

Koppers Holdings Inc.
Form 10-Q
August 09, 2012

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, 2012

Commission file number 1-32737

KOPPERS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State of incorporation)

20-1878963
(IRS Employer Identification No.)

436 Seventh Avenue

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 227-2001

(Registrant's telephone number, including area code)

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

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 x 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. (Check one):

Large accelerated filer x Accelerated filer " Non-accelerated filer " 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 x

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Common Stock, par value \$0.01 per share, outstanding at July 31, 2012 amounted to 20,769,009 shares.

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (Unaudited)	2011	2012 (Unaudited)	2011
<i>(Dollars in millions, except per share amounts)</i>				
Net sales	\$ 411.3	\$ 374.5	\$ 792.2	\$ 716.0
Cost of sales (excluding items below)	344.9	311.3	671.8	607.4
Depreciation and amortization	7.6	6.4	14.4	12.8
Selling, general and administrative expenses	18.1	18.5	36.1	36.2
Operating profit	40.7	38.3	69.9	59.6
Other income	0.4	0.1	1.1	0.1
Interest expense	7.0	6.7	13.9	13.6
Income before income taxes	34.1	31.7	57.1	46.1
Income taxes	13.0	11.3	20.2	16.5
Income from continuing operations	21.1	20.4	36.9	29.6
Income (loss) from discontinued operations, net of tax benefit of \$0.2, \$0.7, \$0.1 and \$0.9	(0.2)	(0.5)	(0.1)	(0.7)
Net income	20.9	19.9	36.8	28.9
Net income attributable to noncontrolling interests	0.5	0.1	0.8	0.2
Net income attributable to Koppers	\$ 20.4	\$ 19.8	\$ 36.0	\$ 28.7
Earnings per common share attributable to Koppers common shareholders:				
Basic				
Continuing operations	\$ 1.00	\$ 0.99	\$ 1.74	\$ 1.43
Discontinued operations	(0.01)	(0.03)	0.00	(0.04)
Earnings per basic common share	\$ 0.99	\$ 0.96	\$ 1.74	\$ 1.39
Diluted				
Continuing operations	\$ 0.99	\$ 0.99	\$ 1.72	\$ 1.43
Discontinued operations	(0.01)	(0.03)	0.00	(0.04)
Earnings per diluted common share	\$ 0.98	\$ 0.96	\$ 1.72	\$ 1.39
Comprehensive income	\$ 13.0	\$ 26.6	\$ 35.5	\$ 43.5
Comprehensive income attributable to noncontrolling interests	0.5	0.2	0.7	0.5
Comprehensive income attributable to Koppers	\$ 12.5	\$ 26.4	\$ 34.8	\$ 43.0
Weighted average shares outstanding <i>(in thousands)</i> :				
Basic	20,764	20,603	20,717	20,596
Diluted	20,959	20,739	20,943	20,731
Dividends declared per common share	\$ 0.24	\$ 0.22	\$ 0.48	\$ 0.44

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

	June 30,	December 31,
	2012	2011
	(Unaudited)	
<i>(Dollars in millions, except per share amounts)</i>		
Assets		
Cash and cash equivalents	\$ 50.3	\$ 54.1
Accounts receivable, net of allowance of \$3.4 and \$0.3	193.5	160.9
Income tax receivable	0.7	10.6
Inventories, net	188.3	159.0
Deferred tax assets	9.6	9.3
Loan to related party	11.7	11.7
Other current assets	19.7	21.8
Total current assets	473.8	427.4
Equity in non-consolidated investments	5.7	4.9
Property, plant and equipment, net	150.6	155.6
Goodwill	71.7	72.1
Deferred tax assets	38.4	44.3
Other assets	25.0	26.4
Total assets	\$ 765.2	\$ 730.7
Liabilities		
Accounts payable	\$ 113.2	\$ 102.1
Accrued liabilities	56.1	63.1
Dividends payable	5.6	5.2
Total current liabilities	174.9	170.4
Long-term debt	314.3	302.1
Accrued postretirement benefits	97.1	104.1
Other long-term liabilities	44.1	46.9
Total liabilities	630.4	623.5
Commitments and contingent liabilities (Note 16)		
Equity		
Senior Convertible Preferred Stock, \$0.01 par value per share; 10,000,000 shares authorized; no shares issued	0.0	0.0
Common Stock, \$0.01 par value per share; 40,000,000 shares authorized; 21,519,622 and 21,309,210 shares issued	0.2	0.2
Additional paid-in capital	146.9	142.9
Retained earnings	32.5	6.7
Accumulated other comprehensive loss	(31.4)	(30.2)
Treasury stock, at cost, 750,613 and 706,161 shares	(26.5)	(24.8)
Total Koppers shareholders' equity	121.7	94.8
Noncontrolling interests	13.1	12.4
Total equity	134.8	107.2
Total liabilities and equity	\$ 765.2	\$ 730.7

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Dollars in millions)</i>	<i>Six Months Ended June 30,</i>	
	<i>2012</i>	<i>2011</i>
	<i>(Unaudited)</i>	
Cash provided by (used in) operating activities:		
Net income	\$ 36.8	\$ 28.9
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	14.4	13.7
Deferred income taxes	4.4	2.2
Equity income, net of dividends received	(0.8)	(0.1)
Change in other liabilities	(4.8)	0.2
Non-cash interest expense	0.8	0.8
Stock-based compensation	3.2	2.2
Other	(1.0)	(3.0)
(Increase) decrease in working capital:		
Accounts receivable	(34.7)	(54.7)
Inventories	(31.0)	7.3
Accounts payable	12.5	14.8
Accrued liabilities and other working capital	3.6	13.5
Net cash provided by operating activities	3.4	25.8
Cash provided by (used in) investing activities:		
Capital expenditures	(9.3)	(12.2)
Acquisitions	0.0	(1.0)
Net cash proceeds from divestitures and asset sales	0.4	0.1
Net cash used in investing activities	(8.9)	(13.1)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	169.0	117.5
Repayments of revolving credit	(157.0)	(103.0)
Repayments of long-term debt	0.0	(1.0)
Issuances of Common Stock	0.6	0.2
Repurchases of Common Stock	(1.7)	(0.2)
Payment of deferred financing costs	0.0	(0.5)
Dividends paid	(9.5)	(9.1)
Net cash provided by financing activities	1.4	3.9
Effect of exchange rate changes on cash	0.3	1.7
Net (decrease) increase in cash and cash equivalents	(3.8)	18.3
Cash and cash equivalents at beginning of year	54.1	35.3
Cash and cash equivalents at end of period	\$ 50.3	\$ 53.6

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

KOPPERS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (*Unaudited*)

1. Basis of Presentation and New Accounting Standards

The accompanying unaudited condensed consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of Koppers Holdings Inc.'s and its subsidiaries (Koppers, Koppers Holdings or the Company) financial position and interim results as of and for the periods presented have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Because the Company's business is seasonal, results for interim periods are not necessarily indicative of those that may be expected for a full year. The Condensed Consolidated Balance Sheet for December 31, 2011 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2011.

The financial information included herein should be read in conjunction with the Company's audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2011 and certain sections as restated in the Company's Current Report on Form 8-K dated June 27, 2012.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). The amendments in ASU 2011-05 require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. The Company has elected to reflect comprehensive income as a single continuous statement for interim periods and as two separate but consecutive statements for annual periods.

2. Dividends

On August 7, 2012, the Company's board of directors declared a quarterly dividend of 24 cents per common share, payable on October 9, 2012 to shareholders of record as of August 20, 2012.

3. Discontinued operations

In December 2011, the Company ceased manufacturing operations at its carbon black facility located in Kurnell, Australia. This business was reclassified to discontinued operations in the first quarter of 2012 as run-off activities were completed. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The costs related to this closure totaled \$41.0 million in the fourth quarter of 2011, of which \$20.8 million was recorded as a component of cost of sales and \$20.2 million was recorded as a component of depreciation and amortization. The Company estimates that total future closure costs related to this facility will be approximately \$1.1 million. The closure is expected to be completed by 2014. The facility is part of the Carbon Materials & Chemicals segment.

Details of the restructuring activities and related reserves for 2012 are as follows:

	<i>Severance and employee benefits</i>	<i>Environmental remediation</i>	<i>Inventory writedowns</i>	<i>Site demolition</i>	<i>Other</i>	<i>Total</i>
<i>(Dollars in millions)</i>						
Reserve at December 31, 2011	\$ 1.8	\$ 6.7	\$ 0.0	\$ 6.2	\$ 1.2	\$ 15.9
Charges	0.1	0.0	0.4	0.0	0.0	0.5
Costs charged against assets	0.0	0.0	(0.4)	0.0	0.0	(0.4)
Reversals	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Cash paid	(1.5)	0.0	0.0	(0.1)	(0.5)	(2.1)
Currency translation	0.0	(0.1)	0.0	(0.1)	0.0	(0.2)

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Reserve at June 30, 2012	\$	0.3	\$	6.6	\$	0.0	\$	6.0	\$	0.7	\$	13.6
--------------------------	----	-----	----	-----	----	-----	----	-----	----	-----	----	------

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Net sales and operating profit from discontinued operations for the three months and six months ended June 30, 2012 and 2011 consist of the following amounts:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 0.2	\$ 19.1	\$ 5.4	\$ 36.7
Operating loss	(0.5)	(1.2)	(0.2)	(1.7)

4. Fair Value Measurements

Carrying amounts and the related estimated fair values of the Company's financial instruments as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<i>(Dollars in millions)</i>				
Financial assets:				
Cash and cash equivalents, including restricted cash	\$ 50.3	\$ 50.3	\$ 54.1	\$ 54.1
Investments and other assets ^(a)	1.3	1.3	1.3	1.3
Financial liabilities:				
Long-term debt (including current portion)	\$ 343.9	\$ 314.3	\$ 324.4	\$ 302.1

(a) Excludes equity method investments.

Cash and cash equivalents The carrying amount approximates fair value because of the short maturity of those instruments.

Investments and other assets Represents the broker-quoted cash surrender value on universal life insurance policies. This asset is classified as Level 2 in the valuation hierarchy and is measured from values received from financial institutions.

Debt The fair value of the Company's long-term debt is estimated based on the market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities (Level 2). The fair values of the revolving credit facility approximate carrying value due to the variable rate nature of these instruments.

5. Comprehensive Income and Equity

Total comprehensive income for the three and six months ended June 30, 2012 and 2011 is summarized in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<i>(Dollars in millions)</i>				
Net income	\$ 20.9	\$ 19.9	\$ 36.8	\$ 28.9
Other comprehensive income (loss):				
Change in currency translation adjustment	(9.2)	5.8	(3.7)	12.8
Change in unrecognized pension transition asset, net of tax	0.0	(0.1)	(0.1)	(0.1)
Change in unrecognized pension net loss, net of tax	1.3	1.0	2.5	1.9
Total comprehensive income	13.0	26.6	35.5	43.5
Less: comprehensive income attributable to noncontrolling interests	0.5	0.2	0.7	0.5

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Comprehensive income attributable to Koppers	\$ 12.5	\$ 26.4	\$ 34.8	\$ 43.0
--	---------	---------	---------	---------

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The following tables present the change in equity for the six months ended June 30, 2012 and June 30, 2011, respectively:

<i>(Dollars in millions)</i>	<i>Total Koppers Shareholders Equity</i>	<i>Noncontrolling Interests</i>	<i>Total Equity</i>
Balance at December 31, 2011	\$ 94.8	\$ 12.4	\$ 107.2
Net income	36.0	0.8	36.8
Issuance of common stock	0.6	0.0	0.6
Employee stock plans	3.3	0.0	3.3
Other comprehensive loss	(1.2)	(0.1)	(1.3)
Dividends	(10.1)	0.0	(10.1)
Repurchases of common stock	(1.7)	0.0	(1.7)
Balance at June 30, 2012	\$ 121.7	\$ 13.1	\$ 134.8

<i>(Dollars in millions)</i>	<i>Total Koppers Shareholders Equity</i>	<i>Noncontrolling Interests</i>	<i>Total Equity</i>
Balance at December 31, 2010	\$ 88.7	\$ 11.2	\$ 99.9
Net income	28.7	0.2	28.9
Issuance of common stock	0.2	0.0	0.2
Employee stock plans	2.3	0.0	2.3
Other comprehensive income	14.4	0.2	14.6
Dividends	(9.2)	0.0	(9.2)
Repurchases of common stock	(0.2)	0.0	(0.2)
Balance at June 30, 2011	\$ 124.9	\$ 11.6	\$ 136.5

6. Earnings per Common Share

The computation of basic earnings per common share for the periods presented is based upon the weighted average number of common shares outstanding during the periods. The computation of diluted earnings per common share includes the effect of non-vested nonqualified stock options and restricted stock units assuming such options and stock units were outstanding common shares at the beginning of the period. The effect of antidilutive securities is excluded from the computation of diluted earnings per common share.

The following table sets forth the computation of basic and diluted earnings per common share:

<i>(Dollars in millions, except share amounts, in thousands, and per share amounts)</i>	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Net income attributable to Koppers	\$ 20.4	\$ 19.8	\$ 36.0	\$ 28.7
Less: loss from discontinued operations	(0.2)	(0.5)	(0.1)	(0.7)
Income from continuing operations attributable to Koppers	\$ 20.6	\$ 20.3	\$ 36.1	\$ 29.4
Weighted average common shares outstanding:				
Basic	20,764	20,603	20,717	20,596
Effect of dilutive securities	195	136	226	135
Diluted	20,959	20,739	20,943	20,731

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Earnings per common share continuing operations:

Basic earnings per common share	\$ 1.00	\$ 0.99	\$ 1.74	\$ 1.43
Diluted earnings per common share	0.99	0.99	1.72	1.43

Other data:

Antidilutive securities excluded from computation of diluted earnings per common share	212	74	185	98
--	-----	----	-----	----

7. Stock-based Compensation

The amended and restated 2005 Long-Term Incentive Plan (the "LTIP") provides for the grant to eligible persons of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance awards, dividend equivalents and other stock-based awards, which are collectively referred to as the awards.

Under the LTIP, the board of directors granted restricted stock units and performance stock units to certain employee participants (collectively, the "stock units") each year starting in 2007. The restricted stock units vest on the third anniversary of the grant date, assuming continued employment by the participant. Performance stock units granted in 2011 and 2010 each have a two-year performance objective. Performance stock units granted in 2012 have a three-year performance objective. Regardless of whether the measurement period for the applicable performance objective is two or three years, all performance stock units have a three-year period for vesting (if the applicable performance objective is obtained). The applicable performance objective is based upon a multi-year cumulative value creation calculation commencing on the first day of each grant year. The number of performance stock units granted represents the target award and participants have the ability to earn between zero and 150 percent of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest. The performance stock units originally awarded in 2009 vested at 59.5 percent of target in February 2012. The performance stock units originally awarded in 2010 achieved a performance outcome of 128.2 percent of target and will vest in 2013, assuming continued service by the participants.

Dividends declared on the Company's common stock during the restriction period of the stock units are credited at equivalent value as additional stock units and become payable as additional common shares upon vesting. In the event of termination of employment, other than retirement, death or disability, any non-vested stock units are forfeited, including additional stock units credited from dividends. In the event of termination of employment due to retirement, death or disability, pro-rata vesting of the stock units over the service period will result. There are special vesting provisions for the stock units related to a change in control.

Restricted stock units that vest immediately or have one-year vesting periods are also issued under the LTIP to members of the board of directors in connection with annual director compensation and, from time to time, are issued to members of management in connection with employee compensation.

Compensation expense for non-vested stock units is recorded over the vesting period based on the fair value at the date of grant. The fair value of stock units is the market price of the underlying common stock on the date of grant.

The following table shows a summary of the performance stock units with uncompleted performance periods as of June 30, 2012:

<i>Performance Period</i>	<i>Minimum Shares</i>	<i>Target Shares</i>	<i>Maximum Shares</i>
2011 - 2012	0	85,116	127,674
2012 - 2014	0	101,430	152,145

The following table shows a summary of the status and activity of non-vested stock awards for the six months ended June 30, 2012:

	<i>Restricted Stock Units</i>	<i>Performance Stock Units</i>	<i>Total Stock Units</i>	<i>Weighted Average Grant Date Fair Value per Unit</i>
Non-vested at January 1, 2012	156,665	297,715	454,380	\$ 26.43
Granted	67,012	104,598	171,610	\$ 38.35
Credited from dividends	3,735	7,072	10,807	\$ 35.68
Performance stock unit adjustment	0	(40,112)	(40,112)	\$ 10.68
Vested	(83,838)	(87,013)	(170,851)	\$ 18.57
Forfeited	(4,572)	(11,162)	(15,734)	\$ 35.50
Non-vested at June 30, 2012	139,002	271,098	410,100	\$ 36.12

Stock options to executive officers vest and become exercisable upon the completion of a three-year service period commencing on the grant date. The stock options have a term of 10 years. In the event of termination of employment, other than

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

retirement, death or disability, any non-vested options are forfeited. In the event of termination of employment due to retirement, death or disability, pro-rata vesting of the options over the service period will result. There are special vesting provisions for the stock options related to a change in control.

In accordance with accounting standards, compensation expense for non-vested stock options is recorded over the vesting period based on the fair value at the date of grant. The fair value of stock options on the date of grant is calculated using the Black-Scholes-Merton model and the assumptions listed below:

	<i>February 2012 Grant</i>	<i>February 2011 Grant</i>	<i>August 2010 Grant</i>	<i>February 2010 Grant</i>
Grant date price per share of option award	\$ 38.21	\$ 40.26	\$ 20.00	\$ 28.10
Expected dividend yield per share	2.75%	2.50%	2.50%	2.50%
Expected life in years	6.5	6.5	6.5	6.5
Expected volatility	55.06%	60.00%	62.00%	62.00%
Risk-free interest rate	1.34%	3.02%	3.05%	3.05%
Grant date fair value per share of option awards	\$ 15.82	\$ 19.28	\$ 9.82	\$ 13.81

The dividend yield is based on the Company's current and prospective dividend rate which calculates a continuous dividend yield based upon the market price of the underlying common stock. The expected life in years is based on the simplified method permitted under Securities and Exchange Commission Staff Accounting Bulletin No. 14d.2 which calculates the average of the weighted vesting term and the contractual term of the option. This method was selected due to the lack of historical exercise data with respect to the Company. Expected volatility is based on the historical volatility of the Company's common stock and the historical volatility of certain other similar public companies. The risk-free interest rate is based on U.S. Treasury bill rates for the expected life of the option.

The following table shows a summary of the status and activity of stock options for the six months ended June 30, 2012:

	<i>Options</i>	<i>Weighted Average Exercise Price per Option</i>	<i>Weighted Average Remaining Contractual Term (in years)</i>	<i>Aggregate Intrinsic Value (in millions)</i>
Outstanding at January 1, 2012	353,452	\$ 27.65		
Granted	95,899	\$ 38.21		
Exercised	(39,562)	\$ 15.26		
Forfeited	(11,420)	\$ 36.00		
Outstanding at June 30, 2012	398,369	\$ 31.18	7.42	\$ 2.2
Exercisable at June 30, 2012	183,419	\$25.39	5.79	\$1.8

Total stock-based compensation expense recognized for the three and six months ended June 30, 2012 and 2011 is as follows:

	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<i>(Dollars in millions)</i>				
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	\$ 1.7	\$ 1.4	\$ 3.2	\$ 2.2
Less related income tax benefit	0.7	0.6	1.3	0.9
	\$ 1.0	\$ 0.8	\$ 1.9	\$ 1.3

As of June 30, 2012, total future compensation expense related to non-vested stock-based compensation arrangements totaled \$11.8 million and the weighted-average period over which this cost is expected to be recognized is approximately 25 months.

8. Segment Information

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The Company has two reportable segments: Carbon Materials & Chemicals and Railroad & Utility Products. The Company's reportable segments are business units that offer different products. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes. The business units have been aggregated into two reportable segments since management believes the long-term financial performance of these business units is affected by similar economic conditions.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The Company's Carbon Materials & Chemicals segment is primarily a manufacturer of carbon pitch, naphthalene, phthalic anhydride, creosote and carbon black feedstock. Carbon pitch is a critical raw material used in the production of aluminum and for the production of steel in electric arc furnaces. Naphthalene is used for the production of phthalic anhydride and as a surfactant in the production of concrete. Phthalic anhydride is used in the production of plasticizers, polyester resins and alkyd paints. Creosote is used in the treatment of wood and carbon black feedstock is used in the production of carbon black.

The Company's Railroad & Utility Products segment sells treated and untreated wood products, manufactured products and services primarily to the railroad and public utility markets. Railroad products include procuring and treating items such as crossties, switch ties and various types of lumber used for railroad bridges and crossings and the manufacture of rail joint bars. Utility products include transmission and distribution poles and pilings.

The Company evaluates performance and determines resource allocations based on a number of factors, the primary measure being operating profit or loss from operations. Operating profit does not include equity in earnings of affiliates, other income, interest expense or income taxes. Operating profit also excludes the operating costs of Koppers Holdings Inc., the parent company of Koppers Inc. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment transactions are eliminated in consolidation.

The following table sets forth certain sales and operating data, net of all intersegment transactions, for the Company's segments for the periods indicated:

	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<i>(Dollars in millions)</i>				
Revenues from external customers:				
Carbon Materials & Chemicals	\$ 266.7	\$ 237.1	\$ 516.2	\$ 455.7
Railroad & Utility Products	144.6	137.4	276.0	260.3
Total	\$ 411.3	\$ 374.5	\$ 792.2	\$ 716.0
Intersegment revenues:				
Carbon Materials & Chemicals	\$ 26.8	\$ 18.1	\$ 56.8	\$ 45.6
Depreciation and amortization expense:				
Carbon Materials & Chemicals	\$ 4.3	\$ 4.0	\$ 8.4	\$ 8.3
Railroad & Utility Products	3.3	2.4	6.0	4.5
Total	\$ 7.6	\$ 6.4	\$ 14.4	\$ 12.8
Operating profit:				
Carbon Materials & Chemicals	\$ 26.2	\$ 25.7	\$ 46.7	\$ 39.8
Railroad & Utility Products	15.0	12.8	24.1	20.3
Corporate	(0.5)	(0.2)	(0.9)	(0.5)
Total	\$ 40.7	\$ 38.3	\$ 69.9	\$ 59.6

The following table sets forth certain tangible and intangible assets allocated to each of the Company's segments as of the dates indicated:

	<i>June 30,</i>	<i>December 31,</i>
	<i>2012</i>	<i>2011</i>
<i>(Dollars in millions)</i>		
Segment assets:		
Carbon Materials & Chemicals	\$ 519.1	\$ 495.2

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Railroad & Utility Products	190.8	164.6
All other	55.3	70.9
Total	\$ 765.2	\$ 730.7
Goodwill:		
Carbon Materials & Chemicals	\$ 69.0	\$ 69.4
Railroad & Utility Products	2.7	2.7
Total	\$ 71.7	\$ 72.1

9. Income Taxes

Effective Tax Rate

Income taxes as a percentage of pretax income before discrete items was 35.5 percent and 35.7 percent for the three months ended June 30, 2012 and 2011, respectively. Discrete items included in income taxes for the three months ended June 30, 2012 consisted of net tax expense of \$0.8 million due primarily to a tax reserve associated with our 2011 European restructuring project. Discrete items included in income taxes for the three months ended June 30, 2011 consisted of a net tax benefit of \$0.1 million.

The effective tax rate for the second quarter of 2012 differs from the U.S. federal statutory rate of 35.0 percent due to state taxes (+1.7 percent), nondeductible expenses (+0.7 percent) and unrecognized tax benefits (+0.8 percent) partially offset by the taxes on foreign earnings (-1.1 percent) and the domestic manufacturing deduction (-1.6 percent). With respect to the second quarter of 2011, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent due to state taxes (+1.1 percent), nondeductible expenses (+0.8 percent) and unrecognized tax benefits (+0.9 percent) partially offset by the taxes on foreign earnings (-0.7 percent) and the domestic manufacturing deduction (-1.4 percent).

Income taxes as a percentage of pretax income before discrete items was 34.4 percent and 35.9 percent for the six months ended June 30, 2012 and 2011, respectively. Discrete items included in income taxes for the six months ended June 30, 2012 consisted of net tax expense of \$0.5 million due primarily to a tax reserve associated with our 2011 European restructuring project partially offset by amended tax returns and deferred tax adjustments. Discrete items included in income taxes for the six months ended June 30, 2011 consisted of a net tax benefit of \$0.1 million.

The effective tax rate for the first six months of 2012 differs from the U.S. federal statutory rate of 35.0 percent primarily due to state taxes (+1.6 percent), nondeductible expenses (+0.7 percent) and unrecognized tax benefits (+0.8 percent) partially offset by taxes on foreign earnings (-2.1 percent) and the domestic manufacturing deduction (-1.6 percent). With respect to the first six months of 2011, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to state taxes (+1.1 percent), nondeductible expenses (+0.7 percent) and unrecognized tax benefits (+0.9 percent) partially offset by taxes on foreign earnings (-0.4 percent) and the domestic manufacturing deduction (-1.4 percent).

The income tax provision for interim periods is based on an estimated annual effective tax rate, which requires management to make its best estimate of annual pretax income by domestic and foreign jurisdictions and other items that impact taxable income. During the year, management regularly updates estimates based on changes in various factors such as product prices, shipments, product mix, operating and administrative costs, earnings mix by taxable jurisdiction, repatriation of foreign earnings, uncertain tax positions and the ability to claim tax credits such as the non-conventional fuel tax credit. To the extent that actual results vary from the estimates at the end of the second quarter, the actual tax provision recognized for 2012 could be materially different from the forecasted annual tax provision as of the end of the second quarter.

Uncertain Tax Positions

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, individual U.S. state jurisdictions and non-U.S. jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005.

As of June 30, 2012 and December 31, 2011, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately \$5.4 million and \$7.1 million, respectively. Unrecognized tax benefits totaled \$8.1 million and \$9.9 million as of June 30, 2012 and December 31, 2011, respectively. The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. As of June 30, 2012 and December 31, 2011 the Company had accrued approximately \$1.2 million and \$0.9 million for interest and penalties, respectively.

10. Inventories

Net inventories as of June 30, 2012 and December 31, 2011 are summarized in the table below:

	<i>June 30,</i>	<i>December 31,</i>
	<i>2012</i>	<i>2011</i>
<i>(Dollars in millions)</i>		
Raw materials	\$ 116.4	\$ 91.5
Work in process	13.9	20.1
Finished goods	107.4	95.1
	237.7	206.7
Less revaluation to LIFO	49.4	47.7
Net	\$ 188.3	\$ 159.0

11. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2012 and December 31, 2011 are summarized in the table below:

	<i>June 30,</i>	<i>December 31,</i>
	<i>2012</i>	<i>2011</i>
<i>(Dollars in millions)</i>		
Land	\$ 6.6	\$ 6.6
Buildings	34.2	34.7
Machinery and equipment	591.1	593.5
	631.9	634.8
Less accumulated depreciation	481.3	479.2
Net	\$ 150.6	\$ 155.6

12. Pensions and Postretirement Benefit Plans

The Company and its subsidiaries maintain a number of defined benefit and defined contribution plans to provide retirement benefits for employees in the U.S., as well as employees outside the U.S. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), local statutory law or as determined by the board of directors. The defined benefit pension plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for three domestic non-qualified defined benefit pension plans for certain key executives.

All qualified defined benefit pension plans for salaried employees have been closed to new participants and a number of plans, including some plans for hourly employees, have been frozen. Accordingly, these pension plans no longer accrue additional years of service or recognize future increases in compensation for benefit purposes. In addition, a number of pension plans are subject to a soft freeze which precludes new employees from entering the defined benefit pension plans.

The defined contribution plans generally provide retirement assets to employee participants based upon employer and employee contributions to the participant's individual investment account. The Company also provides retiree medical insurance coverage to certain U.S. employees and a life insurance benefit to most U.S. employees. For salaried employees, the retiree medical and retiree insurance plans have been closed to new participants.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The following table provides the components of net periodic benefit cost for the pension plans for the three and six months ended June 30, 2012 and 2011:

<i>(Dollars in millions)</i>	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Service cost	\$ 0.9	\$ 0.9	\$ 1.8	\$ 1.7
Interest cost	2.4	2.7	5.2	5.6
Expected return on plan assets	(2.6)	(2.7)	(5.3)	(5.5)
Amortization of prior service cost	0.1	0.1	0.1	0.1
Amortization of net loss	2.1	1.5	4.1	3.1
Amortization of transition asset	(0.1)	(0.1)	(0.2)	(0.2)
Net periodic benefit cost	\$ 2.8	\$ 2.4	\$ 5.7	\$ 4.8
Defined contribution plan expense	\$ 1.3	\$ 1.3	\$ 2.8	\$ 2.8
Multi-employer pension plan expense	0.0	0.1	0.2	0.3
Other postretirement benefit plans	0.1	0.2	0.3	0.4

13. Debt

Debt at June 30, 2012 and December 31, 2011 was as follows:

<i>(Dollars in millions)</i>	<i>Weighted Average Interest Rate</i>	<i>Maturity</i>	<i>June 30,</i>	<i>December 31,</i>
			<i>2012</i>	<i>2011</i>
Revolving Credit Facility	2.87%	2015	\$ 18.4	\$ 6.4
Senior Notes	7 ⁷ / ₈ %	2019	295.9	295.7
Total debt			314.3	302.1
Less short term debt and current maturities of long-term debt			0.0	0.0
Long-term debt			\$ 314.3	\$ 302.1

Revolving Credit Facility

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to \$300.0 million at variable rates. Borrowings under the revolving credit facility are secured by a first priority lien on substantially all of the assets of Koppers Inc. and its material domestic subsidiaries. The revolving credit facility contains certain covenants for Koppers Inc. and its restricted subsidiaries that limit capital expenditures, additional indebtedness, liens, dividends, investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. and its restricted subsidiaries to meet certain financial ratios. Commitment fees totaled \$0.2 million and \$0.3 million for the three months ended June 30, 2012 and 2011, respectively, and \$0.5 million and \$0.6 million for the six months ended June 30, 2012 and 2011, respectively. Commitment fees are charged to interest expense.

As of June 30, 2012, the Company had \$263.8 million of unused revolving credit availability for working capital purposes after restrictions from certain letter of credit commitments and other covenants. As of June 30, 2012, \$12.1 million of commitments were utilized by outstanding letters of credit.

Senior Notes

The Koppers Inc. 7⁷/₈ percent Senior Notes due 2019 (the Senior Notes) were issued on December 1, 2009 at an offering price of 98.311 percent of face value, or \$294.9 million and have a principal amount at maturity of \$300.0 million. The Senior Notes have an effective interest rate yield of 8¹/₈ percent per annum. The Senior Notes are unsecured senior obligations that are fully and unconditionally guaranteed by Koppers

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Holdings and certain of Koppers Inc.'s wholly-owned domestic subsidiaries. The Senior Notes are structurally subordinated to indebtedness under the revolving credit facility.

Interest on the Senior Notes is payable semiannually on December 1 and June 1 each year. On or after December 1, 2014, the Company is entitled to redeem all or a portion of the Senior Notes at a redemption price of 103.938 percent of principal value, declining annually in ratable amounts until the redemption price is equivalent to the principal value on December 1, 2017.

The indenture governing the Senior Notes includes customary covenants that restrict, among other things, the ability of Koppers Inc. and its restricted subsidiaries to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of the assets of Koppers Inc. or its subsidiaries or enter into various transactions with affiliates.

14. Asset Retirement Obligations

The Company recognizes asset retirement obligations for the removal and disposal of residues; dismantling of certain tanks required by governmental authorities; cleaning and dismantling costs for owned rail cars; and cleaning costs for leased rail cars and barges. The following table reflects changes in the carrying values of asset retirement obligations:

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
<i>(Dollars in millions)</i>		
Balance at beginning of year	\$ 21.3	\$ 17.0
Accretion expense	0.5	1.1
Revision in estimated cash flows, net	0.8	6.3
Expenses incurred	(1.2)	(3.1)
Balance at end of period	\$ 21.4	\$ 21.3

15. Deferred Revenue from Extended Product Warranty Liabilities

The Company defers revenues associated with extended product warranty liabilities based on historical loss experience and sales of extended warranties on certain products. The following table reflects changes in the carrying values of deferred revenue:

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
<i>(Dollars in millions)</i>		
Balance at beginning of year	\$ 4.8	\$ 5.7
Revenue earned	(0.4)	(0.9)
Balance at end of period	\$ 4.4	\$ 4.8

16. Commitments and Contingent Liabilities

The Company and its subsidiaries are involved in litigation and various proceedings relating to environmental laws and regulations and toxic tort, product liability and other matters. Certain of these matters are discussed below. The ultimate resolution of these contingencies is subject to significant uncertainty and should the Company or its subsidiaries fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company or its subsidiaries in the same reporting period, these legal matters could, individually or in the aggregate, be material to the consolidated financial statements.

Legal Proceedings

Coal Tar Pitch Cases. Koppers Inc., along with other defendants, is currently a defendant in lawsuits filed in four states in which the plaintiffs claim they suffered a variety of illnesses (including cancer) as a result of exposure to coal tar pitch sold by the defendants. There are approximately 134 plaintiffs in 75 cases pending as of June 30, 2012 as compared to 131 plaintiffs in 73 cases at December 31, 2011. As of June 30, 2012, there are a total of 69 cases pending in state court in Pennsylvania, four in Arkansas, and one case each pending in state courts in Tennessee and Illinois.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The plaintiffs in all 75 pending cases seek to recover compensatory damages, while plaintiffs in 67 cases also seek to recover punitive damages. The plaintiffs in the 69 cases filed in Pennsylvania state court seek unspecified damages in excess of the

court's minimum jurisdictional limit. The plaintiffs in the Arkansas state court cases each seek compensatory damages in excess of \$50,000 in addition to punitive damages. The plaintiffs in the case filed in Illinois state court seek damages in an unspecified amount. The plaintiffs in the Tennessee state court case each seek damages of \$15.0 million. The other defendants in these lawsuits vary from case to case and include companies such as Beazer East, Inc., United States Steel Corporation, Honeywell International Inc., Vertellus Specialties Inc., Dow Chemical Company, Rust-Oleum Corporation, UCAR Carbon Company, Inc., Exxon Mobil Corporation, Chemtura Corporation, SGL Carbon Corporation, Alcoa, Inc., and PPG Industries, Inc. Discovery is proceeding in these cases. No trial dates have been set in any of these cases.

The Company has not provided a reserve for these lawsuits because, at this time, the Company cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. The timing of resolution of these cases cannot be reasonably determined. Although Koppers Inc. is vigorously defending these cases, an unfavorable resolution of these matters may have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

Gainesville. Koppers Inc. operated a utility pole treatment plant in Gainesville from December 29, 1988 until its closure late in 2009. The property upon which the utility pole treatment plant was located was sold by Koppers Inc. to Beazer East, Inc. in the first quarter of 2010.

In November 2010, a class action complaint was filed in the Circuit Court of the Eighth Judicial Circuit located in Alachua County, Florida by residential real property owners located in a neighborhood west of and immediately adjacent to the former utility pole treatment plant in Gainesville. The complaint named Koppers Holdings Inc., Koppers Inc., Beazer East and several other parties as defendants. The complaint alleges that chemicals and dust from the plant have contaminated and impacted plaintiffs' properties by reducing the fair market value. The complaint seeks injunctive relief and compensatory damages for diminution in property values and for plaintiffs' loss of use and enjoyment of the properties.

The case was removed to the United States District Court for the Northern District of Florida in December 2010. Koppers Holdings Inc. filed a motion to dismiss alleging that the Court lacks personal jurisdiction over it. The Court has not yet ruled on Koppers Holdings Inc.'s motion to dismiss. The plaintiffs were granted leave to file a supplemental amended complaint which expands the boundaries of the class affected area from its original size. The Court recently granted the parties joint motion to stay the proceedings until September 2012 so that the parties can explore the possibility of resolving the case. The Court has not yet scheduled a class certification hearing or trial.

The Company has not provided a reserve for this matter because, at this time, it cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. The timing of resolution of this case cannot be reasonably determined. Although the Company is vigorously defending this case, an unfavorable resolution of this matter may have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

Environmental and Other Litigation Matters

The Company and its subsidiaries are subject to federal, state, local and foreign laws and regulations and potential liabilities relating to the protection of the environment and human health and safety including, among other things, the cleanup of contaminated sites, the treatment, storage and disposal of wastes, the discharge of effluent into waterways, the emission of substances into the air and various health and safety matters. The Company's subsidiaries expect to incur substantial costs for ongoing compliance with such laws and regulations. The Company's subsidiaries may also face governmental or third-party claims, or otherwise incur costs, relating to cleanup of, or for injuries resulting from, contamination at sites associated with past and present operations. The Company accrues for environmental liabilities when a determination can be made that a liability is probable and reasonably estimable.

Environmental and Other Liabilities Retained or Assumed by Others. The Company's subsidiaries have agreements with former owners of certain of their operating locations under which the former owners retained, assumed and/or agreed to indemnify such subsidiaries against certain environmental and other liabilities. The most significant of these agreements was entered into at Koppers Inc.'s formation on December 29, 1988 (the Acquisition). Under the related asset purchase agreement between Koppers Inc. and Beazer East, subject to certain limitations, Beazer East retained the responsibility for and agreed to indemnify Koppers Inc. against certain liabilities, damages, losses and costs, including, with certain limited exceptions, liabilities under and costs to comply with environmental laws to the extent attributable to acts or omissions occurring prior to the Acquisition and

liabilities related to products sold by Beazer East prior to the Acquisition (the Indemnity). Beazer Limited, the parent company of Beazer East, unconditionally guaranteed Beazer East's performance of the Indemnity pursuant to a guarantee (the Guarantee). In 1998, the parent company of Beazer East purchased an insurance policy under which the funding and risk of certain environmental and other liabilities relating to the former Koppers Company, Inc. operations of Beazer East (which includes locations purchased from Beazer East by Koppers Inc.) are underwritten by Centre Solutions (a member of the Zurich Group) and Swiss Re. Beazer East is a wholly-owned, indirect subsidiary of Heidelberg Cement AG.

The Indemnity provides different mechanisms, subject to certain limitations, by which Beazer East is obligated to indemnify Koppers Inc. with regard to certain environmental, product and other liabilities and imposes certain conditions on Koppers Inc. before receiving such indemnification, including, in some cases, certain limitations regarding the time period as to which claims for indemnification can be brought. In July 2004, Koppers Inc. and Beazer East agreed to amend the environmental indemnification provisions of the December 29, 1988 asset purchase agreement to extend the indemnification period for pre-closing environmental liabilities through July 2019. As consideration for the amendment, Koppers Inc. paid Beazer East a total of \$7.0 million and agreed to share toxic tort litigation defense costs arising from any sites acquired from Beazer East. The July 2004 amendment did not change the provisions of the Indemnity with respect to indemnification for non-environmental claims, such as product liability claims, which claims may continue to be asserted after July 2019.

Qualified expenditures under the Indemnity are not subject to a monetary limit. Qualified expenditures under the Indemnity include (i) environmental cleanup liabilities required by third parties, such as investigation, remediation and closure costs, relating to pre-December 29, 1988, or Pre-Closing, acts or omissions of Beazer East or its predecessors; (ii) environmental claims by third parties for personal injuries, property damages and natural resources damages relating to Pre-Closing acts or omissions of Beazer East or its predecessors; (iii) punitive damages for the acts or omissions of Beazer East and its predecessors without regard to the date of the alleged conduct and (iv) product liability claims for products sold by Beazer East or its predecessors without regard to the date of the alleged conduct. If the third party claims described in sections (i) and (ii) above are not made by July 2019, Beazer East will not be required to pay the costs arising from such claims under the Indemnity. However, with respect to any such claims which are made by July 2019, Beazer East will continue to be responsible for such claims under the Indemnity beyond July 2019. The Indemnity provides for the resolution of issues between Koppers Inc. and Beazer East by an arbitrator on an expedited basis upon the request of either party. The arbitrator could be asked, among other things, to make a determination regarding the allocation of environmental responsibilities between Koppers Inc. and Beazer East. Arbitration decisions under the Indemnity are final and binding on the parties.

Contamination has been identified at most manufacturing and other sites of the Company's subsidiaries. Two sites currently owned and operated by Koppers Inc. in the United States are listed on the National Priorities List promulgated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA). Currently, at the properties acquired from Beazer East (which include all of the National Priorities List sites and all but one of the sites permitted under the Resource Conservation and Recovery Act (RCRA)), a significant portion of all investigative, cleanup and closure activities are being conducted and paid for by Beazer East pursuant to the terms of the Indemnity. In addition, other of Koppers Inc.'s sites are or have been operated under RCRA and various other environmental permits, and remedial and closure activities are being conducted at some of these sites.

To date, the parties that retained, assumed and/or agreed to indemnify the Company against the liabilities referred to above, including Beazer East, have performed their obligations in all material respects. The Company believes that, for the last three years ended December 31, 2011, amounts paid by Beazer East as a result of its environmental remediation obligations under the Indemnity have averaged in total approximately \$15 million per year. Periodically, issues have arisen between Koppers Inc. and Beazer East and/or other indemnitors that have been resolved without arbitration. Koppers Inc. and Beazer East engage in discussions from time to time that involve, among other things, the allocation of environmental costs related to certain operating and closed facilities.

If for any reason (including disputed coverage or financial incapability) one or more of such parties fail to perform their obligations and the Company or its subsidiaries are held liable for or otherwise required to pay all or part of such liabilities without reimbursement, the imposition of such liabilities on the Company or its subsidiaries could have a material adverse effect on its business, financial condition, cash flows and results of operations. Furthermore, the Company could be required to record a contingent liability on its balance sheet with respect to such matters, which could result in a negative impact to the Company's business, financial condition, cash flows and results of operations.

Domestic Environmental Matters. Koppers Inc. has been named as a potentially responsible party (a PRP) at the Portland Harbor CERCLA site located on the Willamette River in Oregon. Koppers Inc. has replied to an Environmental Protection Agency (EPA) information request and has executed a PRP agreement which outlines the process to develop an allocation of past and future costs. The current estimate for past costs incurred in the remedial investigation/feasibility study is approximately \$100 million. Koppers Inc. currently operates a coal tar pitch terminal near the site. Koppers Inc. has accrued its estimated cost of participation in the PRP group. Separate from the EPA activities, a natural resources damages assessment is being conducted by a local trustee group. In September 2009, Koppers Inc. received a general notice letter notifying it that it may be a PRP at the Newark Bay CERCLA site. In January 2010, Koppers Inc. submitted a response to the general notice letter asserting that Koppers Inc. is a de minimus party at this site. Other than the estimated costs of participating in the PRP group at the Portland Harbor and Newark Bay CERCLA sites totaling \$0.5 million at June 30, 2012, the Company has not provided a reserve for these matters because, at this time, it cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. An unfavorable resolution of these matters may have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

At the request of the Illinois Environmental Protection Agency, Koppers Inc. conducted a voluntary investigation of soil and groundwater at its Stickney, Illinois carbon materials and chemicals facility. Koppers Inc. also conducted an investigation of soil and groundwater at a leased terminal site located adjacent to the Stickney facility. Koppers Inc. is conducting such investigations in cooperation with Beazer East. The Company's reserve for this matter was \$0.3 million as of June 30, 2012.

Australian Environmental Matters. Soil and groundwater contamination has been detected at certain of the Company's Australian facilities. At the Company's tar distillation facility in Newcastle, New South Wales, Australia, soil contamination from an abandoned underground coal tar pipeline and other groundwater contamination have been detected at a property adjacent to the facility. In 2011, the Company and the owner of the adjacent property reached an agreement in which the Company will contribute \$1.6 million and the owner of the adjacent property will contribute \$7.5 million toward remediation of the property. The agreement provides that the Company will assume responsibility for the management of the remediation effort and will indemnify the current owner for any remediation costs in excess of its agreed contribution. At the completion of the remediation, the agreement provides that the property will be transferred to the Company. The remediation project commenced in the fourth quarter of 2011 and the Company has reserved its expected remaining remediation costs of \$4.9 million and has recorded a receivable, net of cash collections, from the owner of the adjacent property of \$3.0 million as of June 30, 2012.

In December 2011, the Company ceased manufacturing operations at its Continental Carbon facility located in Kurnell, Australia. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The Company has accrued its expected cost of site remediation resulting from the closure of \$6.7 million as of June 30, 2012.

Other Australian environmental matters include soil and groundwater remediation at a number of current and former facilities in Australia. The Company has reserved \$1.2 million for remediation costs at the remaining Australian sites.

Other Matters. On February 18, 2012, approximately 400 tons of liquid carbon pitch leaked from a storage tank at the Company's terminal facility in Portland, Victoria, Australia. All of the coal tar pitch was contained within the tank farm area and no release of material to water or soil occurred. Costs directly associated with the leak totaled \$2.4 million for the six months ended June 30, 2012 and primarily consisted of inventory losses of \$0.4 million, emergency response expenses of \$0.7 million, incremental logistics expenses of \$0.7 million and estimated material clean-up and removal expenses of \$0.6 million. The Company has also received two claims for damages totaling less than \$1.0 million from entities who allege that their businesses were adversely affected during the temporary closure of Portland's harbor. The Company has not provided a reserve for these claims because, at this time, it cannot reasonably determine the probability of a loss, and the amount of the loss, if any, cannot be reasonably estimated.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Environmental Reserves Rollforward. The following table reflects changes in the accrued liability for environmental matters, of which \$4.8 million and \$8.1 million are classified as current liabilities at June 30, 2012 and December 31, 2011, respectively:

	<i>June 30,</i>	<i>Period ended</i>
	<i>2012</i>	<i>December 31,</i>
		<i>2011</i>
<i>(Dollars in millions)</i>		
Balance at beginning of year	\$ 17.7	\$ 6.6
Expense	0.7	8.0
Reversal of reserves	(0.2)	(1.6)
Cash expenditures	(4.0)	(2.4)
Assumed remediation liability in exchange for cash	0.0	7.5
Currency translation	0.0	(0.4)
Balance at end of year	\$ 14.2	\$ 17.7

17. Subsidiary Guarantor Information for Koppers Inc. Senior Notes

On December 1, 2009, Koppers Inc. issued \$300.0 million principal value of Senior Notes. Koppers Holdings and each of Koppers Inc.'s 100 percent-owned material domestic subsidiaries other than Koppers Assurance, Inc. fully and unconditionally guarantee the payment of principal and interest on the Senior Notes. The domestic guarantor subsidiaries include World-Wide Ventures Corporation, Koppers Delaware, Inc., Koppers Concrete Products, Inc., Concrete Partners, Inc., Koppers Ventures LLC and Koppers Asia LLC.

Separate condensed consolidating financial statement information for Koppers Holdings Inc. (the parent), Koppers Inc., domestic guarantor subsidiaries and non-guarantor subsidiaries as of June 30, 2012 and 2011 and for the three and six months ended June 30, 2012 and 2011 is as follows:

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended June 30, 2012

	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
<i>(Dollars in millions)</i>						
Net sales	\$ 0.0	\$ 239.1	\$ 35.5	\$ 155.7	\$ (19.0)	\$ 411.3
Cost of sales including depreciation and amortization	0.0	201.5	23.6	140.2	(12.8)	352.5
Selling, general and administrative	0.5	10.9	0.8	5.9	0.0	18.1
Operating profit (loss)	(0.5)	26.7	11.1	9.6	(6.2)	40.7
Other income (expense)	20.7	0.0	0.2	0.2	(20.7)	0.4
Interest expense (income)	(0.1)	7.0	0.0	1.2	(1.1)	7.0
Income taxes	(0.1)	8.4	0.1	4.6	0.0	13.0
Income from continuing operations	20.4	11.3	11.2	4.0	(25.8)	21.1
Discontinued operations	0.0	0.1	0.0	(0.3)	0.0	(0.2)
Noncontrolling interests	0.0	0.0	0.0	0.5	0.0	0.5
Net income attributable to Koppers	\$ 20.4	\$ 11.4	\$ 11.2	\$ 3.2	\$ (25.8)	\$ 20.4
Comprehensive income attributable to Koppers	\$ 12.5	\$ 12.5	\$ 9.1	\$ (3.7)	\$ (17.9)	\$ 12.5

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended June 30, 2011

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
Net sales	\$ 0.0	\$ 224.4	\$ 13.1	\$ 144.2	\$ (7.2)	\$ 374.5
Cost of sales including depreciation and amortization	0.0	194.2	(0.9)	122.3	2.1	317.7
Selling, general and administrative	0.2	10.4	0.5	7.4	0.0	18.5
Operating profit (loss)	(0.2)	19.8	13.5	14.5	(9.3)	38.3
Other income (expense)	20.1	0.1	0.0	0.0	(20.1)	0.1
Interest expense (income)	0.2	6.9	0.0	1.1	(1.5)	6.7
Income taxes	(0.1)	8.4	0.2	2.8	0.0	11.3
Income from continuing operations	19.8	4.6	13.3	10.6	(27.9)	20.4
Discontinued operations	0.0	0.3	0.0	(0.8)	0.0	(0.5)
Noncontrolling interests	0.0	0.0	0.0	0.1	0.0	0.1
Net income attributable to Koppers	\$ 19.8	\$ 4.9	\$ 13.3	\$ 9.7	\$ (27.9)	\$ 19.8
Comprehensive income attributable to Koppers	\$ 26.4	\$ 5.8	\$ 15.5	\$ 13.2	\$ (34.5)	\$ 26.4

Condensed Consolidating Statement of Comprehensive Income

For the Six Months Ended June 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
Net sales	\$ 0.0	\$ 450.9	\$ 57.9	\$ 318.9	\$ (35.5)	\$ 792.2
Cost of sales including depreciation and amortization	0.0	390.9	39.9	283.2	(27.8)	686.2
Selling, general and administrative	0.9	21.4	1.2	12.6	0.0	36.1
Operating profit (loss)	(0.9)	38.6	16.8	23.1	(7.7)	69.9
Other income (expense)	36.6	0.0	0.5	0.6	(36.6)	1.1
Interest expense (income)	0.0	13.8	0.0	2.7	(2.6)	13.9
Income taxes	(0.3)	13.5	0.2	6.8	0.0	20.2
Income from continuing operations	36.0	11.3	17.1	14.2	(41.7)	36.9
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.8	0.0	0.8
Net income attributable to Koppers	\$ 36.0	\$ 11.3	\$ 17.1	\$ 13.3	\$ (41.7)	\$ 36.0
Comprehensive income attributable to Koppers	\$ 34.8	\$ 13.6	\$ 16.8	\$ 10.1	\$ (40.5)	\$ 34.8

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Comprehensive Income

For the Six Months Ended June 30, 2011

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
Net sales	\$ 0.0	\$ 413.6	\$ 32.0	\$ 289.3	\$ (18.9)	\$ 716.0
Cost of sales including depreciation and amortization	0.0	370.1	12.6	245.6	(8.1)	620.2
Selling, general and administrative	0.5	20.0	1.0	14.7	0.0	36.2
Operating profit (loss)	(0.5)	23.5	18.4	29.0	(10.8)	59.6
Other income (expense)	29.1	0.1	0.0	0.0	(29.1)	0.1
Interest expense (income)	0.1	13.8	0.0	2.5	(2.8)	13.6
Income taxes	(0.2)	10.6	0.2	5.9	0.0	16.5
Income from continuing operations	28.7	(0.8)	18.2	20.6	(37.1)	29.6
Discontinued operations	0.0	0.4	0.0	(1.1)	0.0	(0.7)
Noncontrolling interests	0.0	0.0	0.0	0.2	0.0	0.2
Net income attributable to Koppers	\$ 28.7	\$ (0.4)	\$ 18.2	\$ 19.3	\$ (37.1)	\$ 28.7
Comprehensive income attributable to Koppers	\$ 43.0	\$ 1.4	\$ 21.3	\$ 28.7	\$ (51.4)	\$ 43.0

Condensed Consolidating Balance Sheet

June 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
ASSETS						
Cash and cash equivalents	\$ 0.0	\$ 0.0	\$ 0.0	\$ 50.3	\$ 0.0	\$ 50.3
Accounts receivable, net	5.4	122.6	317.6	88.9	(340.3)	194.2
Inventories, net	0.0	105.8	0.0	82.6	(0.1)	188.3
Deferred tax assets	0.0	10.9	(1.5)	0.2	0.0	9.6
Other current assets	0.0	9.8	0.3	21.2	0.1	31.4
Total current assets	5.4	249.1	316.4	243.2	(340.3)	473.8
Equity investments	121.1	77.1	26.8	4.2	(223.5)	5.7
Property, plant and equipment, net	0.0	100.0	0.0	50.6	0.0	150.6
Goodwill	0.0	39.8	0.0	31.9	0.0	71.7
Deferred tax assets	0.0	38.8	(10.5)	10.1	0.0	38.4
Other noncurrent assets	0.0	17.1	124.6	44.3	(161.0)	25.0
Total assets	\$ 126.5	\$ 521.9	\$ 457.3	\$ 384.3	\$ (724.8)	\$ 765.2
LIABILITIES AND EQUITY						
Accounts payable	\$ 0.2	\$ 372.8	\$ 20.5	\$ 59.9	\$ (340.2)	\$ 113.2
Accrued liabilities	4.6	23.9	(0.9)	34.1	0.0	61.7
Short-term debt and current portion of long-term debt	0.0	0.0	0.0	0.0	0.0	0.0

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Total current liabilities	4.8	396.7	19.6	94.0	(340.2)	174.9
Long-term debt	0.0	413.0	0.0	62.3	(161.0)	314.3
Other long-term liabilities	0.0	109.7	2.6	28.9	0.0	141.2
Total liabilities	4.8	919.4	22.2	185.2	(501.2)	630.4
Koppers stockholders' equity	121.7	(397.5)	435.1	186.0	(223.6)	121.7
Noncontrolling interests	0.0	0.0	0.0	13.1	0.0	13.1
Total liabilities and equity	\$ 126.5	\$ 521.9	\$ 457.3	\$ 384.3	\$ (724.8)	\$ 765.2

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Balance Sheet

December 31, 2011

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
ASSETS						
Cash and cash equivalents	\$ 0.0	\$ 0.0	\$ 0.0	\$ 54.1	\$ 0.0	\$ 54.1
Accounts receivable, net	5.5	112.6	284.0	79.2	(309.8)	171.5
Inventories, net	0.0	74.8	0.0	84.2	0.0	159.0
Deferred tax assets	0.0	10.7	(1.5)	0.1	0.0	9.3
Other current assets	0.0	6.8	0.3	26.4	0.0	33.5
Total current assets	5.5	204.9	282.8	244.0	(309.8)	427.4
Equity investments	93.9	77.1	26.3	3.9	(196.3)	4.9
Property, plant and equipment, net	0.0	102.0	0.0	53.6	0.0	155.6
Goodwill	0.0	39.8	0.0	32.3	0.0	72.1
Deferred tax assets	0.0	43.7	(10.5)	11.1	0.0	44.3
Other noncurrent assets	0.0	18.4	131.3	44.4	(167.7)	26.4
Total assets	\$ 99.4	\$ 485.9	\$ 429.9	\$ 389.3	\$ (673.8)	\$ 730.7
LIABILITIES AND EQUITY						
Accounts payable	\$ 0.1	\$ 344.5	\$ 9.6	\$ 57.5	\$ (309.8)	\$ 102.1
Accrued liabilities	4.5	27.2	(0.6)	37.4	0.0	68.3
Short-term debt and current portion of long-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	4.6	371.7	9.0	94.9	(309.8)	170.4
Long-term debt	0.0	400.8	0.0	69.0	(167.7)	302.1
Other long-term liabilities	0.0	116.5	2.5	32.0	0.0	151.0
Total liabilities	4.6	889.0	11.5	195.9	(477.5)	623.5
Koppers shareholders' equity	94.8	(403.1)	418.4	181.0	(196.3)	94.8
Noncontrolling interests	0.0	0.0	0.0	12.4	0.0	12.4
Total liabilities and equity	\$ 99.4	\$ 485.9	\$ 429.9	\$ 389.3	\$ (673.8)	\$ 730.7

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
Cash provided by (used in) operating activities	\$ 10.6	\$ 0.7	\$ 0.0	\$ (2.9)	\$ (5.0)	\$ 3.4
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(7.7)	0.0	(1.6)	0.0	(9.3)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.1	0.0	0.3	0.0	0.4
Net cash provided by (used in) investing activities	0.0	(7.6)	0.0	(1.3)	0.0	(8.9)

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Cash provided by (used in) financing activities:

Borrowings (repayments) of long-term debt	0.0	12.0	0.0	0.0	0.0	12.0
Stock issued (repurchased)	(1.1)	0.0	0.0	0.0	0.0	(1.1)
Dividends paid	(9.5)	(5.0)	0.0	0.0	5.0	(9.5)
Net cash provided by (used in) financing activities	(10.6)	7.0	0.0	0.0	5.0	1.4
Effect of exchange rates on cash	0.0	(0.1)	0.0	0.4	0.0	0.3
Net increase (decrease) in cash and cash equivalents	0.0	0.0	0.0	(3.8)	0.0	(3.8)
Cash and cash equivalents at beginning of year	0.0	0.0	0.0	54.1	0.0	54.1
Cash and cash equivalents at end of period	\$0.0	\$0.0	\$0.0	\$50.3	\$0.0	\$50.3

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2011

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
Cash provided by (used in) operating activities	\$ 9.1	\$ (12.8)	\$ 0.0	\$ 29.5	\$ 0.0	\$ 25.8
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(9.6)	0.0	(3.6)	0.0	(13.2)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.1	0.0	0.0	0.0	0.1
Net cash provided by (used in) investing activities	0.0	(9.5)	0.0	(3.6)	0.0	(13.1)
Cash provided by (used in) financing activities:						
Borrowings (repayments) of long-term debt	0.0	14.4	0.0	(0.9)	0.0	13.5
Deferred financing costs	0.0	(0.5)	0.0	0.0	0.0	(0.5)
Dividends paid	(9.1)	0.0	0.0	0.0	0.0	(9.1)
Net cash provided by (used in) financing activities	(9.1)	13.9	0.0	(0.9)	0.0	3.9
Effect of exchange rates on cash	0.0	0.0	0.0	1.7	0.0	1.7
Net increase (decrease) in cash and cash equivalents	0.0	(8.4)	0.0	26.7	0.0	18.3
Cash and cash equivalents at beginning of year	0.0	8.4	0.0	26.9	0.0	35.3
Cash and cash equivalents at end of period	\$ 0.0	\$ 0.0	\$ 0.0	\$ 53.6	\$ 0.0	\$ 53.6

18. Subsidiary Guarantor Information for Shelf Registration

Under a registration statement on Form S-3, Koppers Holdings may sell a combination of securities, including common stock, debt securities, preferred stock, depository shares, warrants and units from time to time in one or more offerings. In addition, Koppers Inc. may sell debt securities from time to time under the registration statement. Debt securities may be fully and unconditionally guaranteed, on a joint and several basis, by Koppers Holdings, Koppers Inc. and/or other guarantor subsidiaries which will correspond to certain subsidiaries in the United States, Europe and Australia which are 100 percent owned. The non-guarantor subsidiaries consist of certain subsidiaries in the United States, China, India and Mauritius. The guarantor subsidiaries that issue guarantees, if any, will be determined when a debt offering actually occurs under the registration statement and accordingly, the condensed consolidated financial information for subsidiary guarantors will be revised to identify the subsidiaries that actually provided guarantees.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Separate condensed consolidating financial statement information for the parent, Koppers Inc., domestic guarantor subsidiaries, foreign guarantor subsidiaries and non-guarantor subsidiaries as of June 30, 2012 and 2011 and for the three and six months ended June 30, 2012 and 2011 is as follows:

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended June 30, 2012

<i>(Dollars in millions)</i>	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Foreign Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
Net sales	\$ 0.0	\$ 239.1	\$ 35.5	\$ 112.4	\$ 43.3	\$ (19.0)	\$ 411.3
Cost of sales including depreciation and amortization		201.4	23.6	100.8	39.5	(12.8)	352.5
Selling, general and administrative	0.5	10.9	0.8	5.3	0.6	0.0	18.1
Operating profit (loss)	(0.5)	26.8	11.1	6.3	3.2	(6.2)	40.7
Other income (expense)	20.7	0.0	0.2	0.0	0.2	(20.7)	0.4
Interest expense (income)	(0.1)	7.1	0.0	1.0	0.1	(1.1)	7.0
Income taxes	(0.1)	8.4	0.1	4.1	0.5	0.0	13.0
Income from continuing operations	20.4	11.3	11.2	1.2	2.8	(25.8)	21.1
Discontinued operations	0.0	0.1	0.0	(0.3)	0.0	0.0	(0.2)
Noncontrolling interests	0.0	0.0	0.0	0.0	0.5	0.0	0.5
Net income attributable to Koppers	\$ 20.4	\$ 11.4	\$ 11.2	\$ 0.9	\$ 2.3	\$ (25.8)	\$ 20.4
Comprehensive income attributable to Koppers	\$ 12.5	\$ 12.5	\$ 9.1	\$ (6.4)	\$ 2.0	\$ (17.2)	\$ 12.5

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended June 30, 2011

<i>(Dollars in millions)</i>	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Foreign Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
Net sales	\$ 0.0	\$ 224.4	\$ 13.1	\$ 116.5	\$ 29.9	\$ (9.4)	\$ 374.5
Cost of sales including depreciation and amortization	0.0	194.2	(0.9)	96.7	27.8	(0.1)	317.7
Selling, general and administrative	0.2	10.4	0.5	6.7	0.7	0.0	18.5
Operating profit (loss)	(0.2)	19.8	13.5	13.1	1.4	(9.3)	38.3
Other income (expense)	20.1	0.1	0.0	0.1	(0.1)	(20.1)	0.1
Interest expense (income)	0.2	6.9	0.0	1.4	(0.3)	(1.5)	6.7
Income taxes	(0.1)	8.5	0.2	2.5	0.2	0.0	11.3
Income from continuing operations	19.8	4.5	13.3	9.3	1.4	(27.9)	20.4
Discontinued operations	0.0	0.4	0.0	(0.9)	0.0	0.0	(0.5)
Noncontrolling interests	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Net income attributable to Koppers	\$ 19.8	\$ 4.9	\$ 13.3	\$ 8.4	\$ 1.3	\$ (27.9)	\$ 19.8

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Comprehensive income attributable to Koppers	\$ 26.4	\$	5.8	\$	15.5	\$	12.3	\$	1.5	\$	(35.1)	\$	26.4
--	---------	----	-----	----	------	----	------	----	-----	----	--------	----	------

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Comprehensive Income

For the Six Months Ended June 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
Net sales	\$ 0.0	\$ 450.9	\$ 57.9	\$ 236.8	\$ 82.1	\$ (35.5)	\$ 792.2
Cost of sales including depreciation and amortization	0.0	390.9	39.9	207.3	75.9	(27.8)	686.2
Selling, general and administrative	0.9	21.4	1.2	11.1	1.5	0.0	36.1
Operating profit (loss)	(0.9)	38.6	16.8	18.4	4.7	(7.7)	69.9
Other income (expense)	36.6	0.0	0.5	0.0	0.6	(36.6)	1.1
Interest expense (income)	0.0	13.8	0.0	2.0	0.7	(2.6)	13.9
Income taxes	(0.3)	13.5	0.2	6.1	0.7	0.0	20.2
Income from continuing operations	36.0	11.3	17.1	10.3	3.9	(41.7)	36.9
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.0	0.8	0.0	0.8
Net income attributable to Koppers	\$ 36.0	\$ 11.3	\$ 17.1	\$ 10.2	\$ 3.1	\$ (41.7)	\$ 36.0
Comprehensive income attributable to Koppers	\$ 34.8	\$ 13.6	\$ 16.8	\$ 7.1	\$ 2.9	\$ (40.4)	\$ 34.8

Condensed Consolidating Statement of Comprehensive Income

For the Six Months Ended June 30, 2011

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
Net sales	\$ 0.0	\$ 413.6	\$ 32.0	\$ 225.3	\$ 66.2	\$ (21.1)	\$ 716.0
Cost of sales including depreciation and amortization	0.0	370.1	12.6	186.1	61.7	(10.3)	620.2
Selling, general and administrative	0.5	20.0	1.0	13.1	1.6	0.0	36.2
Operating profit (loss)	(0.5)	23.5	18.4	26.1	2.9	(10.8)	59.6
Other income (expense)	29.1	0.1	0.0	0.0	0.0	(29.1)	0.1
Interest expense (income)	0.1	13.8	0.0	2.5	0.0	(2.8)	13.6
Income taxes	(0.2)	10.6	0.2	5.6	0.3	0.0	16.5
Income from continuing operations	28.7	(0.8)	18.2	18.0	2.6	(37.1)	29.6
Discontinued operations	0.0	0.4	0.0	(1.1)	0.0	0.0	(0.7)
Noncontrolling interests	0.0	0.0	0.0	0.0	0.2	0.0	0.2
Net income attributable to Koppers	\$ 28.7	\$ (0.4)	\$ 18.2	\$ 16.9	\$ 2.4	\$ (37.1)	\$ 28.7
Comprehensive income attributable to Koppers	\$ 43.0	\$ 1.4	\$ 21.3	\$ 26.8	\$ 2.8	\$ (52.3)	\$ 43.0

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Balance Sheet

June 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
ASSETS							
Cash and cash equivalents	\$ 0.0	\$ 0.0	\$ 0.0	\$ 48.1	\$ 2.2	\$ 0.0	\$ 50.3
Accounts receivable, net	5.4	122.6	317.6	67.7	21.2	(340.3)	194.2
Inventories, net	0.0	105.8	0.0	74.1	8.5	(0.1)	188.3
Deferred tax assets	0.0	10.9	(1.5)	0.0	0.2	0.0	9.6
Other current assets	0.0	9.8	0.3	8.0	13.3	0.0	31.4
Total current assets	5.4	249.1	316.4	197.9	45.4	(340.4)	473.8
Equity investments	121.1	77.1	26.8	19.2	4.2	(242.7)	5.7
Property, plant and equipment, net	0.0	100.0	0.0	35.6	15.0	0.0	150.6
Goodwill	0.0	39.8	0.0	30.6	1.3	0.0	71.7
Deferred tax assets	0.0	38.8	(10.5)	11.7	(1.6)	0.0	38.4
Other noncurrent assets	0.0	17.1	124.6	6.7	37.5	(160.9)	25.0
Total assets	\$ 126.5	\$ 521.9	\$ 457.3	\$ 301.7	\$ 101.8	\$ (744.0)	\$ 765.2
LIABILITIES AND EQUITY							
Accounts payable	\$ 0.2	\$ 372.8	\$ 20.5	\$ 41.9	\$ 18.0	\$ (340.2)	\$ 113.2
Accrued liabilities	4.6	23.9	(0.9)	28.2	5.9	0.0	61.7
Short-term debt and current portion of long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	4.8	396.7	19.6	70.1	23.9	(340.2)	174.9
Long-term debt	0.0	413.0	0.0	62.4	(0.1)	(161.0)	314.3
Other long-term liabilities	0.0	109.7	2.6	23.2	5.7	0.0	141.2
Total liabilities	4.8	919.4	22.2	155.7	29.5	(501.2)	630.4
Koppers stockholders' equity	121.7	(397.5)	435.1	146.0	59.2	(242.8)	121.7
Noncontrolling interests	0.0	0.0	0.0	0.0	13.1	0.0	13.1
Total liabilities and equity	\$ 126.5	\$ 521.9	\$ 457.3	\$ 301.7	\$ 101.8	\$ (744.0)	\$ 765.2

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Balance Sheet

December 31, 2011

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
ASSETS							
Cash and cash equivalents	\$ 0.0	\$ 0.0	\$ 0.0	\$ 45.1	\$ 9.0	\$ 0.0	\$ 54.1
Accounts receivable, net	5.5	112.6	284.0	65.5	13.7	(309.8)	171.5
Inventories, net	0.0	74.8	0.0	77.2	7.0	0.0	159.0
Deferred tax assets	0.0	10.7	(1.5)	0.0	0.1	0.0	9.3
Other current assets	0.0	6.8	0.3	12.0	14.4	0.0	33.5
Total current assets	5.5	204.9	282.8	199.8	44.2	(309.8)	427.4
Equity investments	93.9	77.1	26.3	19.3	3.9	(215.6)	4.9
Property, plant and equipment, net	0.0	102.0	0.0	37.8	15.8	0.0	155.6
Goodwill	0.0	39.8	0.0	31.0	1.3	0.0	72.1
Deferred tax assets	0.0	43.7	(10.5)	12.7	(1.6)	0.0	44.3
Other noncurrent assets	0.0	18.4	131.3	6.7	37.7	(167.7)	26.4
Total assets	\$ 99.4	\$ 485.9	\$ 429.9	\$ 307.3	\$ 101.3	\$ (693.1)	\$ 730.7
LIABILITIES AND EQUITY							
Accounts payable	\$ 0.1	\$ 344.5	\$ 9.8	\$ 44.4	\$ 13.2	\$ (309.9)	\$ 102.1
Accrued liabilities	4.5	27.2	(0.8)	30.5	6.9	0.0	68.3
Total current liabilities	4.6	371.7	9.0	74.9	20.1	(309.9)	170.4
Long-term debt	0.0	400.8	0.0	62.7	6.3	(167.7)	302.1
Other long-term liabilities	0.0	116.5	2.5	25.8	6.1	0.1	151.0
Total liabilities	4.6	889.0	11.5	163.4	32.5	(477.5)	623.5
Koppers shareholders' equity	94.8	(403.1)	418.4	143.9	56.4	(215.6)	94.8
Noncontrolling interests	0.0	0.0	0.0	0.0	12.4	0.0	12.4
Total liabilities and equity	\$ 99.4	\$ 485.9	\$ 429.9	\$ 307.3	\$ 101.3	\$ (693.1)	\$ 730.7

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2012

	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Foreign Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
<i>(Dollars in millions)</i>							
Cash provided by (used in) operating activities	\$ 10.6	\$ 0.7	\$ 0.0	\$ 3.7	\$ (6.6)	\$ (5.0)	\$ 3.4
Cash provided by (used in) investing activities:							
Capital expenditures and acquisitions	0.0	(7.7)	0.0	(1.6)	0.0	0.0	(9.3)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.1	0.0	0.4	(0.1)	0.0	0.4
Net cash provided by (used in) investing activities	0.0	(7.6)	0.0	(1.2)	(0.1)	0.0	(8.9)
Cash provided by (used in) financing activities:							
Borrowings (repayments) of long-term debt	0.0	12.0	0.0	0.0	0.0	0.0	12.0
Stock issued (repurchased)	(1.1)	0.0	0.0	0.0	0.0	0.0	(1.1)
Dividends paid	(9.5)	(5.0)	0.0	0.0	0.0	5.0	(9.5)
Net cash provided by (used in) financing activities	(10.6)	7.0	0.0	0.0	0.0	5.0	1.4
Effect of exchange rates on cash	0.0	(0.1)	0.0	0.5	(0.1)	0.0	0.3
Net increase (decrease) in	0.0	0.0	0.0	3.0	(6.8)	0.0	(3.8)

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

cash and cash equivalents								
Cash and cash equivalents at beginning of year	0.0	0.0	0.0	45.1	9.0	0.0		54.1
Cash and cash equivalents at end of period	\$ 0.0	\$ 0.0	\$ 0.0	\$ 48.1	\$ 2.2	\$ 0.0		\$ 50.3

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2011

	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Foreign Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
<i>(Dollars in millions)</i>							
Cash provided by (used in) operating activities	\$ 9.1	\$ (12.8)	\$ 0.0	\$ 32.6	\$ (3.1)	\$ 0.0	\$ 25.8
Cash provided by (used in) investing activities:							
Capital expenditures and acquisitions	0.0	(9.6)	0.0	(3.3)	(0.3)	0.0	(13.2)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Net cash provided by (used in) investing activities	0.0	(9.5)	0.0	(3.3)	(0.3)	0.0	(13.1)
Cash provided by (used in) financing activities:							
Borrowings (repayments) of long-term debt	0.0	14.4	0.0	(0.9)	0.0	0.0	13.5
Deferred financing	0.0	(0.5)	0.0	0.0	0.0	0.0	(0.5)

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

costs							
Dividends paid	(9.1)	0.0	0.0	0.0	0.0	0.0	(9.1)
Net cash provided by (used in) financing activities	(9.1)	13.9	0.0	(0.9)	0.0	0.0	3.9
Effect of exchange rates on cash	0.0	0.0	0.0	1.7	0.0	0.0	1.7
Net increase (decrease) in cash and cash equivalents	0.0	(8.4)	0.0	30.1	(3.4)	0.0	18.3
Cash and cash equivalents at beginning of year	0.0	8.4	0.0	17.0	9.9	0.0	35.3
Cash and cash equivalents at end of period \$	0.0 \$	0.0 \$	0.0 \$	47.1 \$	6.5 \$	0.0 \$	53.6

19. Related Party Transactions

In November 2011, the Company loaned \$11.7 million to TKK, a 30-percent owned company in China. The loan is repayable in November 2012.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report and any documents incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and may include, but are not limited to, statements about sales levels, restructuring, profitability and anticipated expenses and cash outflows. All forward-looking statements involve risks and uncertainties. All statements contained herein that are not clearly historical in nature are forward-looking, and words such as believe, anticipate, expect, estimate, may, will, should, continue, plans, intends, likely, or other similar words or phrases are generally intended to identify forward-looking statements. Any forward-looking statement contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission, or in Koppers communications with and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, regarding expectations with respect to sales, earnings, cash flows, operating efficiencies, product introduction or expansion, the benefits of acquisitions and divestitures or other matters as well as financings and repurchases of debt or equity securities, are subject to known and unknown risks, uncertainties and contingencies. Many of these risks, uncertainties and contingencies are beyond our control, and may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Factors that might affect such forward-looking statements, include, among other things, general economic and business conditions, demand for Koppers goods and services, competitive conditions, interest rate and foreign currency rate fluctuations, availability of key raw materials and unfavorable resolution of claims against us, as well as those discussed more fully elsewhere in this report and in other documents filed with the Securities and Exchange Commission by Koppers, particularly our latest annual report on Form 10-K. We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this report and the documents incorporated by reference herein may not in fact occur. Any forward-looking statements in this report speak only as of the date of this report, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after that date or to reflect the occurrence of unanticipated events.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited financial statements and related notes included in Item 1 of this Part I as well as the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Overview

We are a leading integrated global provider of carbon compounds and commercial wood treatment products and services. Our products are used in a variety of niche applications in a diverse range of end-markets, including the aluminum, railroad, specialty chemical, utility, rubber, concrete and steel industries. We serve our customers through a comprehensive global manufacturing and distribution network, with manufacturing facilities located in the United States, Australia, China, the United Kingdom, Denmark and the Netherlands.

We operate two principal businesses: **Carbon Materials & Chemicals (CM&C)** and **Railroad & Utility Products (R&UP)**.

Through our CM&C business, we process coal tar into a variety of products, including carbon pitch, creosote, naphthalene and phthalic anhydride, which are intermediate materials necessary in the production of aluminum, the pressure treatment of wood and the production of carbon black, the production of high-strength concrete, and the production of plasticizers and specialty chemicals, respectively. Through our R&UP business, we believe that we are the largest supplier of railroad crossties to the North American railroads. Our other commercial wood treatment products include utility poles for the electric and telephone utility industries. We also provide rail joint bar products as well as various services to the railroad industry.

In February 2012 we announced that we had entered into a Memorandum of Understanding with Nippon Steel Chemical and several other entities to develop and construct a fully integrated coal tar based carbon products complex in Pizhou City, Jiangsu Province, China. The complex will include a 300,000 metric ton tar distillation facility that will be majority-owned by Koppers, as well as a carbon black plant and a needle coke plant that will be owned by Nippon Steel Chemical. A significant portion of the products produced at the tar distillation plant will be sold under a long-term supply contract with Nippon Steel Chemical to supply their carbon black and needle coke plants. Construction of the tar distillation plant is expected to commence in 2012 and be completed in early 2014.

Outlook

Trend Overview

Our businesses and results of operations are impacted by various competitive and other factors including (i) the impact of global economic conditions on demand for our products both in the United States and overseas; (ii) raw materials pricing and availability, in particular the amount and quality of coal tar available in global markets, which is negatively affected by reductions in steel production; (iii) volatility in oil prices, which impacts the cost of coal tar and certain other raw materials, as well as selling prices and margins for certain of our products including carbon black feedstock and phthalic anhydride; (iv) competitive conditions in global carbon pitch markets; and (v) changes in foreign exchange rates.

The availability of coal tar is linked to levels of metallurgical coke production. As the global steel industry has reduced production of steel and metallurgical coke the volumes of coal tar by-product were also reduced. Our ability to obtain coal tar and the price we are able to negotiate have a significant impact on the level of profitability of our business. Many of our sales contracts include provisions that allow for price increases based on increases in the price of raw materials, which has allowed us to generally maintain profit dollars in our core businesses. However, significant increases in raw material costs can result in margin dilution if only the increased cost of the raw material is passed on to the customer. Additionally, in certain regions such as China that have competing markets for coal tar, or in regions where the available supply of our products exceeds demand, we may not be able to recover raw material cost increases in the selling prices for our end products.

The primary product produced by CM&C is carbon pitch, which is sold primarily to the aluminum industry to be used in the production of carbon anodes. The smelting of aluminum requires significant amounts of energy, which is a major cost component for the aluminum industry. As a result, new production facilities are being built in regions with low energy costs such as the Middle East, while regions with higher energy costs such as the United States and Western Europe have seen significant amounts of smelting capacity idled or closed over the last several years.

In late 2011 and early 2012, reductions in aluminum pricing have resulted in additional closures and curtailments in Europe and Australia that have resulted in lower sales volumes of carbon pitch for us in those regions. While we expect to recover the majority of these lower volumes from operations in the United States and China, margins may be negatively affected as our increased presence in Asia has had a dilutive effect on margins due to market conditions in that region as well as the joint venture ownership structures of our Chinese operations.

Our businesses and results of operations were negatively affected in the first half of 2012 by difficult economic conditions in Europe. Certain key end markets experienced significant reductions in demand that have negatively affected the profitability for some of our products produced and sold in Europe, and we expect this to continue for at least the next two quarters.

In 2011 our Australian carbon black business experienced reduced profitability due to reduced raw material availability and the strengthening of the Australian dollar relative to the United States dollar, as the majority of sales for these products were exported and were denominated in U.S. dollars. As a result of these conditions, a review of this business was conducted that resulted in the decision to permanently cease production and close the Kurnell facility. Impairment and closure charges of approximately \$41 million were incurred for this facility in the fourth quarter of 2011.

Several of our products, particularly carbon black feedstock and phthalic anhydride, have end market pricing that is linked to oil. Historically, when oil prices increase we have benefited in terms of revenues and profitability from the higher pricing for these products as the cost of coal tar has not increased proportionally with oil. However over the past few years our coal tar costs have demonstrated a stronger correlation with to the price of oil, which has resulted in higher raw material and finished product costs as the price of oil has increased. In response, we have instituted price increases in an attempt to recover the higher coal tar costs from our customers. Recently, we have seen reductions in oil prices that will reduce the benchmarks for which our carbon black feedstock and phthalic anhydride selling prices are linked to that will in turn have a negative impact on the sales and profitability of those products in the third quarter of 2012 compared to the first six months of 2012.

The primary end-market for R&UP is the North American railroad industry, which has a large installed base of wood crossties that require periodic replacement. As a result, our volumes for crossties and our operating results for this business have historically been relatively stable. However, our railroad business can be negatively affected by weather conditions that make it difficult for sawmills that provide our raw material to harvest timber from the forests. Additionally, some of our Class 1 railroad customers, who make up the largest portion of our business, may reduce inventory levels at certain times to manage working capital, which can adversely affect our volumes and profitability during certain periods.

We also sell crossties to commercial customers consisting primarily of short-line railroads, whose buying patterns have historically been influenced by general economic conditions. As a result, during recessionary periods sales volumes to our commercial customers have typically been reduced, resulting in lower revenues and profitability for our business.

Seasonality and Effects of Weather on Operations

Our quarterly operating results fluctuate due to a variety of factors that are outside of our control, including inclement weather conditions, which in the past have affected operating results. Operations at several facilities have been halted for short periods of time during the winter months. Moreover, demand for some of our products declines during periods of inclement weather. As a result of the foregoing, we anticipate that we may experience material fluctuations in quarterly operating results. Historically, our operating results have been significantly lower in the fourth and first calendar quarters as compared to the second and third calendar quarters. We expect this seasonality trend to continue in future periods.

Results of Operations Comparison of Three Months Ended June 30, 2012 and 2011

Consolidated Results

Net sales for the three months ended June 30, 2012 and 2011 are summarized by segment in the following table:

	<i>Three Months Ended</i>		<i>Net</i>
	<i>2012</i>	<i>June 30,</i> <i>2011</i>	
<i>(Dollars in millions)</i>			
Carbon Materials & Chemicals	\$ 266.7	\$ 237.1	+12%
Railroad & Utility Products	144.6	137.4	+5%
	\$ 411.3	\$ 374.5	+10%

CM&C net sales increased by \$29.6 million or 12 percent. Higher average pricing increased sales by 12 percent as pricing of most products increased as a result of passing through higher raw material costs to customers.

Higher sales volumes increased sales by four percent for the second quarter of 2012 compared to the similar 2011 quarter. Higher sales volumes of carbon pitch from our Chinese facilities more than offset lower volumes in North America, Europe, and Australia. Distillate volumes increased sales by four percent over the second quarter of 2011 due to carbon black feedstock in Australia being sold externally as opposed to being consumed internally as it had during 2011 prior to the close of our Australian carbon black facility in December 2011.

Foreign translation resulted in a four percent reduction in sales compared to the prior year quarter.

R&UP net sales increased by \$7.2 million or five percent. Higher sales prices for railroad crossties as a result of passing through higher raw material costs to customers increased R&UP sales by nine percent while lower sales volumes for railroad crossties reduced sales by seven percent due to reduced contractual demand from our Class 1 railroad customers compared to the prior year quarter. Volumes and prices for utility poles each increased sales by one percent over the prior year quarter, and volumes for other products increased sales by one percent due mainly to increased sales of rail joint bars and other products.

Cost of sales as a percentage of net sales was 84 percent for the quarter ended June 30, 2012 and 83 percent for the quarter ended June 30, 2011. Overall, cost of sales increased \$33.6 million between periods due primarily to higher costs and volumes for coal tar.

Depreciation and amortization for the quarter ended June 30, 2012 was \$1.2 million higher when compared to the prior year period due partially to a fixed asset impairment charge of \$0.6 million related to future capital requirements in excess of the net cash generation expected from an electricity co-generation facility located at one of the Company's wood treatment plants in the United States.

Selling, general and administrative expenses for the quarter ended June 30, 2012 were \$0.4 million lower when compared to the prior year period, primarily due to lower average foreign currency exchange rates.

Interest expense for the quarter ended June 30, 2012 was \$0.3 million higher when compared to the prior year period due to higher average borrowings on the revolving credit facility.

Income taxes for the quarter ended June 30, 2012 were \$1.7 million higher when compared to the prior year period due primarily to an increase in income before taxes of \$2.4 million and incremental discrete tax items of \$0.8 million primarily associated with the European restructuring project completed in 2011. The Company's effective income tax rate prior to discrete items for the quarter ended June 30, 2012 was 35.5 percent as compared to the prior year period of 35.7 percent.

Segment Results

Segment operating profit for the three months ended June 30, 2012 and 2011 is summarized by segment in the following table:

<i>(Dollars in millions)</i>	<i>Three Months Ended June 30,</i>		<i>% Change</i>
	<i>2012</i>	<i>2011</i>	
Operating profit:			
Carbon Materials & Chemicals	\$ 26.2	\$ 25.7	+2%
Railroad & Utility Products	15.0	12.8	+17%
Corporate	(0.5)	(0.2)	-150%
	\$ 40.7	\$ 38.3	+6%
Operating profit as a percentage of net sales:			
Carbon Materials & Chemicals	9.8%	10.8%	-1.0%
Railroad & Utility Products	10.4%	9.3%	+1.1%
	9.9%	10.2%	-0.3%

CM&C operating profit increased by \$0.5 million or two percent. Operating profit as a percentage of net sales for CM&C decreased to 9.8 percent from 10.8 percent in the prior year quarter. Operating profit for the three months ended June 30, 2012 was negatively affected by higher coal tar costs combined with lower volumes for carbon pitch in North America, Australia and Europe, which more than offset the positive impact of lower coal tar costs and higher carbon pitch volumes for Chinese operations and higher prices for carbon pitch, carbon black feedstock and phthalic anhydride. For the three months ended June 30, 2012 a refund of approximately \$3.6 million resulting from findings of a supplier audit of material transport weights almost entirely offset a \$3.1 million increase in our allowance for doubtful accounts due to a customer collection issue in Europe combined with \$0.8 million of costs related to a pitch tank rupture and resulting spill in Australia that occurred in the first quarter of 2012.

R&UP operating profit increased by \$2.2 million or 17 percent. Operating profit as a percentage of net sales for R&UP increased to 10.4 percent from 9.3 percent in the prior year quarter. Operating profit for the three months ended June 30, 2012 was positively affected by higher prices for railroad crossties and a favorable product mix, which more than offset reduced sales volumes of railroad crossties.

Results of Operations Comparison of Six Months Ended June 30, 2012 and 2011

Consolidated Results

Net sales for the six months ended June 30, 2012 and 2011 are summarized by segment in the following table:

<i>(Dollars in millions)</i>	<i>Six Months Ended June 30,</i>		<i>Net Change</i>
	<i>2012</i>	<i>2011</i>	
Carbon Materials & Chemicals	\$ 516.2	\$ 455.7	+13%
Railroad & Utility Products	276.0	260.3	+6%
	\$ 792.2	\$ 716.0	+11%

CM&C net sales increased by \$60.5 million or 13 percent. Higher average pricing increased sales by 12 percent as pricing of most products increased as a result of passing through higher raw material costs to customers.

Higher sales volumes increased sales by three percent for the first six months of 2012 compared to 2011. Distillate volumes increased sales by five percent compared to the first six months of 2011 due to carbon black feedstock in Australia being sold externally as opposed to being consumed internally as it had during 2011 prior to the close of our Australian carbon black facility in December 2011.

Foreign translation resulted in a reduction of two percent of sales of compared to the prior year period.

R&UP net sales increased by \$15.7 million or six percent. Higher sales prices for railroad crossties as a result of passing through higher raw material costs to customers increased R&UP sales by six percent while lower sales volumes for railroad crossties reduced sales by four percent due to reduced contractual demand from our Class 1 railroad customers compared to the prior year period. Volumes for utility poles increased sales by two percent over the prior year period, and volumes for other products increased sales by one percent due mainly to increased sales of rail joint bars and other products.

Cost of sales as a percentage of net sales was 85 percent for the six months ended June 30, 2012 and 85 percent for the six months ended June 30, 2011. Overall, cost of sales increased \$64.4 million between periods, primarily due to higher sales volumes.

Depreciation and amortization for the six months ended June 30, 2012 was \$1.6 million higher when compared to the prior year period due partially to a fixed asset impairment charge of \$0.6 million related to future capital requirements in excess of the net cash generation expected from an electricity co-generation facility located at one of the Company's wood treatment plants in the United States.

Selling, general and administrative expenses for the six months ended June 30, 2012 were \$0.1 million lower when compared to the prior year period and are substantially unchanged.

Interest expense for the six months ended June 30, 2012 was \$0.3 million higher when compared to the prior year period primarily due to higher average borrowings on the revolving credit facility.

Income taxes for the six months ended June 30, 2012 were \$3.7 million higher when compared to the prior year period due primarily to an increase in income before taxes of \$9.0 million. The Company's effective income tax rate prior to discrete items for the six months ended June 30, 2012 was 34.4 percent as compared to the prior year period of 35.9 percent. The reduction in the rate was due primarily to the mix of earnings weighted to the lower tax rate jurisdictions in 2012 compared to 2011.

Segment Results

Segment operating profit for the six months ended June 30, 2012 and 2011 is summarized by segment in the following table:

	Six Months Ended June 30,		% Change
	2012	2011	
<i>(Dollars in millions)</i>			
Operating profit:			
Carbon Materials & Chemicals	\$ 46.7	\$ 39.8	+17%
Railroad & Utility Products	24.1	20.3	+19%
Corporate	(0.9)	(0.5)	-80%
	\$ 69.9	\$ 59.6	+17%
Operating profit as a percentage of net sales:			
Carbon Materials & Chemicals	9.0%	8.7%	+0.3%
Railroad & Utility Products	8.7%	7.8%	+0.9%
	8.8%	8.3%	+0.5%

CM&C operating profit increased by \$6.9 million or 17 percent. Operating profit as a percentage of net sales for CM&C increased to 9.0 percent from 8.7 percent in the prior year period. Operating profit for the six months ended June 30, 2012 was positively impacted by higher prices for carbon pitch and phthalic anhydride combined with higher volumes and prices for carbon black feedstock, which more than offset lower prices for naphthalene and higher tar costs in North America, Europe and Australia.

Additionally, operating profit for the six months ended June 30, 2011 was negatively impacted by \$1.0 million of incremental inventory storage and logistics costs in North America. For the six months ended June 30, 2012 a refund of approximately \$3.6 million resulting from a supplier audit of material transport weights almost entirely offset a \$3.1 million increase in our allowance for doubtful accounts due to a customer collection issue in Europe combined with \$2.4 million of costs related to a pitch tank rupture and resulting spill in Australia that occurred in the first quarter of 2012.

R&UP operating profit increased by \$3.8 million or 19 percent. Operating profit as a percentage of net sales for R&UP increased to 8.7 percent from 7.8 percent in the prior year period. Operating profit for the six months ended June 30, 2012 was positively affected by higher prices for railroad crossties and a favorable product mix, which more than offset reduced volumes for railroad crossties.

Cash Flow

Net cash provided by operating activities was \$3.4 million for the six months ended June 30, 2012 as compared to net cash provided by operating activities of \$25.8 million for the six months ended June 30, 2011. The decrease of \$22.4 million in net cash provided by operations is due primarily to higher working capital requirements, primarily related to inventory, partially offset by decreases in accounts receivable.

Net cash used in investing activities was \$8.9 million for the six months ended June 30, 2012 as compared to net cash used in investing activities of \$13.1 million for the six months ended June 30, 2011. The lower net cash used in investing activities is primarily due to lower capital expenditures.

Net cash provided by financing activities was \$1.4 million for the six months ended June 30, 2012 as compared to net cash provided by financing activities of \$3.9 million for the six months ended June 30, 2011. The first six months of 2012 included net borrowings of \$12.0 million on the revolving credit facility as compared to net borrowings on the revolving credit facility of \$14.5 million for the first six months of 2011.

Dividends paid were \$9.5 million for the six months ended June 30, 2012 as compared to dividends paid of \$9.1 million for the six months ended June 30, 2011. The dividends for the first six months of 2012 reflect a quarterly dividend rate of 24 cents per common share on Koppers Holdings common stock compared to a quarterly dividend rate of 22 cents per common share for the first six months of 2011.

On August 7, 2012, our board of directors declared a quarterly dividend of 24 cents per common share, payable on October 9, 2012 to shareholders of record as of August 20, 2012.

Liquidity and Capital Resources

Restrictions on Dividends to Koppers Holdings

Koppers Holdings depends on the dividends from the earnings of Koppers Inc. and its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of any declared dividend of Koppers Holdings. Koppers Inc.'s credit agreement prohibits it from making dividend payments to us unless (1) such dividend payments are permitted by the indenture governing Koppers Inc.'s Senior Notes and (2) no event of default or potential default has occurred or is continuing under the credit agreement. The indenture governing Koppers Inc.'s Senior Notes restricts its ability to finance our payment of dividends if (1) a default has occurred or would result from such financing, (2) a restricted subsidiary of Koppers Inc. which is not a guarantor under the indenture is not able to incur additional indebtedness (as defined in the indenture), and (3) the sum of all restricted payments (as defined in the indenture) have exceeded the permitted amount (which we refer to as the basket) at such point in time.

The basket is governed by a formula based on the sum of a beginning amount, plus or minus a percentage of Koppers Inc.'s consolidated net income (as defined in the indenture), plus the net proceeds of Koppers Inc.'s qualified stock issuance or conversions of debt to qualified stock, plus the net proceeds from the sale of or a reduction in an investment (as defined in the indenture) or the value of the assets of an unrestricted subsidiary which is designated a restricted subsidiary. At June 30, 2012 the basket totaled \$193.4 million. Notwithstanding such restrictions, the indenture governing Koppers Inc.'s Senior Notes permits an additional aggregate amount of \$20.0 million each fiscal year to finance dividends on the capital stock of Koppers Holdings, whether or not there is any basket availability, provided that at the time of such payment, no default in the indenture has occurred or would result from financing the dividends.

In addition, certain required coverage ratios in Koppers Inc.'s revolving credit facility may restrict the ability of Koppers Inc. to pay dividends. See Debt Covenants.

Liquidity

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to \$300.0 million at variable interest rates. Borrowings under the revolving credit facility are secured by a first priority lien on substantially all of the assets of Koppers Inc. and its material domestic subsidiaries. The revolving credit facility contains certain covenants for Koppers Inc. and its restricted subsidiaries that limit capital expenditures, additional indebtedness, liens, dividends and investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. and its restricted subsidiaries to meet certain financial ratios.

As of June 30, 2012, we had \$263.8 million of unused revolving credit availability for working capital purposes after restrictions by various debt covenants and certain letter of credit commitments. As of June 30, 2012, \$12.1 million of commitments were utilized by outstanding letters of credit.

The following table summarizes our estimated liquidity as of June 30, 2012 (*dollars in millions*):

Cash and cash equivalents ⁽¹⁾	\$ 50.3
Amount available under revolving credit facility	263.8
Amount available under other credit facilities	14.7
 Total estimated liquidity	 \$ 328.8

(1) Cash includes approximately \$50 million held by foreign subsidiaries, which if repatriated to the United States, would incur an estimated cash tax cost of approximately \$20 million.

Our estimated liquidity was \$344.7 million at December 31, 2011.

On June 27, 2012, we filed a registration statement on Form S-3 with the Securities and Exchange Commission which gives us the opportunity to offer common stock, debt securities, preferred stock, depositary shares, warrants and units (or a combination of these securities) from time to time in one or more offerings. In addition, Koppers Inc. may sell debt securities from time to time under the registration statement. This registration statement expires on June 26, 2015.

Our need for cash in the next twelve months relates primarily to contractual obligations which include debt service, purchase commitments and operating leases, as well as working capital, capital maintenance programs and mandatory and voluntary defined benefit plan funding. We may also use cash to pursue potential strategic acquisitions, including the proposed tar distillation plant related to the memorandum of understanding with Nippon Steel Chemical that was announced in February 2012. Capital expenditures in 2012, excluding acquisitions, are expected to total approximately \$32 million. We believe that our cash flow from operations and available borrowings under the revolving credit facility will be sufficient to fund our anticipated liquidity requirements for at least the next twelve months. In the event that the foregoing sources are not sufficient to fund our expenditures and service our indebtedness, we would be required to raise additional funds.

Debt Covenants

The covenants that affect availability of the revolving credit facility and which may restrict the ability of Koppers Inc. to pay dividends include the following financial ratios:

- i The fixed charge coverage ratio, calculated as of the end of each fiscal quarter for the four fiscal quarters then ended, is not permitted to be less than 1.10. The fixed charge coverage ratio at June 30, 2012 was 2.0.

i

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The leverage ratio, calculated as of the end of each fiscal quarter for the four fiscal quarters then ended, is not permitted to exceed 4.50. The leverage ratio at June 30, 2012 was 1.93.

We are currently in compliance with all covenants in the credit agreement governing the revolving credit facility.

At June 30, 2012, Koppers Inc. had \$300.0 million principal value outstanding of Senior Notes. The Senior Notes include customary covenants that restrict, among other things, our ability to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of the assets or enter into various transactions with affiliates. We are currently in compliance with all covenants in the Senior Notes indenture.

Legal Matters

The information set forth in Note 16 to the Condensed Consolidated Financial Statements of Koppers Holdings Inc. included in Item 1 of this Part I is incorporated herein by reference.

Recently Issued Accounting Guidance

There is no recently issued accounting guidance that is expected to have a material impact on the Company.

Critical Accounting Policies

There have been no material changes to the Company's critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Environmental and Other Matters

The information set forth in Note 16 to the Condensed Consolidated Financial Statements of Koppers Holdings Inc. included in Item 1 of Part I is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes to the disclosure on this matter made in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of the end of the period covered by this report. There was no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 16 to the Condensed Consolidated Financial Statements of Koppers Holdings Inc. included in Item 1 of Part I of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 6. EXHIBITS

12.1**	Computation of ratio of earnings to fixed charges
31.1**	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

** Filed herewith.

SIGNATURES

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

KOPPERS HOLDINGS INC.

(REGISTRANT)

Date: August 9, 2012

By: /s/ LEROY M. BALL

Leroy M. Ball

Vice President and Chief Financial Officer
(Principal Financial Officer,

Principal Accounting Officer and Duly Authorized Officer)