

CALGON CARBON CORPORATION  
Form 10-Q/A  
November 28, 2006

---

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

**FORM 10-Q/A  
(Amendment No. 1)**

(Mark One)

- Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2006 or**
- Transition report pursuant to section 13 or 15(d) of the Securities Exchange act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
Commission file number 1-10776

**CALGON CARBON CORPORATION**

---

*(Exact name of registrant as specified in its charter)*

**Delaware**

**25-0530110**

---

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

*(I.R.S. Employer Identification No.)*

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

---

*(Address of principal executive offices)  
(Zip Code)*

**(412) 787-6700**

---

*(Registrant's telephone number, including area code)*

---

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

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

YesNo

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q/A

YesNo

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

CALGON CARBON CORPORATION  
FORM 10-Q/A  
QUARTER ENDED MARCH 31, 2006

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A for Calgon Carbon Corporation, (the Company) for the three month period ended March 31, 2006 is being filed to amend and restate the item described below contained in the Company's Quarterly Report on Form 10-Q for such period originally filed with the Securities and Exchange Commission on May 10, 2006. On October 30, 2006, management and the Audit Committee of the Company determined that the Unaudited Condensed Consolidated Financial Statements for the fiscal quarter ended March 31, 2006 that have been included in the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2006 contained errors and should no longer be relied upon.

The Company identified an error which resulted in an understatement of the Company's income taxes related to discontinued operations as well as an overstatement of the Company's income taxes that related to continuing operations for the three months ended March 31, 2006. The error was made in the calculation of the Company's tax provision for the quarter ended March 31, 2006.

As a result, the accompanying Condensed Consolidated Financial Statements for the three month period ended March 31, 2006 have been restated from the amounts previously reported. The effect of the restatement for the three month period ended March 31, 2006 is to increase the benefit for income taxes and decrease loss from continuing operations by \$29 thousand, respectively; reduce income from discontinued operations net of tax by \$1.4 million, and increase net loss by \$1.4 million. Income from discontinued operations per common share decreased by \$0.04 and basic and diluted net loss per common share decreased by \$0.04.

This Amendment No. 1 amends Part I, Item 1, Financial Statements; Item 2, Management's Discussion and Analysis of Results of Operations and Financial Condition; and Item 4, Controls and Procedures as follows:

To amend Part I, Item 1, Financial Statements, to restate the Company's Unaudited Condensed Consolidated Financial Statements for the three month period ended March 31, 2006;

To amend Part I, Item 2, Management's Discussion and Analysis of Results of Operations and Financial Condition, to take into account the effects of the restatement; and

To amend Part I, Item 4, Controls and Procedures, to discuss the effects of the restatement on management's evaluation of the effectiveness of the Company's disclosure controls and procedures.

Pursuant to SEC Rule 12b-15, this Form 10-Q/A sets forth the complete text of each item of Form 10-Q listed above as amended, and includes, as Exhibits 31 and 32, new certifications by the Chief Executive Officer and Chief Financial Officer.

In order to preserve the nature and character of the disclosures set forth in such items as originally filed, this Amendment No. 1 does not reflect events occurring after the filing of the original Quarterly Report on Form 10-Q on May 10, 2006, or modify or update the disclosures presented in the original Quarterly Report on Form 10-Q, except to reflect the revisions as described above. Accordingly, this Form 10-Q/A should be read in conjunction with our 2005 Form 10-K and our filings made subsequent to the filing of the original Form 10-Q, including any amendments to those filings.

Additional detail regarding the restatement is included in Note 16 of the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Amendment No. 1 on Form 10-Q/A.

---

CALGON CARBON CORPORATION  
 FORM 10-Q/A  
 QUARTER ENDED March 31, 2006

The Quarterly Report on Form 10-Q/A contains historical information and forward-looking statements. Statements looking forward in time are included in this Form 10-Q/A 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/A 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

	<u>Page</u>
<u>PART I - CONDENSED CONSOLIDATED FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Introduction to the Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Statements of Operations and Retained Earnings (unaudited) (Restated, See Note 16)</u>	4
<u>Condensed Consolidated Balance Sheets (unaudited) (Restated, See Note 16)</u>	5
<u>Condensed Consolidated Statements of Cash Flows (unaudited) (Restated, See Note 16)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	21
Item 4. <u>Controls and Procedures</u>	27
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	29
Item 1a. <u>Risk Factors</u>	29
Item 2c. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	34
Item 6. <u>Exhibits</u>	34
<u>SIGNATURES</u>	35
<u>CERTIFICATIONS</u>	

PART I CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

CALGON CARBON CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS  
(Dollars in Thousands Except Share and Per Share Data)  
(Unaudited)

	Three Months Ended March 31,	
	2006	2005
	(As Restated See Note 16)	
Net sales	\$ 76,579	\$ 73,055
Cost of products sold (excluding depreciation)	57,411	52,816
Depreciation and amortization	4,798	5,534
Selling, general and administrative expenses	14,372	15,831
Research and development expenses	1,197	1,070
Gulf Coast Facility impairment charge (Note 3)		2,158
Restructuring charge	6	252
	77,784	77,661
Loss from operations	(1,205)	(4,606)
Interest income	86	181
Interest expense	(1,574)	(1,092)
Other expense net	(844)	(401)
Loss from continuing operations before income taxes, equity in income from equity investments, and minority interest	(3,537)	(5,918)
Income tax benefit	(345)	(1,267)
Loss from continuing operations before equity in income from equity investments and minority interest	(3,192)	(4,651)
Equity in income from equity investments	188	273
Minority interest	15	
Loss from continuing operations	(2,989)	(4,378)
Income from discontinued operations net of tax	1,575	969
Net loss	(1,414)	(3,409)
Common stock dividends		(1,177)
Retained earnings, beginning of period	101,833	112,804
Retained earnings, end of period	\$ 100,419	\$ 108,218
Basic and diluted loss from continuing operations per common share	\$ (.08)	\$ (.11)
Income from discontinued operations per common share	\$ .04	\$ .02
Basic and diluted net loss per common share	\$ (.04)	\$ (.09)
Weighted average shares outstanding		
Basic and diluted	39,854,726	39,200,362

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)

	March 31, 2006	December 31, 2005
	(As Restated, See Note 16)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,383	\$ 5,446
Receivables (net of allowance of \$2,336 and \$2,172)	55,223	51,224
Revenue recognized in excess of billings on uncompleted contracts	5,515	5,443
Inventories	69,461	67,655
Deferred income taxes current	10,199	8,448
Other current assets	5,747	6,044
Assets held for sale	4,123	21,340
	<hr/>	<hr/>
Total current assets	154,651	165,600
Property, plant and equipment, net	107,964	108,745
Equity investments	7,507	7,219
Intangibles	9,587	10,049
Goodwill	33,881	33,874
Deferred income taxes long-term	15,241	18,684
Other assets	3,756	3,697
	<hr/>	<hr/>
Total assets	\$ 332,587	\$ 347,868
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 68,574	\$
Accounts payable and accrued liabilities	38,093	36,502
Billings in excess of revenue recognized on uncompleted contracts	3,000	3,933
Payroll and benefits payable	11,153	11,396
Accrued income taxes	11,508	10,783
Liabilities held for sale	3,101	6,683
	<hr/>	<hr/>
Total current liabilities	135,429	69,297
Long-term debt	2,925	83,925
Deferred income taxes long-term	1,105	1,389
Accrued pension and other liabilities	43,040	42,697
	<hr/>	<hr/>
Total liabilities	182,499	197,308
	<hr/>	<hr/>
Commitments and contingencies		
Shareholders' equity:		
Common shares, \$.01 par value, 100,000,000 shares authorized, 42,499,696 and 42,459,733 shares issued	425	425
Additional paid-in capital	70,061	69,906
Retained earnings	100,419	101,833
Accumulated other comprehensive income	7,300	6,442
Deferred compensation	(757)	(917)
	<hr/>	<hr/>
	177,448	177,689
Treasury stock, at cost, 2,819,690 and 2,787,258 shares	(27,360)	(27,129)
	<hr/>	<hr/>
Total shareholders' equity	150,088	150,560
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 332,587	\$ 347,868
	<hr/>	<hr/>

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q/A

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)

	Three Months Ended March 31,	
	2006	2005
	(As Restated, See Note 16)	
<u>Cash flows from operating activities</u>		
Net loss	\$ (1,414)	\$ (3,409)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain from sale of assets, pre-tax	(6,078)	
Depreciation and amortization	4,800	5,815
Non-cash impairment and restructuring charges		2,373
Equity in income from equity investments	(188)	(273)
Distributions received from equity investments		254
Employee benefit plan provisions	1,154	1,348
Changes in assets and liabilities - net of effects from purchase of business and non-cash impairment:		
Increase in receivables	(1,803)	(399)
Increase in inventories	(2,683)	(3,776)
Increase in revenue in excess of billings on uncompleted contracts and other current assets	(1,036)	(1,042)
Decrease in accounts payable, accrued liabilities, and billings in excess of revenue	(503)	(1,059)
Increase (decrease) in long-term deferred income taxes	1,270	(3,225)
Other items net	2,044	1,008
	<u>(4,437)</u>	<u>(2,385)</u>
<u>Cash flows from investing activities</u>		
Purchase of business - net of cash		(530)
Proceeds from the sale of assets	19,120	
Property, plant and equipment expenditures	(3,093)	(1,740)
Proceeds from disposals of property, plant and equipment	52	396
	<u>16,079</u>	<u>(1,874)</u>
<u>Cash flows from financing activities</u>		
Proceeds from borrowings	32,300	23,500
Repayments of borrowings	(44,726)	(20,400)
Common stock dividends		(1,177)
Common stock issued through exercise of stock options	335	1,679
	<u>(12,091)</u>	<u>3,602</u>
Effect of exchange rate changes on cash	(614)	(381)
Decrease in cash and cash equivalents	(1,063)	(1,038)
Cash and cash equivalents, beginning of period	5,446	8,780
Cash and cash equivalents, end of period	<u>\$ 4,383</u>	<u>\$ 7,742</u>

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

2. Discontinued Operations and Assets and Liabilities Held for Sale

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

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

On February 17, 2006, Calgon Carbon Corporation, through its wholly owned subsidiary Chemviron Carbon GmbH, executed an agreement (the Charcoal Sale Agreement) with proFagus GmbH, proFagus Grundstuecksverwaltungs GmbH and proFagus Beteiligungen GmbH (as Guarantor) to sell, and sold, substantially all the assets, real estate, and specified liabilities of the Bodenfelde, Germany facility (the Charcoal/Liquid business). The facility includes the production of charcoal for consumer use and liquids that are recovered during charcoal production. The products are sold to retail and industrial markets. The aggregate sales price, based on an exchange rate of 1.19 dollars per Euro, consisted of \$19.1 million of cash and is subject to a potential working capital adjustment. The Company provided guarantees to the buyer related to pre-divestiture tax liabilities, future environmental remediation costs related to pre-divestiture activities and other contingencies. Management believes the ultimate cost of such guarantees is not material. An additional \$5.0 million could be paid contingent upon the business meeting certain earnings targets over the next three years. As of March 31, 2006, the Company recorded a pre-tax gain of \$4.7 million or \$1.7 million, net of tax, on the sale of the Charcoal/Liquid divestiture.

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

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

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

(Dollars in thousands)	Charcoal/Liquid Quarter Ended March 31		Solvent Recovery Quarter Ended March 31	
	2006	2005	2006	2005
Net sales	\$ 1,375	\$ 6,377	\$ 2,360	\$ 3,973
Income (loss) from operations	(402)	932	20	549
Other income-net	4,716	14		(14)
Income before income taxes	4,314	946	20	535
Income tax expense	2,752	327	7	185
Income from discontinued operations	\$ 1,562	\$ 619	\$ 13	\$ 350

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

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

### 3. Gulf Coast Facility Impairment Charge

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

### 4. Inventories:

	March 31, 2006	December 31, 2005
Raw materials	\$ 18,050	\$ 16,501
Finished goods	51,411	51,154
	\$ 69,461	\$ 67,655



5. Supplemental Cash Flow Information:

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

6. Dividends:

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

7. Comprehensive income (loss):

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net loss	\$ (1,414)	\$ (3,409)
Other comprehensive income (loss), net of taxes	858	(2,954)
Comprehensive income (loss)	\$ (556)	\$ (6,363)

The only matter contributing to the other comprehensive income during the three months ended March 31, 2006 was the foreign currency translation adjustment of \$1.0 million and the change in the fair value of the derivative instruments of (\$0.1) million as described in Note 9. The only matters contributing to the other comprehensive loss during the three months ended March 31, 2005 were the foreign currency translation adjustment of (\$2.9) million and the change in the fair value of the derivative instruments of (\$0.1) million.

8. Segment Information:

The Activated Carbon and Service segment manufactures granular activated carbon for use in applications to remove organic compounds from liquids, gases, water, and air. This segment also consists of services related to activated carbon including reactivation of spent carbon and the leasing, monitoring, and maintenance of carbon fills at customer sites. The service portion of this segment also includes services related to the Company's ion exchange technologies for treatment of groundwater and process streams. The Equipment segment provides solutions to customers' air and water process problems through the design, fabrication, and operation of systems that utilize the Company's enabling technologies: carbon adsorption, ultraviolet light, and advanced ion exchange separation. The Consumer segment brings the Company's purification technologies directly to the consumer in the form of products and services including carbon cloth and activated carbon for household odors. The following segment information represents the results of the Company's continuing operations.

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q/A

	Three Months Ended March 31,	
	2006	2005
Net Sales		
Carbon and Service	\$ 65,185	\$ 59,326
Equipment	8,441	10,194
Consumer	2,953	3,535
	<u>\$ 76,579</u>	<u>\$ 73,055</u>
Income (loss) from continuing operations before depreciation, amortization, impairment, restructuring, and income taxes		
Carbon and Service	\$ 5,048	\$ 3,760
Equipment	(1,659)	(751)
Consumer	210	329
	<u>3,599</u>	<u>3,338</u>
Depreciation and amortization		
Carbon and Service	4,449	4,874
Equipment	210	297
Consumer	139	363
	<u>4,798</u>	<u>5,534</u>
Loss from continuing operations before impairment, restructuring, and income taxes	<u>\$ (1,199)</u>	<u>\$ (2,196)</u>
Reconciling items:		
Gulf Coast Facility impairment charge		(2,158)
Restructuring charges	(6)	(252)
Interest income	86	181
Interest expense	(1,574)	(1,092)
Other expense net	(844)	(401)
Consolidated loss from continuing operations before income taxes, equity in income from equity investments, and minority interest	<u>\$ (3,537)</u>	<u>\$ (5,918)</u>

	March 31, 2006	December 31, 2005
Total Assets		
Carbon and Service	\$ 274,397	\$ 267,408
Equipment	40,926	44,607
Consumer	13,141	14,513
	<u>\$ 328,464</u>	<u>\$ 326,528</u>
Total assets from continuing operations	\$ 328,464	\$ 326,528
Assets held for sale	4,123	21,340
	<u>\$ 332,587</u>	<u>\$ 347,868</u>

9. Derivative Instruments

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

The Company had sixteen foreign currency forward exchange contracts outstanding at March 31, 2006 and none of these contracts qualified for hedge accounting treatment. The Company held fifty-seven foreign currency forward exchange contracts at March 31, 2005 of which eighteen qualified and were treated as foreign exchange cash flow hedges regarding payment for inventory purchases. The change in the fair market value of the effective hedge portion of the foreign currency forward exchange contracts of (\$56) thousand for the period ended March 31, 2005 was recorded in other comprehensive (income) loss (see Note 7). It was released into operations over 12 months based on the timing of the sales of the underlying inventory. The release to operations was reflected in cost of products sold. During the periods ended March 31, 2006 and 2005, the Company recorded an immaterial gain in other income for the sixteen and remaining thirty-nine foreign currency forward exchange contracts that did not qualify for hedge accounting treatment.

On April 26, 2004, the Company entered into a ten-year foreign currency swap agreement to fix the foreign exchange rate on a \$6.5 million intercompany loan between the Company and its foreign subsidiary, Chemviron Carbon Ltd. Since its inception, the foreign currency swap has been treated as a foreign exchange cash flow hedge. Accordingly, the change in the fair value of the effective hedge portion of the foreign currency swap of (\$0.1) million and (\$0.1) million, respectively, for the periods ended March 31, 2006 and 2005 was recorded in other comprehensive income (loss). The balance of the effective hedge portion of the foreign currency swap recorded in other long-term liabilities was \$0.3 million and \$0.7 million, respectively, as of March 31, 2006 and 2005.

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

10. Contingencies

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

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

The Company is also currently a party in three cases involving alleged infringement of its U.S. Patent No. 6,129,893 and U.S. Patent No. 6,565,803 B1 ( U.S. Patents ) or Canadian Patent No. 2,331,525 ( 525 Patent ) for the method of preventing infection from cryptosporidium found in drinking water. In the first case, Wedeco Ideal Horizons, Inc. filed suit against the Company seeking a declaratory judgment that it does not infringe the Company's U.S. Patents and alleging unfair competition by the Company. This matter is currently pending in the United States District Court for the District of New Jersey. In the second case, the Company filed suit against the Town of Ontario, New York, Trojan Technologies, Inc. ( Trojan ) and Robert Wykle, et al. in the United States District Court for the Western District of New York alleging that the defendant is practicing the method claimed within the U.S. Patents without a license. In the third case, the Company has filed suit against the City of North Bay, Ontario, Canada ( North Bay ) and Trojan in the Federal Court of Canada alleging infringement of the 525 Patent by North Bay and inducement of infringement by Trojan. The trial for this case was conducted and completed in April 2006. A decision is expected to be rendered sometime within the ensuing two quarters. Neither the Company nor its counsel can predict with any certainty the outcome of the three matters.

The Company has received a demand from the Pennsylvania Department of Environmental Protection (PADEP) that the Company reimburse PADEP for response costs the agency alleges have been 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. PADEP has advised the Company that it is prepared to settle the matter for payment of \$475,000. The Company believes PADEP's position is not meritorious, and the demand is unwarranted. The Company intends to continue to vigorously defend the matter.

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

The Company is involved in various legal proceedings, lawsuits and claims, including employment, product warranty and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. Management believes, after consulting with counsel, that the ultimate liabilities, if any, resulting from such lawsuits and claims will not materially affect the consolidated results of operations, cash flows, or financial position of the Company.

In conjunction with the 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 three months ended March 31, 2006 and has incurred a total of \$0.2 million of environmental remediation expense to date.

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

The Company owns a 49% interest in a joint venture, Calgon Mitsubishi Chemical Corporation, which was formed on October 1, 2002. At March 31, 2006, Calgon Mitsubishi Chemical Corporation had \$9.1 million in borrowings from an affiliate of the majority owner of the joint venture. The Company has agreed with the joint venture and the lender that, upon request by the lender, the Company will execute a guarantee for up to 49% of such borrowings. At March 31, 2006, the lender had not requested, and the Company has not provided, such guarantee.

11. Goodwill & Intangible Assets

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

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

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

	Weighted Average Amortization Period	March 31, 2006			December 31, 2005		
		Gross Carrying Amount	Foreign Exchange	Accumulated Amortization	Gross Carrying Amount	Foreign Exchange	Accumulated Amortization
Amortized Intangible Assets:							
Patents	15.4 Years	\$ 1,369	\$	\$ (732)	\$ 1,369	\$	\$ (711)
Customer Relationships	17.0 Years	9,323	(186)	(2,642)	9,323	(206)	(2,316)
Customer Contracts	2.8 Years	664	(18)	(634)	664	(19)	(577)
License Agreement	5.0 Years	500		(242)	500		(217)
Other	7.9 Years	665		(282)	665		(270)
Unpatented Technology	20.0 Years	2,875		(1,073)	2,875		(1,031)
<b>Total</b>	<b>15.8 Years</b>	<b>\$ 15,396</b>	<b>\$ (204)</b>	<b>\$ (5,605)</b>	<b>\$ 15,396</b>	<b>\$ (225)</b>	<b>\$ (5,122)</b>

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

For the year 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 three months ended March 31, 2006 are as follows:

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

### 12. Borrowing Arrangements

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

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

excess of pre-established amounts of certain events as defined within the loan agreement.

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

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

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

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

### 13. Stock Compensation Plans

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

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

#### 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)	<b>Three Months Ended March 31 2006</b>
<hr/>	
Stock-based compensation expense recognized:	
Selling, general and administrative expenses	\$ 165
	<hr/>
Total	165
	<hr/>
Tax effect	65
	<hr/>
Increase in net loss	\$ 100
Decrease in basic and diluted earnings per share	\$ 0.00
	<hr/>

**Prior period pro forma presentations**

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

(Dollars in thousands except per share data)	Three Months Ended March 31 2005
Net loss	
As reported	\$ (3,409)
Stock-based compensation, net of tax effect	(127)
Pro forma	\$ (3,536)
Weighted average shares outstanding	
Basic and Diluted	39,200,362
Net loss per common share	
Basic and Diluted	
As reported	\$ (.09)
Pro forma	\$ (.09)

The above disclosures of the effect of stock-based compensation expense for the three months ended March 31, 2006 and the pro forma effect as if SFAS No. 123 had been applied to the three months ended March 31, 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:

	Three Months Ended March 31	
	2006	2005
Average grant date exercise price per share of unvested awards - options	\$ 8.09	\$ 6.94
Average grant date exercise price per share of unvested awards nonvested restricted stock	\$ 0.00	\$ 0.00
Dividend yield	.00-.71%	.70%
Expected volatility	34-44%	37%
Risk-free interest rates	3.38%-4.79%	3.62%
Expected lives of options	5 -6 years	5 years
Average grant date fair value per share of unvested option awards	\$ 3.20	\$ 2.64
Average grant date fair value per share of nonvested restricted awards	\$ 6.54	\$ 7.10

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.

**Stock option activity**

The following tables show a summary of the status and activity of stock options for the three months ended March 31, 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	88,700	7.96		
Exercised	(5,250)	5.07		
Canceled	(166,200)	6.81		
Outstanding at March 31, 2006	2,056,150	\$ 6.72	6.30	\$ 784
Exercisable at March 31, 2006	1,914,150	\$ 6.61	6.06	\$ 784

The weighted-average grant-date fair value of stock options granted during the three months ended March 31, 2006 was \$2.64 per share or \$0.2 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				
Exercised				
Canceled				
Outstanding at March 31, 2006	450,737	\$ 7.14	6.27	\$ 114
Exercisable at March 31, 2006	445,225	\$ 7.16	6.10	\$ 111

During the three months ended March 31, 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. The options exercised were from the Employee Stock Option Plan. The total fair value of options vested during the three months ended March 31, 2006 was \$3.20 per share or \$0.8 million.

**Nonvested Restricted stock activity**

Nonvested restricted stock granted to employees 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 three months ended March 31, 2006:

	Shares	Weighted-Average Grant-Date Fair-Value (per share)
Nonvested at January 1, 2006	240,800	\$ 7.10

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q/A

Granted	188,100	5.96
Vested	(49,903)	6.91
Cancelled	(17,242)	6.91
	<u>          </u>	<u>          </u>
Nonvested at March 31, 2006	361,755	\$ 6.54
	<u>          </u>	<u>          </u>

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

Compensation expense related to nonvested restricted stock totaled \$0.1 million for the three month period ended March 31, 2006. The related net tax benefit related to restricted awards was immaterial for the three month period ended March 31, 2006.

As of March 31, 2006, there was \$2.2 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.

### 14. Pensions

#### U.S. Plans:

For U.S. plans, the following table provides the components of net periodic pension costs of the plans for the periods ended March 31, 2006 and 2005:

<b>Pension Benefits (in thousands)</b>	<b>Three Months Ended March 31</b>	
	<b>2006</b>	<b>2005</b>
Service cost	\$ 647	\$ 768
Interest cost	1,252	1,172
Expected return on plan assets	(1,063)	(1,044)
Amortization of prior service cost	81	118
Net amortization	253	139
Curtailement		215
<b>Net periodic pension cost</b>	<b>\$ 1,170</b>	<b>\$ 1,368</b>

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 March 31, 2006, no contributions have been made. The Company expects to contribute the \$4.4 million over 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 periods ended March 31, 2006 and 2005:

<b>Pension Benefits (in thousands)</b>	<b>Three Months Ended March 31</b>	
	<b>2006</b>	<b>2005</b>
Service cost	\$ 253	\$ 241
Interest cost	422	430
Expected return on plan assets	(272)	(302)
Transition amount amortization	13	14
Net amortization	48	23
<b>Net periodic pension cost</b>	<b>\$ 464</b>	<b>\$ 406</b>

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 March 31, 2006, the Company contributed \$0.4 million. The Company expects to contribute the remaining \$1.6 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. 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 were \$0.1 million and \$0.1 million, respectively, for the periods ended March 31, 2006 and 2005, respectively.

#### 15. New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ( 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 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 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.

#### 16. Restatement

Subsequent to the issuance of the Company's Condensed Consolidated Financial Statements for the three months ended March 31, 2006, the Company identified an error which resulted in an understatement of the Company's income taxes related to discontinued operations as well as an overstatement of the Company's income taxes that related to continuing operations for the three months ended March 31, 2006. The error was made in the calculation of the Company's tax provision for the quarter ended March 31, 2006.

As a result, the accompanying Condensed Consolidated Financial Statements for the three month period ended March 31, 2006 have been restated from the amounts previously reported. The effect of the restatement for the three month period ended March 31, 2006 is to increase the benefit for income taxes and decrease loss from continuing operations by \$29 thousand, respectively; reduce income from discontinued operations net of tax by \$1.4 million, and increase net loss by \$1.4 million. Income from discontinued operations per common share decreased by \$0.04 and basic and diluted net loss per common share decreased by \$0.04.

A summary of the significant effects of the restatement is as follows:

Edgar Filing: CALGON CARBON CORPORATION - Form 10-Q/A

Three Months Ended  
March 31, 2006

	As Previously Reported	As Restated
(Dollars in Thousands, Except Per Share Data) (Unaudited)		
Statement of Operations:		
Benefit for income taxes	\$ 316	\$ 345
Net loss from continuing operations	(3,018)	(2,989)
Income from discontinued operations	3,016	1,575
Net loss	(2)	(1,414)
Net income (loss) per common share		
Basic and Diluted:		
Loss from continuing operations	(.08)	(.08)
Income from discontinued operations.	.08	.04
Net income (loss)	.00	(.04)

As of March 31, 2006

	As Previously Reported	As Restated
(Dollars in Thousands) (Unaudited)		
Balance Sheet:		
Deferred income tax asset - current	\$ 9,877	\$ 10,199
Total current assets	154,329	154,651
Deferred income tax asset - long-term	16,449	15,241
Total assets	333,473	332,587
Accrued income taxes	11,165	11,508
Total current liabilities	135,086	135,429
Total liabilities	182,156	182,499
Retained earnings	101,831	100,419
Accumulated other comprehensive income	7,117	7,300
Total shareholders' equity	151,317	150,088

As of March 31, 2006

	As Previously Reported	As Restated
(Dollars in Thousands) (Unaudited)		
Statement of Cash Flows:		
Net loss	\$ (2)	\$ (1,414)
Increase in revenue in excess of billings on uncompleted Contracts and other current assets	(713)	(1,036)
Decrease in accounts payable, accrued liabilities, and billings in excess of revenue	(838)	(503)
Increase in long-term deferred income taxes	1,422	1,270
Other items - net	492	2,044

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

This discussion should be read in connection with the information contained in the Unaudited Condensed Consolidated Financial Statements and Notes to the Unaudited Condensed Financial Statements and gives effect to the restatement discussed in Note 16 to the Unaudited Condensed Consolidated Financial Statements.

Results of Operations

**Continuing Operations:**

Consolidated net sales increased by \$3.5 million or 4.8% for the quarter ended March 31, 2006 versus the quarter ended March 31, 2005. Net sales for the quarter ended March 31, 2006 for the Carbon and Service segment increased \$5.9 million or 9.9% versus the similar 2005 period. The increase was primarily due to stronger sales in all geographical regions including increased sales of activated carbon in Japan to the Company's joint venture company, Calgon Mitsubishi Chemical Corporation as well as price increases. Partially offsetting this increase was the negative impact of foreign currency translation of \$1.6 million. Net sales for the Equipment segment decreased \$1.8 million or 17.2% in the first quarter 2006 versus the comparable 2005 period. The decrease was primarily due to non-repeat sales of equipment for perchlorate removal from ground water and odor removal equipment. The impact of foreign currency translation for the quarter ended March 31, 2006 was comparable to the similar 2005 period. Net sales for the quarter ended March 31, 2006 for the Consumer segment decreased by \$0.6 million or 16.5% versus the quarter ended March 31, 2005. The decrease was attributable to lower demand for activated carbon cloth as well as the negative impact of foreign currency translation of \$0.1 million. The total negative impact of foreign currency translation on consolidated net sales for the quarter ended March 31, 2006 was \$1.8 million.

Net sales less cost of products sold (excluding depreciation), as a percentage of net sales was 25.0% for the quarter ended March 31, 2006 compared to 27.7% for the similar 2005 period, a 2.7 percentage point decrease. The decline was primarily due to higher raw material, energy, and transportation costs of \$3.1 million or 4.0%. These costs were partially offset by price increases of carbon products and services.

The depreciation and amortization decrease of \$0.7 million during the quarter ended March 31, 2006 versus the quarter ended March 31, 2005 was primarily due to decreased depreciation due to an increase in fully depreciated fixed assets.

Selling, general and administrative expenses for the quarter ended March 31, 2006 decreased versus the comparable 2005 quarter by \$1.5 million. Included in the decrease was a change in the estimate of the Company's environmental liabilities assumed in the Waterlink acquisition of approximately \$1.3 million. Litigation expense increased \$0.9 million versus the similar 2005 period. Offsetting this increase was the non-recurring severance charges of \$1.3 million related to the Company's 2005 re-engineering plan that occurred during the quarter ended March 31, 2005.

Research and development expenses for the quarter ended March 31, 2006 were comparable to the similar 2005 period.

The impairment charge of \$2.2 million for the quarter ended March 31, 2005 was as a result of the Company's decision on March 22, 2005 to cancel the construction of a reactivation facility on the U.S. Gulf Coast and to suspend the construction of such facility for the foreseeable future.

Restructuring charges for the quarter ended March 31, 2006 decreased \$0.2 million versus the comparable 2005 period. The restructuring charges for the quarter ended March 31, 2005 primarily related to pension curtailment charges as a result of employee separations from the Company's 2005 re-engineering plan.

Other expense for the quarter ended March 31, 2006 increased \$0.4 million as compared to March 31, 2005. The increase is primarily due to the write-off of deferred financing fees associated with the Company's previous credit facility.

Interest expense, net of interest income, for the quarter ended March 31, 2006 increased versus the quarter ended March 31, 2005 by \$0.6 million. The increase is the result of higher interest rates paid on the Company's borrowings both as a result of the increase in LIBOR rates from last year's first quarter to this year's first quarter and the Company paying higher interest spreads on its borrowings as a result of a lower trailing twelve months EBITDA as of the end of the first quarter 2006 versus the end of the first quarter 2005.

The effective tax rate for the quarter ended March 31, 2006 was 9.8% compared to 21.4% for the quarter ended March 31, 2005. The quarter ended March 31, 2006 tax rate was lower than the statutory Federal Income Tax Rate due to certain benefits, principally the exclusion provided under United States income tax laws with respect to the Extraterritorial Income Exclusion Benefit and recognition of state income tax benefits. The quarter ended March 31, 2005 tax rate was lower 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 item that contributed to the change in the effective tax rate between the three month period ended March 31, 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.

Equity in income from equity investments for the quarter ended March 31, 2006 was comparable to the similar 2005 period.

**Discontinued Operations:**

Income from discontinued operations increased \$0.6 million for the quarter ended March 31, 2006 versus March 31, 2005 primarily due the \$1.7 million, net of tax, gain recognized on the sale of the Company's Charcoal/Liquid business. Partially offsetting this increase was lower sales and profitability of the solvent recovery business in 2006 as a result of the completion of a significant project during 2005.

Financial Condition

Working Capital and Liquidity

The cash flows discussed for the quarter ended March 31, 2006 and 2005 include discontinued operations. Cash flows used in operating activities were \$4.6 million for the period ended March 31, 2006 compared to cash flows used in operating activities of \$2.4 million for the comparable 2005 period. The \$2.2 million increase in cash used represents an increase in operating working capital (exclusive of debt) in 2006 versus the comparable 2005 period. The divestitures are expected to decrease earnings before income tax, depreciation and amortization (EBITDA) by approximately \$3.0 million on an annual, on-going basis.

Common stock dividends were not paid during the quarter ended March 31, 2006 as compared to dividends that were paid during the quarter ended March 31, 2005 which represented \$.03 per common share.

Total debt at March 31, 2006 was \$71.5 million, a decrease of \$12.4 million from December 31, 2005. The decrease was as a result of the repayment of the Company's \$18.0 million term loan and the additional borrowings of \$5.6 million were used in financing normal working capital and capital expenditure activities.

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

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

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

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

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

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

The Company expects that current cash from operating activities plus cash balances and current access to available external financing (see conditions to access discussed above) will be sufficient to meet its operating requirements for the next twelve months and the foreseeable future.

The Company is obligated to make future payments under various contracts such as debt agreements, lease agreements, and unconditional purchase obligations. As of March 31, 2006, with the exception of the debt covenant violation noted above, there have been no changes in the payment terms of long-term debt, lease agreements, and unconditional purchase obligations since December 31, 2005. The following table represents the significant cash contractual obligations and other commercial commitments.

(Thousands)	Due in						Total
	2006	2007	2008	2009	2010	Thereafter	
Short-term debt	\$ 68,574	\$	\$	\$ 2,925	\$	\$	\$ 71,499
Operating leases	5,019	3,781	3,029	2,694	2,539	12,245	29,307
Unconditional purchase obligations*	26,755	21,626	16,887	8,041	7,753	5,711	86,773
<b>Total contractual cash Obligations</b>	<b>\$ 100,348</b>	<b>\$ 25,407</b>	<b>\$ 19,916</b>	<b>\$ 13,660</b>	<b>\$ 10,292</b>	<b>\$ 17,956</b>	<b>\$ 187,579</b>

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

### Capital Expenditures and Investments

Capital expenditures for property, plant and equipment totaled \$3.1 million for the three months ended March 31, 2006 compared to expenditures of \$1.7 million for the same period in 2005. The expenditures for the period ended March 31, 2006 consisted primarily of improvements to the Company's manufacturing facilities of \$1.8 million, \$1.1 million related to the repair of the Company's Pearl River plant as a result of Hurricane Katrina, and customer capital of \$0.3 million. The comparable 2005 expenditures consisted primarily of \$1.4 million for improvements to manufacturing facilities and \$0.1 million for customer capital. Capital expenditures for 2006 are projected to be approximately \$16.0 million.

The March 31, 2005 purchase of business cash out flow of \$0.5 million, as shown on the statement of cash flows, represents the Company's increased equity ownership in Datong Carbon Corporation from 80% to 100% for a purchase price of \$0.7 million.

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 for the period ended March 31, 2005.

In January 2006, the Company announced the temporary idling of its reactivation facility in Blue Lake, California in an effort to reduce operating costs and to more efficiently utilize the capacity at its other existing locations. The Company conducted an impairment review of the plant's assets having a net book value of \$1.7 million in connection with the temporary idling of the facility and concluded that the assets were not impaired. It is management's intention to resume operation of the plant in 2007. If management should conclude that the idling of the plant beyond 2007 is warranted, operating results may be adversely affected by impairment charges.

### Regulatory Matters

Each of the Company's domestic production facilities has permits and licenses regulating air emissions and water discharges. All of the Company's domestic production facilities are controlled under permits issued by local, state and federal air pollution control entities. The Company is presently in compliance with these permits. Continued compliance will require administrative control and will be subject to any new or additional standards. In May 2003, the Company partially discontinued operation of one of its three activated carbon lines at its Catlettsburg, Kentucky facility. The Company will need to install pollution abatement equipment estimated at approximately \$7.0 million in order to remain in compliance with state requirements regulating air emissions before resuming full operation of this line. Management has not determined its plan of action for compliance related to this activated carbon line; however, if it is determined that a shutdown of the full operation of the activated carbon line is warranted, the impact to current operating results would be insignificant.



#### 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 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 as discussed in Note 13.

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.

#### Critical Accounting Policies

Management of the Company has evaluated the accounting policies used in the preparation of the financial statements and related footnotes and believes the policies to be reasonable and appropriate. The preparation of the financial statements in accordance with accounting principles generally accepted in the United States requires management to make judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Management uses historical experience and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the Company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis (MD&A) and the financial statements and related footnotes provide a meaningful and fair perspective of the Company's financial condition and results of operations.

The following are the critical accounting policies impacted by management's judgments, assumptions, and estimates. Management believes that the application of these policies on a consistent basis enables the Company to provide the users of the financial statements with useful and reliable information about the Company's operating results and financial condition.

#### **Revenue Recognition**

The Company recognizes revenue and related costs when goods are shipped or services are rendered to customers provided that ownership and risk of loss have passed to the customer. Revenue for major equipment projects is recognized under the percentage of completion method by comparing actual costs incurred to total estimated costs to complete the respective projects.

### **Allowance for Doubtful Accounts**

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The amount of allowance recorded is based upon a quarterly review of specific customer transactions that remain outstanding at least three months beyond their respective due dates. If the financial condition of the Company's customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

### **Inventories**

The Company's inventories are carried at the lower of cost or market and adjusted to net realizable value by recording a reserve for inventory obsolescence. The inventory obsolescence reserve is adjusted quarterly based upon a review of specific products that have remained unsold for a prescribed period of time. If the market demand for various products softens, an additional reserve may be required.

### **Goodwill and Other Intangible Assets**

The Company tests goodwill for impairment at least annually by initially comparing the fair value of the Company's reporting units to their related carrying values. If the fair value of a reporting unit were less than its carrying value, additional steps would be necessary to determine the amount, if any, of goodwill impairment. Fair values are estimated using discounted cash flow and other valuation methodologies that are based on projections of the amounts and timing of future revenues and cash flows.

### **Environmental Costs**

Liabilities for environmental costs are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. These liabilities are not reduced by possible recoveries from third parties, and projected cash expenditures are not discounted.

### **Pensions**

Accounting for pensions involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover and discount rates. These assumptions are reviewed annually. In determining the expected return on plan asset assumption, the Company evaluates long-term actual return information, the mix of investments that comprise plan assets and future estimates of long-term investment returns.

### **Income Taxes**

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Significant judgment is required in determining the Company's annual tax rate and in evaluating tax positions. The Company establishes reserves when, despite management's belief that the Company's tax return positions are fully supportable, it believes that certain positions are probable to be challenged upon review by tax authorities. Changes in estimates are reflected in the year of settlement or expiration of the statute of limitations. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes that its reserves reflect the probable outcome of known tax contingencies. The resolution of tax matters will not 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 statements of operations and comprehensive income for a particular future period and on the Company's effective tax rate.

The Company is subject to varying statutory tax rates in the countries where it conducts business. Fluctuations in the mix of the Company's income between countries result in changes to the Company's overall effective tax rate.

### **Litigation**

The Company is involved in various asserted and unasserted legal claims. An estimate is made to accrue for a loss contingency relating to any of these legal claims if it is probable that a liability was incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Because of the subjective nature inherent in assessing the outcome of legal claims and because the potential that an adverse outcome in a legal claim could have material impact on the Company's legal position or results of operations, such estimates are considered to be critical accounting estimates. After review, it was determined at March 31, 2006, that for each of the various unresolved legal claims in which the Company is involved, the conditions mentioned above were not met. As such, no accrual was recorded. The Company will continue to evaluate all legal matters as additional information becomes available.



### **Long-Lived Assets**

The Company evaluates long-lived assets under the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment of long-lived assets, and for long-lived assets to be disposed of. For assets to be held and used, the Company groups a long-lived asset or assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. An impairment loss for an asset group reduces only the carrying amounts of a long-lived asset or assets of the group being evaluated. The loss is allocated to the long-lived assets of the group on a pro-rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group does not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. Estimates of future cash flows used to test the recoverability of a long-lived asset group include only the future cash flows that are associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset group. The future cash flow estimates used by the Company exclude interest charges.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures:

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

#### Material Weakness Identified:

On October 30, 2006, management and the Audit Committee of the Company determined that the Unaudited Condensed Consolidated Financial Statements for the fiscal quarter ended March 31, 2006 contained errors and should no longer be relied upon. The errors were as a result of an error made in the calculation of the Company's interim tax provision for the quarter ended March 31, 2006. Our interim preparation and review controls surrounding income taxation failed to fully consider the impact of the disposition that occurred in the period.

In connection with this restatement, management re-evaluated the effectiveness of our disclosure controls and procedures. Solely as a result of this material weakness, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of the end of the fiscal quarter ended March 31, 2006.

Material Weakness Previously Identified:

As previously reported in our annual report on Form 10-K for the year ended December 31, 2005, on March 21, 2006, management and the Audit Committee of the Company determined that as of December 31, 2005, a material weakness existed in internal control over financial reporting related to the failure to record invoices for professional services in a timely manner. This determination resulted from errors identified during the Company's audit for the year ended December 31, 2005.

Management evaluated the cause of these errors and determined that the controls over the collection and recording of invoices for professional services did not operate effectively. As a result of the actual misstatement that occurred and the lack of other mitigating controls, management determined that this deficiency constituted a material weakness in internal control over financial reporting. The material weakness resulted in a restatement of the Company's Unaudited Condensed Consolidated Financial Statements for the quarters ended March 31, June 30, and September 30, 2005.

Remediation Activities related to the previously identified material weakness:

The Company's management and Audit Committee have dedicated resources to assessing the underlying issues giving rise to the aforementioned accounting errors relating to the recording of invoices for professional services and to ensure that proper steps have been and are being taken to improve our internal controls. We have re-evaluated the internal controls relative to this area and have implemented additional internal controls so that, as of March 31, 2006, we believe that we have remediated this material weakness. The Company's remediation plan, which included the implementation of additional controls to ensure proper recording of invoices for professional services in a timely manner, is as follows:

Centralized the collection and recordkeeping of invoices for professional services.

Established balance sheet reconciliation review meetings with the business process owners.

In addition, the Company will continue to monitor the effectiveness of these remedial actions and make any further changes as management determines to be appropriate.

Changes in Internal Control:

The remediation of the material weakness described above that occurred and the material weakness related to the tax calculation that arose during the period ended March 31, 2006, had a material effect on the Company's internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

See Note 9 to the unaudited interim Condensed Consolidated Financial Statements contained herein.

Item 1a. Risk Factors

**Calgon Carbon could be subject to significant increases in pension contributions to its defined benefit pension plans thereby restricting cash flow.** The Company has made commitments to pay certain retirement benefits to its current and former employees under its defined benefit pension plans. The funded status is determined using many assumptions such as inflation, investment rates, mortality, turnover, and discount rates which could turn out to be different than projected. Currently those plans in the aggregate are significantly under funded, and require a certain level of mandatory contributions as prescribed by law. Significant increases in the Company's pension liabilities or decreases in pension assets as a result of actual experience being materially different than the projected assumptions would result in higher levels of mandatory contributions. In addition, changes in pension legislation could also increase funding requirements which would have an adverse effect on the Company's cash flow and could restrict strategic investments.

**Calgon Carbon's financial results could be adversely affected by shortages in natural gas supply or increases in natural gas prices.** Calgon Carbon utilizes natural gas as a key component in its activated carbon manufacturing process, and has long term contracts for the supply of natural gas at each of its major facilities. If shortages of or restrictions on the delivery of natural gas occurs, production at the Company's activated carbon facilities would be reduced which could result in missed deliveries or lost sales. Additionally, the Company hedges its future supply of natural gas by purchasing forward contracts for up to two years in duration in order to limit prices fluctuations in the near term and smooth out the cost volatility. These purchases however do not protect the Company from longer term trends of rising natural gas prices which could result in significant production cost increases.

**Delays in enactment of new state or federal regulations could restrict Calgon Carbon's ability to reach its strategic growth targets.** The Company's strategic growth initiatives are reliant upon more restrictive environmental regulations being enacted for the purpose of making water and air cleaner and safer. If stricter regulations are delayed or are not enacted, then the Company's sales growth targets could be adversely affected.

**Increases in United States and European imports of Chinese manufactured activated carbon could have an adverse effect on Calgon Carbon's financial results.** Calgon Carbon faces competition in its U.S. and European markets from brokers of low cost imported activated carbon products, primarily from China. While the Company believes it has a technically superior product, if imports increase and Chinese products are accepted in more applications, the Company could see declines in sales and profitability as it tries to remain competitive.

**Calgon Carbon uses bituminous coal as the main raw material in its granular activated carbon production process. An interruption of supply or an increase in coal prices could have an adverse effect on Calgon Carbon's financial results.** The Company has various long term contracts in place for the supply of coal that expire at various intervals. Interruptions in coal supply caused by mine accidents, labor disputes, transportation delays, or other events for other than a temporary period could have an adverse effect on the Company being able to meet its customer demand, in addition to increasing production costs.

**Most of Calgon Carbon's hourly workforce is covered under union contracts; the Company's inability to successfully negotiate contracts upon expiration could have an adverse affect on financial results.** The Company has collective bargaining agreements in place at four of the Company's production facilities covering approximately 309 employees that expire from 2007 to 2009. Any work stoppages as a result of disagreements with any of the labor unions or the failure to renegotiate any of the contracts as they expire could disrupt production and significantly increase product costs as a result of less efficient operations brought on by temporary labor.

**Calgon Carbon has locations operating in multiple foreign countries and as a result is subject to foreign exchange translation risk which could have an adverse effect on the Company's financial results.** Calgon Carbon conducts business in the local currencies of each of its foreign subsidiaries or affiliates. Those results are then converted to U.S. dollars at prevailing exchange rates and consolidated into the Company's financial statements. Changes in exchange rates, particularly the strengthening of the U.S. dollar, could significantly reduce the Company's sales and profitability from foreign subsidiaries or affiliates from one period to the next as local currency amounts are translated into less U.S. dollars. The Company does not hedge foreign translation risk.

**Calgon Carbon's European and Japanese activated carbon businesses are sourced from both the United States and China which subjects the Company to foreign exchange translation risk.** Calgon Carbon's only source of production for virgin granular activated carbon is in the United States and China. Those facilities are used to supply all of the Company's global demand of such product. The Company's foreign operations all purchase from the U.S. operations in U.S. dollars, yet sell in local currency, resulting in foreign exchange translation risk. The Company attempts to mitigate that risk in the short term by executing foreign currency derivative contracts of not more than one year in duration to cover its known or projected foreign currency exposure. However, those contracts do not protect the Company from longer term trends of a strengthening U.S. dollar, which could significantly increase the Company's cost of activated carbon delivered to its European and Japanese markets and for which the Company may not be able to offset by increases in its prices.

**Calgon Carbon has significant domestic and foreign net operating tax loss (NOL) carryforwards which, if they are not utilized, would have an adverse effect on the Company's financial results.** The Company has significant deferred tax assets associated with net operating loss carryforwards that were generated from both the Company's domestic and foreign operations. The Company has reduced that value of these assets by an appropriate valuation allowance for the amounts that are deemed not likely to be realized. However if the Company does not meet its projections of profitability in the future, some or all of those NOL's could expire, which would result in a reduction of the Company's deferred tax asset and an increase in tax expense, and which would reduce the Company's profitability.

**Calgon Carbon's business includes capital equipment sales which could have extreme fluctuations due to the cyclical nature of that type of business.** Calgon Carbon's Equipment segment approximated 13% of the Company's overall revenues in 2005. This business generally has a long project life cycle from bid solicitation to project completion and often requires customers to make large capital commitments well in advance of project execution. In addition, this business is usually affected by the general health of the overall economy. As a result, sales and earnings from the Equipment segment could be volatile.

**Calgon Carbon could find it difficult to fund the capital needed to complete its growth strategy due to borrowing restrictions under its U.S. credit facility.** Calgon Carbon is extended credit under its U.S. credit facility subject to compliance with certain financial covenants. The Company has had to amend its credit facility several times within the past year in order to cure violations or remain compliant as financial results have declined. If the Company's liquidity remains constrained for more than a temporary period the Company may need to either delay certain strategic growth projects or access higher cost capital markets in order to fund the projects.

**Encroachment into Calgon Carbon's markets by competitive technologies could adversely affect financial results.** Activated carbon is utilized in various applications as a cost effective solution for solving customer problems. If other competitive technologies are advanced to the stage in which technologies could effectively compete with activated carbon costs and technologies, the Company could experience a decline in sales and profitability.

**Failure to innovate new products or applications could adversely affect the Company's ability to meet its strategic growth targets.** One of the ways that Calgon Carbon differentiates itself from its competition is through its technological superiority in helping customers to find solutions to their problems through the application of the Company's products or services. Part of Calgon Carbon's strategic growth and profitability plans involve the development of new products or new applications for its current products in order to replace more mature products or markets that have seen increased competition. If the Company is unable to develop new products or applications then the Company's financial results could be adversely affected.

**An unplanned shutdown at one of the Company's production facilities could have an adverse effect on financial results.** The Company operates multiple facilities and sources product from strategic partners that operate facilities that are close to water or in areas susceptible to earthquakes. An unplanned shutdown at any of the Company's or its strategic partners' facilities for more than a temporary period as a result of a labor dispute, hurricane, typhoon, earthquake or other natural disaster could significantly affect the Company's ability to meet its demand requirements, thereby resulting in lost sales and profitability in the short term or eventual loss of customers in the long term.

**Calgon Carbon holds a variety of patents that give the Company a competitive advantage in certain markets. An inability to defend those patents from competitive attack could have an adverse effect on both current results as well as future growth projections.** From time to time in the course of its business the Company has to address competitive challenges to its patented technology. Calgon Carbon is currently in litigation to defend its process patent for the use of ultraviolet light in the prevention of cryptosporidium infection in drinking water. While the Company believes it will prevail in this action, an unfavorable outcome of that patent defense would impair the Company's ability to capitalize on substantial future revenues from the licensing of that technology.

**Environmental compliance and remediation could result in substantially increased capital requirements and operating costs.** The Company's production facilities are subject to a variety of environmental laws and regulations in the jurisdictions in which they operate or maintain properties. Costs may be incurred in complying with such laws and regulations if environmental remediation measures are required. Each of the Company's domestic production facilities has permits and licenses regulating air emissions and water discharges. All of the Company's domestic production facilities are controlled under permits issued by local, state, and federal air pollution control entities. International environmental requirements vary and could have substantially lesser requirements that may give competitors a competitive advantage.

**Provisions of Delaware Law and our rights plan may make a takeover of the Company more difficult.** Certain provisions of Delaware law, our certificate of incorporation and by-laws and our rights plan could make more difficult or delay our acquisition by means of a tender offer, a proxy contest or otherwise and the removal of incumbent directors. These provisions are intended to discourage certain types of coercive takeover practices even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

**Calgon Carbon's international operations expose it to uncertainties and risks from abroad, which could negatively affect its results of operations.** The Company has locations in Europe, China, Japan, and the United Kingdom which are subject to economic conditions and political factors within the respective countries, which if changed could negatively affect the Company's results of operations and cash flow. Political factors include, but are not limited to, taxation, nationalization, inflation, currency fluctuations, increased regulation and quotas, tariffs and other protectionist measures.

**We face risks in connection with the material weaknesses described in our Sarbanes-Oxley Section 404 Management Report and any other related remedial measures that we may undertake.** In connection with the preparation of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, we concluded that our internal controls were ineffective as of December 31, 2005 as a result of the failure to record invoices for professional services in a timely manner. We remediated the identified material weakness by centralizing the collection and record keeping of invoices for professional services and establishing balance sheet reconciliation review meetings with the business process owners. We also have identified a significant deficiency related to a lack of segregation of duties with respect to our information systems and are in the process of implementing changes to remediate this significant deficiency. Subsequent to our Annual Report, we concluded that our internal controls were ineffective as a result of an error made in the calculation of the Company's interim tax provision for the quarters ended March 31 and June 30, 2006, respectively. We continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis, taking additional remedial action as appropriate.

If we are unable to effectively remediate this material weakness and any other material weaknesses or significant deficiencies in internal control over financial reporting that are identified in the future and to assert that disclosure controls and procedures including internal control over financial reporting are effective in any future period, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and potentially subject us to litigation. In addition, we may be required to incur additional costs including but not limited to the potential for hiring additional personnel to improve our existing internal control system.

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

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs (c)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (d)
January 1 - January 31, 2006				
February 1 - February 28, 2006	32,432	\$ 7.12		
March 1 - March 31, 2006				
Total for Quarter Ended March 31, 2006	32,432	\$ 7.12		

(a) This column includes purchases under Calgon Carbon's Stock Option Plan which represented withholding taxes due from employees relating to the restricted share awards issued on February 9, 2006. Future purchases under this plan will be dependent upon employee elections and forfeitures.

**Item 4. Submission of Matters to a Vote of Security Holders**

The annual meeting of stockholders was held April 19, 2006. In connection with the meeting, proxies were solicited pursuant to the Securities Exchange Act. The following are the voting results on the proposals considered and voted upon at the meeting and described in the proxy statement.

Election of directors:

	<u>Votes For</u>	<u>Votes Withheld</u>
<u>Class of 2009</u>		
William R. Newlin	33,965,090	1,205,137
John S. Stanik	33,903,268	1,266,959
Robert L. Yohe	33,077,430	2,092,796
<u>Class of 2008</u>		
Timothy G. Rupert	33,709,229	1,460,787

Ratification of Deloitte & Touche LLP as Independent Registered Public Accounting Firm for 2006:

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Withheld</u>
34,917,407	102,843	149,977

**Item 6. Exhibits**

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

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

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

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

**SIGNATURES**

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

CALGON CARBON CORPORATION

---

(REGISTRANT)

Date: November 28, 2006

/s/Leroy M. Ball

---

Leroy M. Ball  
Senior Vice President,  
Chief Financial Officer

EXHIBIT INDEX

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