated balance sheets in the respective periods received.

**15. Fair Value Measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

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- **Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- **Level 3** Unobservable inputs that reflect the reporting entity's own assumptions.

The following financial instrument assets (liabilities) are presented below at carrying amount, fair value, and classification within the fair value hierarchy (refer to Notes 7 and 10 for details relating to the derivative instruments and borrowing arrangements). The only financial instruments measured at fair value on a recurring basis are derivative instruments and the acquisition earn-out liability:

(Dollars in thousands)	Carrying Amount	Total	June 30, 2013		
			Fair Value		
			Level 1	Level 2	Level 3
Derivative assets	\$ 1,883	\$ 1,883	\$	\$ 1,883	\$
Derivative liabilities	(350)	(350)		(350)	
Acquisition earn-out liability	(1,546)	(1,546)		(1,546)	
U.S. credit facility	(45,700)	(45,700)		(45,700)	
Japanese term loan	(10,193)	(10,193)		(10,193)	
China credit facility	(61)	(61)		(61)	
Other loans	(156)	(156)		(156)	

(Dollars in thousands)	Carrying Amount	Total	December 31, 2012		
			Fair Value		
			Level 1	Level 2	Level 3
Derivative assets	\$ 1,120	\$ 1,120	\$	\$ 1,120	\$
Derivative liabilities	(646)	(646)		(646)	
Acquisition earn-out liability	(1,300)	(1,300)		(1,300)	
U.S. credit facility	(44,250)	(44,250)		(44,250)	
Japanese working capital loan	(18,611)	(18,611)		(18,611)	
Japanese term loan	(954)	(954)		(954)	
Other loans	(158)	(158)		(158)	

Cash and cash equivalents, accounts receivable, and accounts payable included in the condensed consolidated balance sheets approximate fair value and are excluded from the table above. The recorded debt amounts are primarily based of the prime rate, LIBOR, or Fed Funds rate and, accordingly, the carrying value of these obligations equals fair value. Fair value for the acquisition earn-out liability is based upon Level 2 inputs which are periodically re-evaluated for changes in future projections and the discount rate. This liability is recorded in accrued pension and other liabilities within the condensed consolidated balance sheets.

**Assets and Liabilities Reported at Fair Value on a Nonrecurring Basis:**



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As a result of the Company's restructuring plan, as discussed in Note 4, long-lived assets with a carrying amount of \$4.7 million were written down to their fair value of \$0.7 million at December 31, 2012. As a result, the Company recorded a charge of \$4.0 million which was included in restructuring charges for the year ended December 31, 2012 within the Company's consolidated statement of comprehensive income. These long-lived assets were valued using Level 3 inputs.

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**16. New Accounting Pronouncements**

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, or ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets or Liabilities, or ASU No. 2013-01. ASU 2013-01 clarifies the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities, or ASU 2011-11. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross and net information for these instruments. Both ASU 2013-01 and ASU 2011-11 are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company adopted this guidance effective January 1, 2013. Please refer to Note 7 for the required interim period disclosure.

In February 2013, the FASB issued ASU, No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income, or ASU No. 2013-02. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income. For amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. Please refer to Note 5 and the Company's condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2013 and 2012, for the required interim period disclosure.

In February 2013, the FASB issued ASU, No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date, or ASU No. 2013-04. ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. ASU 2013-04 also requires the nature and amount of the obligation as well as other information about those obligations to be disclosed. ASU 2013-04 is effective for fiscal and interim periods within those years, beginning after December 15, 2013 and should be applied retrospectively. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU, No. 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes, or ASU No. 2013-10. ASU 2013-10 permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR. ASU 2013-10 also removes the restriction on using different benchmark rates for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU, No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, or ASU No. 2013-11. ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent one of these items is not available at the reporting date; the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years, and interim periods



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within those years, beginning after December 15, 2013 and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

**17. Reclassification**

Certain prior year amounts have been reclassified to conform to the 2013 presentation. Refer to the condensed consolidated statements of cash flows for reclassifications made to reflect the gross presentation of credit facility borrowings and repayments within financing activities.

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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 Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

**Results of Operations**

Consolidated net sales decreased by \$8.0 million or 5.4% and \$9.5 million or 3.3% for the quarter and year to date periods ended June 30, 2013, respectively, versus the similar 2012 periods. The total negative impact of foreign currency translation on consolidated net sales was \$3.2 million and \$6.2 million for the quarter and year to date periods ended June 30, 2013, respectively, versus the same period for 2012.

Net sales for the quarter and year to date periods ended June 30, 2013 for the Activated Carbon and Service segment decreased \$2.3 million or 1.9% and \$0.7 million or 0.3%, respectively, versus the similar 2012 periods. The decrease in sales for the quarter ended June 30, 2013 as compared to the quarter ended June 30, 2012 is primarily due to lower demand for activated carbon products and services in the Environmental Air Treatment and Environmental Water Treatment markets of \$3.2 million and \$1.8 million, respectively. The decline in the Environmental Air Treatment market was as a result of the lower demand for powder activated carbon for mercury removal from electric generating units in the Americas as well as lower pricing on a significant contract that was renewed in early 2013. The Environmental Water market decline was principally due to a large customer order in Asia that occurred in the quarter ended June 30, 2012 and did not repeat in 2013. Partially offsetting these decreases was an increase in demand in the Potable Water market of \$1.5 million, which was primarily in Japan; increased sales in the Specialty market of \$1.6 million due to new contracts awarded; and the Company's 2013 price increases, primarily in the Americas, which totaled \$2.0 million (excluding the negative effects of the abovementioned lower contract pricing in the Environmental Air Treatment market). The decrease in sales for the year to date period ended June 30, 2013 was also primarily in the Environmental Air Treatment and Food Markets which declined \$4.7 million and \$2.7 million, respectively, as compared to the 2012 period. The decline in the Environmental Air Treatment market was as a result of the above mentioned lower demand for powder activated carbon as well as lower pricing on a significant contract. The decline in the Food market was attributed to a non-repeat contract that the Company had in the 2012 period. Partially offsetting these decreases for the year to date period 2013 was increased demand in the Potable Water market of \$9.3 million in Japan as well as in the Americas. The increase in the Americas is attributable to customers' use of carbon to meet the U.S. EPA Stage 2 Disinfection Byproduct Rule being phased in for U.S. utilities over the next several years. Included in the amounts above is the negative impact of foreign currency translation which totaled \$3.1 million and \$6.2 million, respectively, for quarter and year to date periods ended June 30, 2013. Net sales for the Equipment segment decreased \$5.6 million or 15.5% and \$7.8 million or 21.6%, respectively, for the quarter and year to date periods ended June 30, 2013 versus the similar 2012 periods. The decrease for the quarter ended June 30, 2013 was due to lower sales of ballast water treatment systems of \$7.5 million. The quarter ended June 30, 2012 included sales of \$5.5 million for three large ballast water treatment systems contracts. Partially offsetting this decrease were higher sales of ion exchange systems and traditional ultraviolet light systems of \$1.6 million and \$1.1 million, respectively. The decrease for the year to date period

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ended June 30, 2013 was also due to lower sales of ballast water treatment systems of \$10.5 million, which included \$7.4 million of sales related to the abovementioned contracts. Partially offsetting this decrease were higher sales of traditional ultraviolet light systems and traditional carbon adsorption equipment of \$2.3 million and \$2.1 million, respectively. Foreign currency translation included in the amounts above for the Equipment segment was comparable for the quarter and year to date periods ended June 30, 2013 versus the same 2012 periods. Net sales for the quarter ended June 30, 2013 for the Consumer segment were comparable to the similar 2012 period and decreased approximately \$1.1 million or 19.6% for the year to date period ended June 30, 2013 as compared to the 2012 period due to lower demand for activated carbon cloth. Foreign currency translation was comparable for the quarter and year to date periods ended June 30, 2013 versus the same 2012 periods.

Net sales less cost of products sold (excluding depreciation), as a percentage of net sales, was 33.0% for the quarter ended June 30, 2013 compared to 31.0% for the similar 2012 period, an increase of 2 percentage points. The increase was in the Activated Carbon and Service segment as a result of the 2013 price increase and \$1.4 million in lower plant maintenance costs as the quarter ended June 30, 2012 included additional maintenance outages primarily in the Americas for two virgin carbon production lines. Partially offsetting this favorability was a decline in the Equipment segment which was related primarily to the increase in estimated costs to complete projects in process that totaled approximately \$0.7 million. The Consumer segment was comparable to the quarter ended June 30, 2012. Net sales less cost of products sold (excluding depreciation), as a percentage of net sales, was 32.3% for the year to date period ended June 30, 2013 compared to 31.1% for the comparable 2012 period, an increase of 1.2 percentage points. The increase for the year to date period was also attributed to the Activated Carbon and Service segment of which \$2.5 million related to the previously mentioned lower plant maintenance costs. The year to date period ended June 30, 2013 also benefited from the \$0.4 million settlement on an insurance claim related to Hurricane Isaac (Refer to Note 8 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q). Partially offsetting these increases was a year over year decline in the Equipment segment of \$0.2 million due primarily to the aforementioned cost increases. The Consumer segment was comparable to the year to date period ended June 30, 2012. The Company's cost of products sold excludes depreciation; therefore it may not be comparable to that of other companies.

Depreciation and amortization increased \$0.9 million and \$1.1 million, respectively for the quarter and year to date periods ended June 30, 2013 versus the similar 2012 periods. The increase for both periods is due primarily to increased depreciation related to the Company's new Gila Bend, Arizona facility that was placed into service in the quarter ended June 30, 2013 as well as for capital improvements at the Company's Pearl River virgin carbon manufacturing facility that were completed primarily during the second half of 2012.

Selling, general and administrative expenses decreased \$3.2 million or 15.4% and \$5.9 million or 13.7%, respectively, for the quarter and year to date periods ended June 30, 2013 versus the comparable 2012 periods. The decrease was principally due to lower employee related expenses of \$1.6 million and \$2.4 million,

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respectively, for the quarter and year to date periods ended June 30, 2013 versus the 2012 periods which includes a \$0.9 million benefit related to a reduction of a multiemployer pension plan liability that occurred in the second quarter of 2013. Also contributing to the decline were decreased employee travel costs of \$0.4 million and \$1.0 million, respectively, for the quarter and year to date periods ended June 30, 2013 versus the 2012 periods. The declines for both the quarter and year to date periods ended June 30, 2013 were primarily as a result of the Company's worldwide strategy to reduce costs that was announced in the third quarter of 2012 (Refer to Note 1 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q).

Research and development expenses decreased \$1.1 million and \$1.4 million, respectively, for the quarter and year to date periods ended June 30, 2013 versus the comparable 2012 periods due to lower advanced product testing costs related to both mercury removal from flue gas and the use of activated carbon in ultra capacitors.

The Company recorded \$0.6 million of restructuring charges for the year to date period ended June 30, 2013 related to headcount reductions in the Activated Carbon and Service segment. These charges were offset by a pre-tax gain of \$0.6 million for the sale of the Company's activated carbon manufacturing facility in Datong, China. Refer to Note 1 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information.

The Company's income tax provision increased by \$1.6 million and \$1.7 million for the quarter and year-to-date periods ended June 30, 2013 and 2012, respectively. The increase in tax expense for both periods primarily relates to the increase in income before income tax provision. The effective tax rate for the year to date period ended June 30, 2013 was 32.7% compared to 33.5% for the similar 2012 period. The decrease in the effective tax rate from the year to date period ended June 30, 2013 compared to the same period ended June 30, 2012 relates primarily to the net tax benefits from the sale of the Company's activated carbon manufacturing facility in Datong, China which occurred in March 2013. Refer to Note 1 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information.

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 in various tax jurisdictions. 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.

**Financial Condition**

**Working Capital and Liquidity**

Cash flows provided by operating activities were \$17.8 million for the period ended June 30, 2013 compared to \$25.9 million for the comparable 2012 period. The \$8.1 million decrease is due to unfavorable working capital changes including \$18.0 million of additional cash used for accounts payable and accrued liabilities due to the timing of payments for raw materials and outsourced carbons which was partially offset by an \$11.0 million decrease in revenue in excess of billings on uncompleted contracts related to the equipment business as a result of





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a lower volume of projects.

Common stock dividends were not paid during the quarters ended June 30, 2013 and 2012.

**U.S. Credit Facility**

The Company's U.S. Credit Facility (Credit Facility), which expires on November 17, 2016, contains a revolving credit capacity of \$125.0 million with a \$30.0 million sublimit for the issuance of letters of credit. So long as no event of default has occurred and is continuing, the Company from time to time may request one or more increases in the total revolving credit commitment under the Credit Facility of up to \$50.0 million in the aggregate. No assurance can be given, however, that the total revolving credit commitment will be increased above \$125.0 million.

Availability under the Credit Facility is dependent upon various customary conditions. A quarterly nonrefundable commitment fee is payable by the Company based on the unused availability under the Amended Credit Agreement and is currently equal to 0.25%. Total availability under the Credit Facility at June 30, 2013 and December 31, 2012 was \$77.1 million and \$78.6 million, respectively, after considering outstanding letters of credit and borrowings.

The interest rate on amounts owed under the Credit Facility will be, at the Company's option, either (i) a fluctuating base rate based on the highest of (A) the prime rate announced from time to time by the lenders, (B) the rate announced by the Federal Reserve Bank of New York on that day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day plus 3.00% or (C) a daily LIBOR rate plus 2.75%, or (ii) LIBOR-based borrowings in one, two, three, or six month increments at the applicable LIBOR rate plus 1.25%. A margin may be added to the applicable interest rate based on the Company's leverage ratio. The interest rate per annum on outstanding borrowings as of June 30, 2013 ranged from 1.25% to 1.45%.

Total outstanding borrowings under the Credit Facility were \$45.7 million and \$44.3 million as of June 30, 2013 and December 31, 2012, respectively, and are shown as long-term debt within the condensed consolidated balance sheets. The borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows.

The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to indebtedness, liens, guaranties, loans and investments, dividends, mergers and acquisitions, dispositions of assets and transactions with affiliates. The Company must comply with certain financial covenants including a minimum interest coverage ratio, maximum leverage ratio, and minimum net worth, as defined within the Credit Facility. The Credit Facility also provides for customary events of default, including failure to pay principal or interest when due, failure to comply with covenants, the fact that any representation or warranty made by the Company is false or misleading in any material respect, certain insolvency or receivership events affecting the Company and its subsidiaries and a



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change in control of the Company. If an event of default occurs, the lenders will be under no further obligation to make loans or issue letters of credit. Upon the occurrence of certain events of default, all outstanding obligations of the Company automatically become immediately due and payable, and other events of default will allow the lenders to declare all or any portion of the outstanding obligations of the Company to be immediately due and payable.

**Japanese Loans**

Calgon Carbon Japan (CCJ) maintains a Term Loan Agreement (the Japanese Term Loan ) and a Working Capital Loan Agreement (the Japanese Working Capital Loan ). The Company is jointly and severally liable as the guarantor of CCJ's obligations and the Company permitted CCJ to grant a security interest and continuing lien in certain of its assets, including inventory and accounts receivable, to secure its obligations under both loan agreements.

The Japanese Term Loan provided for a principal amount of 722.0 million Japanese Yen, or \$7.7 million at inception. This loan matured on March 31, 2013 and was repaid. At December 31, 2012, CCJ had 82.0 million Japanese Yen or \$1.0 million outstanding and recorded as short-term debt within the condensed consolidated balance sheet. CCJ signed an agreement on May 10, 2013 to renew the Japanese Term Loan, which provides for borrowings up to 1.0 billion Japanese Yen, and bears interest based on the Uncollateralized Overnight Call Rate, which was 0.7% per annum at June 30, 2013. This loan matures on May 10, 2017. At June 30, 2013, CCJ had 1.0 billion Japanese Yen or \$10.2 million outstanding and recorded as long-term debt within the condensed consolidated balance sheet.

The Japanese Working Capital Loan provides for borrowings up to 1.5 billion Japanese Yen, and bears interest based on the Short-term Prime Rate, which was 1.475% per annum at June 30, 2013. This loan matured on March 31, 2013 and was renewed until March 31, 2014.

Borrowings and repayments under the Japanese Working Capital Loan have generally occurred in short term intervals, as needed, in order to ensure adequate liquidity while minimizing outstanding borrowings. The borrowings and repayments are presented on a gross basis within the Company's condensed consolidated statements of cash flows. There were no outstanding borrowings under the Japanese Working Capital Loan as of June 30, 2013. At December 31, 2012, CCJ had 1.6 billion Japanese Yen or \$18.6 million outstanding and recorded as short-term debt within the condensed consolidated balance sheet.

**Accelerated Share Repurchase**

In November 2012, the Company's Board of Directors authorized an accelerated share repurchase of Company common stock under a share repurchase program (the Program ). On November 20, 2012, the Company paid a purchase price of \$50 million and received 3,276,002 shares in connection with the inception of the Program. The actual number of shares that the Company will repurchase under the Program will be determined based on a discount to the arithmetic mean of the volume-weighted average prices (VWAP) of the Company's common stock for each observation date over the course of applicable calculation periods. The calculation period is expected to end no later than the end of September 2013. If the actual number of shares to be repurchased exceeds the number



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of shares previously delivered, the Company will receive a number of additional shares equal to such excess following the conclusion of the calculation period. If the actual number of shares to be repurchased is less than the number of shares previously delivered, the Company will deliver shares equal to such excess following the conclusion of the calculation period. The Company also retains the right to settle any such deficit in cash. The Company's outstanding common shares used to calculate earnings per share will be reduced by the number of repurchased shares pursuant to the Program as they are delivered to the Company, and the \$50 million purchase price was recorded as a reduction in stockholders' equity upon its payment. Based on the Company's VWAP from Program inception through June 30, 2013, the number of shares to be repurchased is estimated to be 236,284 shares less than the shares that were previously delivered. Accordingly, the Company has increased its diluted shares outstanding.

**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 June 30, 2013, there have been no material changes in the payment terms of lease agreements and unconditional purchase obligations since December 31, 2012, except with regard to the Company's Japanese Term Loan and Japanese Working Capital Loan (refer to Note 10 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q). The Company is obligated to make principal payments on debt outstanding at June 30, 2013 of \$0.1 million in 2013, \$45.7 million in 2016, \$10.1 million in 2017, and \$0.2 million in 2018.

The Company currently expects that cash from annual operating activities plus cash balances and available external financing will be sufficient to meet its cash requirements for the next twelve months. The cash needs of each of the Company's reporting segments are principally covered by the segment's operating cash flow on a standalone basis. Any additional needs will be funded by cash on hand or borrowings under the Company's Credit Facility, Japanese Working Capital Loan, or other credit facilities. Specifically, the Equipment and Consumer segments historically have not required extensive capital expenditures; therefore, the Company believes that cash on hand and borrowings will adequately support each of the segments cash needs.

Capital Expenditures and Investments

Capital expenditures for property, plant and equipment totaled \$16.0 million for the six months ended June 30, 2013 compared to expenditures of \$36.8 million for the same period in 2012. The expenditures for the period ended June 30, 2013 were primarily for improvements to the Company's manufacturing facilities including \$7.7 million related to the construction of the Company's Gila Bend, Arizona facility. The expenditures for the period ended June 30, 2012 consisted primarily of improvements to the Company's manufacturing facilities which included \$11.2 million related to the expansion of the Company's Pearl River, Mississippi virgin activated carbon manufacturing facility. Capital expenditures for 2013 are currently projected to be approximately \$40.0 million to \$45.0 million. The aforementioned expenditures are expected to be funded by operating cash flows, cash on hand, and borrowings.

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The Company received proceeds related to government grants in both the U.S. and Europe of \$1.7 million and \$0.9 million for the six months ended June 30, 2013 and 2012, respectively (Refer to Note 14 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q).

Cash and cash equivalents include \$15.1 million and \$16.0 million held by the Company's foreign subsidiaries at June 30, 2013 and December 31, 2012, respectively. Generally, cash and cash equivalents held by foreign subsidiaries are not readily available for use in the United States without adverse tax consequences. The Company's principal sources of liquidity are its cash flows from its operating activities or borrowings directly from its lines of credit. The Company does not believe the level of its non-U.S. cash position will have an adverse effect on working capital needs, planned growth, repayment of maturing debt, or benefit plan funding.

Regulatory Matters

**United States**

**Big Sandy Plant.** By letter dated January 22, 2007, the Company received from the United States Environmental Protection Agency (EPA) Region 4 a report of a hazardous waste facility inspection performed by the EPA and the Kentucky Department of Environmental Protection (KYDEP) as part of a Multi Media Compliance Evaluation of the Company's Big Sandy Plant in Catlettsburg, Kentucky that was conducted on September 20 and 21, 2005. Accompanying the report was a Notice of Violation (NOV) alleging multiple violations of the Federal Resource Conservation and Recovery Act (RCRA) and corresponding EPA and KYDEP hazardous waste regulations.

The alleged violations mainly concern the hazardous waste spent activated carbon regeneration facility. The Company met with the EPA on April 17, 2007 to discuss the inspection report and alleged violations, and submitted written responses in May and June 2007. In August 2007, the EPA notified the Company that it believed there were still significant violations of RCRA that were unresolved by the information provided in the Company's responses, without specifying the particular violations. During a meeting with the EPA on December 10, 2007, the EPA indicated that the agency would not pursue certain other alleged violations. The Company has taken action to address and remediate a number of the alleged violations. The Company now believes, and the EPA has indicated, that the number of unresolved issues as to alleged continuing violations cited in the January 22, 2007 NOV has been reduced substantially. The EPA can take formal enforcement action to require the Company to remediate any or all of the unresolved alleged continuing violations, which could require the Company to incur substantial additional costs. The EPA can also take formal enforcement action to impose substantial civil penalties with respect to violations cited in the NOV, including those which have been admitted or resolved.

By letter dated January 5, 2010, the EPA determined that certain residues resulting from the treatment of the carbon reactivation furnace off-gas are RCRA listed hazardous wastes and the material dredged from the onsite wastewater treatment lagoons were RCRA listed hazardous wastes and that they need to be managed in

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accordance with RCRA regulations. The Company believes that the cost to treat and/or dispose of the material dredged from the lagoons as hazardous waste could be substantial. However, by letter dated January 22, 2010, the Company received a determination from the KYDEP Division of Waste Management that the materials were not RCRA listed hazardous wastes when recycled, as had been the Company's practice. The Company believes that pursuant to EPA regulations, KYDEP is the proper authority to make this determination. Thus, the Company believes that there is no basis for the position set forth in the EPA's January 5, 2010 letter and the Company will vigorously defend any complaint on the matter. By letter dated May 12, 2010 from the Department of Justice Environmental and Natural Resources Division (the DOJ), the Company was informed that the DOJ was prepared to take appropriate enforcement action against the Company for the NOV and other violations under the Clean Water Act (CWA). The Company met with the DOJ on July 9, 2010 and agreed to permit more comprehensive testing of the lagoons and to share data and analysis already obtained. On July 19, 2010, the EPA sent the Company a formal information request with respect to such data and analysis, which was answered by the Company. In September 2010, representatives of the EPA met with Company personnel for two days at the Big Sandy plant. The visit included an inspection by the EPA and discussion regarding the plan for additional testing of the lagoons and material dredged from the lagoons.

The Company, EPA and DOJ have had ongoing meetings and discussions since the September 2010 inspection. The Company has completed testing of some of the material dredged from the lagoons and of materials in one of the lagoons. The results of this testing have been provided to the EPA and the KYDEP. The Company believes that the results are favorable. On March 9, 2012 the KYDEP issued a determination that the material dredged from the lagoons that comes from that portion of the stockpile that has been tested; material currently in the lagoons; and future generated material, no longer contains a hazardous waste. The determination further states that KYDEP will not regulate the material as a solid waste so long as the material is managed in accordance with certain agreed upon procedures. On April 2, 2012 the EPA issued a similar determination with respect to the material dredged from the lagoons that comes from that portion of the stockpile that has been tested.

On April 11, 2012, the Company met with the EPA to attempt to negotiate a comprehensive settlement including the extent, if any, of additional testing that should be done on any of the remaining material; the long-term plans for the lagoons including possible process modifications and civil penalties. The EPA indicated that such a comprehensive resolution may be possible but that the agency still expects significant civil penalties with respect to the violations cited in the NOV as well as the alleged CWA violations. The Company believes that the size of any civil penalties, if any, should be reduced since all the alleged violations, except those with respect to the characterization of the certain residues resulting from the treatment of the carbon reactivation furnace off-gas and the material dredged from the onsite wastewater treatment lagoons, have been resolved. The Company believes that there should be no penalties associated with respect to the characterization of the residues resulting from the treatment of the carbon reactivation furnace off-gas and the material dredged from the onsite wastewater treatment lagoons as the Company believes that those materials are not RCRA listed hazardous waste as has been determined by the KYDEP and the testing has shown that the material is not hazardous.

The Company accrued \$2.0 million as its estimate of potential loss related to civil penalties as of December 31,

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2010. In the second quarter of 2012, the Company recorded a reduction of \$0.2 million to this estimate. Since April 2012, the Company and the EPA have continued to negotiate the issues. In November 2012 the parties met and agreed in principal to a total civil penalty of \$1.6 million. In July 2013 the EPA provided the Company with a draft consent decree. The Company is currently reviewing the draft consent decree and expects to sign a negotiated consent decree in 2013.

**Frontier Chemical Processing Royal Avenue Site.** In June 2007, the Company received a Notice Letter from the New York State Department of Environmental Conservation (NYSDEC) stating that the NYSDEC had determined that the Company is a Potentially Responsible Party (PRP) at the Frontier Chemical Processing Royal Avenue Site in Niagara Falls, New York (the Site). The Notice Letter requested that the Company 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 Company has joined a PRP group (the PRP Group) and has executed a Joint Defense Agreement with the group members. The PRP Group has approximately \$7.5 million in a trust account to fund remediation. In August 2008, the Company and over 100 PRPs entered into a Consent Order with the NYSDEC for additional site investigation directed toward characterization of the Site to better define the scope of the remedial project. The Company contributed monies to the PRP Group to help fund the work required under the Consent Order. The additional site investigation required under the Consent Order was initiated in 2008 and completed in the spring of 2009. A final report of the site investigation was submitted to the NYSDEC in October 2009 and revised in September 2010. By letter dated October 10, 2010, the NYSDEC approved the report and terminated the Consent Order. The PRP Group was issued a Significant Industrial User Permit by the Niagara Falls Water Board (NFWB) in November 2010. The permit allows the shallow ground water flow from the Site to continue to be naturally captured by the adjacent sewer tunnels with subsequent treatment of the ground water at the Niagara Falls Wastewater Treatment Plant.

The PRP Group has now proposed and the NYSDEC has agreed to permit onsite thermal treatment of the contaminated soil to achieve the soil clean-up standards. Estimated costs for thermal treatment of soils are \$7.5 million to \$8 million. In March 2013, the Company, along with over thirty other PRPs, entered into a consent decree with the NYSDEC pursuant to which the work plan for the remedial program was agreed upon. The Company has not determined what portion of the costs associated with the remedial program it will be obligated to bear and the Company cannot predict with any certainty the outcome of this matter or range of potential loss.

**Waterlink:** In conjunction with the February 2004 purchase of substantially all of Waterlink Inc.'s (Waterlink) operating assets and the stock of Waterlink's U.K. subsidiary, environmental studies were performed on Waterlink's Columbus, Ohio property by environmental consulting firms that provided an identification and characterization of certain areas of contamination. In addition, these firms identified alternative methods of remediating the property 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. At June 30, 2013 the balance recorded as a component of accounts payable and accrued liabilities and accrued pension and other liabilities was \$0.2 million and \$1.0 million, respectively. At December 31, 2012 the balance recorded as a component of accrued pension and other liabilities was \$1.4 million. Liability estimates are based on an



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evaluation of, among other factors, currently available facts, existing technology, presently enacted laws and regulations, and the remediation experience of experts in groundwater remediation. It is possible that a further change in the estimate of this obligation will occur as remediation progresses. The Company incurred \$0.2 million and \$0.4 million of environmental remediation costs for the six month periods ended June 30, 2013 and 2012, respectively. Remediation activities are ongoing and are currently expected to be completed by the end of 2014.

**Europe and Asia**

The Company is also subject to various environmental health and safety laws and regulations at its facilities in Belgium, Germany, the United Kingdom, China, and Japan. These laws and regulations address substantially the same issues as those applicable to the Company in the United States. The Company believes it is presently in substantial compliance with these laws and regulations.

Other

**Carbon Imports**

**General Anti-Dumping Background:** On March 8, 2006, the Company and another U.S. producer of activated carbon (collectively the Petitioners ) formally requested that the United States Department of Commerce investigate unfair pricing of certain thermally activated carbon imported from the People's Republic of China.

On March 2, 2007, the Commerce Department published its final determination (subsequently amended) finding that imports of the subject merchandise from China were being unfairly priced, or dumped, and that anti-dumping duties should be imposed to offset the amount of the unfair pricing. The resultant tariff rates ranged from 61.95% ad valorem (i.e., of the entered value of the goods) to 228.11% ad valorem. Following a finding by the U.S. International Trade Commission that the domestic industry was injured by unfairly traded imports of activated carbon from China, an anti-dumping order imposing these tariffs was issued by the U.S. Department of Commerce and was published in the Federal Register on April 27, 2007. All imports from China remain subject to the order. Importers of subject activated carbon from China are required to make cash deposits of estimated anti-dumping duties at the time the goods are entered into the United States' customs territory. Final assessment of duties and duty deposits are subject to revision based on annual retrospective reviews conducted by the Commerce Department.

The Company is both a domestic producer, exporter from China (through its wholly-owned subsidiary Calgon Carbon (Tianjin) Co., Ltd.), and a U.S. importer of the activated carbon that is subject to the anti-dumping order. As such, the Company's involvement in the Commerce Department's proceedings is both as a domestic producer (a petitioner ) and as a foreign exporter (a respondent ).

The Company's role as an importer, which has in the past (and may in the future) required it to pay anti-dumping duties, results in a contingent liability related to the final amount of tariffs that are ultimately assessed on the imported product following the Commerce Department's periodic review of relevant shipments and calculation of the anti-dumping duties due. The amount of estimated anti-dumping tariffs payable on goods imported into the United States is subject to review and retroactive adjustment based on the actual amount of dumping that is found



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on entries made during a given annual period. As a result of proceedings before the Commerce Department that concluded in November 2011, the Company is currently able to import activated carbon from Calgon Carbon (Tianjin) into the United States without posting a cash deposit. As noted above, however, anti-dumping duties could be imposed on these shipments in the future, as a result of on-going proceedings before the Commerce Department.

As part of its standard process, the Commerce Department conducts annual reviews of sales made to the first unaffiliated U.S. customer, typically over the prior 12-month period. These reviews will be conducted for at least five years subsequent to a determination in 2013 finding that the anti-dumping duty order should remain in effect, and can result in changes to the anti-dumping tariff rate (either increasing or reducing the rate) applicable to any foreign exporter. Revision of tariff rates has two effects. First, it will alter the actual amount of tariffs that U.S. Customs and Border Protection ( Customs ) will collect for the period reviewed, by either collecting additional duties above those deposited with Customs by the importer at the time of entry or refunding a portion of the duties deposited at the time of importation to reflect a decline in the margin of dumping. If the actual amount of tariffs owed increases, Customs will require the U.S. importer to pay the difference, plus interest. Conversely, if the tariff rate decreases, any difference will be refunded by Customs to the U.S. importer with interest. Second, the revised rate becomes the cash deposit rate applied to future entries, and can either increase or decrease the amount of duty deposits an importer will be required to post at the time of importation.

**Period of Review I:** As an importer of activated carbon from China, and in light of the successful anti-dumping tariff case, the Company was required to pay deposits of estimated anti-dumping duties at the rate of 84.45% ad valorem to Customs on entries made on or after October 11, 2006 through March 1, 2007. From March 2, 2007 through March 29, 2007, the anti-dumping duty deposit rate was 78.89%. From March 30, 2007 through April 8, 2007, the anti-dumping duty deposit rate was 69.54%. Because of limits on the government's legal authority to impose provisional duties on imports prior to issuance of a final determination, entries made between April 9, 2007 and April 18, 2007 were not subject to anti-dumping duty assessments. For the period from April 19, 2007 through November 9, 2009, estimated anti-dumping duties were deposited at a rate of 69.54% ad valorem.

On November 10, 2009, the Commerce Department announced the final results of its review of the tariff period beginning October 11, 2006 through March 31, 2008 (period of review ( POR ) I). Based on the POR I results, the Company's ongoing duty deposit rate was adjusted from 69.54% to 14.51% (as further adjusted by .07% for certain ministerial errors as published in the Federal Register on December 17, 2009) for entries made subsequent to the announcement. The Department of Commerce determined an assessment rate (final duty to be collected) on the entries made in this period of 31.93% ad valorem, which is substantially lower than the original amounts secured by bonds and cash. Accordingly, the Company reduced its recorded liability for unpaid deposits in POR I and recorded a receivable of \$1.6 million reflecting expected refunds for tariff deposits made during POR I as a result of the announced decrease in the POR I tariff assessment rate. The Company had received the \$1.6 million as of December 31, 2012.

**Period of Review II:** On April 1, 2009, the Commerce Department published a formal notice allowing parties to

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request a second annual administrative review of the anti-dumping duty order covering the period April 1, 2008 through March 31, 2009 (POR II). Requests for review were due no later than April 30, 2009. The Company, in its capacity as a U.S. producer and separately as a Chinese exporter, elected not to participate in this administrative review. By not participating in the review, the Company's duty deposits made during POR II became final and are not subject to further adjustment.

On November 17, 2010, the Commerce Department announced the results of its review for POR II. Because the Company was not involved in this review its deposit rates did not change from the rate of 14.51%, which was established during POR I. The cooperative respondents involved in POR II that did not receive a company-specific rate received a deposit rate of \$0.127 per pound.

**Period of Review III:** On April 1, 2010, the Commerce Department published a formal notice allowing parties to request a third annual administrative review of the anti-dumping duty order covering the period April 1, 2009 through March 31, 2010 ( POR III ). On October 31, 2011, the Commerce Department published the results of its review of POR III. Based on the POR III results, the Company's ongoing duty deposit rate was adjusted to zero. The Company recorded a receivable of \$1.1 million reflecting expected refunds for duty deposits made during POR III as a result of the announced decrease in the POR III assessment rate. The Commerce Department continued to assign cooperative respondents involved in POR III a deposit rate of \$0.127 per pound. In early December 2011, several separate rate respondents appealed the Commerce Department's final results of POR III. The Company does not expect any of the appeals to be successful. However, in the event the court finds merit in the arguments raised in the appeals, the Company does not expect the revised rates to materially impact the anticipated \$1.1 million of expected refunds for tariff deposits it made during POR III. The main impact that a successful appeal would have is related to the amount of anti-dumping duties assessed on imports by the cooperative respondents that were entered into the United States between April 1, 2008 and March 31, 2009. An initial decision from the court in the POR III appeal process is expected during the third quarter of 2013.

**Period of Review IV:** On April 1, 2011, the Commerce Department published a formal notice allowing parties to request a fourth annual administrative review of the anti-dumping duty order covering the period April 1, 2010 through March 31, 2011 ( POR IV ). On November 9, 2012, the Commerce Department published the final results of its review of POR IV. Specifically, Commerce calculated anti-dumping margins for the mandatory respondents it examined ranging from \$0.20 per pound (Jacobi Carbons AB and its affiliates) to \$0.96 per pound (Ningxia Guanghua Cherishmet Activated Carbon Co., Ltd. and its affiliates), and it calculated an anti-dumping margin of \$0.47 per pound for the cooperative, separate rate respondents whose shipments of activated carbon to the United States were not individually reviewed. The Commerce Department also calculated a \$0.00 anti-dumping margin for Datong Juqiang Activated Carbon Co., Ltd. The Company, as a Chinese exporter and a U.S. importer, elected not to participate as a respondent in this administrative review. By not participating as a respondent in the review, the Company's tariff deposits made at a rate of 14.51% during POR IV became final and are not subject to further adjustment. The Company's ongoing deposit rate continues to be zero which was a result of the company-specific rate calculated in POR III. Appeals challenging the Commerce Department's final results for POR IV have been commenced before the U.S. Court of International Trade by Jacobi Carbons AB,

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Ningxia Guanghua Cherishment Activated Carbon Co., Ltd. and its affiliates; Tangshan Solid Carbon Co., Ltd.; Carbon Activated Corporation and Car Go Worldwide, Inc.; and Shanxi Industry Technology Trading Co., Ltd. The Company does not expect an initial decision from the court concerning these appeals before the end of 2013, and expects that this litigation will not directly impact the Company's operations.

**Period of Review V:** On April 2, 2012, the Commerce Department published a formal notice allowing parties to request a fifth annual administrative review of the anti-dumping duty order covering the period April 1, 2011 through March 31, 2012 ( POR V ). Requests for review were due no later than April 30, 2012. On July 11, 2012, the Commerce Department announced its selection of Jacobi Carbons AB and Ningxia Huahui Activated Carbon Co, Ltd. as the two mandatory respondents for POR V. Albemarle Corporation has requested a review of Calgon Carbon (Tianjin) for POR V. The analysis of POR V data began in 2012 and the preliminary results of the Commerce Department's review of POR V were announced on May 3, 2013. The Commerce Department calculated preliminary anti-dumping margins for the mandatory respondents that it examined ranging from \$0.13 per pound (Ningxia Huahui Activated Carbon Co.) to \$0.25 per pound (Jacobi Carbons AB and its affiliates), and as a result, it calculated a preliminary anti-dumping margin of \$0.19 per pound for the cooperative, separate rate respondents whose shipments of activated carbon to the United States were not individually reviewed. These preliminary margins are subject to change by the final determination, which will not be issued until mid-November 2013.

**Sunset Review:** In March 2012, the Commerce Department and U.S. International Trade Commission ( ITC ) initiated proceedings as part of a five-year sunset review to evaluate whether the anti-dumping order should be continued for an additional five years. The Company, and two other U. S. producers of activated carbon, participated in the review to support continuation of the anti-dumping order for an additional five years. The Company maintained that the continuation of the anti-dumping order was appropriate as the Commerce Department has determined that Chinese producers and exporters have continued and, absent continuation of the anti-dumping order, will in the future continue to sell activated carbon in the United States at unfairly low prices. This is demonstrated by the positive anti-dumping duty margins and deposit rates determined during the various annual reviews conducted by the Commerce Department since the anti-dumping order took effect in April 2007. The Company asserted that the disciplining effect of the order played an important role in maintaining fair market pricing of the activated carbon market overall. Without the anti-dumping order in place, the Company argued that Chinese producers and exporters would resume or increase dumping of certain thermally activated carbon in the United States. Since the anti-dumping order was published, the Company has reduced its imports of covered activated carbon products from China and has increased production of activated carbon in the United States. On June 6, 2012, the Commerce Department published in the Federal Register its final results in an expedited sunset review, and determined that absent continuation of the anti-dumping order dumping of Chinese activated carbon in the United States would be likely to continue or recur. As a result, it determined the order should be continued for an additional five years.

On June 4, 2012 the ITC voted unanimously to conduct a full review of the anti-dumping order. As a result, the agency utilized a process similar to its original injury investigation, where the agency distributed detailed

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questionnaires to gather information for its investigation from domestic producers, foreign producers, U.S. importers, and purchasers, and conducted a hearing on December 18, 2012. The Company and the two other U.S. producers of activated carbon, as well as a U.S. importer of activated carbon, participated in the hearing. Based on the information gathered by the agency during its review, the ITC reached a unanimous affirmative determination on February 8, 2013, voting to continue the anti-dumping order for an additional five years. The Commerce Department published a notice in the Federal Register on March 18, 2013, stating that the anti-dumping order will be continued for an additional five years.

**Period of Review VI:** On April 2, 2013, the Commerce Department published a formal notice allowing parties to request a sixth annual administrative review of the anti-dumping duty order covering the period April 1, 2012 through March 31, 2013 ( POR VI ). Requests for an administrative review were submitted to the Commerce Department in April of 2013. On June 26, 2013, the Commerce Department announced its selection of Jacobi Carbons AB and Ningxia Huahui Activated Carbon Co, Ltd. as the two mandatory respondents for POR VI. Albemarle Corporation has requested a review of Calgon Carbon (Tianjin) for POR VI. The analysis of POR VI will begin in the third quarter of 2013 and the preliminary results of the Commerce Department's review of POR VI are anticipated to be announced in late April or early May of 2014.

**Continued Dumping and Subsidy Offset Act Distributions:** Pursuant to the Continued Dumping and Subsidy Offset Act (CDSOA) of 2000 (repealed effective February 8, 2006), as an affected domestic producer, the Company is eligible to apply for a share of the distributions of certain tariffs collected on imports of subject merchandise from China that entered the United States from October 11, 2006 to September 30, 2007. As a result, the Company is eligible to receive a distribution of duties collected on imports of certain activated carbon that entered the United States during a portion of POR I. In June 2013, June 2012 and July 2011, 2010, 2009 and 2008, the Company applied for such distributions which are typically made in the fourth quarter of each calendar year. There were no additional amounts received by the Company for the years ended December 31, 2011 and 2010. In November 2009 and December 2008, the Company received distributions of approximately \$0.8 million and \$0.2 million, respectively, which reflected 59.57% of the total amount of duties then available and distributed by Customs in connection with the anti-dumping order on certain activated carbon from China.

CDSOA distributions related to POR I imports were on hold while the POR I final results for certain exporters were under appeal. All POR I appeals were subsequently resolved and Customs issued liquidation instructions in October 2011 for activated carbon entries affected by the appeal process involving POR I. The Company received \$1.8 million in December 2012 related to the CDSOA distributions of which \$1.5 million was reflected within the Company's consolidated statement of comprehensive income for the year ended December 31, 2012.

On May 31, 2013, Customs announced the preliminary amount of duties available (as of April 30, 2013) for distribution under the CDSOA for fiscal year 2013. The preliminary amount identified for distribution related to certain activated carbon imported from China totaled \$86,765 which should be distributed to eligible parties in December 2013. The Company expects to receive 59.57% of the fiscal year 2013 distribution. The Company does not anticipate any further material CDSOA distributions subsequent to the distribution expected to be made

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in December 2013.

**New Accounting Pronouncements**

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, or ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets or Liabilities, or ASU No. 2013-01. ASU 2013-01 clarifies the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities, or ASU 2011-11. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross and net information for these instruments. Both ASU 2013-01 and ASU 2011-11 are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company adopted this guidance effective January 1, 2013. (Refer to Note 7 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q).

In February 2013, the FASB issued ASU, No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income, or ASU No. 2013-02. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income. For amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. (Refer to Note 5 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q).

In February 2013, the FASB issued ASU, No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date, or ASU No. 2013-04. ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. ASU 2013-04 also requires the nature and amount of the obligation as well as other information about those obligations to be disclosed. ASU 2013-04 is effective for fiscal and interim periods within those years, beginning after December 15, 2013 and should be applied retrospectively. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU, No. 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes, or ASU No. 2013-10. ASU 2013-10 permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR. ASU 2013-10 also removes the restriction on using different benchmark rates for similar hedges. ASU 2013-04 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU, No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, or ASU No. 2013-11. ASU 2013-11 requires that an

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unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent one of these items is not available



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at the reporting date; the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

**Outlook**

**Activated Carbon and Service**

The Company believes that the activated carbon and service sales volume for 2013 will increase over 2012. Sales volume growth is expected to come from several sources including the ongoing impacts of environmental regulations as discussed below. Expected volume growth will be met by the virgin carbon expansion recently completed at the Pearl River facility; increased utilization of reactivation capacity in all three regions; operational improvements at the Company's virgin carbon manufacturing facilities due to new capital investment; a recently launched third-party plant efficiency study and product rationalization project targeting a reduction in SKUs of 45%; and the sale of outsourced carbons. Impediments to growth could include an economic slowdown in any or all of the regions served as well as any impacts from delays in environmental regulations further discussed below. The Company's sale of mercury removal carbons is expected to decline in 2013 due to the expiration of contracts that existed in 2012 as well as U.S. electric utilities expanded usage of natural gas for electric generation. However, in February of 2013, the Company announced a significant, long-term contract for mercury removal with an estimated value of \$16.0 million to \$22.0 million.

The Company also believes that the price for activated carbon will increase in the Americas in 2013 compared to 2012 due to fair pricing brought about by a tariff increase on Chinese steam activated carbon announced in November 2012. The new tariff rates, effective upon announcement, increase the average tariff rate from approximately 13 cents to 47 cents per pound. The Company announced a price increase in February 2013. Because of existing contracts, outstanding bids and other factors, it typically takes approximately 12 months for the full effect of a price increase to be realized.

Raw material costs for production in 2013 are expected to be approximately equivalent to 2012's costs on a per unit basis. The most significant raw material cost is coal. The quantity of coal consumed varies based on the overall production levels achieved as well as the mix of products manufactured during the year. The Company expects its total cost of coal to increase in 2013 given expectations for increased production at our U.S. virgin activated carbon plants due to the 2012 Pearl River plant expansion as well as fewer total scheduled maintenance outages. The Company's 2012 cost per ton of coal used in production increased 5.0% versus 2011. As of June 30, 2013, the Company has approximately 54% of its remaining 2013 anticipated coal requirements under contract.

The Company continues to make research and development expenditures related to its advanced products aimed at significantly reducing the amount of powdered activated carbon (PAC) required for mercury removal from

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coal-fired power plant flue gas as compared to competing products. PAC is recognized today by the U.S. Environmental Protection Agency (EPA) as the leading abatement technology for mercury removal from coal-fired power plant flue gas. The current U.S. driver of sales to owners of coal-fired power plants is state regulations. However, on December 21, 2011, the U.S. EPA issued the Mercury and Air Toxics Standards (MATS) requiring mercury and other substances to be removed from the flue gas of coal-fired power plants. The MATS regulation was published in the Federal Register on February 16, 2012. Compliance with MATS will generally be required three years from this publication date. Exceptions for newly installed equipment and/or reliability critical paths could potentially delay implementation for applicable power plants up to an additional two years. As of July 31, 2013, the Company believes over 100 units have been granted a one-year extension by at least 18 different states. The Company cannot predict when the other MATS legal challenges will be resolved.

In addition to MATS, the EPA has promulgated mercury removal regulations related to industrial boilers and cement manufacturers. Compliance dates for cement manufacturers and industrial boilers are currently September 9, 2015 and January 31, 2016, respectively. There are also mercury removal regulations for the flue gas of coal-fired power plants in effect for certain Canadian provinces. The Company suspects that these regulations could continue to be challenged and that compliance implementation for MATS or these other mercury removal regulations may be delayed.

The Company believes that mercury removal could become the largest U.S. market for activated carbon and has made great strides in establishing itself as a market leader. The Company currently estimates that the current annual demand for mercury removal in North America is 130 million to 180 million pounds and may grow to as much as 380 million to 765 million pounds by 2016. However, today the North American activated carbon supply capacity for this market is greater than current demand. As a result, recent pricing in this market has deteriorated. The Company expects this trend to continue in the near future until compliance with MATS draws nearer. Many of the Company's multi-year contracts, as well as those of its competitors have expired or are near their scheduled expiration and are expected to be re-bid. The Company believes its advanced products for mercury which have carbon usage rates of 50% to 70% less than alternative products, are important to its ongoing success in this market.

Compliance with other proposed emissions regulations such as the Cross State Air Pollution Rule (CSAPR) or the Clean Air Interstate Rule (CAIR) could significantly impact the amount of carbon utilized by electric utilities for compliance with MATS. However, a federal appeals court vacated CSAPR and a replacement or modified rule is not expected to be promulgated by the EPA for at least three years. Additional future hearings are expected that will further clarify or modify these rules, their implementation dates, and requirements. The Company believes the majority of U.S. electric utilities are awaiting further resolution of both MATS and a final determination as it relates to CSAPR before implementing an integrated treatment approach to more broadly address how to invest in pollution control equipment across their power plant fleet. In addition, long-term lower natural gas costs will likely also impact this market as electric generation facilities could shift production from coal to natural gas. Plant closures and/or wet scrubbing equipment installations would reduce the amount of carbon used for mercury removal. In addition, wide-spread adoption of the Company's advanced mercury removal products could also

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reduce the pounds of activated carbon needed. Adverse market conditions coupled with a strong adoption of the Company's advanced mercury removal carbons, could significantly reduce the eventual market opportunity to a level below the low end of aforementioned forecasted demand of 380 million to 765 million pounds. However, in that case, the Company could expect to increase its share of this market. In anticipation of the potential increase in activated carbon necessary to serve this market, the Company continues to develop plans to increase virgin activated carbon capacity in the U.S. However, capital expenditures related to this capacity increase, if any, are not expected to be material in 2013.

In addition to mercury regulations in North America, China has announced plans for mercury removal from its coal-fired power plants by 2015. The plans, as announced, stipulate levels of mercury removal that would not likely result in large activated carbon sales. However, trials will purportedly be conducted to establish removal requirements.

The need for municipal drinking water utilities to comply with the EPA's Stage 2 Disinfectants and Disinfection Byproducts Rule (the DBP Rule) is another growth driver for the Company. Disinfection Byproducts (DBPs) are compounds that form when natural occurring organic materials in drinking water sources react with the chemicals used to disinfect the water. Granular activated carbon (GAC) is recognized by the EPA as a best available control technology (BACT) for the reduction of DBPs. The EPA promulgated the DBP Rule in 2006, and requires water utilities to be in compliance with the rule in a phased manner between 2012 and 2015. The Company currently estimates that this regulation may increase the annual demand for GAC by municipal water utilities in the United States to more than 70 million pounds by 2015. This market also provides an opportunity for the Company's service business by converting customers from the use of virgin carbon to reactivated carbon. The Company's reactivation facilities in Arizona, California and Ohio have all received certification from the National Sanitation Foundation (NSF) International. This certification verifies that potable custom reactivated carbon is safe for reuse in municipal water treatment applications.

During the second quarter of 2011, the city of Phoenix, Arizona selected the Company to reactivate for a ten-year period approximately 15- to 20 million pounds of spent activated carbon, used to prevent the formation of DBPs. The contract with Phoenix includes the construction of a reactivation facility in Gila Bend, Arizona. The reactivation facility, owned and operated by the Company, will serve as a regional center, providing custom reactivation services for other municipalities in the Southwestern U.S. that utilize GAC to treat their drinking water, including two additional cities in Arizona whose representatives served on the selection panel for the project. During the second quarter of 2012, the Company entered into a ten-year reactivation contract with one of these cities (Scottsdale). During the construction of the facility, the Company utilized its existing reactivation capacity to meet Phoenix's and Scottsdale's requirements. Reactivation services for Phoenix began during the second quarter of 2012. The Company is in final discussions with the city of Glendale to provide reactivation services under a long-term contract. In the meantime, we are reactivating the city's spent carbon under the terms of an interim agreement.

In Europe, the Company was awarded a multi-year contract with a large water provider in the UK similar to its

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contract with the city of Phoenix. The Company will supply virgin carbon and reactivation services for a ten year period and plans to restart and upgrade its Tipton plant in the UK. The planned upgrades are estimated to require \$9.5 million of capital expenditures and will be completed in stages. This plant, having a current estimated annual capacity of approximately 11 million pounds, will begin undergoing equipment modifications and a significant capacity expansion during 2013 and is planned to return to operation in 2014 with the additional capacity and planned upgrades completed in 2015. The equipment modifications and capacity expansion require permitting approval and the Company received such approval on June 25, 2013.

China also announced that it will commit billions of dollars to water and wastewater improvements by 2015.

Driven by these market forces, the Company's 2011 and 2012 capital expenditures totaled \$72.1 million and \$60.7 million, respectively. The 2012 expenditures included an expansion of its Pearl River, Mississippi virgin activated carbon manufacturing facility as well as construction of the Phoenix reactivation facility. In 2011, the Company's expenditures included reactivation capacity expansions of its Feluy, Belgium, site as well as a new reactivation facility in Suzhou, China and in North Tonawanda, New York. The expansion in Belgium was initially brought on-line in 2011, but because of equipment failures and related start-up issues, the Company only began to benefit from the availability of the site's expanded capabilities in the first quarter of 2012. The China service facility also experienced an issue with the furnace's refractory that delayed the start-up of this facility until the third quarter of 2012. Ongoing customer permit issues related to the handling and transportation of spent carbons to the Company's reactivation facility have also significantly contributed to delays at Suzhou. These issues are being successfully resolved but have delayed our expected benefits from this new facility. Based on current demand projections, the site at North Tonawanda, New York is not expected to begin operating before the fourth quarter of 2013.

In addition to these initiatives, the Company plans to continue increasing its presence throughout the world. The 2011 acquisition of Calgon Carbon Japan increases the Company's capabilities in the world's second largest geographical market by country for activated carbon. In Europe, the Company acquired Zwicky Denmark and Sweden in 2010, long-term distributors of the Company's activated carbon products and provider of services associated with the reactivation of activated carbon. This acquisition is consistent with the Company's strategic initiatives to accelerate growth in Denmark, Norway, and Sweden and to expand its service capabilities in Europe outside of the geographic markets it has traditionally served. The Company is also beginning to expand its operations in both Mexico and South America.

During the third quarter of 2012, the Company adopted a worldwide strategy to reduce costs and realign its organizational structure in response to the global economic slowdown, rising raw material and maintenance costs, and delays in implementation of environmental regulations, which have created a challenging business environment for the Company. As a part of this strategy, the Company permanently closed, and later sold, its Datong, China manufacturing facility, temporarily idled a reactivation facility in Blue Lake, California, and reduced headcount. The Company has also consolidated operations at certain locations and will evaluate non-core businesses for potential divestiture. The Company recorded \$10.2 million of restructuring charges during the second half of 2012 which are all within the Activated Carbon and Service segment. During the period ended March 31, 2013, the Company recorded \$0.6 million of restructuring charges and a pre-tax gain of \$0.6 million

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for the sale of its activated carbon manufacturing facility in Datong, China which were all within the Activated Carbon and Service segment. Refer to Note 1 to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information.

**Equipment**

The Company's equipment business is somewhat cyclical in nature and depends on both regulations and the general health of the overall economy. The Company believes that U.S. demand for its ultraviolet light (UV) systems will continue, as smaller municipalities must meet implementation deadlines through 2015 for EPA regulations to treat for Cryptosporidium in drinking water. Worldwide firm bid opportunities for UV systems for the municipal market remain somewhat slow in 2013. However, UV remains the technology of choice for controlling Cryptosporidium and Giardia under the U.S. EPA LT2 regulations and smaller communities will need to implement over the coming years.

The Company also believes that demand for its ballast water treatment systems will continue to grow. The U.S. Coast Guard issued its ballast water treatment rule on March 23, 2012 (Coast Guard Rule). The Coast Guard Rule addresses the transportation of potentially harmful organisms through ballast water and ultimately requires U.S. Type Approval for treatment systems used in U.S. waters. Ships wishing to release ballast water into U.S. waters must operate an acceptable treatment system on all ships built after December 1, 2013; on medium sized ships after their first dry-dock after January 1, 2014; and, on small and large ships after their first dry-dock after January 1, 2016. The Coast Guard Rule's discharge limits match the numerical limits proposed by the International Maritime Organization (IMO) but the Coast Guard is more prescriptive as to testing methodology than is the IMO. The only test method currently referenced in the Coast Guard Rule cannot measure the effectiveness of UV based systems like the Company's Hyde GUARDIAN® and the other best selling systems. The Coast Guard in conjunction with the EPA is considering alternate test methods used by other nations to approve UV based ballast water treatment systems. Hyde Marine and other ballast water treatment system manufacturers whose technology includes the use of ultraviolet light, routinely used in the disinfection of drinking water, are working with the Coast Guard and the EPA in an effort to clarify the criteria in the Coast Guard Rule.

During the third quarter of 2012, the Coast Guard approved NSF International (NSF), located in Ann Arbor, Michigan as the first Independent Laboratory to work with manufacturers in the Type Approval process for ballast water treatment systems. Det Norske Veritas (DNV) AS, located in Hovik, Norway, became the second entity to achieve the status of an Independent Laboratory (IL) in June 2013. The IL's are just beginning to work with manufacturers on testing for Type Approval—a process that is expected to take up to three years. In the interim, ships may discharge ballast water in U.S. ports for a period of five years if they operate a ballast water treatment system that has been designated as an Alternative Management System (AMS) by the Coast Guard. To qualify for this status, the equipment supplier must possess an international Type Approval, and must demonstrate to the Coast Guard that the equipment performs at least as well as ballast water exchange. The Company was granted AMS status for its Hyde GUARDIAN® ballast water treatment system effective April 15, 2013.

In 2004, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water

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and Sediments (BWMC) which, like the Coast Guard Rule, addresses the transportation of potentially harmful organisms through ballast water. The regulations requiring ballast water treatment will become effective one year after 30 countries representing 35% of the world's shipping tonnage ratify the BWMC. The BWMC has now been signed by 37 countries representing 30.3% of the world's current shipping tonnage. The BWMC is expected to be phased in over a ten-year period and require more than 60,000 vessels to install ballast water treatment systems. The Company believes that the total ballast water treatment market will exceed \$15 billion after ratification of the BWMC.

The Hyde GUARDIAN® system, which employs filtration and ultraviolet light technology to filter and disinfect ballast water, offers cost, safety, and technological advantages. Hyde GUARDIAN® has received Type Approval from Lloyd's Register on behalf of the U.K. Maritime and Coast Guard Agency which confirms compliance with the IMO Ballast Water Management Convention. Hyde GUARDIAN® has also received Class Society Type Approval from Lloyd's Register (LR), American Bureau of Shipping (ABS), and Russian Maritime Registry of Shipping (RS). The strategic acquisition of Hyde Marine has provided the Company immediate entry into a global, regulation driven market with major long-term growth potential. To date, most of the Hyde GUARDIAN® systems sold have been for new ship builds but long term, most of Hyde's sales will be for systems retrofitted into existing ships. During 2012 and thus far in 2013, the number of new ship builds has been significantly lower than in prior years and the retrofit market for ballast water equipment has yet to ramp up owing to the delay in ratification of the IMO BWMC. This has resulted in a decline in Hyde GUARDIAN® orders. During the first six months of 2013, the Company sold 30 ballast water treatment systems. During 2012 and 2011, the Company sold 68 and 82 ballast water treatment systems, respectively. Subsequent to the January 2010 acquisition of Hyde Marine, the Company has sold 235 systems valued at \$59.6 million.

Backlog for the Equipment segment as of June 30, 2013, was \$25.4 million while backlog at December 31, 2012 was \$31.9 million. The decrease in backlog from year-end 2012 is primarily due to the temporary decline in Hyde Marine's backlog as new ship builds remain below historical levels and the retrofit market is only beginning to develop.

**Consumer**

Although sales of carbon cloth declined in the first half of 2013, the Company expects improved performance during the remainder of 2013.

Critical Accounting Policies

There were no material changes to the Company's critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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**Item 3.** Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in the Company's exposure to market risk as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 4.** Controls and Procedures

Evaluation of Disclosure Controls and Procedures:

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2013. These disclosure controls and procedures are the controls and other procedures that were designed to provide reasonable assurance that information required to be disclosed in reports that are filed with or submitted to the U.S. Securities and Exchange Commission is: (1) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in applicable law and regulations. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2013, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting:

There have not been any changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1.** Legal Proceedings

See Note 8 to the unaudited interim Condensed Consolidated Financial Statements included in Part I, Item 1 of the Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**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, 2012.



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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
April 1 - April 30, 2013	96	\$ 16.57		
May 1 - May 31, 2013				
June 1 - June 30, 2013				

(a) This represents shares surrendered to the Company by employees to satisfy tax withholding obligations on restricted share awards issued under the Company's Equity Incentive Plan. Future purchases under this Plan will be dependent upon employee elections.

**Item 5.** Other Information

On January 1, 2013, the Company adopted ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets or Liabilities, or ASU No. 2013-01, which requires clarification of the specific instruments that should be considered in these disclosures. The Company has master netting arrangements in place with certain counter parties for its foreign currency contracts and therefore the Company was required to retrospectively adopt additional disclosure requirements per ASU No. 2013-01. The Company does not currently offset derivative positions by counterparty for purposes of balance sheet presentation and disclosure.

The following presents the retrospective application of ASU No. 2013-01 by the gross and net amounts of derivative assets and liabilities as of December 31, 2011 (in thousands).

	December 31, 2011	
	Fair Value of Assets	Fair Value of Liabilities
Gross derivative amounts recognized in the balance sheet	\$ 803	\$ 1,970
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting		
Derivatives - foreign currency contracts	(475)	(475)
Net amount	\$ 328	\$ 1,495



## Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q

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#### **Item 6. Exhibits**

Exhibit No.	Description	Method of filing
10.1	Indemnification Agreement between the Company and Louis S. Massimo, dated May 1, 2013.	(a)
10.2	Indemnification Agreement between the Company and Donald C. Templin, dated May 1, 2013.	(a)
10.3	Letter of Guarantee by and among The Bank of Tokyo-Mitsubishi UJF, Ltd., Calgon Carbon Japan KK and the Company, dated May 10, 2013.	(b)
10.4	Loan Agreement by and between The Bank of Tokyo-Mitsubishi UJF, Ltd., and Calgon Carbon Japan KK, dated May 10, 2013.	(c)
10.5	Memorandum of Amendment by and among The Bank of Tokyo-Mitsubishi UJF, Ltd., Calgon Carbon Japan KK, and the Company dated May 20, 2013.	(d)
10.6	Amended Contract by and between The Bank of Tokyo-Mitsubishi UJF, Ltd., and Calgon Carbon Japan KK, dated May 20, 2013.	(e)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

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- (a) *Form of Indemnification Agreement incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed March 3, 2010 (File No. 001-10776).*
- (b) *Incorporated herein by reference to Exhibit 10.4 to the Company's current report on Form 8-K filed May 17, 2013 (File No. 001-10776).*
- (c) *Incorporated herein by reference to Exhibit 10.5 to the Company's current report on Form 8-K filed May 17, 2013 (File No. 001-10776).*
- (d) *Incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed May 24, 2013 (File No. 001-10776).*
- (e) *Incorporated herein by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed May 24, 2013 (File No. 001-10776).*

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.



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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: August 8, 2013

/s/Stevan R. Schott  
Stevan R. Schott  
Senior Vice President,  
Chief Financial Officer