CALGON CARBON CORPORATION
Form 10-Q
December 13, 2006

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

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2006 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)

Delaware	**25-0530110**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

P.O. Box 717, Pittsburgh, PA 15230-0717

(Address of principal executive offices) (Zip Code)

(412) 787-6700

(Registrant s telephone number, including area code)

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

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

Yes o No x

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Applicable only to corporate issuers:
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at December 7, 2006**

Common Stock, $.01 par value	39,980,643 shares

CALGON CARBON CORPORATION

Yes o No x

FORM 10-Q

QUARTER ENDED September 30, 2006

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

I N D E X

PART I CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements included herein have been prepared by Calgon Carbon Corporation (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with the Company s audited consolidated financial statements and the notes included therein for the year ended December 31, 2005 filed with the Securities and Exchange Commission by the Company in Form 10-K.

In management s opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, which are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first nine months of 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Dollars in Thousands Except Share and Per Share Data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	$ 79,680	$ 68,867	$ 236,769	$ 219,578
Cost of products sold (excluding depreciation)	58,897	51,287	176,270	160,194
Depreciation and amortization	4,719	5,096	14,311	16,051
Selling, general and administrative expenses	16,547	14,073	47,489	43,892
Research and development expenses	1,146	1,074	3,384	3,313
(Gain) loss on insurance settlement (Note 2)	(3,173)	1,000	(8,072)	1,000
Gulf Coast Facility impairment charge (Note 4)				2,158
Restructuring charge		65	7	423
	78,136	72,595	233,389	227,031
Income (loss) from operations	1,544	(3,728)	3,380	(7,453)
Interest income	233	165	553	558
Interest expense	(1,530)	(1,248)	(4,628)	(3,578)
Other expense net	(660)	(646)	(2,018)	(1,278)
Loss before income taxes, equity income, and minority interest	(413)	(5,457)	(2,713)	(11,751)
Provision (benefit) for income taxes (Note 16)	114	(5,023)	(1,156)	(6,507)
Loss before equity income and minority interest	(527)	(434)	(1,557)	(5,244)
Equity in income from equity investments	39	397	203	1,020
Minority interest	(8)		8	
Loss from continuing operations	(496)	(37)	(1,346)	(4,224)
Income (loss) from discontinued operations	38	(316)	1,910	2,458
Net income (loss)	(458)	(353)	564	(1,766)
Common stock dividends		(1,190)		(3,555)
Retained earnings, beginning of period	102,855	109,026	101,833	112,804
Retained earnings, end of period	$ 102,397	$ 107,483	$ 102,397	$ 107,483
Net income (loss) per Common share				
Basic:				
Loss from continuing operations	$ (.01)	$ .00	$ (.03)	$ (.11)
Income (loss) from discontinued operations	$ .00	$ (.01)	$ .05	$ .06
Net income (loss)	$ (.01)	$ (.01)	$ .01	$ (.04)
Diluted:				
Loss from continuing operations	$ (.01)	$ .00	$ (.03)	$ (.11)
Income (loss) from discontinued operations	$ .00	$ (.01)	$ .05	$ .06
Net income (loss)	$ (.01)	$ (.01)	$ .01	$ (.04)
Weighted average shares outstanding				
Basic	39,881,805	39,569,277	39,870,778	39,421,446
Diluted	39,881,805	39,569,277	39,870,778	39,421,446

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

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except share data)

(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,071	$ 5,446
Receivables (net of allowance of $2,210 and $2,172)	57,828	51,224
Revenue recognized in excess of billings on uncompleted contracts	6,228	5,443
Inventories	71,026	67,655
Deferred income taxes current	9,827	8,448
Other current assets	6,149	6,044
Assets held for sale		21,340
Total current assets	156,129	165,600
Property, plant and equipment, net	107,068	108,745
Equity investments	6,975	7,219
Intangibles	8,848	10,049
Goodwill	34,513	33,874
Deferred income taxes long-term	18,056	18,684
Other assets	5,580	3,697
Total assets	$ 337,169	$ 347,868
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 36,468	$ 36,502
Billings in excess of revenue recognized on uncompleted contracts	1,182	3,933
Payroll and benefits payable	8,798	11,396
Accrued income taxes	12,318	10,783
Liabilities held for sale		6,683
Total current liabilities	58,766	69,297
Long-term debt	81,693	83,925
Deferred income taxes long-term	1,046	1,389
Accrued pension and other liabilities	40,193	42,697
Total liabilities	181,698	197,308
Commitments and contingencies		
Shareholders equity:		
Common shares, $.01 par value, 100,000,000 shares authorized, 42,517,566 and 42,459,733 shares issued	425	425
Additional paid-in capital	71,265	69,906
Retained earnings	102,397	101,833
Accumulated other comprehensive income	9,976	6,442
Deferred compensation	(1,355)	(917)
	182,708	177,689
Treasury stock, at cost, 2,819,690 and 2,787,258 shares	(27,237)	(27,129)
Total shareholders equity	155,471	150,560
Total liabilities and shareholders equity	$ 337,169	$ 347,868

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)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash flows from operating activities		
Net income (loss)	$ 564	$ (1,766)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(Gain) loss on insurance settlement	(8,072)	1,000
Gain from divestitures	(6,719)	
Depreciation and amortization	14,313	16,871
Equity income from equity investments	(211)	(1,020)
Employee benefit plan provisions	2,283	3,327
Distributions received from Calgon Mitsubishi Chemical Corporation		254
Non-cash impairment and restructuring charges	788	2,373
Changes in assets and liabilities - net of effects from purchase of business, non-cash impairment and restructuring:		
(Increase) decrease in receivables	(81)	5,959
Increase in inventories	(3,024)	(6,225)
(Increase) decrease in revenue in excess of billings on uncompleted contracts and other current assets	(1,772)	3,311
Decrease in accounts payable and accrued liabilities	(4,724)	(11,613)
Increase (decrease) in long-term deferred income taxes	835	(4,412)
Decrease in accrued pensions	(10,588)	(3,711)
Other items net	1,327	1,032
Net cash (used in) provided by operating activities	(15,081)	5,380
Cash flows from investing activities		
Purchase of business - net of cash		(856)
Proceeds from divestitures	21,213	
Property, plant and equipment expenditures	(9,989)	(8,166)
Proceeds from insurance settlement for plant and equipment	4,595	
Proceeds from disposals of property, plant and equipment	676	1,118
Net cash provided by (used in) investing activities	16,495	(7,904)
Cash flows from financing activities		
Proceeds from borrowings	150,338	83,491
Repayments of borrowings	(149,337)	(81,888)
Debt issuance costs	(3,233)	
Treasury stock purchases	(108)	
Common stock issued through exercise of stock options	464	2,986
Common stock dividends		(3,555)
Net cash (used in) provided by financing activities	(1,876)	1,034
Effect of exchange rate changes on cash	87	889
Decrease in cash and cash equivalents	(375)	(601)
Cash and cash equivalents, beginning of period	5,446	8,780
Cash and cash equivalents, end of period	$ 5,071	$ 8,179

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

CALGON CARBON CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands)
(Unaudited)

1. Acquisition

In December 2004, the Company increased its equity ownership in Datong Carbon Corporation from 80% to 100% for a purchase price of $0.7 million, which was paid in the three months ended March 31, 2005. In May 2005, the Company formed a joint venture company with C. Gigantic Carbon to provide carbon reactivation services to the Thailand market. The joint venture company was named Calgon Carbon (Thailand) Ltd. and is 20% owned by the Company after an initial investment of $0.2 million and exchange of technology. It is accounted for in the Company s financial statements under the equity method.

2. Gain on Insurance Settlement

In August 2005, the Company s plant located in Pearlington, Mississippi was damaged by Hurricane Katrina and the Company recorded $1.0 million of non-reimbursable expense in the quarter ended September 30, 2005. In accordance with FIN 30, *Accounting for Involuntary Conversions of Non-Monetary Assets to Monetary Assets*, the Company has written off the net book value of the destroyed inventory and property totaling $1.8 million. The replacement value of the inventory and property exceeded its net book value by approximately $4.9 million, which was recorded as a gain on insurance settlement. As of September 30, 2006, the Company has also settled its business interruption insurance claim with its insurance company for $3.8 million. This amount, net of costs related to business interruption of $0.6 million, was recorded as a gain on insurance settlement.

3. Discontinued Operations and Assets and Liabilities Held for Sale

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

The Company reclassified the following businesses from continuing operations to discontinued operations and assets held for sale for all periods presented: Charcoal/Liquid in Bodenfelde, Germany and Solvent Recovery in Columbus, Ohio; Vero Beach, Florida; and Ashton, United Kingdom. The Charcoal/Liquid and Solvent Recovery businesses were reported in the Company s Consumer and Equipment segments, respectively.

On February 17, 2006, Calgon Carbon Corporation, through its wholly owned subsidiary Chemviron Carbon GmbH, executed an agreement (the Charcoal Sale Agreement) with proFagus GmbH, proFagus Grundstuecksverwaltungs GmbH and proFagus Beteiligungen GmbH (as Guarantor) to sell, and sold, substantially all the assets, real estate, and specified liabilities of the Bodenfelde, Germany facility (the Charcoal/Liquid business). The facility includes the production of charcoal for consumer use and liquids that are recovered during charcoal production. The products are sold to retail and industrial markets. The aggregate sales price, based on an exchange rate of 1.19 Dollars per Euro**,** consisted of $20.4 million of cash which included a final working capital adjustment of $1.3 million. The Company provided guarantees to the buyer related to pre-divestiture tax liabilities, future environmental remediation costs related to pre-divestiture activities and other contingencies. Management believes the ultimate cost of such guarantees is not material. An additional $5.0 million could be paid contingent upon the business meeting certain earnings targets over the next three years. As of September 30, 2006, the Company has recorded a pre-tax gain of $5.0 million or $2.0 million, net of tax, on the sale of the Charcoal/Liquid divestiture.

On April 24, 2006, the Company completed the sale of the assets of its Solvent Recovery business to MEGTEC Systems, Inc. (MEGTEC), a subsidiary of Sequa Corporation. The Solvent Recovery unit provides turnkey on-site regenerable solvent recovery systems, distillation systems, on-site regenerable volatile organic compound concentrators, vapor-phase biological oxidation systems, and related services on a worldwide basis. The purchase price of $1.8 million included cash proceeds of approximately $0.8 million and $0.7 million of assumed liabilities, primarily accounts payable. The transaction was also subject to a working capital adjustment which is currently estimated at $0.3 million, which management expects to finalize and record in the fourth quarter of 2006. As of September 30, 2006, the Company recorded a pre-tax gain of $0.4 million or $0.3 million, net of tax, on the sale of the Solvent Recovery business.

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

	Charcoal/Liquid				Solvent Recovery			
	Three Months Ended September 30		Nine Months Ended September 30		Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	2006	2005	2006	2005	2006	2005	2006	2005
Net sales	$	$ 5,291	$ 1,375	$ 25,890	$ (35)	$ 2,772	$ 2,775	$ 11,187
Income (loss) from operations	(25)	(290)	(427)	2,514	(20)	(175)	(161)	1,263
Other income (expense)-net	120	12	5,009	38		(30)	430	(57)
Income (loss) before income taxes	95	(278)	4,582	2,552	(20)	(205)	269	1,206
Income tax expense (benefit)	44	(96)	2,847	883	(7)	(71)	94	417
Income (loss) from discontinued operations	$ 51	$ (182)	$ 1,735	$ 1,669	$ (13)	$ (134)	$ 175	$ 789

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

	Charcoal/Liquid		Solvent Recovery	
(Dollars in thousands)	September 30, 2006	December 31, 2005	September 30, 2006	December 31, 2005
Assets:				
Receivables	$	$ 1,059	$	$ 4,018
Inventories		6,924		113
Property, plant and equipment, net		7,310		42
Goodwill				1,000
Other assets		181		693
Total assets held for sale	$	$ 15,474	$	$ 5,866
Liabilities				
Accounts payable and accrued liabilities		2,604		3,157
Other liabilities		922		
Total liabilities held for sale	$	$ 3,526	$	$ 3,157

4. Gulf Coast Facility Impairment Charge

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

5. Inventories:

	September 30, 2006	December 31, 2005
Raw materials	$ 16,026	$ 16,501
Finished goods	55,000	51,154

	$ 71,026	$ 67,655

6. Supplemental Cash Flow Information:

	Nine Months Ended September 30, 2006	2005
Cash paid during the period for:		
Interest	$ (4,159)	$ (3,765)
Income taxes paid net	$ (687)	$ (357)

7. Dividends:

The Company s Board of Directors did not declare or pay a dividend for the quarter ended September 30, 2006. Common stock dividends declared and paid during the quarter ended September 30, 2005 were $.03 per common share.

8. Comprehensive income (loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income (loss)	$ (458)	$ (353)	$ 564	$ (1,766)
Other comprehensive income (loss), net of taxes	(209)	825	3,534	(4,006)
Comprehensive income (loss)	$ (667)	$ 472	$ 4,098	$ (5,772)

The only matter contributing to the other comprehensive income (loss) during the three and nine months ended September 30, 2006 was the foreign currency translation adjustment of $(0.3) million and $3.6 million, respectively, and the change in the fair value of the derivative instruments of $0.1 million and $(27) thousand, respectively as described in Note 10. The only matters contributing to the other comprehensive income (loss) during the three and nine months ended September 30, 2005 were the foreign currency translation adjustment of $1.1 million and ($4.1) million, respectively, and the change in the fair value of the derivative instruments of ($0.3) million and $0.1 million, respectively.

9. Segment Information:

The Company s management has identified three segments based on product line and associated services. Those segments include Activated Carbon and Service, Equipment, and Consumer. The Company s chief operating decision maker, its chief executive officer John S. Stanik, 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: carbon adsorption, ultraviolet light, and advanced ion exchange separation. The Consumer segment brings the Company s purification technologies directly to the consumer in the form of products and services including carbon cloth and activated carbon for tarnish prevention and household odors. The following segment information represents the results of the Company s continuing operations.

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Sales				
Carbon and Service	$ 67,869	$ 57,936	$ 200,489	$ 181,166
Equipment	8,740	7,972	26,627	29,333
Consumer	3,071	2,959	9,653	9,079
	$ 79,680	$ 68,867	$ 236,769	$ 219,578
Income (loss) from operations before depreciation, amortization, impairment, restructuring, and income taxes				
Carbon and Service	$ 6,776	$ 3,032	$ 20,885	$ 13,373
Equipment	(848)	(1,318)	(4,520)	(2,204)
Consumer	335	(281)	1,333	10
	6,263	1,433	17,698	11,179
Depreciation and amortization				
Carbon and Service	4,409	4,667	13,309	14,632
Equipment	180	243	598	794
Consumer	130	186	404	625
	4,719	5,096	14,311	16,051
Income (loss) from operations before impairment, restructuring, and income taxes	$ 1,544	$ (3,663)	$ 3,387	$ (4,872)
Reconciling items:				
Gulf Coast Facility impairment charge				(2,158)
Restructuring charge		(65)	(7)	(423)
Interest income	233	165	553	558
Interest expense	(1,530)	(1,248)	(4,628)	(3,578)
Other expense net	(660)	(646)	(2,018)	(1,278)
Consolidated loss before income taxes, equity in income, and minority interest	$ (413)	$ (5,457)	$ (2,713)	$ (11,751)

	September 30, 2006	December 31, 2005
Total Assets		
Carbon and Service	$ 284,432	$ 267,408
Equipment	40,652	44,607
Consumer	12,085	14,513
Total assets from continuing operations	$ 337,169	$ 326,528
Assets held for sale		21,340
Consolidated total assets	$ 337,169	$ 347,868

10. Derivative Instruments

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

The Company had thirteen derivative instruments outstanding at September 30, 2006 of which one was a foreign currency swap, nine were foreign currency forward exchange contracts, and three were cash flow hedges for forecasted purchases of natural gas. The Company applied hedge accounting treatment to the foreign currency swap and the three cash flow hedges for forecasted natural gas. The Company had thirty-one derivative instruments outstanding at September 30, 2005 of which one was a foreign currency swap and thirty were foreign currency forward exchange contracts. The Company applied hedge accounting treatment to six of the foreign currency forward exchange contracts, which were treated as foreign exchange cash flow hedges regarding payment for inventory purchases, and the foreign currency swap. The change in the fair market value of the effective hedge portion of the foreign currency forward exchange contracts was ($0.3) million and ($0.1) million, respectively, for the three and nine month periods ended September 30, 2005 and was recorded in other comprehensive (income) loss (see Note 8). It was released into operations over 12 months based on the timing of the sales of the underlying inventory. The release to operations was reflected in cost of products sold. During the periods ended September 30, 2006 and 2005, the Company recorded an immaterial gain in other income for the remaining nine and twenty-four foreign currency forward exchange contracts that did not qualify for hedge accounting treatment.

On April 26, 2004, the Company entered into a ten-year foreign currency swap agreement to fix the foreign exchange rate on a $6.5 million intercompany loan between the Company and its foreign subsidiary, Chemviron Carbon Ltd. Since its inception, the foreign currency swap has been treated as a foreign exchange cash flow hedge. Accordingly, the change in the fair value of the effective hedge portion of the foreign currency swap, net of tax, of $0.4 million and $0.3 million, respectively, for the three and nine month periods ended September 30, 2006 and $0.1 million for the three and nine month periods ended September 30, 2005 was recorded in other comprehensive income (loss). The balance of the effective hedge portion of the foreign currency swap recorded in other long-term liabilities was $0.7 million and $0.3 million, respectively, as of September 30, 2006 and 2005. The change in fair value and the balance of the effective hedge portion of the cash flow hedges for the forecasted purchase of natural gas recorded in other long-term liabilities was $0.5 million, net of tax, for the three and nine month periods ended September 30, 2006.

No component of the derivatives gains or losses has been excluded from the assessment of hedge effectiveness. For the periods ended September 30, 2006 and 2005, the net gain or loss recognized due to the amount of hedge ineffectiveness was insignificant.

11. Contingencies

In August 2005, the Company s Pearl River plant was impacted by Hurricane Katrina. In June 2006, the Company settled its property damage claim with its insurance carrier for approximately $8.8 million, resulting in a pre-tax gain of $4.9 million. In September 2006, the Company also settled its business interruption claim with its insurance carrier for approximately $3.8 million, resulting in a pre-tax gain of $3.2 million.

On December 31, 1996, the Company purchased the common stock of Advanced Separation Technologies Incorporated (AST) from Progress Capital Holdings, Inc. and Potomac Capital Investment Corporation. On January 12, 1998, the Company filed a claim for unspecified damages in the United States District Court in the Western District of Pennsylvania alleging among other things that Progress Capital Holdings and Potomac Capital Investment Corporation materially breached various AST financial and operational representations and warranties included in the Stock Purchase Agreement. Based upon information obtained since the acquisition and corroborated in the course of pre-trial discovery, the Company believes that it has a reasonable basis for this claim and intends to vigorously pursue reimbursement for damages sustained. Neither the Company nor its counsel can predict with certainty the amount, if any, of recovery that will be obtained from the defendants in this matter.

The Company is a party in three cases involving challenges to the validity of its U.S. Patent No. 6,129,893 and U.S. Patent No. 6,565,803 B1 (U.S. Patents) and its Canadian Patent No. 2,331,525 (the Canadian Patent) for the method of preventing infection from cryptosporidium found in drinking water. In the first case, Wedeco Ideal Horizons, Inc. filed suit against the Company in the United States District Court for the District of New Jersey seeking a declaratory judgment that it does not infringe the Company s U.S. Patents on the grounds that the U.S. Patents are invalid and alleging unfair competition by the Company. On June 30, 2006, the District Court granted Wedeco s motion for summary judgment on the issue of validity of the U.S. Patents, denied the Company s motion for summary judgment on infringement on the ground that there can be no infringement where there is no valid patent and granted the Company s motion for summary judgment on Wedeco s claim of unfair competition. The Company has appealed the Court s decision against it to the Federal Circuit Court of Appeals and expects a decision will be rendered by the Court in eighteen to twenty-four months. In the second case, the Company filed suit against the Town of Ontario, New York, Trojan Technologies, Inc. (Trojan) and Robert Wykle, et al. in the United States District Court for the Western District of New York alleging that the defendant is practicing the method claimed within the U.S. Patents without a license. The District Court has stayed this action pending the outcome of the Company s appeal in the Wedeco case. In the third case, the Company filed suit against the City of North Bay, Ontario, Canada (North Bay) and Trojan in the Federal Court of Canada alleging infringement of the Canadian Patent by North Bay and inducement of infringement by Trojan. A bench trial was completed in April 2006. On November 14, 2006 the Court dismissed the Company s claim for a declaration that the defendants infringed the Canadian Patent and the Company s claims for an injunction, compensation, damages, interest, and costs and declared that the Canadian Patent is invalid. The Court also found that the defendants are entitled to their costs, to be assessed on the ordinary scale. The Company has insufficient information to estimate the amount of defendants costs, but expects the defendants to claim that they are entitled to costs exceeding $0.5 million. The Company intends to appeal the Court s decision. The Company cannot predict the ultimate outcome of the three matters.

The Company has received a demand from the Pennsylvania Department of Environmental Protection (PADEP) that the Company reimburse PADEP for response costs the agency alleges have been taken at a site owned by a third party and located in Allegheny County, Pennsylvania (Site). The letter also included an unspecified amount for interest and for any future costs that might be incurred by PADEP at the Site. The Company understands that the response costs are approximately $1.3 million. Based on information provided by PADEP, the Site is approximately 8 acres and was used from the 1950s until the 1960s as a disposal site for coke or carbon sweepings and other industrial wastes. The Company has been in discussions with PADEP regarding the Company s position that it is not the entity that disposed of materials containing the contaminants identified by PADEP at the Site and that any materials that may have been deposited by the Company s predecessor did not contain actionable levels of hazardous substances identified by PADEP. The Company and the PADEP have agreed to a settlement of the matter, subject to written documentation, requiring the Company to pay $515,000 in two installments to resolve the matter. This amount has been charged to earnings for the second quarter ended June 30, 2006. The terms of the settlement have been published for public comment. The initial public comment period has expired and PADEP has received comments on the proposed settlement. PADEP is expected to timely respond to these comments. If there are no further appeals filed after PADEP s responses to the comments are issued, the Company expects to receive notification from PADEP sometime in the first quarter of 2007 that the settlement has been approved and the first installment payment will be made.

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

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

In conjunction with the February 2004 purchase of substantially all of Waterlink s operating assets and the stock of Waterlink s U.K. subsidiary, several environmental studies were performed on the Columbus, Ohio property by environmental consulting firms which identified and characterized areas of contamination. In addition, these firms identified alternative methods of remediating the property, identified feasible alternatives and prepared cost evaluations of the various alternatives. The Company concluded from the information in the studies that a loss at this property is probable and recorded the liability as a component of noncurrent other liabilities in the Company s consolidated balance sheet. At December 31, 2005, the balance recorded was $5.3 million. Liability estimates are based on an evaluation of, among other factors, currently available facts, existing technology, presently enacted laws and regulations, and the remediation experience of other companies. During the first four months of 2006, the Company undertook a process of evaluating contractors and securing bids to perform the remediation work on the Columbus, Ohio property. As a result of the evaluation of the additional information gathered during that process, the Company reduced its estimate of its liability by $1.3 million to $4.0 million as of March 31, 2006. The reduction of the liability was recorded as a reduction of selling, general and administrative expenses on the Company s condensed consolidated statement of operations and retained earnings for the three months ended March 31, 2006. The Company has not incurred any environmental remediation expense for the nine months ended September 30, 2006 and has incurred a total of $0.2 million of environmental remediation expense to date.

It is reasonably possible that a change in the estimate of this obligation will occur as remediation preparation and remediation activity commences over the upcoming months. The ultimate remediation costs are dependent upon, among other things, the requirements of any state or federal environmental agencies, the remediation methods employed, the final scope of work being determined, and the extent and types of contamination which will not be fully determined until experience is gained through remediation and related activities. The accrued amounts are expected to be paid out over the course of several years once work has commenced. The Company has yet to make a determination that it will proceed with remediation efforts in 2006.

The Company owns a 49% interest in a joint venture, Calgon Mitsubishi Chemical Corporation, which was formed on October 1, 2002. At September 30, 2006, Calgon Mitsubishi Chemical Corporation had $8.5 million in borrowings from an affiliate of the majority owner of the joint venture. The Company has agreed with the joint venture and the lender that, upon request by the lender, the Company will execute a guarantee for up to 49% of such borrowings. At September 30, 2006, the lender had not requested, and the Company has not provided, such guarantee.

12. Goodwill & Intangible Assets

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

The following is the categorization of the Company s intangible assets as of September 30, 2006 and December 31, 2005 respectively:

		September 30, 2006			**December 31, 2005**		
	Weighted Average Amortization Period	**Gross Carrying Amount**	**Foreign Exchange**	**Accumulated Amortization**	**Gross Carrying Amount**	**Foreign Exchange**	**Accumulated Amortization**
Amortized Intangible Assets:							
Patents	15.4 Years	$ 1,369	$	$ (771)	$ 1,369	$	$ (711)
Customer Relationships	17.0 Years	9,323	(59)	(3,305)	9,323	(206)	(2,316)
Customer Contracts	2.8 Years	664	(18)	(641)	664	(19)	(577)
License Agreement	5.0 Years	500		(292)	500		(217)
Unpatented Technology	20.0 Years	2,875		(1,154)	2,875		(1,031)
Product Certification	7.9 Years	665		(308)	665		(270)
Total	16.0 Years	$ 15,396	$ (77)	$ (6,471)	$ 15,396	$ (225)	$ (5,122)

For the three and nine months ended September 30, 2006, the Company recognized $0.4 million and $1.3 million, respectively, of amortization expense. For the three and nine months ended September 30, 2005, the Company recognized $0.5 million and $1.5 million, respectively, of amortization expense. The Company estimates amortization expense to be recognized during the next five years as follows:

For the year ending December 31:

2006	$	1,763
2007	$	1,530
2008	$	1,330
2009	$	1,057
2010	$	914

The changes in the carrying amounts of goodwill by segment for the nine months ended September 30, 2006 are as follows:

	Carbon & Service Segment	Equipment Segment	Consumer Segment	Total
Balance as of January 1, 2006	$ 20,534	$ 13,280	$ 60	$ 33,874
Foreign exchange	334	305		639
Balance as of September 30, 2006	$ 20,868	$ 13,585	$ 60	$ 34,513

13. Borrowing Arrangements

On August 18, 2006, the Company issued $75.0 million of Convertible Senior Notes (the Notes) due in 2036 and entered into a new revolving credit facility (the Credit Facility). The Company used $68.4 million of the net proceeds from its offering of the Notes to fully repay indebtedness under the Company s prior revolving credit facility. Accordingly, all parties completed their obligations under the Amended and Restated Credit Agreement, dated as of January 30, 2006 (the Old Credit Agreement). The material terms and conditions of the Old Credit Agreement are more fully discussed in Note 13 to the Company s unaudited condensed consolidated financial statements contained in its Quarterly Report on Form 10-Q/A for the fiscal quarter ended June 30, 2006. As part of the aforementioned repayment, the Company wrote-off $0.3 million of deferred financing fees as well as $0.1 million in fees associated with the repayment.

5.00% Convertible Senior Notes due 2036

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

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

The initial conversion rate will be 196.0784 shares of the Company s common stock per $1,000 principal amount of Notes, equivalent to an initial conversion price of approximately $5.10 per share of common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for accrued interest, including any additional interest. In addition, following certain fundamental changes that occur prior to August 15, 2011, the Company will increase the conversion rate for holders who elect to convert Notes in connection with such fundamental changes in certain circumstances.

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

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

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

The Company sold the Notes at a discount of $3.3 million that will be amortized over a period of five years. The discount will be reflected as a deduction from the face amount of the debt. The Company recorded interest expense of $0.5 million of which $0.1 million related to the amortization of the discount and $0.4 million which related to the Notes. The Company incurred issuance costs of $1.5 million which have been deferred and will be amortized over a five year period.

The Notes and the Guarantees were sold only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the Securities Act). The notes offered hereby, the subsidiary guarantees and the common stock issuable upon conversion of the notes have not been registered. This offering is being conducted in reliance upon an exemption from registration under the Securities Act and applicable state securities laws. We and the subsidiary guarantors have agreed, however, to use reasonable best efforts to file a shelf registration statement with the SEC within 90 days of the issue date, and to use reasonable efforts to cause such registration statement to become effective within 240 days from the issue date, in order to register resales of the notes, the subsidiary guarantees and common stock issuable upon conversion of the notes under the Securities Act. The 90-day period expired on November 16, 2006. The Company did not file a registration statement within the time period and, as a result, is obligated to pay predetermined additional interest to holders of the notes as described in the registration rights agreement.

Credit Facility

The Credit Facility initially is a $50.0 million facility and includes a separate U.K. sub-facility and a separate Belgian sub-facility. The Administrative Agent will use commercially reasonable efforts to obtain commitments from a syndicate of lenders, permitting the total revolving credit commitment to be increased up to $75.0 million.

The Company is currently discussing the syndication of its revolving credit facility and plans to increase the total commitment of the current facility. The terms of the Credit Facility are subject to change in the event that the credit facility is syndicated. Availability for domestic borrowings under the Credit Facility is based upon the value of eligible inventory, accounts receivable and property, plant and equipment, with separate borrowing bases to be established for foreign borrowings under a separate U.K. sub-facility and a separate Belgian sub-facility. Availability under the Credit Facility is conditioned upon various customary conditions.

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

As of September 30, 2006, the carrying amount of assets pledged as collateral was $53.4 million. The carrying amount as of September 30, 2006 for domestic, U.K., and Belgian borrowers were $43.0 million, $5.6 million, and $4.8 million, respectively. The Credit Facility contains a fixed charge coverage ratio covenant which becomes effective when total domestic availability falls below $11.0 million. As of September 30, 2006, total availability was $28.6 million. Availability as of September 30, 2006 for domestic, U.K., and Belgian borrowers were $24.3 million, $4.3 million, and zero, respectively.

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

The Company incurred debt issuance costs of $0.5 million which have been deferred and will be amortized over a five year period. Borrowings under the Credit Facility were being charged a weighted average interest rate of 7.08% at September 30, 2006.

14. Stock Compensation Plans

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

The Company adopted SFAS No. 123(R), Share-based Payments, on January 1, 2006 using the modified prospective application method. Under this transition method, compensation cost recognized in the quarter and year-to-date ended September 30, 2006 includes the applicable amounts of compensation cost of all stock-based payments granted prior to, but not yet vested as of January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in the pro forma footnote disclosures). Compensation cost in the future will also include stock-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123(R)). Results for prior periods have not been restated. Prior to the adoption of SFAS No. 123(R), no compensation cost was reflected in net income for stock options or stock appreciation rights (SARS) as all options and SARS granted had an exercise price equal to the market value of the underlying common stock on the date of grant. In accordance with SFAS No. 123(R), compensation expense for stock options and SARS is now recorded over the vesting period using the fair value on the date of grant, as calculated by the Company using the Black-Scholes model. The nonvested restricted stock grant date fair value, which is the market price of the underlying common stock, is expensed over the vesting period.

Stock-based compensation expense

The following table summarizes the total compensation expense recognized for stock-based compensation awards:

(Dollars in thousands except per share data)	Three Months Ended September 30 2006	Nine Months Ended September 30 2006
Stock-based compensation expense recognized:		
Selling, general and administrative expenses	$ 409	$ 874
Total	409	874
Tax effect	161	344
Increase in net loss/decrease in net income, respectively	$ 248	$ 530
Decrease in basic and diluted earnings per share	$ 0.01	$ 0.01

Prior period pro forma presentations

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

(Dollars in thousands except per share data)	Three Months Ended September 30 2005	Nine Months Ended September 30 2005
Net Loss		
As reported	$ (353)	$ (1,766)
Stock-based employee compensation Expense included in reported net income, net of tax effect	65	159
Stock-based compensation at fair value, net of tax effects	(159)	(563)
Pro forma	$ (447)	$ (2,170)
Weighted average shares outstanding		
Basic	39,569,277	39,421,446
Effect of dilutive securities		
Diluted	39,569,277	39,421,446
Net loss per common share		
Basic and Diluted		
As reported	$ (.01)	$ (.04)
Pro forma	$ (.01)	$ (.06)

The above disclosures of the effect of stock-based compensation expense for the three and nine months ended September 30, 2006 and the pro forma effect as if SFAS No. 123 had been applied to the three and nine months ended September 30, 2005, are based on the fair value of stock option awards estimated on the date of grant using the Black-Scholes option valuation model with the assumptions listed below:

	Nine Months Ended September 30	
	2006	2005
Average grant date exercise price per share of stock appreciation rights	$ 6.19	$ 0.00
Average grant date exercise price per share of unvested awards options	$ 7.48	$ 7.43
Dividend yield	.00-.70%	.70%-1.79%
Expected volatility	34-37%	37%-46%

Risk-free interest rates	3.62%-5.20%	3.03%-3.62%
Expected lives of options	3 -6 years	5 years
Average grant date fair value per share of stock appreciation rights	$ 1.85	$ 0.00
Average grant date fair value per share of unvested option awards	$ 3.06	$ 2.77

The *Dividend yield* is based on the latest annualized dividend rate and the current market price of the underlying common stock at the date of grant.

Expected volatility is based on the historical volatility of the Company s stock and the implied volatility calculated from traded options on the Company s stock.

The *Risk-free interest rates* are based on the U.S. Treasury strip rate for the expected life of the option.

The *Expected lives of options* are determined from primarily historical stock option exercise data. The Company applied the simplified method in accordance with Staff Accounting Bulletin No. 107 for all plain-vanilla options.

Stock Appreciation Rights

Stock appreciation rights (SARS) granted to employees are valued at the grant date fair value which is the market price of common stock on the date of grant. The grants vest over a service period of three years and are payable in cash. The following table shows a summary of the status and activity of stock appreciation rights for the nine months ended September 30, 2006:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year		$		
Granted	37,000	6.19		
Exercised				
Canceled				
Outstanding at September 30, 2006	37,000	$ 6.19	2.75	$
Exercisable at September 30, 2006		$		$

The weighted-average grant-date fair value of employee stock appreciation rights granted during the nine months ended September 30, 2006 was $1.33 per share or $0.1 million.

Stock option activity

The following tables show a summary of the status and activity of stock options for the nine months ended September 30, 2006:

Employee Stock Option Plan:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	2,138,900	$ 6.67		
Granted	120,700	7.07		
Exercised	(5,250)	5.07		
Canceled	(208,650)	6.73		
Outstanding at September 30, 2006	2,045,700	$ 6.70	6.19	$ 4
Exercisable at September 30, 2006	1,876,700	$ 6.62	5.91	$

The weighted-average grant-date fair value of employee stock options granted during the nine months ended September 30, 2006 was $2.99 per share or $0.4 million. The total fair value of options vested during the nine months ended September 30, 2006 was $2.70 per share or $0.7 million.

Non-Employee Directors Stock Option Plan:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	450,737	$ 7.14		
Granted	59,520	7.28		
Exercised				
Canceled				
Outstanding at September 30, 2006	510,257	$ 7.16	6.13	$
Exercisable at September 30, 2006	450,737	$ 7.14	5.67	$

The weighted-average grant-date fair value of non-employee director stock options granted during the nine months ended September 30, 2006 was $3.15 per share or $0.2 million. The total fair value of options vested during the nine months ended September 30, 2006 was $2.06 per share or $11 thousand.

During the nine months ended September 30, 2006, the total intrinsic value of stock options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the option) was $11 thousand. The total amount of cash received from the exercise of options was $27 thousand, and the related net tax benefit realized from the exercise of these options was immaterial.

Nonvested Restricted stock activity

Nonvested restricted stock granted to employees with a zero exercise price under the Company s Employee Stock Option Plan is valued at the grant date fair value, which is the market price of the underlying common stock, and vest over service periods that range from one to three years.

The following table shows a summary of the status and activity of nonvested restricted stock grants for the nine months ended September 30, 2006:

	Shares	Weighted-Average Grant-Date Fair-Value (per share)
Nonvested at January 1, 2006	240,800	$ 7.10
Granted	194,400	5.91
Vested	(49,903)	6.91
Cancelled	(56,972)	6.46
Nonvested at September 30, 2006	328,325	$ 6.48

Compensation expense related to nonvested restricted stock totaled $0.4 million for the nine month period ended September 30, 2006. The related net tax benefit related to restricted awards was immaterial for the nine month period ended September 30, 2006.

Total Shareholder Return (TSR) performance stock awards

Performance stock awards vest, subject to the satisfaction of performance goals, at the end of a three-year performance period. The number of performance stock awards that are scheduled to vest is a function of Total Shareholder Return (TSR) performance. Under the terms of the TSR performance stock award, the Company s actual TSR for the performance period is compared to the results of its peer companies for the same period with the Company s relative position in the group determined by percentile rank. The actual award payout is determined by multiplying the target award by the performance factor percentage provided for the Company s percentile ranking and can vest at between zero and 200 percent of the target award. The value of the TSR performance stock is determined using a Monte Carlo simulation model. The following significant assumptions were used: dividend rate of 0%, volatility of 45.6%, risk-free interest rate of 4.69%, and a term of three years. The Monte Carlo value is expensed on a straight-line basis over the three-year performance period.

The following table shows a summary of the TSR performance stock awards granted during the nine months ended September 30, 2006 and outstanding as of September 30, 2006:

Performance Period	Fair Value (in thousands)	Unrecognized Compensation Expense (in thousands)	Minimum Shares	Target Shares	Maximum Shares
2006-2008	$ 798	$ 653		62,800	125,600

As of September 30, 2006, there was $2.6 million of total future compensation cost related to nonvested share-based compensation arrangements and the weighted-average period over which this cost is expected to be recognized is approximately three years.

15. Pensions

U.S. Plans:

For U.S. plans, the following table provides the components of net periodic pension costs of the plans for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30		Nine Months Ended September 30	
Pension Benefits (in thousands)	2006	2005	2006	2005
Service cost	$ 617	$ 729	$ 1,873	$ 2,225
Interest cost	1,237	1,181	3,690	3,534
Expected return on plan assets	(1,152)	(1,021)	(3,281)	(3,085)
Amortization of prior service cost	88	114	225	345
Net amortization	188	165	644	469
Settlement	509		509	
Curtailment	279		279	237
Net periodic pension cost	$ 1,766	$ 1,168	$ 3,939	$ 3,725

The expected long-term rate of return on plan assets is 8.25% in 2006.

Employer Contributions

In its 2005 financial statements, the Company disclosed that it expected to contribute $4.4 million to its U.S. pension plans in 2006. As of September 30, 2006, the Company has contributed the $4.4 million as well as an additional $4.7 million. No further contributions are expected to be made for the remainder 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 nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30		Nine Months Ended September 30	
Pension Benefits (in thousands)	**2006**	**2005**	**2006**	**2005**
Service cost	$ 249	$ 241	$ 747	$ 723
Interest cost	389	430	1,167	1,290
Expected return on plan assets	(272)	(302)	(816)	(906)
Amortization of prior service cost	12	14	36	42
Net amortization	44	23	132	69
Net periodic pension cost	$ 422	$ 406	$ 1,266	$ 1,218

The expected long-term rate of return on plan assets ranges from 5.00% to 7.10% in 2006.

Employer Contributions

In its 2005 financial statements, the Company disclosed that it expected to contribute $2.0 million to its European pension plans in 2006. As of September 30, 2006, the Company contributed $1.5 million. The Company expects to contribute the remaining $0.5 million as well as an additional $0.1 million over the remainder of the year.

Defined Contribution Plans

The Company also sponsors a defined contribution pension plan for certain U.S. employees that permits employee contributions of up to 50% of eligible compensation in accordance with Internal Revenue Service guidance. As of January 1, 2006, for all U.S. salaried employees that elected to freeze their benefits under the Company s defined benefit plans, the Company makes a fixed contribution of 2% of employee eligible compensation and matches contributions made by each participant in an amount equal to 100% of the employee contribution up to a maximum of 2% of employee compensation. In addition, each of these employees is eligible for an additional Company contribution of up to 4% of employee compensation based upon annual Company performance at the discretion of the Company s Board of Directors. In September 2006, the Company announced the freezing of its defined benefit pension plans for salaried employees replacing it with the aforementioned defined contribution plan. For all other U.S. salaried employees, the Company makes matching contributions on behalf of each participant in an amount equal to 25% of the employee contribution up to a maximum of 4% of employee eligible compensation. Employer matching contributions vest immediately. Total expenses related to this defined contribution plan for the three months ended September 30, 2006 and 2005 were $0.1 million and $45 thousand, respectively, and for the nine months ended September 30, 2006 and 2005 were $0.3 million and $0.1 million, respectively.

16. Taxation

The effective tax rate for the nine month period ended September 30, 2006 was a benefit of 42.6% compared to a benefit of 55.4% for the period ended September 30, 2005. The period ended September 30, 2006 tax rate was higher than the statutory Federal Income Tax Rate due to our lower than expected profit and certain benefits, principally the exclusion provided under United States income tax laws with respect to the Extraterritorial Income Exclusion Benefit, benefits related to foreign tax credits, and recognition of state income tax benefits combined with a change in estimate of the Company s full year pre-tax earnings. The nine month period ended September 30, 2005 tax rate was higher than the statutory Federal Income Tax Rate due to the Extraterritorial Income Exclusion Benefit, recognition of foreign tax credit benefits, and recognition of state income tax benefits. The primary items that contributed to the change in the effective tax rate between the nine month period ended September 30, 2006 and the similar period for 2005 was the reduction in estimate of the Company s full year 2006 pre-tax earnings and its impact on the tax effect of the aforementioned permanent items.

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

The Company provides an estimate for income taxes based on an evaluation of the underlying accounts, its tax filing positions and interpretations of existing law. Changes in estimates are reflected in the year of settlement or expiration of the statute of limitations. The Company does not believe that resolution of existing unresolved tax matters will have a material impact on the consolidated financial condition of the Company, although a resolution could have a material impact on the Company s consolidated statement of income and comprehensive income for a particular future period and on the Company s effective tax rate.

17. New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4, which requires the recognition of costs of idle facilities, excessive spoilage, double freight and re-handling costs as a component of current-period expenses. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company adopted SFAS No. 151 effective January 1, 2006 as required. Such adoption had no material impact on the accompanying financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The Company adopted SFAS No. 154 effective January 1, 2006 as required. Such adoption had no material impact on the accompanying financial statements.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, which establishes the accounting for transactions in which an entity exchanges its equity instruments or certain liabilities based upon an entity s equity instruments for goods or services. SFAS No. 123R generally requires that publicly traded companies measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award at the grant date. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award which is usually the vesting period. Management adopted SFAS No. 123R beginning January 1, 2006 as required and the related costs are reflected in the accompanying financial statements.

In June 2006, the FASB issued FASB Interpretation no. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Standard No. 109 . FIN No. 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the financial impact of adopting FIN No. 48.

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

In September 2006, the FASB issued SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires recognition of the funded status of a benefit plan on the balance sheet; the recognition in other comprehensive income of gains or losses and prior service costs or credits arising during the period but which are not included as components of periodic benefit cost; the measurement of defined benefit plan assets and obligations as of the balance sheet date; and disclosure of additional information about the effects on periodic benefit cost for the following fiscal year arising from delayed recognition of gains and losses in the current period. SFAS No. 158 is effective the Company s year ended December 31, 2006. The Company is in the process of evaluating the financial impact of adopting SFAS No. 158. However, based on the funded status of the Company s defined benefit pension plans and other postretirement plan as of December 31, 2005 (the Company s most recent measurement date), the Company would be required to increase its net liabilities for pension and other postretirement benefits, which would result in a decrease in stockholders equity of approximately $29.0 million. The actual impact may vary from the estimated impact as the ultimate amounts recorded will depend on a number of assumptions, including, but not limited to, the discount rates in effect at December 31, 2006, the actual rate of return on the Company s pension plan assets for the year then ended and the impact of the Company s pension contributions during the year ended December 31, 2006. Changes in these assumptions since the Company s last measurement date could increase or decrease the impact of adopting SFAS No. 158 on the Company s consolidated financial statements at December 31, 2006.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year s financial statements are materially misstated. SAB 108 becomes effective during fiscal year 2006.

18. Earnings Per Share

Calgon Carbon Corporation s obligation under the Senior Convertible Notes is to settle the par value of the Notes in cash and to settle the amount in excess of par value in its common shares. Therefore the Company is not required to include any shares underlying the Notes in its diluted weighted average shares outstanding until the average stock price per share for the quarter exceeds the $5.10 conversion price. At such time, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) will be included, which is based upon the amount by which the average stock price exceeds the conversion price. For the first $0.50 per share that the Company s average stock price exceeds the $5.10 conversion price of the Notes, it will include approximately 1,300,000 additional shares in its diluted share count. For the second $0.50 per share that the Company s average stock price exceeds the $5.10 conversion price, it will include approximately 1,100,000 additional shares, for a total of approximately 2,400,000 shares, in its diluted share count, and so on, with the additional shares dilution decreasing for each $1 per share that the Company s average stock price exceeds $5.10 if the stock price rises further above $5.10 (see table below). As of September 30, 2006, the average stock price was $4.32, which was lower than the conversion price of $5.10, therefore zero shares were included in the dilutive share calculation for the period of time the Notes were outstanding for the quarter ended September 30, 2006.

Treasury Stock Method of Accounting for Share Dilution

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

Formula: Number of extra dilutive shares
=((Stock Price * Underlying Shares) - Principal)/Stock Price

Condition: Only applies when share price exceeds $5.10

Stock Price	Conversion Price	Price Difference	Included in Share Count	Share Dilution Per Price Difference
$ 5.10	$ 5.10	$ 0.00		
$ 5.60	$ 5.10	$ 0.50	1,313,023	2,626,046
$ 6.10	$ 5.10	$ 1.00	2,410,798	2,410,798
$ 7.10	$ 5.10	$ 2.00	4,142,500	2,071,250
$ 8.10	$ 5.10	$ 3.00	5,446,621	1,815,540
$ 9.10	$ 5.10	$ 4.00	6,464,122	1,616,031
$ 10.10	$ 5.10	$ 5.00	7,280,137	1,456,027

19. Other Financial Information

Calgon Carbon Corporation has issued $75.0 million in aggregate principal amount of 5.00% Convertible Senior Notes due in 2036. The Notes are fully and unconditionally guaranteed by certain of our domestic subsidiaries on a senior unsecured basis. All of the subsidiary guarantors are wholly owned by the parent company and the guarantees are joint and several. The subsidiary guarantees will be general unsecured senior obligations of the subsidiary guarantors and will rank equally in right of payment with all of the existing and future senior indebtedness of the subsidiary guarantors. If the Company fails to make payment on the Notes, the subsidiary guarantors must make them instead. The Notes will be effectively subordinated to any indebtedness of the Company s non-guarantor subsidiaries. The Notes will be effectively junior to all of the Company s existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The Notes and the Guarantees were sold only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the Securities Act).

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

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

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

Condensed Consolidating Statements of Operations
Three months ended September 30, 2005

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$ 59,523	$ 11,127	$ 9,413	$ (11,196)	$ 68,867
Cost of products sold	46,193	8,338	7,952	(11,196)	51,287
Depreciation and amortization	4,655	386	55		5,096
Selling, general and administrative expenses	13,042	1,235	796		15,073
Research and development expense	976	98			1,074
Restructuring	65				65
Interest (income) expense net	4,237	(3,123)	(31)		1,083
Other expense net	117	173	356		646
Provision (benefit) for income taxes	(5,638)	261	354		(5,023)
Results of affiliates operations	(3,676)	358		3,318	
Equity in income (loss) from equity investments			403	(6)	397
Minority interest					
Income (loss) from continuing operations	(448)	3,401	334	(3,324)	(37)
Income (loss) from discontinued operations	95	(229)	(182)		(316)
Net income (loss)	$ (353)	$ 3,172	$ 152	$ (3,324)	$ (353)

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

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$ 208,518	$ 33,052	$ 32,399	$ (37,200)	$ 236,769
Cost of products sold	158,874	27,734	26,862	(37,200)	176,270
Depreciation and amortization	12,928	1,147	236		14,311
Selling, general and administrative expenses	34,212	2,575	2,630		39,417
Research and development expense	3,119	265			3,384
Restructuring	7				7
Interest (income) expense - net	15,444	(10,845)	(524)		4,075
Other expense net	941	358	719		2,018
Provision (benefit) for income taxes	(209)	(35)	(912)		(1,156)
Results of affiliates operations	(17,254)	(5,493)		22,747	
Equity in income from equity investments			203		203
Minority interest				8	8
Income (loss) from continuing operations	456	17,346	3,591	(22,739)	(1,346)
Income (loss) from discontinued operations	108	67	2,723	(988)	1,910
Net income (loss)	$ 564	$ 17,413	$ 6,314	$ (23,727)	$ 564

Condensed Consolidating Statements of Operations
Nine months ended September 30, 2005

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$ 194,298	$ 32,736	$ 26,272	$ (33,728)	$ 219,578
Cost of products sold	145,705	25,762	22,455	(33,728)	160,194
Depreciation and amortization	14,611	1,221	219		16,051
Selling, general and administrative expenses	38,779	3,873	2,240		44,892
Research and development expense	3,045	268			3,313
Restructuring	2,581				2,581
Interest (income) expense - net	11,941	(8,825)	(96)		3,020
Other expense net	89	253	936		1,278
Provision (benefit) for income taxes	(7,038)	330	201		(6,507)
Results of affiliates operations	(13,122)	(1,937)		15,059	
Equity in income (loss) from equity investments			1,031	(11)	1,020
Minority interest					
Income (loss) from continuing operations	(2,293)	11,791	1,348	(15,070)	(4,224)
Income (loss) from discontinued operations	527	261	1,670		2,458
Net income (loss)	$ (1,766)	$ 12,052	$ 3,018	$ (15,070)	$ (1,766)

Condensed Consolidating Balance Sheets
September 30, 2006

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash & Cash Equivalents	$ 1,675	$ 1,751	$ 17,303	$ (15,658)	$ 5,071
Receivables	47,073	13,836	4,946	(8,027)	57,828
Inventories	58,790	6,552	5,651	33	71,026
Other current assets	17,948	1,993	2,263		22,204
Total current assets	125,486	24,132	30,163	(23,652)	156,129
Intercompany accounts receivable	54,464	154,891	568	(209,923)	
Property, plant, and equipment, net	92,805	6,855	7,408		107,068
Intangibles	5,100	3,748			8,848
Goodwill	17,764	8,093	8,656		34,513
Equity investments	221,740	107,043	6,790	(328,598)	6,975
Other assets	12,503	7,475	3,658		23,636
Total assets	$ 529,862	$ 312,237	$ 57,243	$ (562,173)	$ 337,169
Accounts payable	$ 29,221	$ 17,076	$ 3,739	$ (12,878)	$ 37,158
Other current liabilities	31,225	4,880	2,867	(17,364)	21,608
Total current liabilities	60,446	21,956	6,606	(30,242)	58,766
Intercompany accounts payable	143,478	49,112	10,775	(203,365)	
Long-term debt	81,693				81,693
Other non-current liabilities	88,774	11,252	9,740	(68,527)	41,239
Shareholders equity	155,471	229,917	30,122	(260,039)	155,471
Total liabilities and shareholders equity	$ 529,862	$ 312,237	$ 57,243	$ (562,173)	$ 337,169

Condensed Consolidating Balance Sheets
December 31, 2005

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash & Cash Equivalents	$ 3,048	$ 3,681	$ 9,837	$ (11,120)	$ 5,446
Receivables	45,802	15,307	3,486	(13,371)	51,224
Inventories	57,099	6,713	3,810	33	67,655
Other current assets	17,100	1,921	914		19,935
Assets held for sale	5,165	702	15,473		21,340
Total current assets	128,214	28,324	33,520	(24,458)	165,600
Intercompany accounts receivable	51,085	139,772	436	(191,293)	
Property, plant, and equipment, net	91,088	6,952	5,099	5,606	108,745
Intangibles	5,991	4,058			10,049
Goodwill	17,764	7,757	8,353		33,874
Equity investments	213,606	103,005	7,034	(316,426)	7,219
Other assets	11,798	6,864	3,719		22,381
Total assets	$ 519,546	$ 296,732	$ 58,161	$ (526,571)	$ 347,868
Accounts payable	$ 33,820	$ 16,777	$ 1,571	$ (11,733)	$ 40,435
Other current liabilities	28,660	7,060	991	(14,532)	22,179
Liabilities held for sale	2,156	1,001	3,526		6,683
Total current liabilities	64,636	24,838	6,088	(26,265)	69,297
Intercompany accounts payable	129,654	47,665	8,440	(185,759)	
Long-term debt	83,925				83,925
Other non-current liabilities	90,771	11,253	10,000	(67,938)	44,086
Shareholders equity	150,560	212,976	33,633	(246,609)	150,560
Total liabilities and shareholders equity	$ 519,546	$ 296,732	$ 58,161	$ (526,571)	$ 347,868

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

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash (used in) provided by operating activities	$ (24,667)	$ 12,413	$ (2,986)	$ 159	$ (15,081)
Investing activities:					
Proceeds from insurance settlement for property and equipment	4,595				4,595
Proceeds from sale of assets	778		20,435		21,213
Property, plant and equipment expenditures	(9,459)	(116)	(414)		(9,989)
Investment from (in) affiliates	11,217	(823)	(10,394)		
Other	676				676
Net cash provided by (used in) investing activities	7,807	(939)	9,627		16,495
Financing activities:					
Net borrowings (repayments)	6,121	(607)	25	(4,538)	1,001
Debt issuance costs	(3,233)				(3,233)
Intercompany and equity transactions	10,444	(13,672)	3,228		
Other	356	30		(30)	356
Net cash provided by (used in) financing activities	13,688	(14,249)	3,253	(4,568)	(1,876)
Effect of exchange rate changes on cash and cash equivalents	1,798	844	(2,426)	(129)	87
(Decrease) increase in cash and cash equivalents					