

CALGON CARBON CORPORATION
Form 10-K/A
April 25, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended December 31, 2005 or

Transition Report Pursuant to Section 12 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
(State or other jurisdiction of
incorporation or organization)

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

400 Calgon Carbon Drive
Pittsburgh, Pennsylvania
(Address of principal executive offices)

15205
(Zip Code)

Registrant's telephone number, including area code: **(412) 787-6700**

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|--|--|
| Common Stock, par value \$0.01 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of February 28, 2006, there were outstanding 39,913,275 shares of Common Stock, par value of \$0.01 per share.

The aggregate market value of the voting stock held by non-affiliates as of June 30, 2005 was \$301,587,114.

CALGON CARBON CORPORATION

FORM 10-K/A

FISCAL YEAR ENDED DECEMBER 31, 2005

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A for Calgon Carbon Corporation, (the Company) for the fiscal year ended December 31, 2005 is being filed to amend and restate the items described below contained in the Company s Annual Report on Form 10-K for such period originally filed with the Securities and Exchange Commission (the SEC) on March 30, 2006.

This Amendment No. 1 amends Part II, Item 8 and Part IV, Item 15, as follows:

Part II, Item 8

1. Internal Controls Report of Independent Registered Public Accounting Firm:
Deloitte & Touche LLP dated April 24, 2007

2. Financial Statements, Reports of Independent Registered Public Accounting Firms:
Deloitte & Touche LLP dated April 24, 2007

KPMG LLP dated April 24, 2007

Part IV, Item 15

A. Financial Statements

1. The following documents are filed as part of this report:
Internal Controls Report of Independent Registered Public Accounting Firm:

Deloitte & Touche LLP dated April 24, 2007

Financial Statements Reports of Independent Registered Public Accounting Firms:

Deloitte & Touche LLP dated April 24, 2007

KPMG LLP dated April 24, 2007

2. The following report and schedule should be read with the Company s consolidated annual financial statements:

Report of Deloitte & Touche LLP dated April 24, 2007 on the Company s financial statement schedule

C. Exhibits

23.1 Consent of Independent Registered Public Accounting Firm Deloitte & Touche LLP

23.2 Consent of Independent Registered Public Accounting Firm KPMG LLP

Pursuant to SEC Rule 12b-15, this Form 10-K/A sets forth the complete text of each item of Form 10-K 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 Annual Report on Form 10-K on March 30, 2006, or modify or update the disclosures presented in the original Annual Report on Form 10-K, except to reflect the revisions as described above.

Part II

Item 8. Financial Statements and Supplementary Data:

INTERNAL CONTROLS REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Calgon Carbon Corporation

Pittsburgh, Pennsylvania

We have audited management's assessment, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*, included in the *Report of Management*, that Calgon Carbon Corporation and subsidiaries (the "Company") did not maintain effective internal control over financial reporting as of December 31, 2005 because of the effect of the material weakness identified in management's assessment, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting

includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment: The Company did not maintain effective controls over the collection and recording of invoices for professional services. As a result, material adjustments were necessary to present the 2005 annual financial statements in accordance with generally accepted accounting principles. As a result of the actual misstatement that occurred and the lack of other mitigating controls, this deficiency constitutes a material weakness in internal control over financial reporting. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in or audit of the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and this report does not affect our report on such financial statements.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated April 24, 2007 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
April 24, 2007

FINANCIAL STATEMENTS REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Calgon Carbon Corporation

Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of Calgon Carbon Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Chemviron Carbon Ltd. and subsidiaries (Chemviron UK) as of and for the years ending December 31, 2005 and 2004, which statements reflect total assets constituting 9 percent and 10 percent of consolidated total assets as of December 31, 2005 and 2004, and total revenues constituting 12 percent and 11 percent of consolidated total revenues for the year then ended. Such financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such subsidiary Chemviron UK, is based solely on the report of such other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 24, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness.

Deloitte & Touche LLP

Pittsburgh, Pennsylvania

April 24, 2007

FINANCIAL STATEMENTS REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Chemviron Carbon Limited

We have audited the accompanying consolidated balance sheets of Chemviron Carbon Limited and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chemviron Carbon Limited and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP
Manchester, United Kingdom
April 24, 2007

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**Calgon Carbon Corporation**

| | Year Ended December 31 | | |
|--|------------------------|-------------------|-------------------|
| | 2005 | 2004 | 2003 |
| <i>(Dollars in thousands except per share data)</i> | | | |
| Net Sales | \$ 290,835 | \$ 295,877 | \$ 253,178 |
| Cost of products sold (excluding depreciation) | 215,330 | 207,523 | 174,012 |
| Depreciation and amortization | 21,042 | 22,004 | 18,854 |
| Selling, general and administrative expenses | 60,547 | 54,543 | 49,730 |
| Research and development expenses | 4,506 | 3,801 | 3,955 |
| Gulf Coast Facility impairment charge (Note 7) | 2,158 | | |
| Restructuring charges | 412 | | 452 |
| | 303,995 | 287,871 | 247,003 |
| Income (loss) from operations | (13,160) | 8,006 | 6,175 |
| Interest income | 719 | 697 | 786 |
| Interest expense | (4,891) | (3,409) | (2,341) |
| Other expense net | (2,138) | (3,238) | (1,718) |
| Income (loss) from continuing operations before income taxes, equity in income (loss), and minority interest | (19,470) | 2,056 | 2,902 |
| Income tax benefit | (9,688) | (846) | (300) |
| Income (loss) from continuing operations before equity in income (loss), and minority interest | (9,782) | 2,902 | 3,202 |
| Equity in income (loss) on equity investments | (725) | 1,000 | 429 |
| Minority interest | | 66 | 179 |
| Income (loss) from continuing operations | (10,507) | 3,968 | 3,810 |
| Income from discontinued operations | 3,091 | 1,920 | 675 |
| Net income (loss) | (7,416) | 5,888 | 4,485 |
| Other comprehensive income (loss), net of tax provision (benefit) of \$3,019, (\$816), and \$773, respectively | (9,811) | 3,939 | 8,529 |
| Comprehensive income (loss) | \$ (17,227) | \$ 9,827 | \$ 13,014 |
| Basic and diluted income (loss) from continuing operations per common share | \$ (.27) | \$.10 | \$.10 |
| Income from discontinued operations per common share | \$.08 | \$.05 | \$.02 |
| Basic and diluted net income (loss) per common share | \$ (.19) | \$.15 | \$.12 |
| Weighted average shares outstanding, in thousands | | | |
| Basic | 39,615 | 39,054 | 39,000 |
| Diluted | 39,615 | 39,456 | 39,157 |

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

CONSOLIDATED BALANCE SHEETS**Calgon Carbon Corporation**

| <i>(Dollars in thousands)</i> | December 31 | |
|--|-------------|------------|
| | 2005 | 2004 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,446 | \$ 8,780 |
| Receivables, net of allowance of \$2,172 and \$2,902 | 51,224 | 57,554 |
| Revenue recognized in excess of billings on uncompleted contracts | 5,443 | 6,766 |
| Inventories | 67,655 | 57,495 |
| Deferred income taxes current | 8,448 | 7,939 |
| Other current assets | 6,044 | 4,938 |
| Assets held for sale | 21,340 | 25,817 |
| | | |
| Total current assets | 165,600 | 169,289 |
| Property, plant and equipment, net | 108,745 | 120,332 |
| Equity investments | 7,219 | 8,135 |
| Intangibles | 10,049 | 12,180 |
| Goodwill | 33,874 | 34,071 |
| Deferred income taxes long-term | 18,684 | 16,405 |
| Other assets | 3,697 | 3,486 |
| | | |
| Total assets | \$ 347,868 | \$ 363,898 |
| | | |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 36,182 | \$ 35,447 |
| Billings in excess of revenue recognized on uncompleted contracts | 3,933 | 750 |
| Restructuring reserve | 320 | 872 |
| Payroll and benefits payable | 11,396 | 7,381 |
| Accrued income taxes | 10,783 | 12,736 |
| Liabilities held for sale | 6,683 | 7,253 |
| | | |
| Total current liabilities | 69,297 | 64,439 |
| Long-term debt | 83,925 | 84,600 |
| Deferred income taxes long-term | 1,389 | 8,235 |
| Accrued pension and other liabilities | 42,697 | 38,753 |
| | | |
| Total liabilities | 197,308 | 196,027 |
| | | |
| Commitments and contingencies (Notes 10 and 19) | | |
| Shareholders' equity: | | |
| Common shares, \$.01 par value, 100,000,000 shares authorized, 42,459,733 and 41,958,933 shares issued | 425 | 420 |
| Additional paid-in capital | 69,906 | 65,523 |
| Retained earnings | 101,833 | 112,804 |
| Accumulated other comprehensive income | 6,442 | 16,253 |
| Deferred compensation | (917) | |
| | | |
| Treasury stock, at cost, 2,787,258 shares | 177,689 | 195,000 |
| | (27,129) | (27,129) |
| | | |
| Total shareholders' equity | 150,560 | 167,871 |
| | | |
| Total liabilities and shareholders' equity | \$ 347,868 | \$ 363,898 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Calgon Carbon Corporation**

| <i>(Dollars in thousands)</i> | Year Ended December 31 | | |
|--|------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Cash flows from operating activities | | | |
| Net income (loss) | \$ (7,416) | \$ 5,888 | \$ 4,485 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 22,062 | 23,126 | 19,789 |
| Non-cash impairment and restructuring charges | 2,976 | | |
| Equity in (income) loss from equity investments | 725 | (1,000) | (429) |
| Distributions received from equity investments | 254 | | |
| Employee benefit plan provisions | 4,046 | 4,580 | 4,622 |
| Changes in assets and liabilities net of effects from purchase of businesses: | | | |
| Decrease (increase) in receivables | 4,273 | (3,469) | 1,237 |
| Increase in inventories | (13,009) | (2,076) | (648) |
| Decrease (increase) in revenue in excess of billings on uncompleted contracts and other current assets | 2,787 | 1,410 | (5,720) |
| (Decrease) increase in restructuring reserve | (498) | (336) | 241 |
| Increase (decrease) in accounts payable and accrued liabilities | 5,346 | (2,606) | (2,092) |
| (Decrease) increase in long-term deferred income taxes | (6,284) | (2,373) | 4,606 |
| Decrease in accrued pensions and other liabilities | (4,532) | (4,908) | (6,799) |
| Other items net | 2,110 | 1,838 | 2,479 |
| Net cash provided by operating activities | 12,840 | 20,074 | 21,771 |
| Cash flows from investing activities | | | |
| Purchase of businesses (net of cash) | (856) | (35,250) | |
| Purchase of intangible assets | | (687) | |
| Property, plant and equipment expenditures | (15,996) | (12,413) | (8,684) |
| Proceeds from disposals of property, plant and equipment | 1,356 | 1,527 | 642 |
| Net cash used in investing activities | (15,496) | (46,823) | (8,042) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 108,821 | 171,900 | 107,208 |
| Repayments of borrowings | (109,496) | (141,561) | (110,604) |
| Common stock dividends | (3,555) | (4,685) | (4,679) |
| Common stock issued | 3,050 | 856 | |
| Net cash (used in) provided by financing activities | (1,180) | 26,510 | (8,075) |
| Effect of exchange rate changes on cash | 502 | 65 | (793) |
| (Decrease) increase in cash and cash equivalents | (3,334) | (174) | 4,861 |
| Cash and cash equivalents, beginning of period | 8,780 | 8,954 | 4,093 |
| Cash and cash equivalents, end of period | \$ 5,446 | \$ 8,780 | \$ 8,954 |
| Noncash transactions from investing activities: | | | |
| Purchase of an additional 20% interest in Datong Carbon Corporation | \$ | \$ 745 | \$ |

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

9 Calgon Carbon Corporation

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**Calgon Carbon Corporation**

| <i>(Dollars in thousands, except per share data)</i> | Common Shares Issued | Common Shares | Additional Paid-In Capital | Retained Earnings | Deferre Compensation | Accumulated Other Comprehensive Income | Sub-Total | Treasury Stock | | Total |
|--|-------------------------|------------------|----------------------------------|----------------------|-------------------------|---|------------|----------------|-------------|------------|
| | | | | | | | | Shares | Amount | |
| Balance, December 31, 2002 | 41,750,116 | \$ 418 | \$ 64,449 | \$ 111,795 | \$ | \$ 3,785 | \$ 180,447 | 2,787,358 | \$ (27,129) | \$ 153,318 |
| 2003 | | | | | | | | | | |
| Net income | | | | 4,485 | | | 4,485 | | | 4,485 |
| Employee and director stock plans | 27,000 | | 139 | | | | 139 | | | 139 |
| Director deferred compensation paid in stock | 11,567 | | 55 | | | | 55 | | | 55 |
| Issuance of restricted stock to management | 5,000 | | 26 | | | | 26 | | | 26 |
| Common stock dividends cash (\$0.12 per share) | | | | (4,679) | | | (4,679) | | | (4,679) |
| Translation adjustments, net of tax | | | | | | 7,434 | 7,434 | | | 7,434 |
| Additional minimum pension liability, net of tax | | | | | | 1,209 | 1,209 | | | 1,209 |
| Unrecognized loss on derivatives, net of tax | | | | | | (114) | (114) | | | (114) |
| Treasury stock issued | | | | | | | | (100) | | |
| Balance, December 31, 2003 | 41,793,683 | \$ 418 | \$ 64,669 | \$ 111,601 | \$ | \$ 12,314 | \$ 189,002 | 2,787,258 | \$ (27,129) | \$ 161,873 |
| 2004 | | | | | | | | | | |
| Net income | | | | 5,888 | | | 5,888 | | | 5,888 |
| Employee and director stock plans | 165,250 | 2 | 854 | | | | 856 | | | 856 |
| Common stock dividends cash (\$0.12 per share) | | | | (4,685) | | | (4,685) | | | (4,685) |
| Translation adjustments, net of tax | | | | | | 5,421 | 5,421 | | | 5,421 |
| Additional minimum pension liability, net of tax | | | | | | (1,380) | (1,380) | | | (1,380) |
| Unrecognized loss on derivatives, net of tax | | | | | | (102) | (102) | | | (102) |
| Balance, December 31, 2004 | 41,958,933 | \$ 420 | \$ 65,523 | \$ 112,804 | \$ | \$ 16,253 | \$ 195,000 | 2,787,258 | \$ (27,129) | \$ 167,871 |
| 2005 | | | | | | | | | | |
| Net loss | | | | (7,416) | | | (7,416) | | | (7,416) |
| Employee and director stock plans | 500,800 | 5 | 4,383 | | (1,338) | | 3,050 | | | 3,050 |
| Employee and director deferred compensation | | | | | 421 | | 421 | | | 421 |
| Common stock dividends cash (\$.09 per share) | | | | (3,555) | | | (3,555) | | | (3,555) |
| Translation adjustments, net of tax | | | | | | (4,799) | (4,799) | | | (4,799) |
| Additional minimum pension liability, net of tax | | | | | | (4,856) | (4,856) | | | (4,856) |
| Unrecognized loss on derivatives, net of tax | | | | | | (156) | (156) | | | (156) |
| Balance, December 31, 2005 | 42,459,733 | \$ 425 | \$ 69,906 | \$ 101,833 | \$ (917) | \$ 6,442 | \$ 177,689 | 2,787,258 | \$ (27,129) | \$ 150,560 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Calgon Carbon Corporation

1. Summary of Accounting Policies

Operations

Calgon Carbon Corporation (the Company) is a global leader in services and solutions for purifying water and air, food, beverage, and industrial process streams. The Company's operations are principally conducted in three business segments: Activated Carbon and Service, Equipment, and Consumer. Each of these segments includes the production, design and marketing of products and services specifically developed for the purification, separation and concentration of liquids and gases. The Activated Carbon and Service segment relies on activated carbon as a base material, while Equipment relies on a variety of other methods and materials which also involve other materials in addition to activated carbon. The Consumer segment brings the Company's purification technologies directly to the consumer in the form of products and services. The Company's largest markets are in the United States, Europe, and Japan. The Company also markets in Canada, Latin America, and Asia.

Principles of Consolidation

The consolidated financial statements include the accounts of Calgon Carbon Corporation and its wholly owned subsidiaries, Chemviron Carbon GmbH, Calgon Carbon Canada, Inc., Chemviron Carbon Ltd., Calgon Carbon Investments Inc., Solarchem Environmental Systems Inc., Charcoal Cloth (International) Limited, Charcoal Cloth Ltd., Advanced Separation Technologies Inc., Calgon Carbon (Tianjin) Co., Ltd., Calgon Carbon Asia Ltd., Waterlink (UK) Holdings Ltd., Sutcliffe Croftshaw Ltd., Sutcliffe Speakman Ltd., Sutcliffe Speakman Carbons Ltd., Lakeland Processing Ltd., and Sutcliffe Speakmanco 5 Ltd. In December 2004, the Company increased its equity ownership in Datong Carbon Corporation from 80% to 100% for a purchase price of \$0.7 million which resulted in the Company recording additional goodwill of \$0.4 million. The Company has a 49% ownership stake in a joint venture with Mitsubishi Chemical Corporation named Calgon Mitsubishi Chemical Corporation (CMCC). CMCC is accounted for in the Company's financial statements under the equity method. In May 2005, the Company formed a joint venture company with C. Gigantic Carbon which was named Calgon Carbon (Thailand) Ltd. The joint venture is 20% owned by the Company which is accounted for in the Company's financial statements under the equity method.

A portion of the Company's international operations in Europe is owned directly by the Company and is operated as branches. Intercompany accounts and transactions have been eliminated.

Foreign Currency

Substantially all assets and liabilities of the Company's international operations are translated at year-end exchange rates; income and expenses are translated at average exchange rates prevailing during the year. Translation adjustments represent other comprehensive income or loss and are accumulated in a separate component of shareholders' equity, net of tax effects. Transaction gains and losses are included in other expense-net.

Revenue Recognition

Revenue and related costs are recognized 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.

Inventories

Inventories are carried at the lower of cost or market. Inventory costs are primarily determined using the first-in, first-out (FIFO) method.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Repair and maintenance costs are expensed as incurred. Depreciation for financial reporting purposes is computed on the straight-line method over the estimated service lives of the assets, which are from 10 to 30 years for land improvements and buildings including leasehold improvements, 5 to 30 years for furniture, and machinery and equipment, 10 to 15 years for customer capital, 5 to 15 years for transportation equipment, and 5 to 10 years for computer hardware and software.

Goodwill and Other Intangible Assets

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

The Company accounts for goodwill and intangible assets in accordance with 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. As required by SFAS No. 142, management has allocated goodwill to the Company's reporting units. Management has elected to do the annual impairment test on December 31 of each year and determined that no such impairment existed at December 31, 2005, 2004, and 2003, based on the Company's evaluation.

Other intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives in addition to being evaluated when there is an indicator of impairment as prescribed by SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

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 directly 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. A long-lived asset to be disposed of other than by sale shall continue to be classified as held and used until it is disposed of. A long-lived asset or group of assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell.

Income Taxes

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 the 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.

Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the book and tax basis of assets and liabilities. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

No provision is made for United States income taxes on the undistributed earnings of non-United States subsidiaries because these earnings are permanently invested or otherwise indefinitely retained for continuing international operations. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

Pensions

Substantially all U.S. employees of the Company are covered by one of three non-contributory defined benefit pension plans. It is the Company's policy to annually fund these plans, subject to minimum and maximum amounts specified by governmental regulations. In Europe, employees are also covered by various defined benefit pension plans or government-sponsored defined contribution plans. The Company funds these plans according to local laws and practices.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding plus all potential dilutive common shares outstanding during the period. Dilutive common shares are determined using the treasury stock method. Under the treasury stock method, exercise of options is assumed at the beginning of the period when the average stock price during the period exceeds the exercise price of outstanding options and common shares are assumed issued. The proceeds from exercise are assumed to be used to purchase common stock at the average market price during the period. The incremental shares to be issued are considered to be the potential dilutive common shares outstanding.

Statement of Cash Flows

For the purpose of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Derivative Instruments

The Company applies Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Derivative financial instruments are occasionally utilized by the Company to

manage risk exposure to movements in foreign exchange rates or interest rates. The Company, from time to time, enters into forward exchange contracts to obtain foreign currencies at specified rates based on expected future cash flows for each currency. The premium or discount on the contracts is amortized over the life of the contract. Changes in the value of derivative financial instruments are measured at the balance sheet date and recognized in current earnings or other comprehensive income depending on whether the derivative is designated as part of a hedge transaction and, if it is, the type of transaction. The Company does not hold derivative financial instruments for trading purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 rehandling 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. Management has evaluated the impact of the adoption of SFAS No. 151 on the Company's financial statements and expects it to be immaterial. The Company plans to adopt SFAS No. 151 effective January 1, 2006 as required.

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 expects that the provisions of SFAS No. 123R will be effective for the Company beginning January 1, 2006 as required. Management has not yet completed its evaluation of the impact of the adoption of SFAS No. 123R.

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 plans to adopt SFAS No. 154 effective January 1, 2006 as required.

In December 2005, the FASB issued Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*, which clarifies that the term conditional asset retirement obligation, as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The provisions of FIN 47 are effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005 for calendar-year enterprises). The Company has identified no material conditional asset retirement obligations and as a result, the adoption of FIN 47 had no material impact on the financial statements.

Labor Agreements

Collective bargaining agreements cover approximately 32% of the Company's labor force at December 31, 2005 under agreements which expire in 2007, 2008 and 2009.

Stock-Based Compensation

The Company has various stock-based compensation plans and applies Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, stock-based compensation cost on stock options granted is not reflected in net income for stock options at the date of grant, unless stock options granted have an exercise price less than the market value of the underlying common stock. Deferred compensation for restricted stock under the Company's stock-based compensation plans is charged to equity when the restricted stock is granted and expensed over the vesting period as contingencies of the restricted stock grant are met. The following table illustrates the effect on net income (loss) and net income (loss) per common share if the Company had applied the fair value recognition provisions of SFAS No. 123 *Accounting for Stock-Based Compensation*:

| <i>(Dollars in thousands except per share data)</i> | Year Ended December 31 | | |
|---|------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Net income (loss) | | | |
| As reported | \$ (7,416) | \$ 5,888 | \$ 4,485 |

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

| | | | |
|--|------------|----------|----------|
| Stock-based employee compensation expense included in reported net income (loss), net of tax effects | \$ 256 | \$ | \$ |
| Stock based compensation, net of tax effect | \$ (769) | \$ (979) | \$ (1) |
| Pro forma | \$ (7,929) | \$ 4,909 | \$ 4,484 |
| Net income (loss) per common share | | | |
| Basic | | | |
| As reported | \$ (.19) | \$.15 | \$.12 |
| Pro forma | \$ (.20) | \$.13 | \$.12 |
| Diluted | | | |
| As reported | \$ (.19) | \$.15 | \$.11 |
| Pro forma | \$ (.20) | \$.12 | \$.11 |

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2005 | 2004 | 2003 |
|---------------------------|------------|------------|------------|
| Dividend yield | .71% | 1.59% | 2.21% |
| Risk-free interest rates | 3.38 4.53% | 3.03 3.26% | 2.68 5.87% |
| Expected volatility | 36 44% | 43 46% | 42 46% |
| Expected lives of options | 5 years | 5 years | 5 years |

2. Acquisitions

On February 18, 2004, the Company acquired substantially all of the assets of Waterlink, Incorporated's (WSP) United States-based subsidiary, Barnebey Sutcliffe Corporation, and 100% of the outstanding common shares of Waterlink (UK) Limited, a holding company that owns 100% of the outstanding common shares of Waterlink's operating subsidiaries in the United Kingdom.

Known as Barnebey Sutcliffe in the United States and Sutcliffe Speakman in the United Kingdom, WSP is a leading provider of products, equipment, systems and services related to activated carbon and its uses for water and air purification, solvent recovery, odor control and chemical processing. The primary reasons for the Company's acquisition of WSP were to complement the Company's existing business in terms of (i) expanding its customer base; (ii) diversifying its product mix; (iii) providing access to profitable, niche markets; and (iv) enhancing profitability and cash flow.

The aggregate purchase price, including direct acquisition costs, and net of cash acquired, was \$35.3 million, plus the assumption of certain non-working capital liabilities amounting to \$14.2 million. The Company funded approximately \$33.3 million of the purchase price through borrowings from its refinanced U.S. revolving credit facility (see Note 9).

The purchase price was allocated to the net assets acquired as follows:

| | |
|------------------------------------|-----------|
| <i>(in thousands)</i> | |
| Current assets | \$ 22,705 |
| Non-current assets | 6,772 |
| Intangible assets | 10,153 |
| Goodwill | 16,137 |
| Liabilities assumed | (19,377) |
| | |
| Total purchase price | \$ 36,390 |
| Less cash and cash equivalents | (1,140) |
| | |
| Total purchase price (net of cash) | \$ 35,250 |

In December 2004, the Company entered into an agreement to purchase the additional 20% interest of the then 80% owned Datong Carbon Corporation. The purchase resulted in the Company recording additional goodwill of \$0.4 million related to the purchase.

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.

3. Discontinued Operations and Assets and Liabilities Held for Sale

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

On February 4, 2005, the Company's Board of Directors approved a re-engineering plan presented by the Company. The plan included the divestiture of two non-core businesses in order to allow the Company to focus on its core activated carbon and service related 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. As of December 31, 2005, no gain or loss has been recorded related to the divestitures. The pro forma effects of these dispositions are reflected on the Consolidated Balance Sheets and Consolidated Statements of Income and Comprehensive Income through their treatment as discontinued businesses.

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

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

| <i>Dollars in Thousands</i> | Charcoal/Liquid | | | Solvent Recovery | | |
|-------------------------------------|------------------------|-----------|-----------|------------------------|-----------|----------|
| | Year Ended December 31 | | | Year Ended December 31 | | |
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| Net sales | \$ 30,037 | \$ 25,160 | \$ 22,432 | \$ 13,916 | \$ 15,530 | \$ 2,712 |
| Income from operations | 2,973 | 2,080 | 1,017 | 1,709 | 789 | (49) |
| Other income net | 44 | 67 | 72 | | | |
| Income before income taxes | 3,017 | 2,147 | 1,089 | 1,709 | 789 | (49) |
| Provision for income taxes | 1,044 | 743 | 382 | 591 | 273 | (17) |
| Income from discontinued operations | \$ 1,973 | \$ 1,404 | \$ 707 | \$ 1,118 | \$ 516 | \$ (32) |

Calgon Carbon Corporation 14

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

| <i>(Dollars in Thousands)</i> | Charcoal/Liquid | | Solvent Recovery | |
|--|--------------------------------|------------------|--------------------------------|-----------------|
| | Year Ended December 31 2005 | 2004 | Year Ended December 31 2005 | 2004 |
| Assets: | | | | |
| Receivables | \$ 1,059 | \$ 1,123 | \$ 4,018 | \$ 2,921 |
| Inventories | 6,924 | 7,203 | 113 | 145 |
| Property, plant and equipment, net | 7,310 | 8,897 | 42 | 56 |
| Goodwill | | | 1,000 | 1,000 |
| Other assets | 181 | 305 | 693 | 4,167 |
| Total assets held for sale | \$ 15,474 | \$ 17,528 | \$ 5,866 | \$ 8,289 |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | 2,604 | 3,430 | 3,157 | 2,793 |
| Accrued pension and other liabilities | 922 | 1,030 | | |
| Total liabilities held for sale | \$ 3,526 | \$ 4,460 | \$ 3,157 | \$ 2,793 |

On February 17, 2006, Calgon Carbon Corporation, through its wholly owned subsidiary Chemviron Carbon GmbH, executed an agreement (the Business Sale Agreement) with proFagus GmbH, proFagus Grundstücksverwaltungs 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. An additional \$5.0 million could be paid contingent upon the business meeting certain earnings targets over the next three years.

4. Restructuring of Operations

On February 4, 2005, the Company's Board of Directors approved a re-engineering plan presented by the Company. The plan included the closure of two small manufacturing facilities, the potential divestiture of two non-core businesses, and the elimination of approximately 70 employees globally. All activities related to the re-engineering plan other than the divestitures were completed by year-end 2005. The divestiture of the Charcoal/Liquid business occurred on February 17, 2006, and the divestiture of the solvent recovery business is expected to be completed during the first quarter of 2006.

The restructuring charges for the years ended December 31, 2005, 2004 and 2003 were:

| <i>(Thousands)</i> | December 31 | | |
|--|---------------|-----------|---------------|
| | 2005 | 2004 | 2003 |
| Pension curtailment charge | \$ 215 | \$ | \$ |
| Closure of manufacturing facilities | 197 | | |
| Employee severance and termination benefit costs | | | (64) |
| Other costs | | | 516 |
| Total | \$ 412 | \$ | \$ 452 |

The 2003 restructuring costs primarily related to ongoing lease commitments for rental space which had been abandoned as a result of the Company's 1999 restructuring plan.

5. Inventories

| <i>(Thousands)</i> | December 31 | |
|--------------------|------------------|-----------|
| | 2005 | 2004 |
| Raw materials | \$ 16,501 | \$ 13,907 |
| Finished goods | 51,154 | 43,588 |
| Total | \$ 67,655 | \$ 57,495 |

Inventories at December 31, 2005 and 2004 are recorded net of reserves of \$1,482,000 and \$1,282,000, respectively, for obsolete and slow-moving items.

6. Property, Plant and Equipment

| (Thousands) | December 31 | |
|---|-------------|------------|
| | 2005 | 2004 |
| Land and improvements | \$ 10,581 | \$ 11,328 |
| Buildings | 27,836 | 25,929 |
| Machinery, equipment and customer capital | 286,753 | 298,886 |
| Computer hardware and software | 18,191 | 18,269 |
| Furniture and vehicles | 7,368 | 8,249 |
| Construction-in-progress | 11,640 | 4,779 |
| | \$ 362,369 | \$ 367,440 |
| Less accumulated depreciation | (253,624) | (247,108) |
| Net | \$ 108,745 | \$ 120,332 |

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.

Also in 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 concluded 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 for other than a temporary period is warranted, the impact to current operating results would be insignificant.

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 available capacity at other existing locations. The Company conducted an impairment review of the plant's assets, having a net book value of \$1.8 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 concludes that the idling of the plant beyond 2007 is warranted, operating results may be adversely affected by impairment charges.

7. Goodwill and Intangible Assets

The Company used a combination of methods to determine the fair value of the intangible assets of the acquired Waterlink Specialty Products (see Note 2), including the cost approach, the market approach, and the income approach. The acquired intangible assets consist primarily of customer contracts and customer relationships and are recognized apart from goodwill. The acquired intangible assets' useful lives are based on the expected future cash flows the Company is expected to realize and the amortization will be recognized to match the expected cash flows.

The following is the categorization of the Company's intangible assets as of December 31, 2005 and 2004, respectively:

| | Weighted Average Amortization Period | December 31, 2005 | | | December 31, 2004 | | |
|-------------------------------------|---|-----------------------------|---------------------|-----------------------------|-----------------------------|---------------------|-----------------------------|
| | | Gross Carrying Amount | Foreign Exchange | Accumulated Amortization | Gross Carrying Amount | Foreign Exchange | Accumulated Amortization |
| Amortized Intangible Assets: | | | | | | | |
| Patents | 15.4 Years | \$ 1,369 | \$ | (711) | \$ 1,369 | \$ | (626) |
| Customer Relationships | 17.0 Years | 9,323 | (206) | (2,316) | 9,323 | (21) | (1,104) |
| Customer Contracts | 2.8 Years | 664 | (19) | (577) | 664 | 3 | (325) |
| License Agreement | 5.0 Years | 500 | | (217) | 500 | | (117) |
| Other | 7.9 Years | 665 | | (270) | 665 | | (161) |
| Unpatented Technology | 20.0 Years | 2,875 | | (1,031) | 2,875 | | (865) |

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

Total **15.8 Years** \$ 15,396 \$ (225) \$ (5,122) \$ 15,396 \$ (18) \$ (3,198)

For the years ended December 31, 2005, 2004 and 2003 the Company recognized \$1.9 million, \$2.0 million, and \$0.3 million, respectively, of amortization expense from continuing operations related to intangible assets. The Company estimates amortization expense from continuing operations recognized during the next five years to be \$1.8 million in 2006, \$1.5 million in 2007, \$1.3 million in 2008, \$1.1 million in 2009, and \$0.9 million in 2010.

Calgon Carbon Corporation 16

The changes in the carrying amounts of goodwill by segment for the years ended December 31, 2005 and 2004 are as follows:

| | Activated Carbon and Service Segment | Equipment Segment | Consumer Segment | Total |
|---|---|----------------------|---------------------|------------------|
| Balance as of January 1, 2004 | \$ 5,801 | \$ 12,505 | \$ 60 | \$ 18,366 |
| Acquisition of WSP | 15,137 | | | 15,137 |
| Acquisition of additional 20% interest in Datong Carbon Corporation | 417 | | | 417 |
| Foreign exchange | (372) | 523 | | 151 |
| Balance as of December 31, 2004 | \$ 20,983 | \$ 13,028 | \$ 60 | \$ 34,071 |
| Foreign exchange | (449) | 252 | | (197) |
| Balance as of December 31, 2005 | \$ 20,534 | \$ 13,280 | \$ 60 | \$ 33,874 |

8. Product Warranties

The Company establishes a warranty reserve for equipment project sales and estimates the warranty accrual based on the history of warranty claims to total sales, adjusted for significant known claims in excess of established reserves.

Warranty terms are based on the negotiated equipment project contract and typically are either 18 months from shipment date or 12 months from project startup date. The change in the warranty reserve, which is included in accounts payable and accrued liabilities in the consolidated balance sheets, is as follows:

| | December 31 | | |
|---|-----------------|-----------------|-----------------|
| | 2005 | 2004 | 2003 |
| Beginning Balance | \$ 1,184 | \$ 1,985 | \$ 1,799 |
| Payments and replacement product | (468) | (426) | (757) |
| Additions to warranty reserve for warranties issued during the period | 515 | 497 | 903 |
| Change in the warranty reserve for pre-existing warranties | (203) | (872) | 40 |
| Ending Balance | \$ 1,028 | \$ 1,184 | \$ 1,985 |

9. Borrowing Arrangements

Long-Term Debt

| | December 31 | |
|---|------------------|------------------|
| (Thousands) | 2005 | 2004 |
| United States credit facilities | \$ 81,000 | \$ 81,600 |
| Industrial revenue bonds | 2,925 | 3,000 |
| Total | \$ 83,925 | \$ 84,600 |
| Less current maturities of long-term debt | | |
| Net | \$ 83,925 | \$ 84,600 |

United States Credit Facilities

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

At December 31, 2005, the Company had a \$125.0 million revolving credit facility. Borrowings under this facility were being charged a weighted average interest rate of 6.24% at December 31, 2005.

Included in the credit facility was a letter of credit sub-facility that could not exceed \$30.0 million. The interest rate was based upon euro-based (LIBOR) rates with other interest rate options available. The applicable Euro Dollar margin ranged from 0.80% to 1.85% and the annual facility fee ranged from 0.20% to 0.40% of the committed amount and is based upon the Company's ratio of debt to earnings before interest, income taxes, depreciation and amortization (EBITDA).

The credit facility's covenants imposed financial restrictions on the Company, including maintaining certain ratios of debt to EBITDA, EBITDA to cash outlays and operating assets to debt and net worth. In addition, the facility imposed gross spending restrictions on capital expenditures, dividends, treasury share repurchases, acquisitions and investments in non-controlled subsidiaries. The facility also contained mandatory prepayment provisions for proceeds in excess of pre-established amounts of certain events as defined within the loan agreement.

At September 30, 2005, the Company was in violation of its leverage covenant, a ratio of debt to EBITDA as defined in the credit agreement and all debt outstanding under this facility was classified as short term. In November 2005, the Company secured a waiver of this covenant which was scheduled to expire on January 31, 2006. The terms of the waiver increased the leverage covenant which limited borrowings to no more than 3.25 times trailing four quarters EBITDA to 3.75 for the September 30, 2005 testing period and included a requirement that the Company's borrowings (as defined in the agreement) not exceed \$105.0 million during the waiver period. Availability under this credit facility at December 31, 2005 was \$13.9 million. Also, as a condition of the waiver, the Company and certain of its subsidiaries were required to enter into a security agreement granting 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. In addition, the Company agreed to execute mortgages, if requested, on its U.S. real property.

On January 30, 2006, the Company amended and restated its then existing \$125.0 million 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.

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 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. The Company intends to secure the remaining \$13.0 million of commitments either through its existing lenders or new lenders before the end of the first quarter of 2006.

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.

The Company has classified the amounts outstanding on its revolving credit facility at December 31, 2005 as long term in accordance with the provisions of SFAS No. 6, Classification of Short-Term Obligations Expected to be Refinanced.

Industrial Revenue Bonds

The Mississippi Industrial Revenue Bonds totaling \$2.9 million and \$3.0 million at December 31, 2005 and 2004, respectively, bear interest at a variable rate and mature in May 2009. The interest rate as of December 31, 2005 was 3.02%. These bonds were issued to finance certain equipment acquisitions at the Company's Pearl River, Mississippi plant.

Belgian Credit Facility

The Company maintains a Belgian credit facility totaling 4.0 million euros which is secured by a U.S. letter of credit. There are no financial covenants, and the Company had no outstanding borrowings under the Belgian credit facility as of December 31, 2005. Bank guarantees of 1.5 million euros were issued as of December 31, 2005. The maturity date of this facility is December 15, 2006. Availability under this facility was 2.5 million euros at December 31, 2005.

United Kingdom Credit Facilities

The Company maintains a United Kingdom unsecured overdraft facility totaling 200,000 British Pounds Sterling. There are no financial covenants and the Company had no outstanding borrowings under this overdraft facility as of December 31, 2005. This facility is reviewed annually. The bank, in its sole discretion, may cancel at any time its commitment to provide this facility.

The Company also maintains a United Kingdom unsecured bonds, guarantees and indemnities facility totaling 500,000 British Pounds Sterling. The bank, in its sole discretion, may cancel at any time its commitment to provide this facility. This facility was fully utilized at December 31, 2005.

Fair Value of Long-Term Debt

Substantially all long-term debt is based on rates that float with Euro Dollar-based rates or prime rates, and, accordingly, the carrying value of these obligations approximates their fair value.

Maturities of Debt

The Company is obligated to make principal payments on long-term debt outstanding, after taking into account the January 30, 2006 refinancing, at December 31, 2005 of \$1.8 million in 2006, of \$3.6 million in 2007, \$75.6 million in 2008, and \$2.9 million in 2009, and excluding the \$18.0 million repayment made on February 23, 2006.

Calgon Carbon Corporation 18

10. Commitments

The Company has entered into leases covering principally office, research and warehouse space, office equipment and vehicles. Future minimum rental payments required under all operating leases that have remaining noncancelable lease terms in excess of one year are \$5.0 million in 2006, \$3.8 million in 2007, \$3.0 million in 2008, \$2.7 million in 2009, \$2.5 million in 2010, and \$12.2 million thereafter. Total rental expenses on all operating leases were \$8.2 million, \$4.9 million, and \$5.4 million for the years ended December 31, 2005, 2004, and 2003, respectively.

The Company has in place long-term supply contracts for the purchase of raw materials, transportation, and information system services. The following table represents the total payments made for the purchases under the aforementioned supply contracts:

| <i>(Thousands)</i> | December 31 | | |
|-----------------------------|------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Raw and other materials | \$ 26,101 | \$ 11,667 | \$ 11,228 |
| Transportation | 4,297 | 3,983 | 3,954 |
| Information system services | 2,427 | 3,370 | 2,054 |
| Total payments | \$ 32,825 | \$ 19,020 | \$ 17,236 |

Future minimum purchase requirements under the terms of the aforementioned contracts are as follows:

| <i>(Thousands)</i> | Due in | | | | | |
|------------------------------------|-----------|-----------|-----------|----------|----------|------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter |
| Raw and other materials | \$ 23,033 | \$ 17,890 | \$ 13,120 | \$ 5,711 | \$ 5,711 | \$ 5,711 |
| Transportation | 1,680 | 1,694 | 1,725 | 288 | | |
| Information system services | 2,042 | 2,042 | 2,042 | 2,042 | 2,042 | |
| Total contractual cash obligations | \$ 26,755 | \$ 21,626 | \$ 16,887 | \$ 8,041 | \$ 7,753 | \$ 5,711 |

11. Shareholders Equity

The Company's Board of Directors in 2000 authorized the purchase of up to 500,000 shares of the Company's stock. As of December 31, 2005, 11,300 shares have been purchased under this stock buy back program.

The Board of Directors adopted a new Stockholder Rights Plan in February 2005 designed to guard against (1) coercive and abusive tactics that might be used in an attempt to gain control of the Company without paying all stockholders a fair price for their share or (2) the accumulation of a substantial block of stock without offering to pay stockholders a fair control premium. The Rights Plan will not prevent takeovers, but is designed to preserve the Board's bargaining power and flexibility to deal with third-party acquirers and to otherwise seek to maximize value for all stockholders. The Plan awards one Right for each outstanding share of common stock held by stockholders of record on February 3, 2005 and thereafter. Each Right entitles the holder to purchase from the Company one unit of one ten-thousandth of a share of a newly created series of preferred stock at a purchase price of \$35 per unit. The Rights will be exercisable only if a person or group acquires beneficial ownership of 10% or more of the Company's outstanding common stock (15% or more in the case of certain institutional investors) or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 10% or more of the Company's common stock (Acquiring Person). If one of those events occurs, each stockholder (with the exception of the acquiring person or group) can purchase stock of the Company or the acquiring person at a 50% discount. The Rights can be redeemed by the Board of Directors under certain circumstances, in which case the Rights will not be exchangeable for shares.

12. Stock Compensation Plans

At December 31, 2005, the Company had two stock-based compensation plans that are described below.

Employee Stock Option Plan

The Company has an Employee Stock Option Plan for officers and other key employees of the Company which permits grants of up to 8,238,640 shares of the Company's common stock. Stock options may be nonstatutory or incentive with a purchase price of not less than 100% of the fair market value on the date of grant, restricted, or restricted performance. Stock appreciation rights may be granted at date of option grant or at any later date during the term of the option. Incentive stock options granted since 1986 become exercisable no less than six months after the date of grant and are no longer exercisable after the expiration of four to ten years from the date of grant.

A summary of the Plan activity for the years ended December 31, 2005, 2004 and 2003 is presented below:

| | 2005 | | 2004 | | 2003 | |
|--|-----------|---------------------------------|-----------|---------------------------------|-------------|---------------------------------|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 2,507,750 | \$ 6.52 | 2,172,250 | \$ 6.27 | 3,138,150 | \$ 6.66 |
| Granted | 353,800 | 2.75 | 575,500 | 7.03 | 94,000 | 5.66 |
| Exercised | (469,550) | 6.03 | (165,250) | 5.17 | (27,000) | 5.19 |
| Canceled | (12,300) | 6.88 | (74,750) | 7.59 | (1,032,900) | 7.42 |
| Outstanding at end of year | 2,379,700 | \$ 6.00 | 2,507,750 | \$ 6.52 | 2,172,250 | \$ 6.27 |
| Options exercisable at year end | 988,650 | | 1,464,500 | | 968,600 | |
| Weighted-average fair value of options granted during the year | | \$ 3.08 | | \$ 2.68 | | \$ 2.03 |

The following table summarizes information about stock options outstanding at December 31, 2005:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|-----------------------------------|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted-Average Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| \$0.00 | 240,800 | 9.1 Years | \$ | | \$ |
| \$4.96 to \$7.25 | 1,509,500 | 6.6 Years | 6.06 | 466,250 | 5.85 |
| \$7.63 to \$9.35 | 629,400 | 7.0 Years | 8.14 | 522,400 | 8.01 |
| | 2,379,700 | 6.8 Years | \$ 6.00 | 988,650 | \$ 6.99 |

Non-Employee Directors' Stock Option Plan

The 1993 Non-Employee Directors' Stock Option Plan, as last amended in 2005, provides for an annual grant on the day following the Annual Meeting of Stockholders of option shares equal to a number of shares which will result in a Black-Scholes calculated value of \$25,000 per Director on the date of grant. The options vest and become exercisable six months after the date of grant and, in general, expire ten years after the date of grant.

A summary of the Plan activity for the years ended December 31, 2005, 2004 and 2003 is presented below:

| | 2005 | | 2004 | | 2003 | |
|--|--------|------------------|--------|------------------|--------|------------------|
| | Shares | Weighted-Average | Shares | Weighted-Average | Shares | Weighted-Average |

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

| | | Exercise Price | | Exercise Price | | Exercise Price |
|--|-----------------|----------------|---------|----------------|---------|----------------|
| Outstanding at beginning of year | 435,300 | \$ 7.08 | 379,300 | \$ 7.11 | 293,200 | \$ 7.76 |
| Granted | 51,810 | 8.32 | 56,000 | 6.89 | 86,100 | 4.90 |
| Exercised | (31,250) | 7.06 | | | | |
| Canceled | (5,123) | 14.45 | | | | |
| Outstanding at end of year | 450,737 | \$ 7.14 | 435,300 | \$ 7.08 | 379,300 | \$ 7.11 |
| Options exercisable at year end | 445,225 | | 435,300 | | 379,300 | |
| Weighted-average fair value of options granted during the year | | \$ 2.99 | | \$ 2.47 | | \$ 1.85 |

Calgon Carbon Corporation 20

The following table summarizes information about stock options outstanding under the Non-Employee Stock Option Plan at December 31, 2005:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|-----------------------------|-----------------------|---|--|-----------------------|--|
| | Number Outstanding | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Number Exercisable | Weighted- Average Exercise Price |
| \$4.90 to \$6.89 | 254,489 | 6.5 Years | \$ 6.01 | 248,977 | \$ 6.02 |
| \$8.06 to \$8.39 | 190,148 | 6.6 Years | 8.39 | 190,148 | 8.39 |
| \$15.50 | 6,100 | 0.4 Years | 15.50 | 6,100 | 15.50 |
| | 450,737 | 6.5 Years | \$ 7.14 | 445,225 | \$ 7.16 |

13. Pensions

The Company sponsors defined benefit plans covering substantially all employees. The Company uses a measurement date of December 31 for all of its pension plans.

For U.S. plans, the following table provides a reconciliation of changes in the plans' benefit obligations and fair value of assets over the two-year period ended December 31, 2005 and the funded status as of December 31 of both years:

Benefit Obligations

| (Thousands) | December 31 | |
|---|-------------|-----------|
| | 2005 | 2004 |
| Reconciliation of projected benefit obligation | | |
| Projected benefit obligations at January 1 | \$ 79,470 | \$ 64,709 |
| Acquisition of WSP | | 7,000 |
| Service cost | 2,954 | 2,777 |
| Interest cost | 4,714 | 4,424 |
| Amendments | (299) | |
| Actuarial losses | 6,899 | 3,542 |
| Benefits paid | (2,999) | (2,852) |
| Curtailment | (2,202) | (130) |
| Projected benefit obligations at December 31 | \$ 88,537 | \$ 79,470 |

The accumulated benefit obligation at the end of 2005 and 2004 was \$76.6 million and \$65.7 million, respectively. For all U.S. plans, at December 31, 2005 and 2004, the projected benefit obligation and accumulated benefit obligation each exceed fair value of plan assets. Two of the Company's U.S. plans were amended to allow non-union employees a one-time choice between continued accrual of benefits under the existing plan as of December 31, 2005 or to begin accruing benefits under the Retirement Savings Plan effective January 1, 2006. In addition, the Company's Salaried Plan has been closed to new participants. The Company also incurred curtailment charges related to the aforementioned amendment as well as the reduction in workforce as a result of the Company's 2005 re-engineering plan.

For U.S. plans, the assumptions used to determine benefit obligations are shown in the following table:

| | 2005 | 2004 |
|--|-------|-------|
| Weighted average actuarial assumptions at December 31: | | |
| Discount rate | 5.60% | 5.75% |
| Rate of increase in compensation levels | 4.00% | 4.00% |

Plan Assets

| <i>(Thousands)</i> | December 31 | |
|--|------------------|------------------|
| | 2005 | 2004 |
| Reconciliation of fair value of plan assets | | |
| Fair value of plan assets at January 1 | \$ 49,957 | \$ 39,258 |
| Acquisition of WSP | | 4,603 |
| Actual return on plan assets | 2,136 | 4,998 |
| Employer contributions | 2,394 | 3,950 |
| Benefits paid | (2,999) | (2,852) |
| Fair value of plan assets at December 31 | \$ 51,488 | \$ 49,957 |

The asset allocation for the Company's pension plans at the end of 2005 and 2004, and the target allocation for 2006, by asset category, is as follows.

| Asset Category | Target | Percentage of Plan | |
|-------------------|------------|--------------------|--------|
| | Allocation | Assets at Year End | |
| | 2006 | 2005 | 2004 |
| Equity securities | 70.0% | 73.4% | 72.8% |
| Debt securities | 30.0 | 25.9 | 26.6 |
| Other | | 0.7 | 0.6 |
| Total | 100.0% | 100.0% | 100.0% |

The Company's investment strategy is to earn the highest possible long-term total rate of return and minimize risk to ensure the preservation of the plan assets for the provision of benefits to participants and their beneficiaries. This is accomplished by active management of a diversified portfolio by fund managers, fund styles, asset types, risk characteristics and investment holdings.

Funded Status

| <i>(Thousands)</i> | December 31 | |
|---|--------------------|--------------------|
| | 2005 | 2004 |
| Funded status of plans at December 31 | \$ (37,049) | \$ (29,513) |
| Unrecognized net actuarial losses | 20,318 | 14,328 |
| Unrecognized prior service cost | 2,288 | 3,772 |
| Accrued pension cost at December 31 | \$ (14,443) | \$ (11,413) |
| Amounts Recognized in the Balance Sheets | | |
| Accrued benefit liability (included in accrued pension and other liabilities) | \$ (25,551) | \$ (16,624) |
| Intangible pension asset (included in other assets) | 2,288 | 2,342 |
| Accumulated other comprehensive loss (pre-tax) | 8,820 | 2,869 |
| Net amount recognized at December 31 | \$ (14,443) | \$ (11,413) |

Information about the expected cash flows for the U.S. pension plans is as follows:

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

| <i>Year (Thousands)</i> | Pension Benefits |
|-------------------------------|-------------------------|
| Employer contributions | |
| 2006 | \$ 4,448 |
| Benefit Payments | |
| 2006 | \$ 3,007 |
| 2007 | 2,861 |
| 2008 | 3,173 |
| 2009 | 3,143 |
| 2010 | 5,308 |
| 2011-2015 | 27,144 |

Calgon Carbon Corporation 22

For U.S. plans, the following table provides the components of net periodic pension costs of the plans for the years ended December 31, 2005, 2004 and 2003:

| <i>(Thousands)</i> | Year Ended December 31 | | |
|----------------------------------|------------------------|-----------------|-----------------|
| | 2005 | 2004 | 2003 |
| Service cost | \$ 2,954 | \$ 2,777 | \$ 2,082 |
| Interest cost | 4,714 | 4,424 | 3,744 |
| Expected return on assets | (4,154) | (3,831) | (2,713) |
| Prior service cost | 459 | 472 | 472 |
| Net amortization | 634 | 355 | 313 |
| Curtailement | 818 | | |
| Net periodic pension cost | \$ 5,425 | \$ 4,197 | \$ 3,898 |

The Company incurred curtailment charges during 2005 due to plan amendments as well as the reduction in workforce as a result of the 2005 re-engineering plan.

For U.S. plans, the assumptions used in the measurement of net periodic cost are shown in the following table:

| | 2005 | 2004 | 2003 |
|---|------------|------------|------------|
| Weighted average actuarial assumptions at December 31: | | | |
| Discount rate | 5.75% | 6.25% | 6.75% |
| Expected annual return on plan assets | 8.50% | 8.75% | 8.75% |
| Rate of increase in compensation levels | 3.22-4.00% | 2.00-4.00% | 2.00-4.00% |

The expected rate of return on plan assets was determined by evaluating input from the Company's actuaries, including their review of asset class return expectations as well as long-term inflation assumptions. Projected returns are based on broad equity and bond indices. The Company also considered its historical 10-year compounded return of 8.09% which has been in excess of these broad equity and bond benchmark indices.

For European plans, the following tables provide a reconciliation of changes in the plans' benefit obligations and fair value of assets over the two-year period ended December 31, 2005 and the funded status as of December 31 of both years:

Benefit Obligations

| <i>(Thousands)</i> | 2005 | 2004 |
|---|------------------|------------------|
| Reconciliation of projected benefit obligation | | |
| Projected benefit obligations at January 1 | \$ 34,749 | \$ 18,868 |
| Acquisition of WSP | | 10,595 |
| Service cost | 864 | 867 |
| Interest cost | 1,583 | 1,528 |
| Employee contributions | 244 | 243 |
| Actuarial losses | 4,949 | 1,624 |
| Benefits paid | (3,562) | (877) |
| Foreign currency exchange rate changes | (4,505) | 1,901 |
| Projected benefit obligations at December 31 | \$ 34,322 | \$ 34,749 |

The accumulated benefit obligation at the end of 2005 and 2004 was \$31.1 million and \$32.5 million, respectively.

For European plans, the assumptions used to determine end of year benefit obligations are shown in the following table:

| | 2005 | 2004 |
|---|-------|-------|
| Weighted average actuarial assumptions at December 31: | | |
| Discount rate | 4.45% | 4.98% |
| Rate of increase in compensation levels | 3.75% | 3.22% |

Plan Assets

| | December 31 | |
|--|------------------|------------------|
| (Thousands) | 2005 | 2004 |
| Reconciliation of fair value of plan assets | | |
| Fair value of plan assets at January 1 | \$ 16,908 | \$ 9,296 |
| Acquisition of WSP | | 5,269 |
| Actual return on plan assets | 2,096 | 1,102 |
| Employer contributions | 2,137 | 957 |
| Employee contributions | 244 | 243 |
| Benefits paid | (3,562) | (877) |
| Foreign currency exchange rate changes | (2,033) | 918 |
| Fair value of plan assets at December 31 | \$ 15,790 | \$ 16,908 |

The asset allocation for the Company's pension plans at the end of 2005 and 2004, and the target allocation for 2006, by asset category, is as follows:

| Asset Category | Target | Percentage of Plan | |
|-------------------|------------|--------------------|--------|
| | Allocation | Assets at Year End | |
| | 2006 | 2005 | 2004 |
| Equity securities | 60.0% | 50.4% | 58.8% |
| Debt securities | 40.0 | 39.6 | 39.2 |
| Other | | 10.0 | 2.0 |
| Total | 100.0% | 100.0% | 100.0% |

Funded Status

| | December 31 | |
|---|-------------|-------------|
| (Thousands) | 2005 | 2004 |
| Funded status of plans at December 31 | \$ (18,532) | \$ (17,841) |
| Unrecognized net actuarial losses | 6,204 | 3,020 |
| Unrecognized net transition obligation | 208 | 292 |
| Accrued pension cost at December 31 | \$ (12,120) | \$ (14,529) |
| Amounts Recognized in the Balance Sheets | | |
| Accrued benefit liability (included in accrued pension and other liabilities) | \$ (15,933) | \$ (16,457) |
| Intangible pension asset (included in other assets) | 88 | 119 |
| Accumulated other comprehensive loss (pre-tax) | 3,725 | 1,809 |

Net amount recognized at December 31

\$ (12,120) \$ (14,529)

At the end of 2005 and 2004, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for European pension plans with a projected benefit obligation in excess of plan assets, and for pension plans with an accumulated benefit obligation in excess of plan assets, were as follows:

| <i>(Thousands)</i> | Projected | | Accumulated | |
|--------------------------------|--|-----------|--|-----------|
| | Benefit Obligation Exceeds the Fair Value of Plan s Assets | | Benefit Obligation Exceeds the Fair Value of Plan s Assets | |
| | 2005 | 2004 | 2005 | 2004 |
| Projected Benefit Obligation | \$ 34,322 | \$ 34,749 | \$ 29,561 | \$ 28,404 |
| Accumulated Benefit Obligation | \$ 31,065 | \$ 32,451 | \$ 27,147 | \$ 27,000 |
| Fair Value of Plan Assets | \$ 15,790 | \$ 16,908 | \$ 11,554 | \$ 11,196 |

Information about the expected cash flows for the European pension plans is as follows:

| <i>Year (Thousands)</i> | Pension Benefits |
|-------------------------------|------------------|
| Employer contributions | |
| 2006 | \$ 1,993 |
| Benefit Payments | |
| 2006 | \$ 1,593 |
| 2007 | 1,120 |
| 2008 | 1,099 |
| 2009 | 1,442 |
| 2010 | 1,916 |
| 2011-2015 | 12,340 |

Total benefits expected to be paid include both the Company s share of the benefit cost and the participants share of the cost, which is funded by participant contributions to the plan.

For European plans, the following table provides the components of net periodic pension costs of the plans for the years ended December 31, 2005, 2004 and 2003:

| <i>(Thousands)</i> | Year Ended December 31 | | |
|---------------------------|------------------------|----------|--------|
| | 2005 | 2004 | 2003 |
| Service cost | \$ 864 | \$ 867 | \$ 375 |
| Interest cost | 1,583 | 1,528 | 967 |
| Expected return on assets | (1,739) | (1,126) | (619) |
| Net amortization | 820 | 228 | 90 |
| Net periodic pension cost | \$ 1,528 | \$ 1,497 | \$ 813 |

For European plans, the assumptions used in the measurement of the net periodic pension cost are shown in the following table:

| | 2005 | 2004 | 2003 |
|---|-------|-------|-------|
| Weighted average actuarial assumptions at December 31: | | | |
| Discount rate | 4.98% | 5.43% | 5.78% |
| Expected annual return on plan assets | 7.16% | 6.99% | 7.08% |
| Rate of increase in compensation levels | 3.22% | 3.31% | 3.48% |

The expected rate of return on plan assets was determined by evaluating input from the Company s actuaries, including their review of asset class return expectations as well as long-term inflation assumptions. Projected returns are based on broad equity and bond indices. The Company also considered its historical 10-year compounded return of 6.31% which has been below these broad equity and bond benchmark indices.

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

Management's estimate considers the achievement of plan asset returns at or in excess of levels attained in the broad equity and bond indices.

The non-current portion of \$37.3 million and \$26.3 million at December 31, 2005 and 2004, respectively, for the U.S. and European pension liabilities is included in other liabilities.

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. 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 compensation. Employer contributions vest immediately. Total expenses related to this defined contribution plan were \$0.2 million, \$0.2 million, and \$0.2 million at December 31, 2005, 2004, and 2003, respectively.

25 Calgon Carbon Corporation

14. Benefit for Income Taxes

The components of the provision (benefit) for income taxes for continuing operations were as follows:

| <i>(Thousands)</i> | Year Ended December 31 | | |
|--|------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Current | | | |
| Federal | \$ (2,167) | \$ 51 | \$ |
| State and local | (7) | 39 | 16 |
| Foreign | 304 | 575 | 1,775 |
| | (1,870) | 665 | 1,791 |
| Deferred | | | |
| Federal | (8,800) | (1,794) | (2,000) |
| State and local | (1,027) | (649) | (180) |
| Foreign | 1,713 | 932 | 89 |
| | (8,114) | (1,511) | (2,091) |
| Tax expense on repatriation | 296 | | |
| Benefit for income taxes for continuing operations | \$ (9,688) | \$ (846) | \$ (300) |

Income from continuing operations before income taxes, equity in income (loss), and minority interest for 2005, 2004, and 2003 includes \$9.4 million, \$7.1 million and \$7.6 million, generated by operations outside the United States.

The difference between the U.S. federal statutory tax rate and the Company's effective income tax rate is as follows:

| | Year Ended December 31 | | |
|---|------------------------|---------|---------|
| | 2005 | 2004 | 2003 |
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal income tax benefit | 3.4 | (19.3) | (3.7) |
| Higher tax rate on foreign income | 0.7 | 23.7 | 16.0 |
| Benefit of extraterritorial income exclusion | (0.2) | (58.6) | (32.0) |
| Benefit of research and development tax credits | | | (19.6) |
| Benefit of foreign tax credits | 2.0 | (11.2) | (6.2) |
| Revision of prior year's accruals | | (16.8) | |
| Tax statute expiration | 11.1 | | |
| Other - net | (2.2) | 6.1 | 0.2 |
| Effective income tax rate | 49.8% | (41.1)% | (10.3)% |

The Company completed its evaluation of the new law on repatriation of foreign earnings during December 2005. The new law reduced the federal income tax rate to 5.25% of earnings distributed from non-United States based subsidiaries for a one-year period. The Company repatriated a total of \$4.9 million from two wholly owned subsidiaries (\$1.7 million from Calgon Carbon Canada, Inc. and \$3.2 million from Chemviron Carbon, Ltd.). The current income tax included in the provision for this repatriation is \$0.3 million. The Company has not changed its policy of permanent reinvestment under APB No. 23 due to this one-time repatriation of earnings.

The Company also has the following operating loss carryforwards and domestic tax credit carryforwards as of December 31, 2005:

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

| Type (<i>Thousands</i>) | Amount | Expiration Date |
|---------------------------------------|----------|-----------------|
| Tax credits domestic | \$ 3,684 | 2009-2022 |
| Tax credits domestic | 637 | None |
| Operating loss carryforwards domestic | 86,113 | 2006-2025 |
| Operating loss carryforwards foreign | 37,828 | None |

The Company's 2002 U.S. federal income tax returns were examined by the Internal Revenue Service and no changes were made to the tax reported.

Calgon Carbon Corporation 26

The components of deferred taxes are comprised of the following:

| <i>(Thousands)</i> | 2005 | 2004 |
|---|------------------|------------------|
| Deferred tax assets | | |
| Foreign tax loss and credit carryforwards | \$ 12,393 | \$ 17,656 |
| U.S. net operating loss and credit carryforwards | 14,757 | 8,927 |
| Accruals | 5,015 | 4,497 |
| Inventories | 1,087 | 968 |
| Pensions | 11,385 | 9,330 |
| Goodwill and other intangible assets | 4,897 | 6,658 |
| Valuation reserve | (3,382) | (3,539) |
| Total deferred tax assets | \$ 46,152 | \$ 44,497 |
| Deferred tax liabilities | | |
| Property, plant and equipment | \$ 17,929 | \$ 21,326 |
| U.S. liability on Belgian net deferred tax assets | 1,232 | 2,860 |
| U.S. liability on German net deferred tax assets | 1,101 | 2,157 |
| U.S. liability on deferred foreign income | 695 | 1,102 |
| Cumulative translation adjustment | (548) | 943 |
| Total deferred tax liabilities | \$ 20,409 | \$ 28,388 |
| Net deferred tax asset | \$ 25,743 | \$ 16,109 |

Valuation reserves are established when it is more likely than not that a portion of the deferred tax assets will not be realized. The valuation reserves are adjusted based on the changing facts and circumstances, such as the expected expiration of an operating loss carryforward.

The 2005 valuation reserves represent reserves for U.S. foreign tax credits (\$1,338), certain state operating loss carryforwards (\$588), and certain foreign operating loss carryforwards (\$1,456). The 2004 valuation reserves represent reserves for U.S. foreign tax credits (\$1,508), certain state operating loss carryforwards (\$401) and certain foreign operating loss carryforwards (\$1,630). The 2005 decrease in the valuation reserve was attributable to recording a foreign tax credit benefit, an additional reserve for state loss carryforwards, and foreign exchange on the foreign loss carryforwards.

15. Accumulated Other Comprehensive Income (Loss)

| | Currency Translation Adjustment | Minimum Pension Liability | Other | Accumulated Other Comprehensive Income (Loss) |
|-----------------------------------|---------------------------------------|---------------------------------|-----------------|--|
| Balance, January 1, 2003 | \$ 6,579 | \$ (2,794) | \$ | \$ 3,785 |
| Net Change | 7,434 | 1,209 | (114) | 8,529 |
| Balance, December 31, 2003 | 14,013 | (1,585) | (114) | 12,314 |
| Net Change | 5,421 | (1,380) | (102) | 3,939 |
| Balance, December 31, 2004 | 19,434 | (2,965) | (216) | 16,253 |
| Net Change | (4,799) | (4,856) | (156) | (9,811) |
| Balance, December 31, 2005 | \$ 14,635 | \$ (7,821) | \$ (372) | \$ 6,442 |

Foreign currency translation adjustments exclude income tax expense (benefit) for the earnings of the Company's non-United States subsidiaries as management believes these earnings will be reinvested for an indefinite period of time. An estimate of the amount of unrecognized deferred

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

tax liability is currently not practicable. The Company has made a one-time repatriation under the new law on repatriations, but has not changed its policy of permanent reinvestment under APB No. 23 Accounting for Income Taxes Special Areas due to this one-time repatriation of earnings.

The income tax effect included in accumulated other comprehensive income (loss) for other non-U.S. subsidiaries was \$178,000 at December 31, 2005, 2004, and 2003. The income tax benefit associated with the minimum pension liability adjustment included in accumulated other comprehensive income was \$4,725,000, \$1,706,000, and \$890,000 at December 31, 2005, 2004, and 2003, respectively.

16. Other Information

Repair and maintenance expenses were \$9,294,000, \$9,806,000 and \$9,298,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

Other expense net includes net foreign currency transaction losses of \$139,000, \$1,002,000 and \$256,000 for the years ended December 31, 2005, 2004, and 2003, tax expense other than on income of \$743,000, \$920,000 and \$595,000 for the years ended December 31, 2005, 2004, and 2003, and a derivative gain of \$0, \$16,000, and \$36,000 for the years ended December 31, 2005, 2004 and 2003.

Deferred tax (benefit) expense included in the currency translation adjustments for 2005, 2004, and 2003 was (\$1,491,000), (\$800,000), and \$152,000, respectively.

17. Supplemental Cash Flow Information

| <i>(Thousands)</i> | 2005 | 2004 | 2003 |
|--------------------------------------|----------|----------|----------|
| Cash paid during the year for | | | |
| Interest | \$ 5,074 | \$ 3,348 | \$ 2,310 |
| Income taxes paid net | \$ 362 | \$ 1,457 | \$ 1,335 |

18. Derivative Instruments

The Company accounts for its 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's corporate and foreign subsidiaries use forward exchange contracts to limit the exposure of exchange rate fluctuations on certain foreign currency receivables, payables, and other known and forecasted transactional exposures for periods consistent with the expected cash flow of the underlying transactions. The contracts generally mature within one year and are designed to limit exposure to exchange rate fluctuations.

At December 31, 2005, the Company had twelve foreign currency forward exchange contracts outstanding. The Company applied hedge accounting treatment for two of the foreign currency forward exchange contracts and recorded an immaterial gain in other income for the other ten foreign currency forward exchange contracts. The two foreign currency forward exchange contracts held at December 31, 2005, which received hedge accounting treatment, were treated as foreign exchange cash flow hedges regarding payment for inventory purchases and were released into operations during the year based on the timing of the sales of the underlying inventory. At December 31, 2004, the Company had one derivative instrument outstanding which was a foreign currency forward exchange contract. The Company did not apply hedge accounting treatment for the foreign currency forward exchange contract and recorded an immaterial gain in other income.

On April 26, 2004, the Company entered into a ten-year foreign currency swap agreement to fix the foreign exchange rate on a \$6.5 million intercompany loan between the Company and its foreign subsidiary, Chemviron Carbon Ltd. Since its inception the foreign currency swap has been treated as a foreign exchange cash flow hedge. Accordingly, the changes in the fair value of the effective hedge portion of the foreign currency swap of (\$0.2) million and (\$0.3) million, respectively, for the years ended December 31, 2005 and 2004 and 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 \$0.2 million and \$0.8 million, respectively, as of December 31, 2005 and 2004.

No component of the derivative gains or losses has been excluded from the assessment of hedge effectiveness. For the years ended December 31, 2005 and 2004, the net gain or loss recognized due to the amount of hedge ineffectiveness was insignificant.

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

19. Contingencies

During the year ended December 31, 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. As of the year ended December 31, 2005, the Company had incurred a \$1.0 million charge for costs which are not recoverable from insurance and \$6.8 million for damages which the Company deems to be recoverable from insurance. Included in the recoverable amount is \$3.8 million recorded as additions to property, plant, and equipment. In the fourth quarter of 2005, the Company received an advance on its claim of \$1.5 million from its insurance carrier for property damage which reduced the receivable recorded. The Company has an insurance receivable recorded at December 31, 2005 in the amount of \$1.5 million. No amounts have been recorded for any amounts claimed or to be claimed for business interruption as of the year ended December 31, 2005. In February 2006, the Company received an additional advance on its claim of \$2.0 million from its insurance carrier for property damage.

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. has 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, NY, 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. patent 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. In June 2005, North Bay obtained a ruling that the 525 Patent is invalid in Canada. The Company appealed the ruling, and in December 2005, the Canadian Federal Court of Appeal allowed the Company's appeal. As a result of the appellate court's decision, the case will move forward to trial in April 2006 to determine the merits of the Company's claim that the City of North Bay, Ontario, Canada infringed its patent and Trojan Technologies, Inc. induced that infringement. 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 demand for interest and for any future costs incurred by PADEP at the Site. The Company understands that the response costs are approximately \$1.3 million. Based on information provided by the PADEP, the Site is approximately 8 acres and was used from the 1950s until the 1960s as a disposal site for coke or carbon sweepings and other industrial wastes. The Company has been in discussions with PADEP regarding the Company's position that it is not the entity that disposed of materials containing the contaminants identified by PADEP at the Site and that any materials that may have been deposited by the Company's predecessor did not contain actionable levels of hazardous substances identified by PADEP. PADEP has advised the

Company that it is prepared to settle the matter for payment of \$475,000. The Company believes PADEP's position is not meritorious, and the demand is unwarranted. The Company intends to continue to vigorously defend the matter.

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

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

In conjunction with the purchase of substantially all of Waterlink's operating assets and the stock of Waterlink's U.K. subsidiary, several environmental studies were performed on its 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 cost of the various alternatives. Liability estimates are based on an evaluation of, among other factors, currently available facts, existing technology, presently enacted laws and regulations, and the remediation experience of other companies. The Company has concluded from the information in the studies that a loss at this property is probable and has included an estimate of such loss of \$5.6 million, which was recorded as an undiscounted liability on the opening balance sheet at the date of the acquisition and was presented as a component of noncurrent other liabilities in the Company's consolidated balance sheet. As of December 31, 2005 and 2004, respectively, the Company had recorded an accrual of \$5.3 million. The change in the accrual is a result of a decrease in estimated costs of \$0.2 million, which reduced the acquisition price of WSP, and the environmental remediation previously incurred of \$0.1 million for the year ended December 31, 2004. A change in the estimate of this obligation may occur as additional investigative work is performed and the remediation activity commences. The ultimate remediation costs are dependent upon the extent and types of contamination, which will not be fully determined until more detailed information is developed through upcoming investigations and experience gained through remediation activities. The accrued amounts are expected to be paid out over the course of several years. The Company has incurred \$27,000 of environmental remediation expense for the year ended December 31, 2005.

The Company owns a 49% interest in a joint venture, Calgon Mitsubishi Chemical Corporation, which was formed on October 1, 2002. At December 31, 2005, Calgon Mitsubishi Chemical Corporation had \$9.9 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 December 31, 2005, the lender has not requested, and the Company has not provided, such guarantee.

20. Basic and Diluted Net Income (Loss) from Continuing Operations Per Common Share

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

| <i>(Dollars in thousands, except per share amounts)</i> | 2005 | For the Year Ended 2004 | 2003 |
|---|-------------------|----------------------------|------------|
| Income (loss) from continuing operations available to common stockholders | \$ (10,507) | \$ 3,968 | \$ 3,810 |
| Weighted Average Shares Outstanding | | | |
| Basic | 39,615,117 | 39,054,142 | 39,000,197 |
| Effect of Dilutive Securities | | 402,043 | 157,062 |
| Diluted | 39,615,117 | 39,456,185 | 39,157,259 |
| Basic and diluted net income (loss) from continuing operations per common share | \$ (.27) | \$.10 | \$.10 |

For the years ended December 31, 2005, 2004, and 2003, there were 1,045,479, 943,700 and 1,278,775 options that were excluded from the dilutive calculations as the effect would have been antidilutive.

21. 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.

| <i>(Thousands)</i> | Year Ended December 31 | | |
|------------------------------|------------------------|------------|------------|
| | 2005 | 2004 | 2003 |
| Net sales | | | |
| Activated Carbon and Service | \$ 241,934 | \$ 245,500 | \$ 212,186 |
| Equipment | 36,867 | 39,936 | 30,450 |
| Consumer | 12,034 | 10,441 | 10,542 |
| Consolidated net sales | \$ 290,835 | \$ 295,877 | \$ 253,178 |

| <i>(Thousands)</i> | Year Ended December 31 | | |
|---|------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Income (loss) from continuing operations before amortization and restructuring charges | | | |
| Activated Carbon and Service | \$ (1,584) | \$ 14,249 | \$ 10,741 |
| Equipment | (6,217) | (3,582) | (2,572) |
| Consumer | (883) | (657) | (1,281) |
| | \$ (8,684) | \$ 10,010 | \$ 6,888 |
| Reconciling items | | | |
| Gulf Coast impairment charge | (2,158) | | |
| Restructuring charges | (412) | | (452) |
| Amortization | (1,906) | (2,004) | (261) |
| Interest income | 719 | 697 | 786 |
| Interest expense | (4,891) | (3,409) | (2,341) |
| Other expense net | (2,138) | (3,238) | (1,718) |
| Consolidated income (loss) from continuing operations before income taxes, equity in income (loss), and minority interest | \$ (19,470) | \$ 2,056 | \$ 2,902 |

| <i>(Thousands)</i> | Year Ended December 31 | | |
|--|------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Depreciation | | | |
| Activated Carbon and Service | \$ 17,593 | \$ 18,068 | \$ 17,317 |
| Equipment | 962 | 1,373 | 797 |
| Consumer | 581 | 559 | 479 |
| | \$ 19,136 | \$ 20,000 | \$ 18,593 |
| Amortization | 1,906 | 2,004 | 261 |
| Consolidated depreciation and amortization | \$ 21,042 | \$ 22,004 | \$ 18,854 |

| <i>(Thousands)</i> | Year Ended December 31 | | |
|---|------------------------|------------|------------|
| | 2005 | 2004 | 2003 |
| Total Assets | | | |
| Activated Carbon and Service | \$ 267,408 | \$ 268,241 | \$ 222,012 |
| Equipment | 44,607 | 55,135 | 54,004 |
| Consumer | 14,513 | 14,705 | 9,636 |
| Total assets from continuing operations | \$ 326,528 | \$ 338,081 | \$ 285,652 |
| Assets held for sale | 21,340 | 25,817 | 16,543 |
| Consolidated total assets | \$ 347,868 | \$ 363,898 | \$ 302,195 |

| <i>(Thousands)</i> | Year Ended December 31 | | |
|---|------------------------|-----------|----------|
| | 2005 | 2004 | 2003 |
| Property, plant and equipment expenditures | | | |
| Activated Carbon and Service | \$ 14,608 | \$ 10,317 | \$ 6,754 |
| Equipment | 1,120 | 1,640 | 1,028 |
| Consumer | 9 | 98 | 363 |
| Property, plant and equipment expenditures from continuing operations | \$ 15,737 | \$ 12,055 | \$ 8,145 |
| Expenditures related to discontinued operations | 259 | 358 | 539 |
| Consolidated property, plant and equipment expenditures | \$ 15,996 | \$ 12,413 | \$ 8,684 |

GEOGRAPHIC INFORMATION

Net sales are attributable to countries based on location of customer.

| <i>(Thousands)</i> | Year Ended December 31 | | |
|------------------------|------------------------|------------|------------|
| | 2005 | 2004 | 2003 |
| Net sales | | | |
| United States | \$ 167,329 | \$ 178,101 | \$ 149,496 |
| United Kingdom | 23,577 | 29,570 | 20,974 |
| Germany | 17,121 | 12,965 | 10,285 |
| France | 11,423 | 10,585 | 10,028 |
| Canada | 10,105 | 10,602 | 10,268 |
| Belgium | 6,970 | 7,492 | 6,937 |
| Netherlands | 5,230 | 2,730 | 2,465 |
| Switzerland | 4,894 | 5,609 | 2,563 |
| Japan | 4,485 | 4,742 | 7,123 |
| Other | 39,701 | 33,481 | 33,039 |
| Consolidated net sales | \$ 290,835 | \$ 295,877 | \$ 253,178 |

| <i>(Thousands)</i> | December 31 | | |
|--------------------------------|-------------|------------|------------|
| | 2005 | 2004 | 2003 |
| Long-lived assets | | | |
| United States | \$ 113,213 | \$ 123,041 | \$ 107,546 |
| Belgium | 16,665 | 18,947 | 19,183 |
| United Kingdom | 11,309 | 14,053 | 5,424 |
| Japan | 7,034 | 8,135 | 6,798 |
| Canada | 8,010 | 7,358 | 6,698 |
| China | 7,327 | 6,614 | 6,329 |
| Germany | 21 | 30 | 12 |
| France | 5 | 26 | 39 |
| Deferred taxes | 163,584 | 178,204 | 152,029 |
| | 18,684 | 16,405 | 9,779 |
| Consolidated long-lived assets | \$ 182,268 | \$ 194,609 | \$ 161,808 |

QUARTERLY FINANCIAL DATA UNAUDITED

| | 2005 | | | | 2004 | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| <i>(Thousands except per share data)</i> | | | | | | | | |
| Net sales | \$ 73,055 | \$ 77,658 | \$ 68,863 | \$ 71,259 | \$ 64,981 | \$ 81,503 | \$ 72,652 | \$ 76,741 |
| Gross profit from continuing operations | \$ 20,239 | \$ 21,567 | \$ 17,573 | \$ 16,126 | \$ 19,753 | \$ 24,750 | \$ 21,284 | \$ 22,567 |
| Net income (loss) from continuing operations | \$ (4,378) | \$ 193 | \$ (39) | \$ (6,283) | \$ (847) | \$ 3,216 | \$ 1,063 | \$ 536 |
| Income (loss) from discontinued operations | \$ 969 | \$ 1,803 | \$ (314) | \$ 633 | \$ 297 | \$ 1,034 | \$ 203 | \$ 386 |
| Net income (loss) | \$ (3,409) | \$ 1,996 | \$ (353) | \$ (5,650) | \$ (550) | \$ 4,250 | \$ 1,266 | \$ 922 |

Common Stock Data:

Basic and Diluted:

| | | | | | | | | |
|---|-----------|---------|-----------|-----------|-----------|---------|---------|---------|
| Income (loss) from continuing operations per common share | \$ (0.11) | \$ | \$ | \$ (0.16) | \$ (0.02) | \$ 0.08 | \$ 0.03 | \$ 0.01 |
| Income (loss) from discontinued operations per common share | \$ 0.02 | \$ 0.05 | \$ (0.01) | \$ 0.02 | \$ 0.01 | \$ 0.03 | \$ 0.01 | \$ 0.01 |
| Net income (loss) per common share | \$ (0.09) | \$ 0.05 | \$ (0.01) | \$ (0.14) | \$ (0.01) | \$ 0.11 | \$ 0.03 | \$ 0.02 |

Average common shares outstanding

| | | | | | | | | |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Basic | 39,206 | 39,485 | 39,569 | 39,736 | 39,024 | 39,035 | 39,054 | 39,103 |
| Diluted | 39,206 | 40,094 | 39,569 | 39,736 | 39,024 | 39,283 | 39,367 | 39,771 |

The financial information for all periods presented has been reclassified to reflect assets held for sale and discontinued operations.

See Note 3 to the Consolidated Financial Statements for further information.

Part IV

Item 15. Exhibits and Financial Statement Schedules:

A. Financial Statements and Reports of Independent Registered Public Accounting Firm (see Part II, Item 8 of this Form 10-K/A).

1. The following information is filed as part of this Form 10-K/A:

Financial Statements Reports of Independent Registered Public
Accounting Firms

2. The following report and schedule should be read with the Company's consolidated financial statements in the Annual Report:

Report of Deloitte & Touche LLP dated April 24, 2007 on the Company's financial statement schedule filed as part here of for the fiscal years ended December 31, 2005, 2004, and 2003.

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2005, 2004 and 2003.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Calgon Carbon Corporation

Pittsburgh, Pennsylvania

We have audited the consolidated financial statements of Calgon Carbon Corporation (the Company) as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, and have issued our reports thereon dated April 24, 2007; such consolidated financial statements and reports are included in your 2005 Annual Report to Stockholders and are incorporated herein by reference. We did not audit the financial statements of Chemviron Carbon Ltd. and subsidiaries (Chemviron UK) as of and for the years ended December 31, 2005 and 2004, which statements reflect total assets constituting 9 percent and 10 percent of consolidated total assets as of December 31, 2005 and 2004, respectively, and total revenues constituting 12 percent and 11 percent of consolidated total revenues for the years ended December 31, 2005 and 2004, respectively. Such financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such subsidiary Chemviron UK, is based solely on the report of such other auditors. Our audits and the report of other auditors also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, based on our audits and the report of other auditors, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Pittsburgh, Pennsylvania

April 24, 2007

SCHEDULE II

CALGON CARBON CORPORATION

VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Year | Additions-Charged to Costs and Expenses | Deductions>Returns and Write-Offs | Balance at End of Year |
|---------------------------------|------------------------------|---|-----------------------------------|------------------------|
| Year ended December 31, 2005 | | | | |
| Allowance for doubtful accounts | \$ 2,902 | \$ 510 | \$ (1,240) | \$ 2,172 |
| Year ended December 31, 2004 | | | | |
| Allowance for doubtful accounts | 3,595 | 946 | (1,639) | 2,902 |
| Year ended December 31, 2003 | | | | |
| Allowance for doubtful accounts | 2,839 | 1,127 | (371) | 3,595 |
| Description | Balance at Beginning of Year | Additions-Charged to Costs and Expenses | Deductions | Balance at End of Year |
| Year ended December 31, 2005 | | | | |
| Income tax valuation allowance | \$ 3,539 | \$ 188 | \$ (345) | \$ 3,382 |
| Year ended December 31, 2004 | | | | |
| Income tax valuation allowance | 1,916 | 1,835 | (212) | 3,539 |
| Year ended December 31, 2003 | | | | |
| Income tax valuation allowance | 2,658 | 326 | (1,068) | 1,916 |

C. Exhibits

| | | |
|------|--|----------------|
| 23.1 | Consent of Independent Registered Public Accounting Firm | Filed herewith |
| 23.2 | Consent of Independent Registered Public Accounting Firm | Filed herewith |
| 31.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith |

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

Pursuant to the requirements of Section 13 or 15(d) 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

April 24, 2007
(Date)

By

/s/ JOHN S. STANIK

John S. Stanik

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the dates indicated.

| Signature | Title | Date |
|---|--|----------------|
| John S. Stanik | President, Chief Executive Officer | April 24, 2007 |
| /s/ LEROY M. BALL Leroy M. Ball | Chief Financial Officer (and Principal Accounting Officer) | April 24, 2007 |
| /s/ ROBERT W. CRUICKSHANK Robert W. Cruickshank | Director | April 24, 2007 |
| /s/ THOMAS A. MCCONOMY Thomas A. McConomy | Chairman | April 24, 2007 |
| /s/ WILLIAM R. NEWLIN William R. Newlin | Director | April 24, 2007 |

| | | |
|---|----------|----------------|
| /s/ JULIE S. ROBERTS Julie S. Roberts | Director | April 24, 2007 |
| /s/ TIMOTHY G. RUPERT Timothy G. Rupert | Director | April 24, 2007 |
| /s/ JOHN P. SURMA John P. Surma | Director | April 24, 2007 |
| /s/ SETH E. SCHOFIELD Seth E. Schofield | Director | April 24, 2007 |
| /s/ ROBERT L. YOHE Robert L. Yohe | Director | April 24, 2007 |

EXHIBIT INDEX

| Exhibit No. | Description | Method of Filing |
|--------------------|--|-------------------------|
| 23.1 | Consent of Independent Registered Public Accounting Firm | Filed herewith |
| 23.2 | Consent of Independent Registered Public Accounting Firm | Filed herewith |
| 31.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith |

Note: The Registrant hereby undertakes to furnish, upon request of the Commission, copies of all instruments defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries. The total amount of securities authorized thereunder does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis.