

CALGON CARBON Corp  
Form 10-Q  
August 05, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from                      to

Commission file number: 1-10776

CALGON CARBON CORPORATION

(Exact name of registrant as specified in its charter)

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

3000 GSK Drive	
Moon Township, Pennsylvania	15108
(Address of principal executive offices)	(Zip Code)

(412) 787-6700

(Registrant's telephone number, including area code)

None

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

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

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

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

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

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

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

Class	Outstanding as of July 25, 2016
Common Stock, \$.01 par value per share	50,624,108 shares

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CALGON CARBON CORPORATION

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED JUNE 30, 2016

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Forward-looking statements typically contain words such as “expect,” “believe,” “estimate,” “anticipate,” or similar words indicating that future outcomes are uncertain. Statements looking forward in time, including statements regarding the planned acquisition of the assets and business of the wood-based activated carbon, reactivation and mineral-based filtration media business of CECA, a subsidiary of Arkema Group (the Activated Carbon and Filter Aid Business), future growth and profitability, price increases, cost savings, broader product lines, enhanced competitive posture and acquisitions, are included in this Quarterly Report on Form 10-Q and in the Company’s most recent Annual Report on Form 10-K pursuant to the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks and uncertainties that may cause Calgon Carbon Corporation’s (the “Company”) actual results in future periods to be materially different from any future performance suggested herein, including without limitation, the Company’s ability to successfully complete the acquisition of the Activated Carbon and Filter Aid Business, including satisfying the various closing conditions and the Company’s ability to successfully integrate the Activated Carbon and Filter Aid Business and achieve the expected results of the acquisition, including any expected synergies and the expected accretion to earnings. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company’s control. Some of the factors that could affect future performance of the Company are changes in, or delays in the implementation of, regulations that cause a market for our products, acquisitions, higher energy and raw material costs, costs of imports and related tariffs, unfavorable weather conditions and changes in market prices of natural gas relative to prices of coal, labor relations, availability of capital, and environmental requirements as they relate both to our operations and to our customers, changes in foreign currency exchange rates, borrowing restrictions, validity of patents and other intellectual property, and pension costs. In the context of the forward-looking information provided in this Quarterly Report on Form 10-Q and in other reports, please refer to the discussions of risk factors and other information detailed in, as well as the other information contained in the Company’s most recent Annual Report on Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made and the Company does not intend to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by the Federal securities laws of the United States.

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



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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## CALGON CARBON CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands Except Per Share Data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	\$ 132,597	\$ 135,452	\$ 252,796	\$ 271,155
Cost of products sold (excluding depreciation and amortization)	87,663	84,614	166,122	171,832
Depreciation and amortization	9,461	8,463	18,236	17,164
Selling, general and administrative expenses	21,984	21,002	44,966	42,100
Research and development expenses	1,318	1,578	2,838	2,974
	120,426	115,657	232,162	234,070
Income from operations	12,171	19,795	20,634	37,085
Interest income	29	34	35	45
Interest expense	(228)	(115)	(561)	(246)
Other income (expense) — net	(20)	(603)	203	(1,151)
Income before income tax provision	11,952	19,111	20,311	35,733
Income tax provision	4,056	6,531	6,957	12,092
Net income	7,896	12,580	13,354	23,641
Other comprehensive income (loss), net of tax (Note 8)				

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Foreign currency translation	(3,408)	3,324	(311)	(6,972)
Defined benefit pension plans	739	147	1,263	957
Derivatives	1	(362)	(789)	(118)
Total other comprehensive income (loss)	(2,668)	3,109	163	(6,133)
Total comprehensive income	\$ 5,228	\$ 15,689	\$ 13,517	\$ 17,508
Net income per common share				
Basic	\$ 0.16	\$ 0.24	\$ 0.27	\$ 0.45
Diluted	\$ 0.15	\$ 0.24	\$ 0.26	\$ 0.44
Dividends per common share	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10
Weighted average shares outstanding, in thousands				
Basic	50,225	52,314	50,267	52,382
Diluted	50,987	53,179	51,014	53,254

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



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## CALGON CARBON CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except Share Data)

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 51,240	\$ 53,629
Receivables (net of allowance of \$1,633 and \$1,675)	95,948	96,674
Revenue recognized in excess of billings on uncompleted contracts	7,588	9,156
Inventories	123,142	110,364
Deferred income taxes — current	22,703	22,537
Other current assets	11,893	15,365
Total current assets	312,514	307,725
Property, plant and equipment, net	308,581	311,019
Intangibles, net	5,425	5,961
Goodwill	25,550	25,777
Deferred income taxes — long-term	2,827	2,816
Other assets	3,444	3,220
Total assets	\$ 658,341	\$ 656,518
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 57,499	\$ 53,716
Billings in excess of revenue recognized on uncompleted contracts	3,731	3,581
Payroll and benefits payable	11,531	13,753
Accrued income taxes	2,724	2,091
Current portion of long-term debt	7,500	7,500
Total current liabilities	82,985	80,641
Long-term debt	101,633	103,941
Deferred income taxes — long-term	40,314	41,383
Accrued pension and other liabilities	37,366	36,562
Total liabilities	262,298	262,527

Commitments and contingencies (Note 11)

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Stockholders' equity:

Common stock, \$.01 par value, 100,000,000 shares authorized, 57,773,786 and 57,646,683 shares issued	578	576
Additional paid-in capital	183,956	181,713
Retained earnings	406,915	398,627
Treasury stock, at cost, 10,780,813 and 10,232,612 shares	(153,939)	(145,295)
Accumulated other comprehensive loss	(41,467)	(41,630)
Total stockholders' equity	396,043	393,991
 Total liabilities and stockholders' equity	 \$ 658,341	 \$ 656,518

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

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## CALGON CARBON CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 13,354	\$ 23,641
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,236	17,164
Employee benefit plan provisions	2,090	541
Stock-based compensation	2,196	2,057
Deferred income tax (benefit) expense	(1,349)	540
Changes in assets and liabilities — net of effects from foreign exchange:		
Decrease (increase) in receivables	2,020	(4,402)
Increase in inventories	(11,176)	(10,409)
Decrease in revenue in excess of billings on uncompleted contracts and other current assets	5,004	4,276
Increase (decrease) in accounts payable and accrued liabilities	1,646	(5,951)
Pension contributions	(711)	(1,894)
Other items — net	(441)	494
Net cash provided by operating activities	30,869	26,057
Cash flows from investing activities		
Proceeds from sale of assets	1,234	—
Capital expenditures	(16,892)	(33,932)
Net cash used in investing activities	(15,658)	(33,932)
Cash flows from financing activities		
Japanese working capital loan borrowings — short-term	—	840
Japanese working capital loan repayments — short-term	—	(1,254)
Credit agreement borrowings — long-term	58,334	49,800
Credit agreement repayments — long-term	(57,283)	(30,600)
Repayment of term loan — long-term	(4,001)	—
Treasury stock purchased	(8,644)	(8,910)
Common stock dividends paid	(5,066)	(5,270)
Proceeds from the exercise of stock options	163	944
Net cash (used in) provided by financing activities	(16,497)	5,550

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Effect of exchange rate changes on cash and cash equivalents	(1,103)	(718)
Net decrease in cash and cash equivalents	(2,389)	(3,043)
Cash and cash equivalents, beginning of period	53,629	53,133
Cash and cash equivalents, end of period	\$ 51,240	\$ 50,090

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

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CALGON CARBON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

(Unaudited)

1. Basis of Presentation and Accounting Policies

The condensed consolidated financial statements included herein are unaudited and have been prepared by Calgon Carbon Corporation and subsidiaries (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in audited annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company believes that the disclosures included herein are adequate to make the information presented not misleading when read in conjunction with the Company's audited consolidated financial statements and the notes included therein for the year ended December 31, 2015, as filed with the SEC by the Company on Annual Report on Form 10-K.

In management's opinion, the condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, and which are necessary for a fair presentation, in all material respects, of financial results for the interim periods presented. Operating results for the first six months of 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Certain prior year amounts have been reclassified to conform to the 2016 presentation. The restructuring reserve of \$0.1 million reported as of December 31, 2015 has been reclassified to accounts payable and accrued liabilities.

There have been no developments to recently issued accounting standards from those disclosed in the Company's Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2015, except for the following.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)" which introduces a lessee model that brings most leases on the balance sheet, requiring lessees to recognize the right to use assets and lease obligations that arise from lease arrangements exceeding a twelve month term. Lessees will also need to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. For income statement

purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The new guidance is effective for fiscal years beginning after December 15, 2018, and early application is permitted. Entities are required to use a modified retrospective transition for existing leases. The Company is evaluating the provisions of this ASU and assessing the impact it may have on the Company's consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" which amends the principal-versus agent implementation guidance and illustrations in FASB's new revenue standard ASU 2014-09. The new guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing" which amends certain aspects of the guidance in ASU 2014-09. For identifying performance obligations, the amendments include: immaterial promised goods and services, shipping and handling activities, and identifying when promises represent performance obligations. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." This clarifies the collectability assessment, sales tax presentation and the treatment of contract modifications and completed contracts at transition. In May 2016, the FASB issued ASU 2016-11, "Rescission of SEC Guidance Because of Accounting Standards Update 2014-09" which rescinds certain SEC guidance upon adoption including those related to freight services in process and shipping and handling fees. All of the new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified retrospective approach. The Company is evaluating the provisions of these ASUs and assessing the impact they may have on the Company's consolidated financial statements and related disclosures.

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In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Entities may use the modified retrospective transition method for existing share-based payment transactions. The Company is evaluating the provisions of this ASU and assessing the impact it may have on the Company’s consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” which adds a Current Expected Credit Loss (CECL) model that is based on expected losses rather than incurred losses, which is applicable to trade receivables. The new guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual reporting period. Entities are required to use the modified retrospective approach. The Company is evaluating the provisions of this ASU and assessing the impact it may have on the Company’s consolidated financial statements and related disclosures.

## 2. Inventories

	June 30, 2016	December 31, 2015
Raw materials	\$ 23,851	\$ 23,327
Finished goods	99,291	87,037
Total	\$ 123,142	\$ 110,364

Inventories are recorded net of reserves of \$2.6 million and \$2.4 million for obsolete and slow-moving items as of June 30, 2016 and December 31, 2015, respectively.

### 3. Fair Value Measurements

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

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



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The following financial instrument assets (liabilities) are presented below at carrying amount, fair value, and classification within the fair value hierarchy (refer to Notes 4 and 5 for details relating to derivative instruments and borrowing arrangements). The only financial instruments measured at fair value on a recurring basis are derivative instruments and the acquisition earn-out liability:

	Fair Value Hierarchy Level	June 30, 2016 Carrying Amount	Fair Value	December 31, 2015 Carrying Amount	Fair Value
Cash and cash equivalents	1	\$ 51,240	\$ 51,240	\$ 53,629	\$ 53,629
Derivative assets	2	297	297	468	468
Derivative liabilities	2	(1,168)	(1,168)	(783)	(783)
Acquisition earn-out liability	2	(140)	(140)	(163)	(163)
Long-term debt, including current portion	2	(109,133)	(109,133)	(111,441)	(111,441)

Accounts receivable and accounts payable included in the condensed consolidated balance sheets approximate fair value and are excluded from the table above. The fair value of cash and cash equivalents are based on quoted prices. The fair value of derivative assets and liabilities are measured based on inputs from market sources that aggregate data based upon market transactions. Fair value for the acquisition earn-out liability is based upon Level 2 inputs which are periodically re-evaluated for changes in future projections and the discount rate. This liability is recorded in accrued pension and other liabilities within the Company's condensed consolidated balance sheets. The Company's debt bears interest based on market rates and, accordingly, the carrying value of these obligations approximates fair value.

#### 4. Derivative Instruments

The Company uses foreign currency forward exchange contracts and foreign exchange option contracts to limit the exposure of exchange rate fluctuations on certain foreign currency receivables, payables, and other known and forecasted transactional exposures for periods consistent with the expected cash flow of the underlying transactions. Management's policy for managing foreign currency risk is to use derivatives to hedge up to 75% of the value of the forecasted exposure. The foreign currency forward exchange and foreign exchange option contracts generally mature within eighteen months and are designed to limit exposure to exchange rate fluctuations.

The Company also uses natural gas forward contracts to limit the exposure to changes in natural gas prices. Management's policy for managing natural gas exposure is to use derivatives to hedge up to 75% of the forecasted natural gas requirements that are not fixed. The natural gas forward contracts generally mature within twenty-four months.

The Company accounts for its derivative instruments under ASC 815 "Derivatives and Hedging." Hedge effectiveness is measured on a quarterly basis and any portion of ineffectiveness as well as hedge components excluded from the assessment of effectiveness, are recorded directly to current earnings, in other expense - net.

The fair value of outstanding derivative contracts in the condensed consolidated balance sheets was as follows:

Asset Derivatives	Balance Sheet Locations	June 30, 2016	December 31, 2015
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Other current assets	\$ 37	\$ 411
Natural gas contracts	Other current assets	127	—
Foreign exchange contracts	Other assets	13	6
Natural gas contracts	Other assets	55	—
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	65	51
Total asset derivatives		\$ 297	\$ 468

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		June 30, 2016	December 31, 2015
Liability Derivatives	Balance Sheet Locations		
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	\$ 941	\$ 13
Natural gas contracts	Accounts payable and accrued liabilities	78	586
Foreign exchange contracts	Accrued pension and other liabilities	125	3
Natural gas contracts	Accrued pension and other liabilities	—	89
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	24	92
Total liability derivatives		\$ 1,168	\$ 783

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

	June 30, 2016	December 31, 2015
(in thousands except for mmbtu)		
Natural gas contracts (mmbtu)	900,000	955,000
Foreign exchange contracts	\$ 40,483	\$ 37,016

The use of derivatives exposes the Company to the risk that a counterparty may default on a derivative contract. The Company enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties. The aggregate fair value of the Company's derivative instruments in asset positions represents the maximum loss that the Company would recognize at that date if all counterparties failed to perform as contracted. The Company has entered into various master netting arrangements with counterparties to facilitate settlement of gains and losses on these contracts. These arrangements may allow for netting of exposures in the event of default or termination of the counterparty agreement due to breach of contract. The Company does not net its derivative positions by counterparty for purposes of balance sheet presentation and disclosure.

	June 30, 2016		December 31, 2015	
	Fair Value of Assets	Fair Value of Liabilities	Fair Value of Assets	Fair Value of Liabilities
Gross derivative amounts recognized in the balance sheet	\$ 297	\$ 1,168	\$ 468	\$ 783
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting	(126)	(126)	(67)	(67)
Net amount	\$ 171	\$ 1,042	\$ 401	\$ 716

#### Derivatives in Cash Flow Hedging Relationships

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The location of the gain or (loss) reclassified into earnings (effective portion) for derivatives in cash flow hedging relationships is cost of products sold (excluding depreciation and amortization).

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Foreign exchange contracts	\$ (407)	\$ (180)	\$ (1,446)	\$ 870
Natural gas contracts	398	(27)	207	(350)
Total	\$ (9)	\$ (207)	\$ (1,239)	\$ 520

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	Amount of Gain or (Loss) Recognized from Accumulated OCI into Earnings (Effective Portion) (1)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Foreign exchange contracts	\$ 153	\$ 624	\$ 434	\$ 1,068
Natural gas contracts	(315)	(280)	(590)	(404)
Total	\$ (162)	\$ 344	\$ (156)	\$ 664

(1) Assuming market rates remain constant with the rates as of June 30, 2016, a loss of \$0.9 million is expected to be recognized in earnings over the next 12 months.

During the three and six month periods ended June 30, 2016 and 2015, there was no gain or (loss) recognized in earnings on derivatives related to the ineffective portion and the amount excluded from effectiveness testing, which would have been recorded in other expense – net.

#### Derivatives Not Designated as Hedging Instruments

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

Amount of Gain or (Loss) Recognized  
in Earnings on Derivatives

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Three Months  
Ended June 30,  
2016

Six Months  
Ended June 30,