Koppers Holdings Inc.
Form 10-Q
November 08, 2018

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 September 30, 2018

Commission file number 1-32737

KOPPERS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	20-1878963
(State of incorporation)	(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

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

Common Stock, par value $0.01 per share, outstanding at October 31, 2018 amounted to 20,508,315 shares.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions, except per share amounts)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	$442.7	$ 384.8	$1,284.8	$ 1,109.4
Cost of sales (excluding items below)	359.7	293.5	1,023.9	863.0
Depreciation and amortization	13.0	12.1	38.5	35.0
Impairment and restructuring charges	0.9	2.2	3.8	5.8
Loss on pension settlement	0.0	8.8	0.0	8.8
Selling, general and administrative expenses	37.9	33.2	121.8	95.6
Operating profit	31.2	35.0	96.8	101.2
Other (loss) income	(0.6)	0.3	(1.1)	2.0
Interest expense	15.1	10.5	40.1	31.9
Loss on extinguishment of debt	0.0	0.0	0.0	13.3
Income before income taxes	15.5	24.8	55.6	58.0
Income tax provision	8.6	4.8	24.4	12.4
Income from continuing operations	6.9	20.0	31.2	45.6
Income (loss) from discontinued operations, net of tax (expense) benefit of $0.0, $0.0, $(0.3) and $0.4	0.0	(0.1)	0.4	(1.3)
Net income	6.9	19.9	31.6	44.3
Net (loss) income attributable to noncontrolling interests	(0.7)	0.1	5.6	0.4
Net income attributable to Koppers	$7.6	$ 19.8	$26.0	$ 43.9
Earnings (loss) per common share attributable to Koppers common shareholders:				
Basic -				
Continuing operations	$0.36	$ 0.96	$1.22	$ 2.17
Discontinued operations	0.00	0.00	0.02	(0.06)
Earnings per basic common share	$0.36	$ 0.96	$1.24	$ 2.11
Diluted -				
Continuing operations	$0.35	$ 0.91	$1.17	$ 2.06
Discontinued operations	0.00	0.00	0.02	(0.06)
Earnings per diluted common share	$0.35	$ 0.91	$1.19	$ 2.00
Comprehensive (loss) income	$(2.0)	$ 36.8	$(6.5)	$ 73.7

Comprehensive (loss) income attributable to noncontrolling interests	(1.1)	0.2	4.7	0.6
Comprehensive (loss) income attributable to Koppers	$(0.9)	$ 36.6	$(11.2)	$ 73.1
Weighted average shares outstanding (in thousands):				
Basic	20,946	20,746	20,992	20,750
Diluted	21,700	21,911	21,892	21,927

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

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KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Dollars in millions, except per share amounts)	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$ 62.5	$ 60.3
Accounts receivable, net of allowance of $2.2 and $2.5	220.8	159.2
Income tax receivable	1.5	1.7
Inventories, net	289.3	236.9
Other current assets	31.5	48.6
Total current assets	605.6	506.7
Property, plant and equipment, net	398.4	328.0
Goodwill	296.5	188.2
Intangible assets, net	193.5	129.6
Deferred tax assets	18.4	18.4
Other assets	23.2	29.3
Total assets	$ 1,535.6	$ 1,200.2
Liabilities		
Accounts payable	$ 166.2	$ 141.9
Accrued liabilities	101.7	127.9
Current maturities of long-term debt	15.1	11.4
Total current liabilities	283.0	281.2
Long-term debt	1,029.8	665.6
Accrued postretirement benefits	46.6	46.3
Deferred tax liabilities	6.8	7.3
Other long-term liabilities	90.0	94.0
Total liabilities	1,456.2	1,094.4
Commitments and contingent liabilities (Note 18)		
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; 80,000,000 shares authorized; 22,979,575 and 22,384,476 shares issued	0.2	0.2
Additional paid-in capital	202.3	190.6
Retained earnings	29.8	7.4
Accumulated other comprehensive loss	(73.7)	(40.1)
Treasury stock, at cost, 2,472,299 and 1,606,028 shares	(89.8)	(58.2)
Total Koppers shareholders' equity	68.8	99.9
Noncontrolling interests	10.6	5.9
Total equity	79.4	105.8
Total liabilities and equity	$ 1,535.6	$ 1,200.2

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in millions)	Nine Months Ended September 30, 2018 (Unaudited)	Nine Months Ended September 30, 2017 (Unaudited)
Cash provided by (used in) operating activities:		
Net income	$31.6	$ 44.3
Adjustments to reconcile net cash provided by (used in) operating activities:		
Depreciation and amortization	38.5	35.0
Loss on extinguishment of debt	0.0	13.3
Loss (gain) on disposal of assets and investment	2.2	(1.4)
Gain on insurance proceeds	(1.5)	0.0
Deferred income taxes	5.0	0.8
Change in other liabilities	(6.2)	(18.6)
Non-cash interest expense	1.8	1.5
Stock-based compensation	9.3	7.8
Loss on pension settlement	0.0	8.8
Other - net	6.5	2.0
Changes in working capital:		
Accounts receivable	(36.3)	(37.6)
Inventories	(20.3)	10.5
Accounts payable	17.7	(14.4)
Accrued liabilities	(38.6)	(1.1)
Other working capital	(1.7)	(2.4)
Net cash provided by operating activities	8.0	48.5
Cash (used in) provided by investing activities:		
Capital expenditures	(81.4)	(48.6)
Acquisitions, net of cash acquired	(264.0)	0.0
Insurance proceeds received	1.5	0.0
Repayments received on loan	0.0	9.5
Net cash provided by divestitures and asset sales	2.3	1.1
Net cash used in investing activities	(341.6)	(38.0)
Cash provided by (used in) financing activities:		
Net increase in revolving credit facility borrowings	282.8	74.1
Borrowings of long-term debt	100.0	500.0
Repayments of long-term debt	(12.9)	(541.4)
Issuances of Common Stock	2.5	1.9
Repurchases of Common Stock	(31.7)	(5.1)
Payment of debt issuance costs	(2.9)	(11.0)
Net cash provided by financing activities	337.8	18.5
Effect of exchange rate changes on cash	(2.0)	0.4
Net increase in cash and cash equivalents	2.2	29.4
Cash and cash equivalents at beginning of period	60.3	20.8
Cash and cash equivalents at end of period	$62.5	$ 50.2

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

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, 2017 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2017. Certain prior period amounts in the notes to the consolidated financial statements have been reclassified to conform to the current period's presentation.

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, 2017.

2. New Accounting Pronouncements

In August 2018, the Securities and Exchange Commission ("SEC") issued SEC Release No. 33-10532, "Disclosure Update and Simplification", which expanded the interim period disclosure requirements for stockholders' equity. Under the release, a reconciliation of the changes in each caption of stockholders' equity must be provided in a note or separate statement for each period that an income statement is required to be filed. The Company will reflect the requirements of this release in its unaudited condensed consolidated financial statements for the period ended March 31, 2019.

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This ASU amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The Company adopted this ASU effective January 1, 2018 and the Company reclassified a $3.6 million unrealized gain, net of tax, from retained earnings to accumulated other comprehensive loss upon adoption.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715)", in order to improve the presentation of net periodic pension and postretirement costs. The amendment requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments in this update related to income statement activity are applied. As a practical expedient, the Company has used the amounts disclosed in its pension and post-retirement benefits footnote as the estimation basis for applying the retrospective presentation requirements. The Company adopted this ASU effective January 1, 2018, and for retrospective presentation, reclassified $0.1 and $0.6 million from cost of goods sold and $0.2 and $0.7 million from selling, general and administrative expenses to other income for the three and nine months ended September 30, 2017, respectively.

In January 2017, the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment (Topic 350).” The update is intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The amendments in this update are effective for periods beginning after December 15, 2019. Entities are required to apply the amendments in this update prospectively from the date of adoption, with early adoption permitted. The Company adopted this ASU effective January 1, 2018.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” The update clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flow. The amendments in this update are effective for periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018. The impact was not material to the Company’s condensed consolidated statement of cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” ASU 2016-02 requires an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than one year. The standard is effective January 1, 2019 and recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides clarifications and improvements to ASU 2016-02 including allowing entities to elect an additional transition method with which to adopt ASU 2016-02. The approved transition method enables entities to apply the transition requirements in this ASU at the effective date of ASU 2016-02 (rather than at the beginning of the earliest comparative period presented) with the effect of initially applying ASU 2016-02 recognized as a cumulative-effect adjustment to retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the year of adoption would continue to be in accordance with ASC 840, Leases (Topic 840) ("ASC 840"), including the disclosure requirements of ASC 840. We plan to adopt ASU 2016-02 effective at the beginning of 2019 using the modified retrospective approach with no restatement of comparative periods presented. Practical expedients are available for election as a package and if applied consistently to all leases.

The Company has a project team analyzing all of its leases and we have selected our leasing software solution and are in the process of identifying changes to our business processes, systems and controls to support adoption of the new standard in 2019. The Company will elect the practical expedient to retain its current classification of leases, and as a result, anticipates that the initial impact of adopting this new standard on its consolidated statement of income and consolidated statement of cash flows will not be material. The Company is still in the process of determining the impact of this adoption on the balance sheet and expects this analysis will be completed during the fourth quarter of 2018. While we are unable to quantify the impact at this time we expect that the adoption of the new standard to result in a material effect on total assts and total liabilities.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent to the issuance of ASU 2014-09, the FASB issued multiple ASUs which either amended or clarified ASU 2014-09. Collectively, the revenue recognition ASUs were effective for annual reporting periods beginning after December 15, 2017. The Company elected to use the modified retrospective method for transition in which the cumulative effect was recognized at its January 1, 2018 date of adoption with no restatement of comparative periods presented. The implementation of the guidance had no material impact on the measurement of recognition of revenue of prior periods; however, additional disclosures have been added in accordance with the ASU.

3. Plant Closures and Divestitures

Over the past four years, the Company has been restructuring its Carbon Materials and Chemicals ("CMC") business unit in order to concentrate its facilities in regions where the Company believes it holds key competitive advantages to better serve its global customers. These closure activities include:

- The anticipated cessation of naphthalene refining activities at the Company's Follansbee, West Virginia coal tar distillation facility in the fourth quarter of 2018 subsequent to commissioning of a new naphthalene refining plant in Stickney, Illinois.
- In September 2018, the Company sold its UK-based specialty chemicals business.

- In November 2016, the Company sold its 30-percent interest in Tangshan Kailuan Koppers Carbon Chemical Company Limited ("TKK") located in the Hebei Province in China.

- In July 2016, the Company discontinued coal tar distillation activities at its CMC plant located in Clairton, Pennsylvania. In October 2018, the Company sold the facility and will recognize a loss on the transaction of $6.1 million during the three months ended December 31, 2018. As part of the transaction, the Company transferred cash to the buyer and the buyer assumed decommissioning, demolition and site restoration responsibilities.

- In March 2016, the Company discontinued production at its 60-percent owned CMC plant located in Tangshan, China.

- In February 2016, the Company ceased coal tar distillation and specialty pitch operations at both of its United Kingdom CMC facilities. In July 2016, the Company sold substantially all of its CMC tar distillation properties and assets in the United Kingdom. In exchange, the Company transferred cash to the buyer and the buyer assumed historical environmental and asset retirement obligations.

- In April 2014, the Company ceased its coal tar distillation activities at its CMC facility located in Uithoorn, the Netherlands.

Other closure and divestiture activity relates to the Company’s Railroad Utility Products and Services (“RUPS”) business unit. These actions include:

- In October 2016, the Company agreed to a long-term lease of its wood treatment facility in Houston, Texas to a third party.

- In August 2015, the Company closed its RUPS plant located in Green Spring, West Virginia.

- In July 2015, the Company sold the assets of its 50-percent interest in KSA Limited Partnership, a concrete crosstie manufacturer.

- In January 2015, the Company sold its RUPS North American utility pole business.

In addition, in 2011, the Company ceased carbon black production at its CMC facility located in Kurnell, Australia. Costs associated with this closure are included in “Income (Loss) from discontinued operations” on the Condensed Consolidated Statement of Operations and Comprehensive (Loss) Income.

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

(Dollars in millions)	Severance and employee benefits	Environmental remediation	Site demolition	Other	Total
Reserve at December 31, 2016	$ 1.4	$ 1.5	$ 10.0	$ 3.2	$ 16.1
Accrual	0.9	2.1	4.7	6.9	14.6
Cost charged against assets	0.0	0.0	0.0	(6.3)	(6.3)
Reversal of accrued charges	(0.3)	0.0	(1.8)	0.0	(2.1)
Cash paid	(0.3)	(1.1)	(2.4)	(1.0)	(4.8)
Currency translation	0.0	0.2	0.1	0.5	0.8
Reserve at December 31, 2017	$ 1.7	$ 2.7	$ 10.6	$ 3.3	$ 18.3
Accrual	0.0	0.9	1.6	2.2	4.7
Cost charged against assets	0.0	0.0	0.0	(2.1)	(2.1)
Cash paid	0.0	(3.4)	(6.3)	(0.1)	(9.8)
Currency translation	0.0	(0.2)	0.0	0.0	(0.2)
Reserve at September 30, 2018	$ 1.7	$ 0.0	$ 5.9	$ 3.3	$ 10.9

4. Acquisitions

On April 10, 2018, Koppers Inc. acquired Cox Industries, Inc. (“Cox”) for net cash consideration of $201.2 million. The transaction was funded by borrowings on Koppers Inc.’s revolving credit facility discussed in “Note 14 - Debt.” Cox was renamed Koppers Utility and Industrial Products Inc. (“UIP”) subsequent to the acquisition. UIP is a manufacturer of treated wood transmission and distribution poles for utility companies and cooperative utility companies. It is also a manufacturer of treated wood pilings used for construction and marine applications. UIP manufactures and sells its treated wood poles and pilings through a network of eight manufacturing facilities and 19 distribution yards located throughout the United States. UIP treats its products with a variety of wood protection chemicals, including copper chromium arsenate and creosote, which are produced by the Company’s Performance Chemicals and CMC segments, respectively. UIP’s revenues were $147 million for the year ended December 31, 2017.

On February 28, 2018, Koppers Inc. acquired M.A. Energy Resources, LLC (“MAER”) for net cash consideration of $62.8 million. The purchase price was funded by borrowings on Koppers Inc.’s revolving credit facility. MAER is a vertically-integrated company that provides material recovery services for crossties that have been taken out of service and other biomass material. MAER converts this recovered material into alternative fuels, such as crosstie-derived fuel or biomass-derived fuel, that is used as a substitute for conventional higher-cost carbon-based fuel. MAER currently operates two processing facilities, each of which is located to serve its Class I railroad customer base. MAER’s revenues were $30 million for the year ended December 31, 2017.

The Company has completed a preliminary valuation analysis to determine the fair values of UIP’s and MAER’s acquired assets and liabilities. Accordingly, the unaudited condensed consolidated financial statements include a preliminary fair value determination based on assumptions and estimates that, while considered reasonable, are subject to changes, which may be material.

Upon completion of detailed valuation analyses, there may be additional increases or decreases to the recorded fair values of the acquired assets and liabilities. This includes, but is not limited to customer contracts, other intangible assets; property, plant and equipment that could give rise to future amounts of depreciation and amortization expense; and changes in related deferred taxes that are not reflected in the information contained in this unaudited condensed consolidated information. Accordingly, once the necessary valuation analyses have been performed and the final fair value determination has been completed, actual results may differ materially from the information presented in the unaudited condensed consolidated financial statements.

The preliminary valuation of identifiable assets acquired and liabilities assumed upon the acquisition of UIP and MAER are shown in the table below.

(Dollars in millions)	UIP	MAER
Cash and cash equivalents	$1.5	$ 3.2
Accounts receivable	20.2	4.9
Inventory	43.1	0.0
Other current assets	1.2	0.3
Property, plant and equipment	19.8	6.6
Intangible assets, net	59.4	19.3
Goodwill	76.9	34.0
Other non-current assets	0.2	0.0
Total assets acquired	222.3	68.3
Accounts payable & accrued expenses	18.7	2.3
Other non-current liabilities	0.8	0.0
Net assets acquired	$202.8	$ 66.0

Goodwill for both acquisitions has been allocated to the Company's Railroad and Utility Products and Services segment. The Company expects the goodwill recognized will be deductible for tax purposes. Recognized goodwill is attributable to the assembled workforce, expected synergies and other intangible assets that do not qualify for separate recognition. Net assets acquired include identifiable intangible assets with respect to customer contracts, non-compete agreements and trademarks as summarized in the following table.

	UIP		MAER	
(Dollars in millions)	Amount	Remaining Life	Amount	Remaining Life
Customer contracts	$58.2	15 years	$18.7	15 years
Non-compete agreements	1.2	5 years		
Trademarks			0.6	2 years
Total	$59.4		$19.3	

Combined costs related to these two acquisitions were $0.6 million and $6.2 million for the three and nine months ended September 30, 2018, respectively, and are charged to selling, general and administrative expenses. Net sales of $50.5 million and $97.4 million and income (loss) before taxes of $0.5 million and $(3.8) million, including $0.5 million and $6.0 million of inventory fair value purchase price accounting adjustments, was attributable to UIP and included in the Condensed Consolidated Statement of Operations and Comprehensive (Loss) Income for the three and nine months ended September 30, 2018, respectively.

The following unaudited pro forma information presents a summary of the Company's revenues and income from continuing operations as if the UIP acquisition occurred on January 1, 2017 (the first day of the most recently completed fiscal year). The unaudited pro forma information is not necessarily indicative of operating results that would have been achieved had the acquisition been completed as of January 1, 2017 and is not intended to project the future financial results of the Company after the acquisition. The unaudited pro forma information is based on certain assumptions, which management believes are reasonable, and does not reflect the cost of any integration activities or the benefits from the acquisition and synergies that may be derived from any integration activities.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Pro forma revenue	$442.7	$422.7	$1,335.5	$1,221.6
Pro forma income from continuing operations attributable to Koppers	7.9	19.9	34.5	42.6
Pro forma income per share - continuing operations:				
Basic -	$0.38	$0.96	$1.64	$2.05
Diluted -	$0.36	$0.91	$1.58	$1.94

5. Revenue Recognition

On January 1, 2018, the Company adopted Topic 606, the accounting standard for recognized revenue from contracts with customers, using the modified retrospective method. The Company recognized the cumulative effect of applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company has identified certain contracts with customers where revenue has been accelerated upon adoption of Topic 606 as the related performance obligations under the contract have been satisfied and control of the goods or services have been transferred to the customer.

The Company calculated the cumulative effect to the opening balance of retained earnings recognized at January 1, 2018 to be an increase of $0.3 million, including $5.3 million in revenue and $5.0 million in cost of goods sold not previously recognized during the year ended December 31, 2017. Revenue recognized during the nine months ended September 30, 2018 from the adoption of Topic 606 was $3.2 million and, as such, the net impact of adopting Topic 606 for the three and nine months ending September 30, 2018 was a decrease in sales and cost of sales as follows:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
(Dollars in millions)		
Sales	$ (0.1)	$ (2.1)
Cost of sales	(0.1)	(2.0)

Topic 606 impacted the timing of revenue recognized related to certain services to untreated cross-ties within the Company’s RUPS segment where those specific performance obligations were fulfilled prior to shipment and were historically not recognized as revenue until shipped. Refer to “Note 9 – Segment Information” for relevant disclosures regarding the disaggregation of revenue.

Revenue is recognized upon the completion of performance obligations under the Company’s contracts with customers and when control of a good or service is transferred to the customer. Substantially all of the Company’s contracts with its customers are ship and invoice arrangements where revenue is recognized when the Company transfers control to the customer which is at the time of shipment or delivery. Revenue recognition generally occurs at the point of shipment; however in certain circumstances as shipping terms dictate, the Company transfers control and revenue is recognized at the point of destination. Shipping and handling costs are included as a component of cost of sales.

Contract Balances

The timing of revenue recognition in accordance with Topic 606 and subsequent billings related to such revenue recognized results in both billed accounts receivable and unbilled receivables (contract assets), both classified as accounts receivable, net of allowance within the condensed consolidated balance sheet. Certain contracts with customers within the Company’s RUPS and CMC segments have agreed-upon contractual terms for the timing of billing. In some instances, amounts are not billed at the time specific performance obligations are fulfilled. For these contracts with customers, revenue is recognized prior to billings, resulting in contract assets. Contract assets recorded within accounts receivable, net of allowance within the condensed consolidated balance sheet as of September 30, 2018 and January 1, 2018 due to performance obligations being fulfilled prior to billing was $11.4 million and $5.3 million, respectively.

6. Comprehensive (Loss) Income and Equity

Total comprehensive (loss) income for the three and nine months ended September 30, 2018 and 2017 is summarized in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Net income	$ 6.9	$ 19.9	$ 31.6	$ 44.3
Other comprehensive (loss) income:				
Change in currency translation adjustment	(2.9)	6.3	(18.9)	17.2
Unrealized (loss) gain on cash flow hedges, net of tax (benefit) expense of $(3.7), $1.1, $(12.0) and $1.4	(6.3)	4.1	(20.3)	5.0
Change in accounting standard	0.0	0.0	0.3	0.0
Unrecognized pension net loss, net of tax expense of $0.1, $0.2, $0.3 and $0.4	0.3	6.5	0.8	7.2
Total comprehensive (loss) income	(2.0)	36.8	(6.5)	73.7
Less: Comprehensive (loss) income attributable to noncontrolling interests	(1.1)	0.2	4.7	0.6
Comprehensive (loss) income attributable to Koppers	$ (0.9)	$ 36.6	$ (11.2)	$ 73.1

Amounts reclassified from accumulated other comprehensive loss to net income consist of amounts shown for changes in unrecognized pension net loss. This component of accumulated other comprehensive loss is included in the computation

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of net periodic pension cost as disclosed in “Note 13 – Pensions and Postretirement Benefit Plans”. Other amounts reclassified from accumulated other comprehensive loss include income related to derivative financial instruments, net of tax, of $1.1 million and $6.5 million for the three and nine months ended September 30, 2018, respectively, and $2.3 million and $4.9 million for the three and nine months ended September 30, 2017, respectively.

The following tables present the change in equity for the nine months ended September 30, 2018 and 2017, respectively:

(Dollars in millions)	Total Koppers Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	$ 99.9	$ 5.9	$ 105.8
Net income	26.0	5.6	31.6
Issuance of common stock	2.5	0.0	2.5
Employee stock plans	9.3	0.0	9.3
Other comprehensive loss	(37.2)	(0.9)	(38.1)
Repurchases of common stock	(31.7)	0.0	(31.7)
Balance at September 30, 2018	$ 68.8	$ 10.6	$ 79.4

(Dollars in millions)	Total Koppers Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	$ 30.4	$ 4.2	$ 34.6
Net income	43.9	0.4	44.3
Issuance of common stock	1.9	0.0	1.9
Employee stock plans	8.0	0.0	8.0
Other comprehensive income	29.2	0.2	29.4
Repurchases of common stock	(5.1)	0.0	(5.1)
Balance at September 30, 2017	$ 108.3	$ 4.8	$ 113.1

7. 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 loss per common share, if any.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions, except share amounts, in thousands, and per share amounts)				
Net income attributable to Koppers	$7.6	$19.8	$26.0	$43.9
Less: Income (loss) from discontinued operations	0.0	(0.1)	0.4	(1.3)
Income from continuing operations attributable to Koppers	$7.6	$19.9	$25.6	$45.2
Weighted average common shares outstanding:				
Basic	20,946	20,746	20,992	20,750
Effect of dilutive securities	754	1,165	900	1,177
Diluted	21,700	21,911	21,892	21,927
Income per common share – continuing operations:				
Basic income per common share	$0.36	$0.96	$1.22	$2.17
Diluted income per common share	0.35	0.91	1.17	2.06
Other data:				
Antidilutive securities excluded from computation of diluted earnings per common share	571	543	214	482

8. Stock-based Compensation

The Company has outstanding stock-based compensation awards that were granted under the amended and restated 2005 Long-Term Incentive Plan (the “2005 LTIP”) and the 2018 Long-Term Incentive Plan (the “2018 LTIP”). Both the 2005 LTIP and the 2018 LTIP are collectively referred to as the ”LTIP”. On May 3, 2018, the 2018 LTIP was approved by our shareholders and the 2005 LTIP was frozen. Similar to the 2005 LTIP, the 2018 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".

Restricted Stock Units and Performance Stock Units

Under the LTIP, the board of directors grants restricted stock units and performance stock units to certain employee participants (collectively, the "stock units"). For grants to most employees, the restricted stock units vest in four equal annual installments. Restricted stock units that 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 employees in connection with employee compensation with vesting periods of two years or less.

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 restricted stock units and performance stock units with a performance condition is the market price of the underlying common stock on the date of grant.

Performance stock units granted prior to 2016 have vesting based upon a performance condition. These performance stock units generally have three-year performance objectives and all performance stock units have a three-year period for vesting (if the applicable performance objective is achieved). For awards granted prior to 2016, the applicable performance objective is based upon a multi-year cumulative value creation calculation that considers the Company's financial performance 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 200 percent (depending on the grant date) of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest. Performance stock units granted in 2015 exceeded the maximum value creation and vested at 200 percent in March 2018.

Performance stock units granted in 2016 and thereafter have vesting based upon a market condition. These performance stock units have a three-year performance objective and a three-year period for vesting (if the applicable performance objective is achieved). The applicable performance objective is based on the Company's total shareholder return relative to the Standard & Poor's SmallCap 600 Materials Index. The number of performance stock units granted represents the target award and participants have the ability to earn between zero and 200 percent of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest. The Company has the discretion to settle the award in cash rather than shares, although the Company currently expects that all awards will be settled by the issuance of shares.

Compensation expense for non-vested performance stock units with a market condition is recorded over the vesting period based on the fair value at the date of grant. The Company calculated the fair value of the awards on the date of grant using the Monte Carlo valuation model and the assumptions listed below:

	May 2018 Grant		March 2018 Grant		March 2017 Grant		March 2016 Grant	
Grant date price per share	$ 39.10		$ 41.60		$ 44.10		$18.11	
Expected dividend yield per share	0.00	%	0.00	%	0.00	%	0.00	%
Expected volatility	39.40	%	39.40	%	43.50	%	40.86	%
Risk-free interest rate	2.35	%	2.35	%	1.54	%	0.96	%
Look-back period in years	2.84		2.84		2.83		2.84	

Grant date fair value per share	$ 44.29	$ 47.12	$ 64.02	$23.70

Dividends declared, if any, on the Company's common stock during the period prior to vesting 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.

The following table shows a summary of the performance stock units as of September 30, 2018:

Performance Period	Minimum Shares	Target Shares	Maximum Shares
2016 – 2018	0	255,172	510,344
2017 – 2019	0	113,675	227,350
2018 – 2020	0	130,782	261,564

The following table shows a summary of the status and activity of non-vested stock units for the nine months ended September 30, 2018:

	Restricted Stock Units	Performance Stock Units	Total Stock Units	Weighted Average Grant Date Fair Value per Unit
Non-vested at December 31, 2017	238,140	581,551	819,691	$ 29.14
Granted	118,297	134,351	252,648	$ 43.91
Performance share adjustment	0	204,866	204,866	$ 17.57
Vested	(94,589)	(409,732)	(504,321)	$ 19.41
Forfeited	(7,094)	(11,407)	(18,501)	$ 38.77
Non-vested at September 30, 2018	254,754	499,629	754,383	$ 37.20

Stock Options

Stock options to most executive officers vest and become exercisable in four equal annual installments. The stock options have a term of ten years. In the event of termination of employment, other than 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.

Compensation expense for non-vested stock options is recorded over the vesting period based on the fair value at the date of grant. The Company calculated the fair value of stock options on the date of grant using the Black-Scholes-Merton model and the assumptions listed below:

	May 2018 Grant	March 2018 Grant	March 2017 Grant	March 2016 Grant	March 2015 Grant
Grant date price per share	$ 39.10	$ 41.60	$ 44.10	$ 18.11	$ 17.57
Expected dividend yield per share	0.00 %	0.00 %	0.00 %	0.00 %	3.40 %
Expected life in years	5.73	5.73	5.77	5.96	5.75
Expected volatility	37.05 %	37.05 %	39.70 %	40.86 %	42.27 %
Risk-free interest rate	2.82 %	2.67 %	2.13 %	1.45 %	1.73 %
Grant date fair value per share	$ 15.48	$ 16.38	$ 17.90	$ 7.41	$ 5.20

The Company suspended its dividend in February 2015 and does not expect to declare any dividends for the foreseeable future. The expected life in years is based on historical exercise data of options previously granted by 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 nine months ended September 30, 2018:

	Options	Weighted Average Exercise Price per Option	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2017	942,537	$ 27.59		
Granted	144,825	$ 41.50		
Exercised	(70,307)	$ 27.75		
Forfeited	(12,329)	$ 30.49		
Outstanding at September 30, 2018	1,004,726	$ 29.54	6.14	$ 6.6
Exercisable at September 30, 2018	617,361	$ 28.49	4.89	$ 4.2

Stock Compensation Expense

Total stock-based compensation expense recognized under the Company's LTIP and employee stock purchase plan for three and nine months ended September 30, 2018 and 2017 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	$ 3.2	$ 2.7	$ 9.3	$ 7.8
Less related income tax benefit	1.2	0.6	3.5	1.7
Decrease in net income attributable to Koppers	$ 2.0	$ 2.1	$ 5.8	$ 6.1
Intrinsic value of exercised stock options	$ 0.1	$ 0.0	$ 1.1	$ 1.1
Cash received from the exercise of stock options	$ 0.3	$ 0.0	$ 2.5	$ 1.9

As of September 30, 2018, total future gross compensation expense related to non-vested stock-based compensation arrangements, which are expected to vest, totaled $18.7 million and the weighted-average period over which this cost is expected to be recognized is approximately 26 months.

9. Segment Information

The Company has three reportable segments: Railroad and Utility Products and Services, Performance Chemicals and Carbon Materials and Chemicals. The Company's reportable segments contain multiple aggregated business units since management believes the long-term financial performance of these business units is affected by similar economic conditions. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

The Company's Railroad and Utility Products and Services segment sells treated and untreated wood products, manufactured products and services primarily to the railroad and public utility markets. Railroad products and services 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. The segment also operates a railroad services business that conducts engineering, design, repair and inspection services for railroad bridges and a business related to the recovery of used crossties. Utility products include the treating of transmission and distribution poles and pilings. In April 2018, the Company acquired UIP, a manufacturer of treated wood utility transmission and distribution poles for utility companies and cooperative utility companies. It is also a manufacturer of treated wood pilings used for construction and marine applications. In February 2018, the Company acquired MAER, a vertically-integrated provider of crosstie recovery and disposal services. MAER converts recovered material into alternative fuels, such as crosstie-derived fuel or biomass-derived fuel, that is used as a substitute for conventional higher-cost carbon-based fuel.

The Company’s Performance Chemicals segment develops, manufactures, and markets wood preservation chemicals and wood treatment technologies and services a diverse range of end-markets including infrastructure, residential and commercial construction, and agriculture.

The Company’s Carbon Materials and Chemicals segment is primarily a manufacturer of creosote, carbon pitch, naphthalene, phthalic anhydride and carbon black feedstock. Creosote is used in the treatment of wood and carbon black feedstock is used in the production of carbon black. 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.

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 (loss) income, interest expense, income taxes or operating costs of Koppers Holdings Inc. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Refer to “Note 5 – Revenue Recognition” for accounting policies specific to revenue recognition. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Revenues from external customers:				
Railroad and Utility Products and Services	$185.0	$131.7	$470.6	$403.1
Performance Chemicals	108.2	109.7	320.7	318.2
Carbon Materials and Chemicals	149.5	143.4	493.5	388.1
Total	$442.7	$384.8	$1,284.8	$1,109.4
Intersegment revenues:				
Performance Chemicals	$3.8	$1.8	$8.0	$5.0
Carbon Materials and Chemicals	21.4	22.1	58.8	60.0
Total	$25.2	$23.9	$66.8	$65.0
Depreciation and amortization expense:				
Railroad and Utility Products and Services	$4.9	$2.9	$12.8	$8.8
Performance Chemicals	4.4	4.4	13.3	13.3
Carbon Materials and Chemicals	3.7	4.8	12.4	12.9
Total	$13.0	$12.1	$38.5	$35.0
Operating profit (loss):				
Railroad and Utility Products and Services[(a)]	$5.8	$9.5	$5.9	$30.1
Performance Chemicals	11.0	18.4	28.2	56.6
Carbon Materials and Chemicals	14.9	16.3	64.6	24.9
Corporate[(b)]	(0.5)	(9.2)	(1.9)	(10.4)
Total	$31.2	$35.0	$96.8	$101.2

(a) Operating profit for the three and nine months ended September 30, 2018 includes $0.5 million and $6.0 million of inventory fair value purchase price adjustment related to the Company's UIP acquisition, respectively.

(b) Operating loss for Corporate includes primarily general and administrative costs for Koppers Holdings Inc., the parent company of Koppers Inc.

The following table sets forth revenues for significant product lines, net of all intersegment transactions, for the Company's segments for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Railroad and Utility Products and Services:				
Railroad treated products	$96.7	$96.1	$259.8	$299.8
Utility poles	59.5	12.9	129.9	34.0
Rail joints	8.5	7.1	26.5	22.1
Railroad infrastructure services	10.0	9.0	26.2	27.0
Other products	10.3	6.6	28.2	20.2
	185.0	131.7	470.6	403.1

Performance Chemicals:				
Wood preservative products	101.5	101.7	299.0	295.5
Other products	6.7	8.0	21.7	22.7
	108.2	109.7	320.7	318.2
Carbon Materials and Chemicals:				
Pitch and related products	88.9	78.6	304.1	195.4
Creosote and distillates	19.2	21.6	61.3	61.0
Phthalic anhydride and other chemicals	23.3	24.5	64.0	69.3
Naphthalene	8.8	9.9	31.5	27.8
Other products	9.3	8.8	32.6	34.6
	149.5	143.4	493.5	388.1
Total	$442.7	$384.8	$1,284.8	$1,109.4

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

(Dollars in millions)	September 30, 2018	December 31, 2017
Segment assets:		
Railroad and Utility Products and Services[a]	$ 556.3	$ 249.7
Performance Chemicals	472.0	494.0
Carbon Materials and Chemicals	469.3	414.2