CALGON CARBON CORPORATION
Form 10-Q
November 10, 2008

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, 2008 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 x No o

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).

Yes o No x

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

Class	Outstanding at November 7, 2008
Common Stock, $.01 par value	54,059,659 shares

CALGON CARBON CORPORATION
FORM 10-Q
QUARTER ENDED September 30, 2008

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

I N D E X

			Page
PART 1 – CONDENSED CONSOLIDATED FINANCIAL INFORMATION			
	Item 1.	Condensed Consolidated Financial Statements	
		Introduction to the Condensed Consolidated Financial Statements	2
		Condensed Consolidated Statements of Operations (unaudited)	3
		Condensed Consolidated Balance Sheets (unaudited)	4
		Condensed Consolidated Statements of Cash Flows (unaudited)	5
		Notes to Condensed Consolidated Financial Statements (unaudited)	6
	Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	30
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	40
	Item 4.	Controls and Procedures	41
PART II - OTHER INFORMATION			
	Item 1.	Legal Proceedings	42
	Item 1a.	Risk Factors	42
	Item 2c.	Unregistered Sales of Equity Securities and Use of Proceeds	42
	Item 6.	Exhibits	42
SIGNATURES			43
CERTIFICATIONS			47

1

PART I – CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements included herein have been prepared by Calgon Carbon Corporation and subsidiaries (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with the Company's audited consolidated financial statements and the notes included therein for the year ended December 31, 2007, as filed with the Securities and Exchange Commission by the Company in Form 10-K.

In management's opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, which are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first nine months of 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands Except Per Share Data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	$ 96,737	$ 81,912	$ 290,492	$ 249,579
Net sales to related parties	2,332	2,949	7,384	6,740
Total	99,069	84,861	297,876	256,319
Cost of products sold (excluding depreciation and amortization)	65,461	57,642	198,247	175,622
Depreciation and amortization	4,036	4,427	12,161	13,019
Selling, general and administrative expenses	16,286	15,306	47,637	44,921
Research and development expenses	1,025	966	3,119	2,701
Gain on AST settlement (See Note 8)	-	-	(9,250)	-
	86,808	78,341	251,914	236,263
Income from operations	12,261	6,520	45,962	20,056
Interest income	399	455	1,256	1,157
Interest expense	(981)	(1,363)	(3,456)	(4,223)
Other expense—net	(1,157)	(482)	(1,727)	(1,293)
Income from continuing operations before income tax and equity in income from equity investments	10,522	5,130	42,035	15,697
Income tax provision	4,024	396	15,145	5,923
Income from continuing operations before equity in income from equity investments	6,498	4,734	26,890	9,774
Equity in income from equity investments	38	310	337	1,766
Income from continuing operations	6,536	5,044	27,227	11,540
Income (loss) from discontinued operations, net (See Note 1)	(211)	(96)	3,236	(96)
Net income	$ 6,325	$ 4,948	$ 30,463	$ 11,444
Net income per common share				

Basic:								
Income from continuing operations	$	.15	$	.12	$	.65	$	.28
Income (loss) from discontinued operations		-		-		.08		-
Total	$	.15	$	.12	$	.73	$	.28
Diluted:								
Income from continuing operations	$	.12	$	.10	$	.52	$	.24
Income (loss) from discontinued operations		-		-		.06		-
Total	$	.12	$	.10	$	.58	$	.24
Weighted average shares outstanding								
Basic		44,624,502		40,357,325		41,818,152		40,289,260
Diluted		53,797,735		50,358,179		52,536,083		47,324,443

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, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,263	$ 30,304
Receivables (net of allowance of $2,472 and $2,834)	61,352	55,195
Receivables from related parties	1,784	2,353
Revenue recognized in excess of billings on uncompleted contracts	7,452	7,698
Inventories	88,384	81,280
Deferred income taxes	8,890	9,246
Other current assets	8,739	3,602
Total current assets	213,864	189,678
Property, plant and equipment, net	114,340	105,512
Equity investments	8,888	8,593
Intangibles	6,437	7,760
Goodwill	27,274	27,845
Deferred income taxes	3,366	6,419
Other assets	6,027	2,333
Total assets	$ 380,196	$ 348,140
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 38,592	$ 39,436
Billings in excess of revenue recognized on uncompleted contracts	4,821	3,727
Accrued interest	240	1,461
Payroll and benefits payable	9,486	9,182
Accrued income taxes	1,170	1,944
Short-term debt	1,606	1,504
Current portion of long-term debt	32,919	62,507
Total current liabilities	88,834	119,761
Long-term debt	-	12,925
Deferred income taxes	402	1,361
Accrued pension and other liabilities	39,023	41,844
Total liabilities	128,259	175,891
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common shares, $.01 par value, 100,000,000 shares authorized, 52,586,356 and 43,044,318 shares issued	526	430

Additional paid-in capital		129,336		77,299
Retained earnings		135,399		104,936
Accumulated other comprehensive income		14,923		17,008
		280,184		199,673
Treasury stock, at cost, 2,877,913 and 2,827,301 shares		(28,247)		(27,424)
Total shareholders' equity		251,937		172,249
Total liabilities and shareholders' equity	$	380,196	$	348,140

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

CALGON CARBON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities		
Net income	$ 30,463	$ 11,444
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain from divestiture (See Note 1)	(4,353)	-
Depreciation and amortization	12,161	13,019
Equity in (income) loss from equity investments - net	63	(1,027)
Employee benefit plan provisions	1,824	947
Stock-based compensation	2,247	2,286
Excess tax benefit from stock-based compensation	(1,958)	-
Non-cash pension curtailment gain	(480)	(265)
Deferred income tax	2,576	5,648
Changes in assets and liabilities:		
Increase in receivables	(6,685)	(1,890)
Increase in inventories	(8,079)	(6,513)
(Increase) decrease in revenue in excess of billings on uncompleted contracts and other current assets	(5,180)	1,920
Increase (decrease) in accounts payable and accrued liabilities	309	(1,191)
Increase (decrease) in accrued income taxes	3,095	(1,375)
Pension contributions	(5,597)	(6,914)
Other items – net	3,498	800
Net cash provided by operating activities	23,904	16,889
Cash flows from investing activities		
Property, plant and equipment expenditures	(20,641)	(7,639)
Proceeds from disposals of property, plant and equipment	580	187
Net cash used in investing activities	(20,061)	(7,452)
Cash flows from financing activities		
Proceeds from borrowings	-	6,233
Repayments of borrowings	-	(4,326)
Treasury stock purchases	(823)	(157)
Common stock issued through exercise of stock options	5,121	1,213
Excess tax benefit from stock-based compensation	1,958	-
Other	(456)	-
Net cash provided by financing activities	5,800	2,963
Effect of exchange rate changes on cash	(2,684)	1,340
Increase in cash and cash equivalents	6,959	13,740
Cash and cash equivalents, beginning of period	30,304	5,631
Cash and cash equivalents, end of period	$ 37,263	$ 19,371

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. Discontinued Operations

On February 17, 2006, the Company, 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 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 4.25 million Euro could have been received dependent upon the business meeting certain earnings targets over the next three years. In May 2008, the Company reached a final agreement with proFagus GmbH, proFagus Grundstuecksverwaltungs GmbH and proFagus Beteiligungen GmbH (as Guarantor) regarding the aforementioned additional 4.25 million Euro contingent consideration fixing the amount to be paid to the Company at 2.8 million Euro. The Company expects to receive this payment in December 2011. The unpaid balance earns interest at 7% which is paid annually. The Company had presented the Charcoal/Liquid business as a discontinued operation for the periods that were impacted and has recorded the additional consideration as an additional pre-tax gain on sale of $4.4 million or $3.2 million, net of tax, within discontinued operations for the nine months ended September 30, 2008.

2. Inventories:

	September 30, 2008	December 31, 2007
Raw materials	$ 24,345	$ 22,321
Finished goods	64,039	58,959
	$ 88,384	$ 81,280

3. Supplemental Cash Flow Information:

Cash paid for interest during the nine months ended September 30, 2008 and 2007 was $4.5 million and $5.1 million, respectively. Income taxes paid, net of refunds, for the nine months ended September 30, 2008 and 2007 was $12.8 million and $0.8 million, respectively.

The Company exchanged shares of its common stock for approximately $44.2 million of its 5.00% Convertible Senior Notes. Refer to Note 10.

The non-cash impact of the January 1, 2007 adoption of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109,” (“FIN 48”) was $4.3 million for the nine months ended September 30, 2007.

4. Dividends:

The Company’s Board of Directors did not declare or pay a dividend for the three or nine month periods ended September 30, 2008 and 2007.

6

5. Comprehensive income (loss): -

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net income	$ 6,325	$ 4,948	$ 30,463	$ 11,444
Other comprehensive income (loss), net of taxes	(8,207)	(333)	(2,085)	2,345
Comprehensive income (loss)	$ (1,882)	$ 4,615	$ 28,378	$ 13,789

The only matters contributing to the other comprehensive income (loss) during the three and nine months ended September 30, 2008 was the foreign currency translation adjustment of $(7.1) million and $(3.0) million, respectively; the changes in employee benefit accounts of $0.2 million and $0.4 million, respectively; and the change in the fair value of the derivative instruments of $(1.3) million and $0.5 million, respectively, as described in Note 7. The only matters contributing to the other comprehensive income (loss) during the three and nine months ended September 30, 2007 was the foreign currency translation adjustment of $0.1 million and $2.2 million, respectively, the changes in employee benefit accounts of $(0.3) million and $(0.3) million, respectively, and the change in the fair value of the derivative instruments of $(0.1) million and $0.4 million, respectively, as described in Note 7.

6. Segment Information:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net Sales				
Activated Carbon and Service	$ 85,219	$ 72,322	$ 257,401	$ 215,728
Equipment	11,662	9,255	32,101	30,879
Consumer	2,188	3,284	8,374	9,712
	$ 99,069	$ 84,861	$ 297,876	$ 256,319
Income (loss) from continuing operations before depreciation and amortization				
Activated Carbon and Service	$ 15,941	$ 10,705	$ 53,083	$ 32,197
Equipment	588	(215)	4,550	(955)
Consumer	(232)	457	490	1,833
	16,297	10,947	58,123	33,075
Depreciation and amortization				
Activated Carbon and Service	3,590	4,040	10,866	11,887
Equipment	322	254	920	737
Consumer	124	133	375	395
	4,036	4,427	12,161	13,019
Income from operations	12,261	6,520	45,962	20,056
Reconciling items:				
Interest income	399	455	1,256	1,157
Interest expense	(981)	(1,363)	(3,456)	(4,223)
Other expense – net	(1,157)	(482)	(1,727)	(1,293)

Consolidated income from continuing operations before income tax and equity in income from equity investments	$	10,522	$	5,130	$	42,035	$	15,697

		September 30, 2008		December 31, 2007
Total Assets				
Activated Carbon and Service	$	324,183	$	302,432
Equipment		40,692		32,046
Consumer		15,321		13,662
Consolidated total assets	$	380,196	$	348,140

7. Derivative Instruments

The Company accounts for its derivative instruments under Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended (“SFAS No. 133”). 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’s corporate and foreign subsidiaries use foreign currency forward exchange contracts and foreign currency 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 contracts generally mature within eighteen months and are designed to limit exposure to exchange rate fluctuations. The Company uses cash flow hedges to limit the exposure to changes in natural gas prices. The contracts generally mature within one to thirty-six months.

At September 30, 2008, the Company had eighty-six derivative instruments outstanding of which one was a foreign currency swap, sixty-one were hedges utilizing foreign currency forward exchange contracts, sixteen were cash flow hedges utilizing foreign currency option contracts for forecasted inventory purchases, and eight were cash flow hedges utilizing forward contracts for forecasted purchases of natural gas. The Company applied hedge accounting treatment for fifty-eight of the foreign currency forward exchange contracts, the sixteen foreign currency option contracts, the foreign currency swap, and the eight cash flow hedges for forecasted natural gas purchases. The aforementioned fifty-eight foreign currency forward exchange contracts and sixteen option contracts were treated as foreign cash flow hedges regarding payment for inventory purchases and will be released into operations during the year based on the timing of the sales of the underlying inventory. Accordingly, the change in fair value of these contracts of $1.0 million and $0.7 million, net of tax, respectively, for the three and nine month periods ended September 30, 2008 was recorded in other comprehensive income (loss). The Company did not apply hedge accounting treatment for the remaining three foreign currency forward exchange contracts and recorded an immaterial loss in other income. The change in fair value of the effective hedge portion of the cash flow hedges for the forecasted natural gas purchases recorded in other comprehensive income (loss) was $(2.1) million and $(0.1) million, net of tax, respectively, for the three and nine month periods ended September 30, 2008 and $(0.1) million and $0.2 million, net of tax, respectively, for the three and nine month periods ended September 30, 2007. The balance of the cash flow hedges for forecasted natural gas purchases recorded in other assets, accounts payable and accrued liabilities, and other long-term liabilities was $33 thousand, $0.2 million, and $0.2 million, respectively, as of September 30, 2008 and $0.6 million recorded in other long-term liabilities as of September 30, 2007.

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

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 changes in the fair value of the effective hedge portion of the foreign currency swap of $(0.2) million and $(0.1) million, respectively, for the three and nine month periods ended September 30, 2008 and $27 thousand and $0.2 million, respectively, for the three and nine month periods ended September 30, 2007 was recorded in other comprehensive income. The balance of the foreign currency swap recorded in other long-term liabilities was $0.2 million and $1.0 million, respectively, as of September 30, 2008 and 2007.

No component of the derivative gains or losses has been excluded from the assessment of hedge effectiveness. For the three and nine month periods ended September 30, 2008 and 2007, the net gain or loss recognized due to the amount of hedge ineffectiveness was not material.

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 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 25% to 100% of the forecasted natural gas requirements. These cash flow hedges span up to thirty-six 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.

8. Contingencies

The Company purchased the common stock of Advanced Separation Technologies Incorporated (“AST”) from Progress Capital Holdings, Inc. and Potomac Capital Investment Corporation on December 31, 1996. On January 12, 1998, the Company filed a claim for unspecified damages in the United States District Court for the Western District of Pennsylvania alleging among other things that Progress Capital Holdings and Potomac Capital Investment Corporation materially breached various AST financial and operational representations and warranties included in the Stock Purchase Agreement and had defrauded the Company. A jury returned a verdict in favor of the Company and against the defendants in the amount of $10.0 million on January 26, 2007. After the Court denied all post-trial motions, including the defendants’ motion for a new trial and the Company’s motion for the award of prejudgment interest, all parties appealed to the United States Circuit Court of Appeals for the Third Circuit. The parties settled the case in January 2008 when the defendants agreed to pay the Company $9.25 million. This sum was received and recorded into operations during February 2008. Of the settlement amount recorded into operations, approximately $5.3 million was recorded in the Activated Carbon and Service segment and $4.0 million was recorded in the Equipment segment.

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 Waterlink’s 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, 2007, the balance recorded was $4.0 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. The Company has not incurred any environmental remediation expense during the periods ended September 30, 2008 and 2007. It is reasonably possible that a change in the estimate of this obligation will occur as remediation preparation and remediation activity commences in the future. 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 as to when it will proceed with remediation efforts.

Following protracted litigation in multiple jurisdictions, the U.S. Court of Appeals for the Federal Circuit held that the Company’s process patents for the use of ultraviolet light to prevent infection from Cryptosporidium and Giardia in drinking water (the “UV patents”) are invalid in the United States concluding the U.S. litigation relating to the UV patents.

On March 3, 2008, the Supreme Court of Canada held that the Company’s Canadian UV patents are invalid concluding the Canadian UV patent litigation. In March 2007, the Company and Trojan Technologies, Inc. entered into a settlement whereby in exchange for a nominal cash payment and relief from legal fees, the Company granted Trojan Technologies, Inc. worldwide immunity from all current and future legal action related to the Company’s UV patents.

In 2007, a German trial court found that a competitor infringed the Company’s UV patents with respect to medium pressure ultraviolet light, but did not infringe with respect to low pressure ultraviolet light. The Company appealed the decision relating to low pressure light. The competitor did not appeal. By order dated September 29, 2008, each party is to nominate an expert to provide opinions as to questions posed by the Court. The nominations are due on or about November 13, 2008. The Court will then choose one of the experts nominated. The validity of the German UV patents, as distinguished from issues of infringement which were decided in the trial court, is the subject of pending

administrative proceedings in Germany. The outcome of these cases has impaired the Company's ability to capitalize on substantial future revenues from the licensing of its UV patents.

In January 2007, the Company received a Notice of Violation ("NOV") from the United States Environmental Protection Agency, Region 4 ("EPA") alleging multiple violations of the Federal Resource Conservation and Recovery Act ("RCRA') and corresponding EPA and Kentucky Department of Environmental Protection ("KYDEP") hazardous waste management rules and regulations. The alleged violations are based on findings and information provided by the Company during and after a Multi Media Compliance Evaluation inspection of the Company's Big Sandy Plant, located in Catlettsburg, Kentucky, conducted by the EPA and the KYDEP in September 2005, and concern the hazardous waste spent activated carbon regeneration facility located at the Big Sandy Plant. The Company submitted its initial written response to the NOV in June 2007. In August 2007, the EPA notified the Company that it believes there were significant RCRA violations that are unresolved by the information in the Company's submittals. The Company met with EPA in December 2007 to discuss the alleged violations. Since that time it has had numerous telephone conferences and exchanges of correspondence in an attempt to resolve the issues as to alleged continuing violations raised by the January 2007 NOV. The Company has also taken action to remediate certain of the alleged violations and believes that the number of unresolved issues as to alleged continuing violations 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 resolved. The Company is awaiting further response from the EPA and cannot predict with any certainty the probable outcome of this matter or range of potential loss, if any.

On July 3, 2008, the EPA verbally informed the Company that there are a number of unresolved RCRA violations at the Big Sandy Plant which may render the facility unacceptable to receive spent carbon for reactivation from sites regulated under the Comprehensive Environmental Response, Compensation and Liability ACT ("CERCLA") pursuant to the CERCLA Off-Site Rule. The CERCLA Off-Site Rule unacceptability determination applies only to materials from CERCLA regulated response actions, and if it goes into effect, it would not prohibit the Big Sandy Plant from receiving hazardous waste spent carbons from other sources. The Company received written notice of the unacceptability determination on July 14, 2008 (the "Notice"). The Notice alleges multiple violations of RCRA and four releases of hazardous waste. The alleged violations and releases stem from the September 2005 multi-media compliance inspections, and are the same as alleged in the January 2007 NOV described in the preceding paragraph. The Company originally had until September 1, 2008 to demonstrate to the EPA that the alleged violations and releases were not continuing, or else the Big Sandy Plant would not have been able to receive spent carbon from CERCLA sites until the EPA determines that the facility is again acceptable to receive such CERCLA wastes. The Company met with the EPA on August 25, 2008 and submitted a written response to the Notice prior to the meeting. Following this meeting, the EPA extended the September 1 deadline to November 3, 2008 and then extended the deadline to January 9, 2009 before the unacceptability determination goes into effect, due to the late delivery of the Notice and the late date of the conference with the EPA. The Company believes that the indefinite suspension or termination of its ability to receive and reactivate spent carbon from CERCLA sites would not have a material adverse effect on its financial position or results of operations.

The August 25, 2008 EPA meeting was attended by representatives of the EPA's Suspension and Debarment Division ("SDD"). On August 28, 2008, the Company received a letter from the Division requesting additional information from the Company in connection with the SDD's evaluation of the Company's potential "business risk to the Federal Government," noting that the Company engages in procurement transactions with the Federal Government, with respect to activities authorized pursuant to, or funded by, CERCLA. The Company has provided the SDD with all information requested by the letter. The SDD can suspend or debar a company from sales to the Federal Government directly or indirectly through government contractors or with respect to projects funded by the Federal Government. The SDD has not indicated whether or not it intends to take further action in this matter. The Company believes that there is no basis for suspension or debarment on the basis of the matters asserted by the EPA in the Notice or otherwise.

In June 2007, the Company received a Notice Letter from the New York State Department of Environmental Conservation ("NYSDEC") stating that the NYSDEC has 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 requests 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 selected remedy is removal of above grade structures and contaminated soil source areas, installation of a cover system, and ground water control and treatment, estimated to cost between approximately $11 million and $14 million, which would be shared among the PRPs. The Company has not determined what portion of the costs associated with the remedial program it would be obligated to bear and the Company cannot predict with any certainty the outcome of this matter or range of potential loss. The Company has joined a PRP group formed to address this issue and the group is currently seeking a Consent Order with the NYSDEC on the clean up activity and approach. The Notice Letter also demands payment of all monies that the NYSDEC has already expended for investigation and remediation of the Site, but does not specify the amount that the NYSDEC has expended. The Company, as part of the PRP group, is negotiating a consent order with the NYSDEC for a supplemental investigation at the Site to collect data for the design of the soil remediation and to further characterize ground water conditions at the Site.

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

On March 20, 2007, the Company and ADA-ES entered into a Memorandum of Understanding ("MOU") providing for cooperation between the companies to attempt to jointly market powdered activated carbon ("PAC") to the electric power industry for the removal of mercury from coal fired power plant flue gas. The MOU provided for commissions to be paid to ADA-ES in respect of product sales. The Company terminated the MOU effective as of August 24, 2007 for convenience. Neither party had entered into sales or supply agreements with prospective customers as of that date. On March 3, 2008, the Company entered into a supply agreement with a major U.S. power generator for the sale of powdered activated carbon products with a minimum purchase obligation of approximately $55 million over a 5 year period. ADA-ES claimed that it is entitled to commissions of all product sales under this contract, which the Company denies. On September 29, 2008, the Company filed suit in the United States District Court for the Western District of Pennsylvania for a declaratory judgment from the Court that the Company has no obligation to pay ADA-ES commissions related to the aforementioned contract or for any future sales made after August 24, 2007. On November 4, 2008, ADA-ES filed its answer and counterclaim denying the Company's entitlement to a declaratory judgment and claiming a commission of $8.25 million.

The Company owns a 49% interest in a joint venture, Calgon Mitsubishi Chemical Corporation, which was formed on October 1, 2002. At September 30, 2008, Calgon Mitsubishi Chemical Corporation had $11.0 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, 2008, the lender had not requested, and the Company has not provided, such guarantee.

In addition to the matters described above, the Company is involved in various 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 & Intangible Assets

The Company has elected to do the annual impairment test of its goodwill, as required by SFAS No. 142, on December 31 of each year or earlier if a potential impairment indicator occurs. For purposes of the test, the Company has identified reporting units, as defined within SFAS No. 142, at a regional level for the Activated Carbon and Service segment and at the technology level for the Equipment segment and has allocated goodwill to these reporting units accordingly. The 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 nine month period ended September 30, 2008 are as follows:

	Activated Carbon & Service Segment	Equipment Segment	Consumer Segment	Total
Balance as of December 31, 2007	$ 21,112	$ 6,673	$ 60	$ 27,845
Foreign exchange	(445)	(126)	-	(571)
Balance as of September 30, 2008	$ 20,667	$ 6,547	$ 60	$ 27,274

The following is a summary of the Company's identifiable intangible assets as of September 30, 2008 and December 31, 2007 respectively:

	September 30, 2008				
	Weighted Average Amortization Period	Gross Carrying Amount	Foreign Exchange	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets:					
Patents	15.4 Years	$ 1,369	$ -	$ (940)	$ 429
Customer Relationships	17.0 Years	9,323	(80)	(5,489)	3,754
License Agreement	5.0 Years	500	-	(491)	9
Product Certification	7.9 Years	1,682	-	(831)	851
Unpatented Technology	20.0 Years	2,875	-	(1,481)	1,394
Total	16.0 Years	$ 15,749	$ (80)	$ (9,232)	$ 6,437

	December 31, 2007				
	Weighted Average Amortization Period	Gross Carrying Amount	Foreign Exchange	Accumulated Amortization	Net Carrying Amount

Amortized Intangible Assets:									
Patents	15.4 Years	$	1,369	$	-	$	(877)	$	492
Customer Relationships	17.0 Years		9,323		30		(4,743)		4,610
License Agreement	5.0 Years		500		-		(416)		84
Product Certification	7.9 Years		1,682		-		(625)		1,057
Unpatented Technology	20.0 Years		2,875		-		(1,358)		1,517
Total	16.0 Years	$	15,749	$	30	$	(8,019)	$	7,760

For the three and nine months ended September 30, 2008, the Company recognized $0.4 million and $1.2 million, respectively, of amortization expense related to intangible assets. For the three and nine months ended September 30, 2007, the Company recognized $0.5 million and $1.4 million, respectively, of amortization expense related to intangible assets. The Company estimates amortization expense to be recognized during the next five years as follows:

(Thousands)		
For the year ending December 31:		
2008	$	1,571
2009		1,299
2010		1,155
2011		847
2012		257

14

10. Borrowing Arrangements

5.00% Convertible Senior Notes due in 2036

On August 18, 2006, the Company issued $75.0 million in aggregate principal amount of 5.00% Notes due in 2036 (the “Notes”). The Notes accrue interest at the rate of 5.00% per annum which is payable in cash semi-annually in arrears on each February 15 and August 15, which commenced February 15, 2007. The Notes will mature on August 15, 2036.

The Notes can be converted under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter) commencing after September 30, 2006, if the last reported sale price of the Company’s common stock is greater than or equal to 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading-day period (the “measurement period”) in which the trading price per Note for each day in the measurement period was less than 103% of the product of the last reported sale price of the Company’s common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the Offering Memorandum. On or after June 15, 2011, holders may convert their Notes at any time prior to 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.

For the period ended December 31, 2007 and for the quarterly periods ended March 31, June 30, and September 30, 2008, respectively, the last reported sale price of the Company’s common stock was greater than 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of each of the aforementioned quarterly periods. As a result, the holders of the Notes have had the right to convert the Notes into cash and shares of common stock throughout 2008. The following table represents the conversion and exchange activity that has occurred as of the period ended September 30, 2008 and through October 31, 2008:

Date	Aggregate Principal Amount Outstanding Prior to Transaction	Aggregate Principal Amount of Notes Involved in Transaction	Shares Issued	Cash Paid[1]	Aggregate Principal Amount Outstanding after Transaction
August 20,2008	$ 75,000,000	$ 37,175,000	7,289,215	$ —	$ 37,825,000
September 2, 2008	37,825,000	7,000,000	1,372,549	—	30,825,000
October 1, 2008	30,825,000	7,950,000	1,151,750	7,950,014	22,875,000
October 2, 2008	22,875,000	1,300,000	188,320	1,300,011	21,575,000
October 3, 2008	21,575,000	1,750,000	253,673	1,750,007	19,825,000
October 22, 2008	19,825,000	1,000,000	196,078	—	18,825,000
October 23, 2008	18,825,000	10,625,000	2,083,333	—	8,200,000
		$ 66,800,000	12,534,918[2]	$ 11,000,032	

[1] Excluding any accrued interest paid to an exchanging holder.
[2] Includes approximately 3 million shares exchanged for principal amount of Notes (in lieu of cash) due to exchanges. These shares were not previously included in the Company's diluted shares for previous quarters.

Due to the conversion rights of the holders of the Notes, the Company has classified the remaining principal amount of outstanding Notes as a current liability for the period ended September 30, 2008.

The initial conversion rate is 196.0784 shares of the Company's common stock per $1,000 principal amount of Notes, equivalent to an initial conversion price of approximately $5.10 per share of common stock. The conversion rate is subject to adjustment in some events, including the payment of a dividend on the Company's common stock, but will not be adjusted for accrued interest, including any additional interest. In addition, following certain fundamental changes (principally related to changes in control) that occur prior to August 15, 2011, the Company will increase the conversion rate for holders who elect to convert Notes in connection with such fundamental changes in certain circumstances. The Company considered EITF 00-27 issue 7 which indicates that if a reset of the conversion rate due to a contingent event occurs, the Company would need to calculate if there is a beneficial conversion and record if applicable. Through September 30, 2008, no contingent events have occurred.

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

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

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

The Company sold the Notes to the original purchaser at a discount of $3.3 million that is being amortized over a period of five years. The Company also incurred original issuance costs of $1.5 million which have been deferred and are being amortized over a five year period. The Company reclassified $1.2 million of the discount and $0.2 million of issuance costs to additional paid in capital as a result of the aforementioned conversions and exchanges of Notes that occurred during the three and nine month periods ended September 30, 2008. The Company will continue to amortize the respective remaining balances over the remaining five year period or the date of conversion/exchange, if sooner. As of the nine month period ended September 30, 2008, the Company recorded interest expense of $3.0 million related to the Notes, of which $0.4 million related to the amortization of the discount.

Credit Facility

On August 14, 2008, the Company entered into a third amendment to its Credit Facility (the "Third Amendment"). The Third Amendment permits borrowings in an amount up to $60.0 million and includes a separate U.K. sub-facility and a separate Belgian sub-facility. The Credit Facility permits the total revolving credit commitment to be increased up to $75.0 million. The facility matures on May 15, 2011. 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, 2008, the collateral value of assets pledged was $57.6 million. The collateral value as of September 30, 2008 for domestic, U.K., and Belgian borrowers were $48.4 million, $4.8 million, and $4.4 million, respectively. The Credit Facility contains a fixed charge coverage ratio covenant which becomes effective when total domestic availability falls below $11.0 million. As of September 30, 2008, total availability was $41.8 million. Availability as of September 30, 2008 for domestic, U.K., and Belgian borrowers was $38.7 million, $3.1 million, and zero, respectively. The Company can issue letters of credit up to $20 million of the available commitment amount under the Credit Facility. Sub-limits for letters of credit under the U.K. sub-facility and the Belgian sub-facility are $2.0 million and $6.0 million, respectively. Letters of credit outstanding at September 30, 2008 totaled $15.8 million.

The Credit Facility interest rate is based upon Euro-based ("LIBOR") rates with other interest rate options available. The applicable Euro Dollar margin in effect when the Company is in compliance with the terms of the facility ranges from 1.50% to 2.50% and is based upon the Company's overall availability under the Credit Facility. The unused commitment fee is equal to 0.375% per annum, which can increase to 0.50%, and is based upon the unused portion of the revolving commitment.

The Credit Facility contains a number of affirmative and negative covenants. For the period ended September 30, 2008, the last reported sale price of the Company's common stock was greater than 120% of the conversion price of the Notes for at least 20 trading days in the period of 30 consecutive trading days ended September 30, 2008. As a result, as of September 30, 2008, the holders of the Notes have the right to convert the Notes into cash and shares of common stock. Included in the Credit Facility, is a provision which permits the conversion of all $75.0 million of the Company's Notes. The Credit Facility also includes a provision for up to $3.0 million of letters of credit under the Company's U.S., Belgium, and UK sub-limits that can be issued having expiration dates that are more than one year but not more than three years after the date of issuance.

The negative covenants provide for certain restrictions on possible acts by the Company related to matters such as additional indebtedness, certain liens, fundamental changes in the business, certain investments or loans, asset sales and other customary requirements. The Company was in compliance with all such negative covenants as of September 30, 2008.

Belgian Credit Facility
The Company maintains a Belgian credit facility totaling 4.0 million Euros which is secured by a U.S. letter of credit. There are no financial covenants and the Company had no outstanding borrowings under the Belgian credit facility as of September 30, 2008. Bank guarantees of 0.9 million Euros were issued as of September 30, 2008. The maturity date of this facility is December 15, 2008. Availability under this facility was 3.1 million Euros at September 30, 2008.

United Kingdom Credit Facility
The Company maintains a United Kingdom unsecured bonds, guarantees, and indemnities facility totaling 616,000 British Pound Sterling. The bank, in its sole discretion, may cancel at any time its commitment to provide this facility. Bank guarantees of 611,924 British Pound Sterling were issued as of September 30, 2008.

Chinese Credit Facility
The Company maintains a Chinese credit facility totaling 11.0 million RMB or $1.6 million which is secured by a U.S. letter of credit provided under the Credit Facility. There are no financial covenants. The maturity date of this facility is December 26, 2008. The facility was fully utilized at September 30, 2008.

Fair Value of Debt
At September 30, 2008, the Company had $30.8 million of fixed rate Senior Convertible Notes outstanding. The fair value of these Notes at September 30, 2008 was $123.0 million. The increase in value is mainly due to the increase in the Company’s common stock price and its impact on the conversion features of the Notes. The remaining $2.9 million of current portion of long-term debt is based on the prime rates, and accordingly, the carrying value of this obligation approximates its fair value.

Maturities of Debt
The Company is obligated to make principal payments on debt outstanding at September 30, 2008 of $1.6 million in 2008, $2.9 million in 2009, and $30.8 million in 2011. See also the section entitled 5.00% Convertible Senior Notes due 2036 related to the holders’ optional conversion as of September 30, 2008 and December 31, 2007.

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 nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30		Nine Months Ended September 30	
Pension Benefits (in thousands)	2008	2007	2008	2007
Service cost	$ 251	$ 247	$ 768	$ 803
Interest cost	1,146	1,146	3,544	3,498
Expected return on plan assets	(1,345)	(1,288)	(4,041)	(3,746)
Amortization of prior service cost	13	63	134	186
Net amortization	93	75	285	263
Curtailment gain	(480)	-	(480)	(265)

Net periodic pension cost (benefit)	$ (322)	$ 243	$ 210	$ 739

The expected long-term rate of return on plan assets is 8.00% in 2008.

Employer Contributions

In its 2007 financial statements, the Company disclosed that it expected to contribute $3.7 million to its U.S. pension plans in 2008. As of September 30, 2008, the Company has contributed $4.1 million.

Employee Relations

On July 21, 2008, the Company settled its disagreements with bargaining unit employees at its Neville Island facility located in Pittsburgh, Pennsylvania. The new agreement, which expires on July 1, 2011, includes the freezing of the defined benefit pension plan for these employees effective January 1, 2009. As a result, the Company recorded a curtailment gain of $0.5 million for the three and nine months ended September 30, 2008.

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, 2008 and 2007:

Pension Benefits (in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Service cost	$ 203	$ 185	$ 609	$ 555
Interest cost	514	434	1,542	1,302
Expected return on plan assets	(387)	(324)	(1,161)	(972)
Amortization of prior service cost	12	11	36	33
Net amortization	8	25	24	76
Net periodic pension cost	$ 350	$ 331	$ 1,050	$ 994

The expected long-term rate of return on plan assets ranges from 5.00% to 6.90% in 2008.

Employer Contributions

In its 2007 financial statements, the Company disclosed that it expected to contribute $2.5 million to its European pension plans in 2008. As of September 30, 2008, the Company contributed $1.5 million. The Company expects to contribute the remaining $0.7 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. Under this defined contribution plan, the Company makes a fixed contribution of 2% of eligible employee compensation on a quarterly basis and matches contributions made by each participant in an amount equal to 100% of the employee contribution up to a maximum of 2% of employee compensation. In addition, each of these employees is eligible for an additional discretionary Company contribution of up to 4% of employee compensation based upon annual Company performance at the discretion of the Company's Board of Directors. Employer matching contributions for non-represented employees vest after two years of service. For bargaining unit employees at the Catlettsburg, Kentucky facility, the Company contributes a maximum of $25.00 per month to the plan. For bargaining unit employees at the Columbus, Ohio facility, the Company began making contributions to the USW 401(k) Plan of $1.15 per actual hour worked for eligible employees when their former Barnebey Sutcliffe Employee USWA Local 23.08

401(k) Plan was discontinued and their defined benefit pension plan was frozen effective April 30, 2007. The Company realized a $0.3 million curtailment gain as a result of freezing the aforementioned plan. For bargaining unit employees at the Neville Island facility, the Company, effective January 1, 2009, will begin making contributions of $1.40 per actual hour worked to the defined contribution pension plan (Thrift/Savings Plan) for eligible employees when their defined benefit pension plan is frozen. Employer matching contributions for bargaining unit employees vest immediately. Total expenses related to the defined contribution plans were $0.5 million and $0.6 million for the three months ended September 30, 2008 and 2007, respectively and $1.6 million and $1.4 million for the nine months ended September 30, 2008 and 2007, respectively.

12. Earnings Per Share

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

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Income from continuing operations available to common shareholders	$ 6,536	$ 5,044	$ 27,227	$ 11,540
Income (loss) from discontinued operations available to common shareholders	(211)	(96)	3,236	(96)
Net income available to common shareholders	$ 6,325	$ 4,948	$ 30,463	$ 11,444
Weighted Average Shares Outstanding				
Basic	44,624,502	40,357,325	41,818,152	40,289,260
Effect of Dilutive Securities	9,173,233	10,000,854	10,717,931	7,035,183
Diluted	53,797,735	50,358,179	52,536,083	47,324,443
Net income per common share				
Basic:				
Income from continuing operations	$ .15	$ .12	$ .65	$ .28
Income (loss) from discontinued operations	-	-	.08	-
Total	$ .15	$ .12	$ .73	$ .28
Diluted:				
Income from continuing operations	$ .12	$ .10	$ .52	$ .24
Income (loss) from discontinued operations	-	-	.06	-
Total	$ .12	$ .10	$ .58	$ .24

The stock options that were excluded from the dilutive calculations as the effect would have been antidilutive were zero and 6,100 for the three months ended September 30, 2008 and 2007, respectively, and 80,625 and 6,100 for the nine months ended September 30, 2008 and 2007, respectively.

The Company’s obligation under its 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, 2008, the average stock price for the 90-day trading period was $18.15, which was higher than the conversion price of $5.10, therefore, 7,948,865 shares were included in the dilutive share calculation for the period of time the Notes were

outstanding for the period ended September 30, 2008.

"Treasury Stock" Method of Accounting for Share Dilution

Conversion Price:	$	5.10
Number of underlying shares:		6,044,117
Principal Amount:		$ 30,825,000

Formula: Number of extra dilutive shares created =((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 $1.00 Share Price Difference
$ 5.10	$ 5.10	$ 0.00	-	-
$ 5.60	$ 5.10	$ 0.50	539,653	1,079,306
$ 6.10	$ 5.10	$ 1.00	990,838	990,838
$ 7.10	$ 5.10	$ 2.00	1,702,568	851,284
$ 8.10	$ 5.10	$ 3.00	2,238,561	746,187
$ 9.10	$ 5.10	$ 4.00	2,656,754	664,189
$ 10.10	$ 5.10	$ 5.00	2,992,137	598,427
$ 11.10	$ 5.10	$ 6.00	3,267,090	544,515
$ 12.10	$ 5.10	$ 7.00	3,496,596	499,514
$ 13.10	$ 5.10	$ 8.00	3,691,064	461,383
$ 14.10	$ 5.10	$ 9.00	3,857,947	428,661
$ 15.10	$ 5.10	$ 10.00	4,002,726	400,273
$ 16.10	$ 5.10	$ 11.00	4,129,521	375,411
$ 17.10	$ 5.10	$ 12.00	4,241,485	353,457
$ 18.10	$ 5.10	$ 13.00	4,341,078	333,929
$ 19.10	$ 5.10	$ 14.00	4,430,243	316,446
$ 20.10	$ 5.10	$ 15.00	4,510,535	300,702

13. Other Financial Information

As described in Note 10, the Company had issued $75.0 million in aggregate principal amount of 5.00% Convertible Senior Notes due in 2036. The Notes are fully and unconditionally guaranteed by certain of our domestic subsidiaries on a senior unsecured basis. All of the subsidiary guarantors are 100% owned by the parent company and the guarantees are joint and several. The Subsidiary Guarantees are general unsecured senior obligations of the Subsidiary Guarantors and rank equally in right of payment with all of the existing and future senior indebtedness of the Subsidiary Guarantors. If the Company fails to make payment on the Notes, the Subsidiary Guarantors must make them instead. The Notes are effectively subordinated to any indebtedness of the Company's non-guarantor subsidiaries. The Notes are effectively junior to all of the Company's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness.

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

Condensed Consolidating Statements of Operations
Three months ended September 30, 2008

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$ 94,802	$ 11,686	$ 15,483	$ (22,902)	$ 99,069
Cost of products sold	66,681	9,834	11,848	(22,902)	65,641
Depreciation and amortization	3,455	400	181	-	4,036
Selling, general and administrative expenses	14,010	1,255	1,021	-	16,286
Research and development expense	940	85	-	-	1,025
Interest (income) expense – net	4,133	(3,333)	(218)	-	582
Other expense – net	860	(19)	316	-	1,157
Provision for income taxes	3,386	10	628	-	4,024
Results of affiliates' operations	4,988	(543)	-	(4,445)	-
Equity in income from equity investments	-	-	38	-	38
Income (loss) from continuing operations	6,325	2,911	1,745	(4,445)	6,536
Loss from discontinued operations	-	-	(211)	-	(211)
Net income (loss)	$ 6,325	$ 2,911	$ 1,534	$ (4,445)	$ 6,325

Condensed Consolidating Statements of Operations
Nine months ended September 30, 2008

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$ 278,257	$ 35,575	$ 40,471	$ (56,717)	$ 297,876
Cost of products sold	194,365	27,681	32,918	(56,717)	198,247

Depreciation and amortization	10,378	1,232	551	-	12,161
Selling, general and administrative expenses	40,639	3,865	3,133	-	47,637
Research and development expense	2,815	304	-	-	3,119
Gain on AST Settlement	(9,250)	-	-	-	(9,250)
Interest (income) expense – net	13,021	(10,171)	(650)	-	2,200
Other expense – net	787	424	516	-	1,727
Provision for income taxes	13,593	475	1,077	-	15,145
Results of affiliates' operations	18,554	921	-	(19,475)	-
Equity in income from equity investments	-	-	337	-	337
Income (loss) from continuing operations	30,463	12,686	3,553	(19,475)	30,463
Income from discontinued operations	-	-	3,236	-	3,236
Net income (loss)	$ 30,463	$ 12,686	$ 6,789	$ (19,475)	$ 30,463

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

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

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

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$ 220,765	$ 34,822	$ 36,576	$ (35,844)	$ 256,319
Cost of products sold	158,338	26,330	26,798	(35,844)	175,622
Depreciation and amortization	10,475	821	1,723	-	13,019
Selling, general and administrative expenses	38,046	4,012	2,863	-	44,921
Research and development expense	2,424	277	-	-	2,701
Interest (income) expense – net	15,783	(11,932)	(785)	-	3,066
Other expense – net	859	1,008	(574)	-	1,293
Provision for income taxes	3,300	889	1,734	-	5,923
Results of affiliates’ operations	19,859	2,017	-	(21,876)	-
Equity in income from equity investments	-	-	1,766	-	1,766
Income (loss) from continuing operations	11,399	15,434	6,583	(21,876)	11,540
Income from (loss) discontinued operations	45	(141)	-	-	(96)

Net income (loss)	$	11,444	$	15,293	$	6,583	$	(21,876)	$	11,444

Condensed Consolidating Balance Sheets
September 30, 2008

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	$ 23,774	$ 3,059	$ 21,570	$ (11,140)	$ 37,263
Receivables	52,732	13,227	4,706	(7,529)	63,136
Inventories	72,909	7,778	7,636	61	88,384
Other current assets	19,564	1,721	3,796	-	25,081
Total current assets	168,979	25,785	37,708	(18,608)	213,864
Intercompany accounts receivable	55,580	189,122	4,732	(249,434)	-
Property, plant, and equipment, net	99,398	6,920	8,022	-	114,340
Intangibles	3,742	2,695	-	-	6,437
Goodwill	16,674	7,892	2,708	-	27,274
Equity investments	262,957	101,975	9,845	(365,889)	8,888
Other assets	3,650	1,125	4,618	-	9,393
Total assets	$ 610,980	$ 335,514	$ 67,633	$ (633,931)	$ 380,196
Short-term debt	$ -	$ -	$ 1,606	$ -	$ 1,606
Current portion of long-term debt	32,919	-	-	-	32,919
Accounts payable	35,023	17,434	3,072	(12,116)	43,413
Other current liabilities	21,886	690	1,154	(12,834)	10,896
Total current liabilities	89,828	18,124	5,832	(24,950)	88,834
Intercompany accounts payable	179,575	50,317	13,247	(243,139)	-
Other non-current liabilities	89,640	7,989	10,017	(68,221)	39,425
Shareholders' equity	251,937	259,084	38,537		