

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

Koppers Holdings Inc.  
Form 10-Q  
November 04, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

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 ☒ No ☐

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

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

Large accelerated filer ☒ 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 ☒

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

Common Stock, par value \$0.01 per share, outstanding at October 29, 2010 amounted to 20,565,616 shares.

# **PART I FINANCIAL INFORMATION**

## **ITEM 1. FINANCIAL STATEMENTS**

### **KOPPERS HOLDINGS INC.**

#### **CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

|                                                                                              | <i>Three Months Ended September 30,</i> |             | <i>Nine Months Ended September 30,</i> |             |
|----------------------------------------------------------------------------------------------|-----------------------------------------|-------------|----------------------------------------|-------------|
|                                                                                              | <i>2010</i>                             | <i>2009</i> | <i>2010</i>                            | <i>2009</i> |
| <i>(Dollars in millions, except per share amounts)</i>                                       | <i>(Unaudited)</i>                      |             | <i>(Unaudited)</i>                     |             |
| Net sales                                                                                    | \$ 336.3                                | \$ 289.8    | \$ 937.7                               | \$ 854.1    |
| Cost of sales (excluding items below)                                                        | 280.4                                   | 237.5       | 786.4                                  | 709.9       |
| Depreciation and amortization                                                                | 7.0                                     | 6.1         | 20.4                                   | 18.4        |
| Selling, general and administrative expenses                                                 | 15.4                                    | 13.0        | 47.8                                   | 40.9        |
| Operating profit                                                                             | 33.5                                    | 33.2        | 83.1                                   | 84.9        |
| Other income (loss)                                                                          | 0.0                                     | (0.3)       | 1.8                                    | (0.5)       |
| Interest expense                                                                             | 6.6                                     | 10.0        | 20.4                                   | 30.2        |
| Income before income taxes                                                                   | 26.9                                    | 22.9        | 64.5                                   | 54.2        |
| Income taxes                                                                                 | 11.1                                    | 5.8         | 25.0                                   | 19.7        |
| Income from continuing operations                                                            | 15.8                                    | 17.1        | 39.5                                   | 34.5        |
| Loss on sale of discontinued operations, net of tax benefit of \$0.0, \$0.0, \$0.1 and \$0.2 | 0.0                                     | 0.0         | (0.2)                                  | (0.3)       |
| Net income                                                                                   | 15.8                                    | 17.1        | 39.3                                   | 34.2        |
| Net income attributable to noncontrolling interests                                          | 0.2                                     | 0.7         | 0.3                                    | 2.0         |
| Net income attributable to Koppers                                                           | \$ 15.6                                 | \$ 16.4     | \$ 39.0                                | \$ 32.2     |
| Earnings per common share attributable to Koppers common shareholders:                       |                                         |             |                                        |             |
| Basic                                                                                        |                                         |             |                                        |             |
| Continuing operations                                                                        | \$ 0.76                                 | \$ 0.80     | \$ 1.91                                | \$ 1.59     |
| Discontinued operations                                                                      | 0.00                                    | 0.00        | (0.01)                                 | (0.01)      |
| Earnings per basic common share                                                              | \$ 0.76                                 | \$ 0.80     | \$ 1.90                                | \$ 1.58     |
| Diluted                                                                                      |                                         |             |                                        |             |
| Continuing operations                                                                        | \$ 0.75                                 | \$ 0.80     | \$ 1.90                                | \$ 1.58     |
| Discontinued operations                                                                      | 0.00                                    | 0.00        | (0.01)                                 | (0.01)      |
| Earnings per diluted common share                                                            | \$ 0.75                                 | \$ 0.80     | \$ 1.89                                | \$ 1.57     |
| Weighted average shares outstanding <i>(in thousands)</i> :                                  |                                         |             |                                        |             |
| Basic                                                                                        | 20,566                                  | 20,454      | 20,533                                 | 20,443      |
| Diluted                                                                                      | 20,648                                  | 20,584      | 20,666                                 | 20,532      |
| Dividends declared per common share                                                          | \$ 0.22                                 | \$ 0.22     | \$ 0.66                                | \$ 0.66     |

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



## KOPPERS HOLDINGS INC.

## CONDENSED CONSOLIDATED BALANCE SHEET

|                                                                                                                 | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <i>(Dollars in millions, except share amounts)</i>                                                              |                                      |                      |
| <b>Assets</b>                                                                                                   |                                      |                      |
| Cash and cash equivalents                                                                                       | \$ 33.1                              | \$ 58.4              |
| Short-term investments                                                                                          | 0.0                                  | 4.4                  |
| Accounts receivable, net of allowance of \$0.1 and \$0.5                                                        | 144.1                                | 102.5                |
| Income tax receivable                                                                                           | 22.0                                 | 37.1                 |
| Inventories, net                                                                                                | 151.3                                | 152.7                |
| Deferred tax assets                                                                                             | 8.5                                  | 8.5                  |
| Other current assets                                                                                            | 21.4                                 | 17.4                 |
| <b>Total current assets</b>                                                                                     | <b>380.4</b>                         | <b>381.0</b>         |
| Equity in non-consolidated investments                                                                          | 4.6                                  | 4.7                  |
| Property, plant and equipment, net                                                                              | 155.0                                | 149.3                |
| Goodwill                                                                                                        | 69.8                                 | 61.6                 |
| Deferred tax assets                                                                                             | 21.3                                 | 25.9                 |
| Other assets                                                                                                    | 25.9                                 | 21.9                 |
| <b>Total assets</b>                                                                                             | <b>\$ 657.0</b>                      | <b>\$ 644.4</b>      |
| <b>Liabilities</b>                                                                                              |                                      |                      |
| Accounts payable                                                                                                | \$ 85.7                              | \$ 67.3              |
| Accrued liabilities                                                                                             | 57.6                                 | 54.8                 |
| Dividends payable                                                                                               | 5.1                                  | 9.5                  |
| Short-term debt and current portion of long-term debt                                                           | 0.2                                  | 0.2                  |
| <b>Total current liabilities</b>                                                                                | <b>148.6</b>                         | <b>131.8</b>         |
| Long-term debt                                                                                                  | 295.9                                | 335.1                |
| Accrued postretirement benefits                                                                                 | 80.8                                 | 81.9                 |
| Other long-term liabilities                                                                                     | 35.0                                 | 40.8                 |
| <b>Total liabilities</b>                                                                                        | <b>560.3</b>                         | <b>589.6</b>         |
| <b>Commitments and contingent liabilities (Note 16)</b>                                                         |                                      |                      |
| <b>Equity</b>                                                                                                   |                                      |                      |
| 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; 21,264,698 and 21,124,212 shares issued | 0.2                                  | 0.2                  |
| Additional paid-in capital                                                                                      | 135.8                                | 127.2                |
| Retained deficit                                                                                                | (12.1)                               | (37.3)               |
| Accumulated other comprehensive loss                                                                            | (13.7)                               | (22.7)               |
| Treasury stock, at cost, 699,082 and 669,340 shares                                                             | (24.5)                               | (23.6)               |
| <b>Total Koppers stockholders' equity</b>                                                                       | <b>85.7</b>                          | <b>43.8</b>          |
| <b>Noncontrolling interests</b>                                                                                 | <b>11.0</b>                          | <b>11.0</b>          |
| <b>Total equity</b>                                                                                             | <b>96.7</b>                          | <b>54.8</b>          |

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

|                              |    |       |    |       |
|------------------------------|----|-------|----|-------|
| Total liabilities and equity | \$ | 657.0 | \$ | 644.4 |
|------------------------------|----|-------|----|-------|

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

## KOPPERS HOLDINGS INC.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|                                                                     | Nine Months Ended September 30, |          |
|---------------------------------------------------------------------|---------------------------------|----------|
|                                                                     | 2010                            | 2009     |
| (Dollars in millions)                                               | (Unaudited)                     |          |
| Cash provided by (used in) operating activities:                    |                                 |          |
| Net income                                                          | \$ 39.3                         | \$ 34.2  |
| Adjustments to reconcile net cash provided by operating activities: |                                 |          |
| Depreciation and amortization                                       | 20.4                            | 19.9     |
| (Gain) loss on sale of fixed assets                                 | (1.0)                           | 0.7      |
| Deferred income taxes                                               | 3.9                             | (4.9)    |
| Equity income, net of dividends received                            | 0.1                             | 1.4      |
| Change in other liabilities                                         | (5.6)                           | 9.2      |
| Non-cash interest expense                                           | 1.3                             | 14.0     |
| Stock-based compensation                                            | 2.5                             | 1.7      |
| Other                                                               | 0.4                             | 0.4      |
| (Increase) decrease in working capital:                             |                                 |          |
| Accounts receivable                                                 | (35.2)                          | (1.5)    |
| Inventories                                                         | 12.6                            | 19.5     |
| Accounts payable                                                    | 6.9                             | (5.2)    |
| Accrued liabilities and other working capital                       | 18.7                            | 3.2      |
| Net cash provided by operating activities                           | 64.3                            | 92.6     |
| Cash provided by (used in) investing activities:                    |                                 |          |
| Capital expenditures                                                | (13.7)                          | (11.2)   |
| Acquisitions, net of cash acquired                                  | (19.9)                          | 0.0      |
| Net cash proceeds from divestitures and asset sales                 | 1.9                             | (1.1)    |
| Net cash used in investing activities                               | (31.7)                          | (12.3)   |
| Cash provided by (used in) financing activities:                    |                                 |          |
| Borrowings of revolving credit                                      | 138.9                           | 0.0      |
| Repayments of revolving credit                                      | (178.9)                         | 0.0      |
| Repayments of long-term debt                                        | (0.1)                           | (0.1)    |
| Repurchases of Common Stock                                         | (0.9)                           | 0.0      |
| Payment of deferred financing costs                                 | (0.4)                           | 0.0      |
| Dividends paid                                                      | (18.5)                          | (13.5)   |
| Net cash used in financing activities                               | (59.9)                          | (13.6)   |
| Effect of exchange rate changes on cash                             | 2.0                             | 1.1      |
| Net increase (decrease) in cash and cash equivalents                | (25.3)                          | 67.8     |
| Cash and cash equivalents at beginning of year                      | 58.4                            | 63.1     |
| Cash and cash equivalents at end of period                          | \$ 33.1                         | \$ 130.9 |

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, 2009 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2009.

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, 2009.

2. Dividends

On November 3, 2010, the Company's board of directors declared a quarterly dividend of 22 cents per common share, payable on January 7, 2011 to shareholders of record as of November 15, 2010.

3. Business Acquisition

On March 1, 2010, the Company acquired 100 percent of the outstanding shares of privately-owned Cindu Chemicals B.V. (Cindu), a Dutch company which operates a 140,000 metric ton coal tar distillation plant in Uithoorn, Netherlands. Concurrent with the acquisition, the Company entered into a long-term tar supply agreement with Corus Staal, who supplies the majority of the Uithoorn plant's raw material requirements. The acquisition strengthens the Company's presence in Europe and increases the Company's ability to service its export markets. Cindu was subsequently renamed Koppers Netherlands B.V. (Koppers Netherlands).

The acquired company contributed revenues of \$14.3 million and operating profit of \$0.2 million for the three months ended September 30, 2010 and revenues of \$32.7 million and operating loss of \$0.2 million for the nine months ended September 30, 2010. Depreciation and amortization associated with Koppers Netherlands totaled \$0.7 million for the three months ended September 30, 2010 and \$1.6 million for the nine months ended September 30, 2010. Koppers Netherlands' revenues were \$6.8 million and its operating loss was \$1.6 million in 2010 for the two-month period prior to the acquisition. Koppers Netherlands' revenues were \$11.3 million and its operating loss was \$0.6 million for the three months ended September 30, 2009 and its revenues were \$27.9 million and its operating loss was \$3.3 million for the nine months ended September 30, 2009.

The consolidated pro forma results of operations if the acquisition had been completed as of the beginning of the year in 2010 would have been pro forma revenue of \$944.5 million and operating profit of \$81.3 million for the nine months ended September 30, 2010. The consolidated pro forma results of operations if the acquisition had been completed as of the beginning of the year in 2009 would have been revenues of \$301.1 million and operating profit of \$32.5 million for the three months ended September 30, 2009 and revenues of \$882.0 million and operating profit of \$81.3 million for the nine months ended September 30, 2009.

The acquisition was funded with cash on hand and the acquisition price was \$21.6 million. The provisional identifiable assets acquired and liabilities assumed upon the acquisition of Koppers Netherlands are shown in the table below. Items subject to adjustment during the measurement period include, among other items, final valuations for tangible and intangible assets and other liabilities.

|                               | March 1, 2010 |
|-------------------------------|---------------|
| <i>(Dollars in millions)</i>  |               |
| Cash and cash equivalents     | \$ 2.1        |
| Accounts receivable           | 6.5           |
| Inventory                     | 7.1           |
| Other current assets          | 1.8           |
| Property, plant and equipment | 8.3           |
| Intangibles                   | 4.4           |
| Goodwill                      | 6.9           |
| <br>Total assets acquired     | <br>37.1      |
| Accounts payable              | 9.8           |
| Accrued liabilities           | 3.0           |
| Long-term debt                | 0.6           |
| Deferred tax liability        | 1.3           |
| Long-term liabilities         | 0.8           |
| <br>Net assets acquired       | <br>\$ 21.6   |

All assets acquired and liabilities assumed were recorded at estimated fair value. Goodwill of \$6.9 million was allocated to the Carbon Materials & Chemicals segment and is not deductible for income tax purposes under Dutch law. Net assets acquired included intangible assets with respect to a coal tar supply agreement of \$2.9 million and customer relationships of \$0.7 million which will be amortized over a period of ten years and a favorable lease agreement of \$0.8 million which will be amortized over a period of three years. The intangible assets other than goodwill are classified in other assets in the condensed consolidated balance sheet. Acquisition expenses were \$0.0 and \$1.8 million for the three months and nine months ended September 30, 2010, respectively, and are charged to selling, general and administrative expenses.

#### 4. Fair Value Measurements

Carrying amounts and the related estimated fair values of the Company's financial instruments as of September 30, 2010 and December 31, 2009 are as follows:

|                                                      | September 30, 2010 |                | December 31, 2009 |                |
|------------------------------------------------------|--------------------|----------------|-------------------|----------------|
|                                                      | Fair Value         | Carrying Value | Fair Value        | Carrying Value |
| <i>(Dollars in millions)</i>                         |                    |                |                   |                |
| <b>Financial assets:</b>                             |                    |                |                   |                |
| Cash and cash equivalents, including restricted cash | \$ 33.1            | \$ 33.1        | \$ 58.4           | \$ 58.4        |
| Short-term investments                               | 0.0                | 0.0            | 4.4               | 4.4            |
| Investments and other assets <sup>(a)</sup>          | 1.3                | 1.3            | 1.3               | 1.3            |
| <b>Financial liabilities:</b>                        |                    |                |                   |                |
| Long-term debt (including current portion)           | \$ 310.5           | \$ 296.1       | \$ 344.8          | \$ 335.3       |

<sup>(a)</sup> Excludes equity method investments.

Cash and short-term investments The carrying amount approximates fair value because of the short maturity of those instruments.

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

*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 nine months ended September 30, 2010 and 2009 is summarized in the table below:

|                                                                     | Three Months Ended September 30, |         | Nine Months Ended September 30, |         |
|---------------------------------------------------------------------|----------------------------------|---------|---------------------------------|---------|
|                                                                     | 2010                             | 2009    | 2010                            | 2009    |
| <i>(Dollars in millions)</i>                                        |                                  |         |                                 |         |
| Net income                                                          | \$ 15.8                          | \$ 17.1 | \$ 39.3                         | \$ 34.2 |
| Other comprehensive income (loss):                                  |                                  |         |                                 |         |
| Change in currency translation adjustment                           | 20.3                             | 7.0     | 6.9                             | 23.1    |
| Change in unrecognized pension transition asset, net of tax         | (0.1)                            | (0.1)   | (0.2)                           | (0.2)   |
| Change in unrecognized prior service cost, net of tax               | 0.0                              | (0.1)   | 0.0                             | (0.1)   |
| Change in unrecognized pension net loss, net of tax                 | 0.8                              | 1.1     | 2.5                             | 3.0     |
| Total comprehensive income                                          | 36.8                             | 25.0    | 48.5                            | 60.0    |
| Less: comprehensive income attributable to noncontrolling interests | 0.4                              | 1.6     | 0.6                             | 2.9     |
| Comprehensive income attributable to Koppers                        | \$ 36.4                          | \$ 23.4 | \$ 47.9                         | \$ 57.1 |

The following tables present the change in equity for the nine months ended September 30, 2010 and September 30, 2009, respectively:

|                                   | Total Koppers<br>Shareholders<br>Equity | Noncontrolling<br>Interests | Total Equity |
|-----------------------------------|-----------------------------------------|-----------------------------|--------------|
| <i>(Dollars in millions)</i>      |                                         |                             |              |
| Balance at January 1, 2010        | \$ 43.8                                 | \$ 11.0                     | \$ 54.8      |
| Net income                        | 39.0                                    | 0.3                         | 39.3         |
| Issuance of common stock          | 3.7                                     | 0.0                         | 3.7          |
| Employee stock plans              | 4.9                                     | 0.0                         | 4.9          |
| Other comprehensive income (loss) | 8.9                                     | 0.3                         | 9.2          |
| Dividends                         | (13.7)                                  | (0.6)                       | (14.3)       |
| Repurchases of common stock       | (0.9)                                   | 0.0                         | (0.9)        |
| Balance at September 30, 2010     | \$ 85.7                                 | \$ 11.0                     | \$ 96.7      |

|                                       | Total Koppers<br>Stockholders<br>Equity | Noncontrolling<br>Interests | Total Equity |
|---------------------------------------|-----------------------------------------|-----------------------------|--------------|
| <i>(Dollars in millions)</i>          |                                         |                             |              |
| Balance at January 1, 2009            | \$ 18.0                                 | \$ 8.0                      | \$ 26.0      |
| Net income                            | 32.2                                    | 2.0                         | 34.2         |
| Other comprehensive income            | 24.9                                    | 0.9                         | 25.8         |
| Issuance of common stock              | 0.6                                     | 0.0                         | 0.6          |
| Dividends to Koppers stockholders     | (13.7)                                  | 0.0                         | (13.7)       |
| Dividends to noncontrolling interests | 0.0                                     | (0.5)                       | (0.5)        |
| Balance at September 30, 2009         | \$ 62.0                                 | \$ 10.4                     | \$ 72.4      |



## 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 nonvested 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:

|                                                                                         | Three Months Ended September 30, |         | Nine Months Ended September 30, |         |
|-----------------------------------------------------------------------------------------|----------------------------------|---------|---------------------------------|---------|
|                                                                                         | 2010                             | 2009    | 2010                            | 2009    |
| <i>(Dollars in millions, except share amounts, in thousands, and per share amounts)</i> |                                  |         |                                 |         |
| Net income attributable to Koppers                                                      | \$ 15.6                          | \$ 16.4 | \$ 39.0                         | \$ 32.2 |
| Less: discontinued operations                                                           | 0.0                              | 0.0     | (0.2)                           | (0.3)   |
| Income from continuing operations attributable to Koppers                               | \$ 15.6                          | \$ 16.4 | \$ 39.2                         | \$ 32.5 |
| Weighted average common shares outstanding:                                             |                                  |         |                                 |         |
| Basic                                                                                   | 20,566                           | 20,454  | 20,533                          | 20,443  |
| Effect of dilutive securities                                                           | 82                               | 130     | 133                             | 89      |
| Diluted                                                                                 | 20,648                           | 20,584  | 20,666                          | 20,532  |
| Earnings per common share continuing operations:                                        |                                  |         |                                 |         |
| Basic earnings per common share                                                         | \$ 0.76                          | \$ 0.80 | \$ 1.91                         | \$ 1.59 |
| Diluted earnings per common share                                                       | 0.75                             | 0.80    | 1.90                            | 1.58    |
| Other data:                                                                             |                                  |         |                                 |         |
| Antidilutive securities excluded from computation of diluted earnings per common share  | 162                              | 103     | 151                             | 243     |

## 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. The performance stock units vest upon the attainment of the applicable performance objective at the end of a two or three-year period. 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 2007 vested at 140 percent of target in March 2010 and resulted in a grant of 28,060 performance stock units above target.

In February 2010, the board of directors awarded 32,744 restricted stock units and 68,457 performance stock units to certain employee participants (collectively, the "stock units") with a grant date of February 22, 2010. The restricted stock units will vest in February 2013, assuming continued employment by the participant. The performance stock units will vest on February 22, 2013 upon the attainment of the applicable performance objective and assuming continued employment by the participant. The applicable performance objective is based upon a two-year cumulative value creation calculation commencing January 1, 2010. 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.

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 nonvested 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.

Compensation expense for nonvested 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 outstanding as of September 30, 2010:

| <i>Performance Period</i> | <i>Minimum<br/>Shares</i> | <i>Target<br/>Shares</i> | <i>Maximum<br/>Shares</i> |
|---------------------------|---------------------------|--------------------------|---------------------------|
| 2008 - 2010               | 0                         | 46,774                   | 70,161                    |
| 2009 - 2011               | 0                         | 141,732                  | 212,598                   |
| 2010 - 2011               | 0                         | 68,457                   | 102,686                   |

The following table shows a summary of the status and activity of nonvested stock awards for the nine months ended September 30, 2010:

|                                   | <i>Restricted<br/>Stock<br/>Units</i> | <i>Performance<br/>Stock Units</i> | <i>Total<br/>Stock<br/>Units</i> | <i>Weighted Average<br/>Grant Date Fair<br/>Value per Unit</i> |
|-----------------------------------|---------------------------------------|------------------------------------|----------------------------------|----------------------------------------------------------------|
| Nonvested at January 1, 2010      | 112,387                               | 256,138                            | 368,525                          | \$ 22.50                                                       |
| Granted                           | 32,744                                | 68,457                             | 101,201                          | \$ 28.10                                                       |
| Credited from dividends           | 3,277                                 | 7,651                              | 10,928                           | \$ 23.15                                                       |
| Performance stock unit adjustment | 0                                     | 28,060                             | 28,060                           | \$ 25.75                                                       |
| Vested                            | (21,289)                              | (98,197)                           | (119,486)                        | \$ 25.74                                                       |
| Forfeited                         | (17)                                  | (14)                               | (31)                             | \$ 32.16                                                       |
| Nonvested September 30, 2010      | 127,102                               | 262,095                            | 389,197                          | \$ 23.04                                                       |

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 retirement, death or disability, any nonvested 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 unvested 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 for unvested stock options:

|                                                  | <i>August 2010 Grant</i> | <i>February 2010 Grant</i> | <i>February 2009 Grant</i> | <i>February 2008 Grant</i> |
|--------------------------------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| Grant date price per share of option award       | \$ 20.00                 | \$ 28.10                   | \$ 15.26                   | \$ 39.99                   |
| Expected dividend yield per share                | 2.50%                    | 2.50%                      | 2.50%                      | 2.00%                      |
| Expected life in years                           | 6.5                      | 6.5                        | 6.5                        | 6.5                        |
| Expected volatility                              | 62.00%                   | 62.00%                     | 51.00%                     | 40.67%                     |
| Risk-free interest rate                          | 3.05%                    | 3.05%                      | 2.05%                      | 3.28%                      |
| Grant date fair value per share of option awards | \$ 9.82                  | \$ 13.81                   | \$ 6.19                    | \$ 14.79                   |

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. 107 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 nine months ended September 30, 2010:

|                                   |         | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term | Aggregate Intrinsic<br>Value (in<br>millions) |
|-----------------------------------|---------|------------------------------------|---------------------------------------------------|-----------------------------------------------|
|                                   | Options | per Option                         | (in years)                                        |                                               |
| Outstanding at January 1, 2010    | 246,016 | \$ 23.30                           |                                                   |                                               |
| Granted                           | 61,460  | \$ 27.77                           |                                                   |                                               |
| Outstanding at September 30, 2010 | 307,476 | \$ 24.19                           | 8.11                                              | \$ 1.7                                        |
| Exercisable at September 30, 2010 | 57,600  | \$ 29.97                           | 6.49                                              | \$ 0.0                                        |

Total stock-based compensation expense recognized for the three and nine months ended September 30, 2010 and 2009 is as follows:

|                                              | Three Months Ended September 30, |          | Nine Months Ended September 30, |        |
|----------------------------------------------|----------------------------------|----------|---------------------------------|--------|
|                                              | 2010                             | 2009     | 2010                            | 2009   |
| (Dollars in millions)                        |                                  |          |                                 |        |
| Stock-based compensation expense recognized: |                                  |          |                                 |        |
| Selling, general and administrative expenses | \$ 0.7                           | \$ (0.5) | \$ 2.5                          | \$ 1.7 |
| Less related income tax benefit              | 0.3                              | (0.2)    | 1.0                             | 0.7    |
|                                              | \$ 0.4                           | \$ (0.3) | \$ 1.5                          | \$ 1.0 |

In the third quarter of 2009, the Company reversed a portion of accrued stock-based compensation related to its performance stock unit awards.

For the nine months ended September 30, 2010, shares issued under the LTIP for board of director compensation totaled 21,000 shares. As of September 30, 2010, total future compensation expense related to non-vested stock-based compensation arrangements totaled \$4.5 million and the weighted-average period over which this cost is expected to be recognized is approximately 23 months.

## 8. Segment Information

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.

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

The Company's Railroad & Utility Products segment sells treated and untreated wood 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. 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,



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

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 September 30,</i> |             | <i>Nine Months Ended September 30,</i> |             |
|----------------------------------------|-----------------------------------------|-------------|----------------------------------------|-------------|
|                                        | <i>2010</i>                             | <i>2009</i> | <i>2010</i>                            | <i>2009</i> |
| <i>(Dollars in millions)</i>           |                                         |             |                                        |             |
| Revenues from external customers:      |                                         |             |                                        |             |
| Carbon Materials & Chemicals           | \$ 218.4                                | \$ 173.1    | \$ 600.1                               | \$ 479.5    |
| Railroad & Utility Products            | 117.9                                   | 116.7       | 337.6                                  | 374.6       |
| Total                                  | \$ 336.3                                | \$ 289.8    | \$ 937.7                               | \$ 854.1    |
| Intersegment revenues:                 |                                         |             |                                        |             |
| Carbon Materials & Chemicals           | \$ 25.1                                 | \$ 21.4     | \$ 75.4                                | \$ 71.6     |
| Depreciation and amortization expense: |                                         |             |                                        |             |
| Carbon Materials & Chemicals           | \$ 5.0                                  | \$ 4.3      | \$ 14.2                                | \$ 13.0     |
| Railroad & Utility Products            | 2.0                                     | 1.8         | 6.2                                    | 5.4         |
| Total                                  | \$ 7.0                                  | \$ 6.1      | \$ 20.4                                | \$ 18.4     |
| Operating profit:                      |                                         |             |                                        |             |
| Carbon Materials & Chemicals           | \$ 26.1                                 | \$ 23.8     | \$ 58.2                                | \$ 50.2     |
| Railroad & Utility Products            | 7.7                                     | 10.0        | 26.3                                   | 36.4        |
| Corporate                              | (0.3)                                   | (0.6)       | (1.4)                                  | (1.7)       |
| Total                                  | \$ 33.5                                 | \$ 33.2     | \$ 83.1                                | \$ 84.9     |

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

|                              | <i>September 30,</i> | <i>December 31,</i> |
|------------------------------|----------------------|---------------------|
|                              | <i>2010</i>          | <i>2009</i>         |
| <i>(Dollars in millions)</i> |                      |                     |
| Segment assets:              |                      |                     |
| Carbon Materials & Chemicals | \$ 441.8             | \$ 402.2            |
| Railroad & Utility Products  | 144.9                | 141.3               |
| All other                    | 70.3                 | 100.9               |
| Total                        | \$ 657.0             | \$ 644.4            |
| Goodwill:                    |                      |                     |
| Carbon Materials & Chemicals | \$ 67.4              | \$ 59.4             |
| Railroad & Utility Products  | 2.4                  | 2.2                 |
| Total                        | \$ 69.8              | \$ 61.6             |

Goodwill for Carbon Materials & Chemicals increased \$6.9 million from December 31, 2009 as a result of the Koppers Netherlands acquisition before considering foreign currency exchange adjustments.

### 9. Income Taxes

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

### *Effective Tax Rate*

Income taxes as a percentage of pretax income was 41.3 percent and 24.8 percent for the three months ended September 30, 2010 and 2009, respectively. Discrete items included in income taxes for the three months ended September 30, 2010 consisted of net tax expense of \$0.3 million due to tax return to provision adjustments and changes in unrecognized tax

benefits. The effective tax rate, exclusive of discrete items, for the third quarter of 2010 of 40.0 percent differs from the U.S. federal statutory rate of 35.0 percent due to taxes on foreign earnings (+3.5 percent), nondeductible expenses (+1.6 percent) and state taxes (+1.2 percent) partially offset by the domestic manufacturing deduction (-1.7 percent). With respect to the third quarter of 2009, the effective tax rate of 24.8 percent differs from the federal statutory rate primarily due to taxes on foreign earnings (-6.5 percent) and tax return to provision adjustments (-4.8 percent). The impact on taxes on foreign earnings in 2009's third quarter is primarily due to the decision to not repatriate 2009's earnings from Europe.

Income taxes as a percentage of pretax income was 38.8 percent and 36.2 percent for the nine months ended September 30, 2010 and 2009, respectively. Discrete items included in income taxes for the nine months ended September 30, 2010 was a net tax expense of \$0.3 million due to tax return to provision adjustments and changes in unrecognized tax benefits. The effective tax rate, exclusive of discrete items, for the first nine months of 2010 of 38.2 percent differs from the U.S. federal statutory rate of 35.0 percent primarily due to taxes on foreign earnings (+2.1 percent), nondeductible expenses (+1.3 percent) and state taxes (+0.9 percent) partially offset by the domestic manufacturing deduction (-1.9 percent). With respect to the first nine months of 2009, the effective tax rate of 36.2 percent differs from the federal statutory rate primarily due to taxes on foreign earnings (+2.0 percent) and state taxes (+1.6 percent) partially offset by the domestic manufacturing deduction (-1.7 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. To the extent that actual results vary from the estimates at the end of the third quarter, the actual tax provision recognized for 2010 could be materially different from the forecasted annual tax provision as of the end of the third quarter.

#### Uncertain Tax Positions

The Company or one of its subsidiaries files income tax returns in 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 2004.

As of September 30, 2010 and December 31, 2009, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately \$3.4 million and \$3.3 million, respectively. Unrecognized tax benefits totaled \$4.1 million and \$4.0 million as of September 30, 2010 and December 31, 2009, respectively. The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. As of September 30, 2010 and December 31, 2009, the Company had accrued approximately \$0.7 million.

#### 10. Inventories

Net inventories as of September 30, 2010 and December 31, 2009 are summarized in the table below:

|                              | September 30,<br>2010 | December 31,<br>2009 |
|------------------------------|-----------------------|----------------------|
| <i>(Dollars in millions)</i> |                       |                      |
| Raw materials                | \$ 97.3               | \$ 94.3              |
| Work in process              | 7.7                   | 8.3                  |
| Finished goods               | 90.1                  | 94.9                 |
|                              | 195.1                 | 197.5                |
| Less revaluation to LIFO     | 43.8                  | 44.8                 |
| Net                          | \$ 151.3              | \$ 152.7             |

# 11. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2010 and December 31, 2009 are summarized in the table below:

|                               | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------------|-----------------------|----------------------|
| <i>(Dollars in millions)</i>  |                       |                      |
| Land                          | \$ 7.5                | \$ 7.5               |
| Buildings                     | 35.3                  | 29.3                 |
| Machinery and equipment       | 588.3                 | 491.0                |
|                               | 631.1                 | 527.8                |
| Less accumulated depreciation | 476.1                 | 378.5                |
| Net                           | \$ 155.0              | \$ 149.3             |

# 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 a number of 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 following table provides the components of net periodic benefit cost for the pension plans for the three and nine months ended September 30, 2010 and 2009:

|                                    | Three Months Ended September 30, |        | Nine Months Ended September 30, |        |
|------------------------------------|----------------------------------|--------|---------------------------------|--------|
|                                    | 2010                             | 2009   | 2010                            | 2009   |
| <i>(Dollars in millions)</i>       |                                  |        |                                 |        |
| Service cost                       | \$ 0.8                           | \$ 0.6 | \$ 2.4                          | \$ 2.0 |
| Interest cost                      | 3.0                              | 2.7    | 8.6                             | 7.9    |
| Expected return on plan assets     | (2.5)                            | (2.0)  | (7.4)                           | (6.2)  |
| Amortization of prior service cost | 0.0                              | 0.0    | 0.1                             | 0.2    |
| Amortization of net loss           | 1.3                              | 1.5    | 3.9                             | 4.7    |
| Amortization of transition asset   | (0.1)                            | 0.0    | (0.2)                           | (0.2)  |
| Net periodic benefit cost          | \$ 2.5                           | \$ 2.8 | \$ 7.4                          | \$ 8.4 |

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 retiree 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

Expense related to the Company's defined contribution plans totaled \$1.1 million and \$0.6 million for the three months ended September 30, 2010 and 2009, respectively and \$3.7 million and \$1.8 million for the nine months ended September 30, 2010 and 2009, respectively. Expense related to the Company's other postretirement benefit plans other than pensions totaled \$0.2 million for each of the three months ended September 30, 2010 and 2009 and \$0.6 million for each of the nine months ended September 30, 2010 and 2009.

### 13. Debt

Debt at September 30, 2010 and December 31, 2009 was as follows:

|                                                               | Weighted<br>Average<br>Interest |          | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------------------------------|---------------------------------|----------|-----------------------|----------------------|
|                                                               | Rate                            | Maturity |                       |                      |
| <i>(Dollars in millions)</i>                                  |                                 |          |                       |                      |
| Revolving Credit Facility                                     | 0.00%                           | 2013     | \$ 0.0                | \$ 40.0              |
| Senior Notes                                                  | 7 7/8%                          | 2019     | 295.2                 | 295.0                |
| Other debt, including capital leases                          | 8.00%                           | Various  | 0.9                   | 0.3                  |
| Total debt                                                    |                                 |          | 296.1                 | 335.3                |
| Less short term debt and current maturities of long-term debt |                                 |          | 0.2                   | 0.2                  |
| Long-term debt                                                |                                 |          | \$ 295.9              | \$ 335.1             |

#### *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 Koppers Inc.'s assets. The credit facility contains certain covenants that restrict Koppers Inc.'s ability to incur additional indebtedness, create liens on its assets, pay dividends and make capital expenditures, investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. to meet certain financial ratios. Commitment fees totaled \$0.4 million and \$0.5 million for the three months ended September 30, 2010 and 2009, respectively, and \$1.0 million and \$1.6 million for the nine months ended September 30, 2010 and 2009, respectively. Commitment fees are charged to interest expense.

As of September 30, 2010, the Company had \$236.9 million of unused revolving credit availability after restrictions from certain letter of credit commitments and other covenants. As of September 30, 2010, \$11.3 million of commitments were utilized by outstanding letters of credit.

#### *Senior Notes*

The Koppers Inc. 7 7/8 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 8 1/8 percent per annum. The Senior Notes are unsecured senior obligations that are fully and unconditionally guaranteed by Koppers 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, starting on June 1, 2010. 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.

#### *Guarantees*

The Company's 60-percent owned subsidiary in China has issued a guarantee of \$18.3 million in support of the Company's 30-percent investment in Tangshan Koppers Kailuan Carbon Chemical Company Limited ("TKK"). The guarantee relates to bank debt incurred by TKK which matures in 2011.



#### 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:

|                                       | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------|-----------------------|----------------------|
| <i>(Dollars in millions)</i>          |                       |                      |
| Balance at beginning of year          | \$ 16.6               | \$ 16.2              |
| Accretion expense                     | 1.0                   | 1.2                  |
| Revision in estimated cash flows, net | 0.4                   | 0.6                  |
| Expenses incurred                     | (1.6)                 | (1.6)                |
| Currency translation                  | (0.1)                 | 0.2                  |
| Balance at end of period              | \$ 16.3               | \$ 16.6              |

#### 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:

|                                                   | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------------------|-----------------------|----------------------|
| <i>(Dollars in millions)</i>                      |                       |                      |
| Balance at beginning of year                      | \$ 6.7                | \$ 7.5               |
| Deferred revenue for sales of extended warranties | 0.1                   | 0.3                  |
| Revenue earned                                    | (0.8)                 | (1.1)                |
| Balance at end of period                          | \$ 6.0                | \$ 6.7               |

#### 16. Commitments and Contingent Liabilities

Koppers Inc. 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 fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company 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 116 plaintiffs in 63 cases pending as of September 30, 2010 as compared to 112 plaintiffs in 62 cases at December 31, 2009. As of September 30, 2010, there are a total of 59 cases pending in state court in Pennsylvania, one case each pending in state courts in Tennessee and Illinois, and two cases pending in an Indiana state court.

The plaintiffs in all 63 pending cases seek to recover compensatory damages, while plaintiffs in 53 cases also seek to recover punitive damages. The plaintiffs in the 59 cases filed in Pennsylvania state court seek unspecified damages in excess of the court's minimum jurisdictional limit. The plaintiffs in the two cases filed in Indiana state court also seek damages in an unspecified amount. The plaintiffs in the Tennessee state court case each seek damages of \$15.0 million. The plaintiff in the Illinois state court case seeks compensatory damages in excess of \$50,000.

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

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.

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. No trial dates have been set in any of these cases.

*Somerville Cases.* Koppers Inc. is currently defending five sets of state court cases in Texas (*Antu*, *Baade*, *Davis*, *Hensen* and *Moses*) involving approximately 130 plaintiffs who allegedly have worked or resided in Somerville, Texas, where Koppers Inc. has operated a wood treatment plant since 1995. Koppers Inc. has been named, but not served, as a defendant in another Texas state court case (*Asselin*) involving 11 plaintiffs who allegedly worked or resided in Somerville, Texas. These cases are pending in Burleson County, Texas, and Tarrant County, Texas. In addition to those Texas state court cases, Koppers Inc. is defending another state court case (*Gonzalez*) that is pending in the Circuit Court of Cook County, Illinois. The *Gonzalez* case initially involved 28 plaintiffs who allegedly worked or resided in Somerville, Texas. The court has dismissed 22 of the *Gonzalez* plaintiffs' claims and an appeal regarding the dismissal of those claims is pending. The BNSF Railway Company (BNSF) has also been named as a defendant in these cases. The complaints allege that plaintiffs have suffered personal injuries (including death, in some cases) resulting from exposure to wood preservative chemicals used at the Somerville, Texas wood treatment plant. The complaints in the *Moses*, *Davis* and *Asselin* cases additionally allege that plaintiffs have suffered property damage.

The complaints seek to recover various damages for each plaintiff, including compensatory and punitive damages within the jurisdictional limits of the court for, among other things, bodily injuries, pain and mental anguish, emotional distress, medical monitoring, medical expenses, diminished earning capacity, permanent disability, physical impairment and/or disfigurement, loss of companionship and society, loss of consortium, devaluation of property, loss of use and enjoyment of personal property, loss of use and enjoyment of real property, property damage, property remediation costs, funeral and burial expenses and lost wages.

There are a total of 35 plaintiffs in the *Moses* cases. There are a total of ten plaintiffs in the *Antu* case, four of whom have claims pending against only the BNSF. The *Hensen* case identifies a total of 65 plaintiffs, two of whom have claims pending against only the BNSF. The *Davis* case involves one plaintiff. There are a total of 25 plaintiffs in the *Baade* case.

In addition to the cases pending in state court, Koppers Inc. was defending one case, *Bullard*, in the United States District Court for the Western District of Texas involving a total of four plaintiffs. In August 2010, this case was dismissed without prejudice.

Currently, two of the cases severed from *Moses* and involving Koppers Inc. have case management orders which stipulate that all discovery is to be completed by early 2011. No trial dates have been set in those cases. No other cases pending against Koppers Inc. have discovery completion dates or trial dates.

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. 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.

*Grenada All Cases.* Koppers Inc., together with various co-defendants (including Beazer East), has been named as a defendant in toxic tort lawsuits in federal court in Mississippi (see *Grenada Federal Court Cases* below) and in state court in Mississippi (see *Grenada State Court Cases* below) arising from the operation of the Grenada facility. The complaints allege that plaintiffs were exposed to harmful levels of various toxic chemicals, including creosote, pentachlorophenol, polycyclic aromatic hydrocarbons and dioxin, as a result of soil, surface water and groundwater contamination and air emissions from the Grenada facility. Based on the experience of Koppers Inc. in defending previous toxic tort cases, the Company does not believe that the damages sought by the plaintiffs in the state and federal court cases are supported by the facts of the cases. The Company has not provided a reserve for these lawsuits 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 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. See *Environmental and Other Liabilities Retained or Assumed by Others* for additional information.

Grenada Federal Court Cases.

*Beck Case* The complaint in this case was originally filed by approximately 110 plaintiffs. Pursuant to an order granting defendants' motion to sever, the court dismissed the claims of 98 plaintiffs in the *Beck* case without prejudice to their right to re-file their complaints. In December 2005, 94 of the 98 plaintiffs in the *Beck* case whose claims were dismissed re-filed their complaints. The plaintiffs in the 94 cases that were re-filed seek compensatory damages from the defendants of at least \$5.0 million for each of eight counts and punitive damages of at least \$10.0 million for each of three counts (in addition to damages in an unspecified amount for alleged trespass and nuisance). No discovery orders have been issued with respect to the 94 additional cases. The claims of eight of the 12 plaintiffs whose claims were not dismissed are still pending. The eight remaining plaintiffs seek compensatory damages from the defendants in an unspecified amount and punitive damages of \$20.0 million for each of four counts.

The first of these trials occurred in 2006 and, after an appeal, the court ultimately rendered a judgment in favor of Koppers Inc. In January 2010, the trial court granted summary judgment in favor of Koppers Inc. on all claims for the second trial plaintiff. A trial date was set for August 8, 2011 for the third trial plaintiff, but on August 5, 2010 the district court dismissed with prejudice that case as well as the next plaintiff after that who was scheduled to be tried. At this date no trial plaintiff has been selected for the next trial. On September 17, 2010, the Court ordered the parties to participate in mediation applicable for all of the Grenada cases, which is now scheduled for December 2, 2010.

*Ellis Case* There are approximately 1,200 plaintiffs in this case. Each plaintiff seeks compensatory damages from the defendants of at least \$5.0 million for each of seven counts and punitive damages of at least \$10.0 million for each of three counts (in addition to damages for an unspecified amount for trespass and nuisance). The *Ellis* complaint also requests injunctive relief. These cases have been stayed and no trial dates have been scheduled pending the completion of the trials for the remaining eight plaintiffs in the *Beck* case. The timing of the resolution of these cases is not known at this time. On October 15, 2010, the Court granted the plaintiff's motion to dismiss, with prejudice, nine of the *Ellis* claimants.

*Grenada State Court Cases.* The state court cases were brought on behalf of approximately 200 plaintiffs in five counties in Mississippi. Each plaintiff seeks compensatory damages from the defendants of at least \$5.0 million for each of up to eight counts and punitive damages of at least \$10.0 million for each of three counts. Certain plaintiffs also seek damages for alleged trespass and private nuisance in unspecified amounts together with injunctive relief. The Mississippi Supreme Court ordered that the claims of the plaintiffs in the pending state court cases filed in counties other than Grenada County (approximately 110 cases) be severed and transferred to Grenada County. Plaintiffs' counsel attempted to transfer ten such cases to Grenada County, but all ten cases were dismissed by the Court in Grenada County. Plaintiffs' counsel has not attempted to transfer any additional cases to Grenada County and defendants have filed motions to dismiss the claims of the remaining plaintiffs in the four non-Grenada County cases, which motions remain pending. No trial dates have been scheduled in these cases. The timing of the resolution of these cases is not known at this time.

With respect to the state court case that was originally filed in Grenada County, the plaintiffs filed 104 individual complaints in Grenada County. After dismissals and other procedural and substantive motions, one case filed in Grenada County remains pending. The Mississippi Supreme Court recently affirmed the entry of summary judgment in favor of Koppers Inc. based on the state statute of limitations in 40 of the cases, and an appeal is pending on the entry of summary judgment and the dismissal of 18 additional plaintiffs. 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. No trial dates have been set in any of these cases.

*Gainesville.* In April 2010, a class action complaint was filed in the United States District Court for the Northern District of Florida, by residents of Gainesville, Florida which named Koppers Inc. Beazer East and Cabot Corporation, Inc. as defendants. In October 2010, an amended class action complaint was filed which added the Company and Beazer Limited as defendants and dropped Cabot Corporation as a defendant. The plaintiffs purport to represent anyone who has owned property or lived within a two mile radius of the defendants' former utility pole treatment plant and an adjacent site owned by Cabot Corporation. The plaintiffs allege that their property has been contaminated by various toxic substances. Koppers Inc. operated a utility pole treatment plant in Gainesville from 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. Prior to 1988, Beazer East, Inc. conducted

various wood treating operations at the utility pole treatment plant site. The plaintiffs allege that their property's value has been impacted and that they are at an increased risk of developing adverse health effects as a result of the alleged contamination. Plaintiffs seek, among other things, class certification, the creation and funding of comprehensive community property remediation and medical monitoring programs, compensatory and punitive damages in excess of the minimum jurisdictional limit of the Court and other equitable relief. No trial date has been set.

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 Koppers Inc. 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. Three 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, amounts paid by Beazer East as a result of its environmental remediation obligations under the Indemnity have averaged in total approximately \$11 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 adjustment to the Company's net worth.

*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 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 cost of participating in the PRP group at the Portland Harbor CERCLA site, 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.

The Illinois Environmental Protection Agency (the IEPA ) has requested that Koppers Inc. conduct a voluntary investigation of soil and groundwater at its Stickney, Illinois carbon materials and chemicals facility. Koppers Inc. is also conducting 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 has provided a reserve for this matter totaling \$0.8 million as of September 30, 2010.

In August 2005, the Pennsylvania Department of Environmental Protection (the PADEP ) proposed a fine related to alleged water discharge exceedances from a storm water sewer pipe at the tar distillation facility of Koppers Inc. in Clairton, Pennsylvania. In July 2010, Koppers Inc. reached a final settlement of the fine with the PADEP and executed a consent order with the PADEP. Koppers Inc. also agreed to undertake certain engineering and capital improvements and agreed to contribute the capital improvements, primarily a new sewer line, to the city of Clairton. Accordingly, Koppers Inc. has provided a reserve of \$1.9 million related to the new sewer line and PADEP fine as of September 30, 2010. Koppers Inc. began construction of the new sewer line during the third quarter of 2010.

*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 December 2006 the Company and the owner of the adjacent property reached an agreement in principle pursuant to which the Company will contribute \$1.8 million and the owner of the adjacent property will contribute \$6.5 million toward remediation of the property. Subject to the approval of a remediation action plan by local environmental authorities, the agreement in principle 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 in principle provides that the property will be transferred to the Company. The Company has reserved its expected total remediation costs of \$1.8 million at September 30, 2010.

Other Australian environmental matters include soil and groundwater remediation at a number of current and former facilities in Australia. With respect to a closed facility in Thornton, Australia, the sale of the property was completed in March 2010 and the buyer assumed all remediation liability. Accordingly, the accrual for remediation at this site was reversed in the nine months ended September 30, 2010 and resulted in a decrease to cost of sales of \$2.9 million. The Company has reserved \$1.3 million for remediation costs at the remaining Australian sites.

*Environmental Reserves Rollforward.* The following table reflects changes in the accrued liability for environmental matters:

|                              | September 30,<br>2010 | December 31,<br>2009 |
|------------------------------|-----------------------|----------------------|
| <i>(Dollars in millions)</i> |                       |                      |
| Balance at beginning of year | \$ 10.7               | \$ 9.4               |
| Expense                      | 0.4                   | 0.5                  |
| Reversal of reserves         | (4.3)                 | 0.0                  |
| Cash expenditures            | (0.6)                 | (0.5)                |
| Currency translation         | 0.3                   | 1.3                  |
| Balance at end of period     | \$ 6.5                | \$ 10.7              |

#### 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 wholly-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 September 30, 2010 and 2009 and for the three and nine months ended September 30, 2010 and 2009 is as follows:

# Condensed Consolidating Statement of Operations

For the Three Months Ended September 30, 2010

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 196.1     | \$ 10.2                               | \$ 135.5                      | \$ (5.5)                     | \$ 336.3     |
| Cost of sales including depreciation and amortization | 0.0     | 171.4        | (1.3)                                 | 114.9                         | 2.4                          | 287.4        |
| Selling, general and administrative                   | 0.3     | 8.1          | 0.3                                   | 6.7                           | 0.0                          | 15.4         |
| Operating profit (loss)                               | (0.3)   | 16.6         | 11.2                                  | 13.9                          | (7.9)                        | 33.5         |
| Other income (expense)                                | 15.8    | 0.0          | (0.1)                                 | 0.1                           | (15.8)                       | 0.0          |
| Interest expense (income)                             | (0.1)   | 7.0          | 0.0                                   | 0.9                           | (1.2)                        | 6.6          |
| Income taxes                                          | 0.0     | 8.0          | 0.1                                   | 3.0                           | 0.0                          | 11.1         |
| Income from continuing operations                     | 15.6    | 1.6          | 11.0                                  | 10.1                          | (22.5)                       | 15.8         |
| Discontinued operations                               | 0.0     | 0.0          | 0.0                                   | 0.0                           | 0.0                          | 0.0          |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.2                           | 0.0                          | 0.2          |
| Net income attributable to Koppers                    | \$ 15.6 | \$ 1.6       | \$ 11.0                               | \$ 9.9                        | \$ (22.5)                    | \$ 15.6      |

# Condensed Consolidating Statement of Operations

For the Three Months Ended September 30, 2009

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 179.0     | \$ 5.6                                | \$ 114.5                      | \$ (9.3)                     | \$ 289.8     |
| Cost of sales including depreciation and amortization | 0.0     | 156.0        | (7.9)                                 | 94.8                          | 0.7                          | 243.6        |
| Selling, general and administrative                   | 0.6     | 5.7          | 0.4                                   | 6.3                           | 0.0                          | 13.0         |
| Operating profit (loss)                               | (0.6)   | 17.3         | 13.1                                  | 13.4                          | (10.0)                       | 33.2         |
| Other income (expense)                                | 20.1    | 0.0          | 0.0                                   | (0.3)                         | (20.1)                       | (0.3)        |
| Interest expense (income)                             | 5.1     | 5.4          | 0.0                                   | 0.8                           | (1.3)                        | 10.0         |
| Income taxes                                          | (2.0)   | 4.2          | 0.1                                   | 3.5                           | 0.0                          | 5.8          |
| Income from continuing operations                     | 16.4    | 7.7          | 13.0                                  | 8.8                           | (28.8)                       | 17.1         |
| Discontinued operations                               | 0.0     | 0.0          | 0.0                                   | 0.0                           | 0.0                          | 0.0          |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.7                           | 0.0                          | 0.7          |
| Net income attributable to Koppers                    | \$ 16.4 | \$ 7.7       | \$ 13.0                               | \$ 8.1                        | \$ (28.8)                    | \$ 16.4      |

# Condensed Consolidating Statement of Operations

For the Nine Months Ended September 30, 2010

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 549.8     | \$ 35.3                               | \$ 381.2                      | \$ (28.6)                    | \$ 937.7     |
| Cost of sales including depreciation and amortization | 0.0     | 490.8        | 12.8                                  | 319.6                         | (16.4)                       | 806.8        |
| Selling, general and administrative                   | 1.4     | 24.0         | 2.8                                   | 19.6                          | 0.0                          | 47.8         |
| Operating profit (loss)                               | (1.4)   | 35.0         | 19.7                                  | 42.0                          | (12.2)                       | 83.1         |
| Other income (expense)                                | 39.9    | 0.1          | (0.3)                                 | 2.0                           | (39.9)                       | 1.8          |
| Interest expense (income)                             | (0.1)   | 21.0         | 0.0                                   | 3.1                           | (3.6)                        | 20.4         |
| Income taxes                                          | (0.4)   | 15.6         | 0.3                                   | 9.5                           | 0.0                          | 25.0         |
| Income (loss) from continuing operations              | 39.0    | (1.5)        | 19.1                                  | 31.4                          | (48.5)                       | 39.5         |
| Discontinued operations                               | 0.0     | 0.0          | (0.2)                                 | 0.0                           | 0.0                          | (0.2)        |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.3                           | 0.0                          | 0.3          |
| Net income (loss) attributable to Koppers             | \$ 39.0 | \$ (1.5)     | \$ 18.9                               | \$ 31.1                       | \$ (48.5)                    | \$ 39.0      |

# Condensed Consolidating Statement of Operations

For the Nine Months Ended September 30, 2009

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 564.1     | \$ 22.6                               | \$ 300.7                      | \$ (33.3)                    | \$ 854.1     |
| Cost of sales including depreciation and amortization | 0.0     | 495.0        | (3.1)                                 | 253.7                         | (17.3)                       | 728.3        |
| Selling, general and administrative                   | 1.7     | 20.5         | 1.2                                   | 17.5                          | 0.0                          | 40.9         |
| Operating profit (loss)                               | (1.7)   | 48.6         | 24.5                                  | 29.5                          | (16.0)                       | 84.9         |
| Other income (expense)                                | 42.8    | 0.2          | (0.2)                                 | (0.5)                         | (42.8)                       | (0.5)        |
| Interest expense (income)                             | 14.5    | 16.7         | 0.0                                   | 2.7                           | (3.7)                        | 30.2         |
| Income taxes                                          | (5.6)   | 17.4         | 0.2                                   | 7.7                           | 0.0                          | 19.7         |
| Income from continuing operations                     | 32.2    | 14.7         | 24.1                                  | 18.6                          | (55.1)                       | 34.5         |
| Discontinued operations                               | 0.0     | (0.3)        | 0.0                                   | 0.0                           | 0.0                          | (0.3)        |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 2.0                           | 0.0                          | 2.0          |
| Net income attributable to Koppers                    | \$ 32.2 | \$ 14.4      | \$ 24.1                               | \$ 16.6                       | \$ (55.1)                    | \$ 32.2      |

# Condensed Consolidating Balance Sheet

September 30, 2010

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                               |                              |              |
| <b>ASSETS</b>                                         |         |              |                                       |                               |                              |              |
| Cash and cash equivalents                             | \$ 0.0  | \$ 1.7       | \$ 0.0                                | \$ 31.4                       | \$ 0.0                       | \$ 33.1      |
| Accounts receivable, net                              | 20.8    | 128.2        | 427.4                                 | 108.3                         | (518.6)                      | 166.1        |
| Inventories, net                                      | 0.0     | 70.5         | 0.0                                   | 81.2                          | (0.4)                        | 151.3        |
| Deferred tax assets                                   | 0.0     | 10.0         | (1.5)                                 | 0.0                           | 0.0                          | 8.5          |
| Other current assets                                  | 0.0     | 9.2          | 0.3                                   | 11.9                          | 0.0                          | 21.4         |
| Total current assets                                  | 20.8    | 219.6        | 426.2                                 | 232.8                         | (519.0)                      | 380.4        |
| Equity investments                                    | 69.2    | 77.1         | 26.3                                  | 3.6                           | (171.6)                      | 4.6          |
| Property, plant and equipment, net                    | 0.0     | 88.1         | 0.0                                   | 66.9                          | 0.0                          | 155.0        |
| Goodwill                                              | 0.0     | 36.9         | 0.0                                   | 32.9                          | 0.0                          | 69.8         |
| Deferred tax assets                                   | 0.0     | 64.1         | (47.7)                                | 4.9                           | 0.0                          | 21.3         |
| Other noncurrent assets                               | 0.0     | 19.3         | 0.0                                   | 6.6                           | 0.0                          | 25.9         |
| Total assets                                          | \$ 90.0 | \$ 505.1     | \$ 404.8                              | \$ 347.7                      | \$ (690.6)                   | \$ 657.0     |
| <b>LIABILITIES AND EQUITY</b>                         |         |              |                                       |                               |                              |              |
| Accounts payable                                      | \$ 0.2  | \$ 489.2     | \$ 9.8                                | \$ 105.1                      | \$ (518.6)                   | \$ 85.7      |
| Accrued liabilities                                   | 4.1     | 30.6         | (0.1)                                 | 28.1                          | 0.0                          | 62.7         |
| Short-term debt and current portion of long-term debt | 0.0     | 0.2          | 0.0                                   | 0.0                           | 0.0                          | 0.2          |
| Total current liabilities                             | 4.3     | 520.0        | 9.7                                   | 133.2                         | (518.6)                      | 148.6        |
| Long-term debt                                        | 0.0     | 295.2        | 0.0                                   | 0.7                           | 0.0                          | 295.9        |
| Other long-term liabilities                           | 0.0     | 93.6         | 0.0                                   | 22.2                          | 0.0                          | 115.8        |
| Total liabilities                                     | 4.3     | 908.8        | 9.7                                   | 156.1                         | (518.6)                      | 560.3        |
| Koppers stockholders' equity                          | 85.7    | (403.7)      | 395.1                                 | 180.6                         | (172.0)                      | 85.7         |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 11.0                          | 0.0                          | 11.0         |
| Total liabilities and equity                          | \$ 90.0 | \$ 505.1     | \$ 404.8                              | \$ 347.7                      | \$ (690.6)                   | \$ 657.0     |

# Condensed Consolidating Balance Sheet

December 31, 2009

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                               |                              |              |
| <b>ASSETS</b>                                         |         |              |                                       |                               |                              |              |
| Cash and cash equivalents                             | \$ 0.2  | \$ 12.9      | \$ 0.0                                | \$ 45.3                       | \$ 0.0                       | \$ 58.4      |
| S-T investments & restricted cash                     | 0.0     | 0.0          | 0.0                                   | 4.4                           | 0.0                          | 4.4          |
| Accounts receivable, net                              | 36.1    | 121.3        | 415.8                                 | 83.1                          | (516.7)                      | 139.6        |
| Inventories, net                                      | 0.0     | 78.9         | 0.0                                   | 74.0                          | (0.2)                        | 152.7        |
| Deferred tax assets                                   | 0.0     | 10.0         | (1.5)                                 | 0.0                           | 0.0                          | 8.5          |
| Other current assets                                  | 0.0     | 6.9          | 0.3                                   | 10.3                          | (0.1)                        | 17.4         |
| Total current assets                                  | 36.3    | 230.0        | 414.6                                 | 217.1                         | (517.0)                      | 381.0        |
| Equity investments                                    | 12.7    | 77.2         | 14.8                                  | 3.3                           | (103.3)                      | 4.7          |
| Property, plant and equipment, net                    | 0.0     | 90.9         | 0.0                                   | 58.4                          | 0.0                          | 149.3        |
| Goodwill                                              | 0.0     | 37.0         | 0.0                                   | 24.6                          | 0.0                          | 61.6         |
| Deferred tax assets                                   | 0.0     | 68.2         | (47.7)                                | 5.4                           | 0.0                          | 25.9         |
| Other noncurrent assets                               | 0.0     | 19.6         | 0.0                                   | 2.3                           | 0.0                          | 21.9         |
| Total assets                                          | \$ 49.0 | \$ 522.9     | \$ 381.7                              | \$ 311.1                      | \$ (620.3)                   | \$ 644.4     |
| <b>LIABILITIES AND EQUITY</b>                         |         |              |                                       |                               |                              |              |
| Accounts payable                                      | \$ 0.6  | \$ 473.9     | \$ 10.2                               | \$ 99.3                       | \$ (516.7)                   | \$ 67.3      |
| Accrued liabilities                                   | 4.6     | 29.4         | (0.1)                                 | 30.4                          | 0.0                          | 64.3         |
| Short-term debt and current portion of long-term debt | 0.0     | 0.2          | 0.0                                   | 0.0                           | 0.0                          | 0.2          |
| Total current liabilities                             | 5.2     | 503.5        | 10.1                                  | 129.7                         | (516.7)                      | 131.8        |
| Long-term debt                                        | 0.0     | 335.1        | 0.0                                   | 0.0                           | 0.0                          | 335.1        |
| Other long-term liabilities                           | 0.0     | 96.3         | 0.0                                   | 26.4                          | 0.0                          | 122.7        |
| Total liabilities                                     | 5.2     | 934.9        | 10.1                                  | 156.1                         | (516.7)                      | 589.6        |
| Koppers stockholders' equity                          | 43.8    | (412.0)      | 371.6                                 | 144.0                         | (103.6)                      | 43.8         |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 11.0                          | 0.0                          | 11.0         |
| Total liabilities and equity                          | \$ 49.0 | \$ 522.9     | \$ 381.7                              | \$ 311.1                      | \$ (620.3)                   | \$ 644.4     |

# Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2010

|                                                                | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                                   |         |              |                                       |                               |                              |              |
| Cash provided by (used in) operating activities                | \$ 14.2 | \$ 43.1      | \$ 0.0                                | \$ 11.5                       | \$ (4.5)                     | \$ 64.3      |
| Cash provided by (used in) investing activities:               |         |              |                                       |                               |                              |              |
| Capital expenditures and acquisitions                          | 0.0     | (9.5)        | 0.0                                   | (24.1)                        | 0.0                          | (33.6)       |
| Net cash proceeds (payments) from divestitures and asset sales | 0.0     | 0.2          | 0.0                                   | 1.7                           | 0.0                          | 1.9          |
| Net cash provided by (used in) investing activities            | 0.0     | (9.3)        | 0.0                                   | (22.4)                        | 0.0                          | (31.7)       |
| Cash provided by (used in) financing activities:               |         |              |                                       |                               |                              |              |
| Borrowings (repayments) of long-term debt                      | 0.0     | (40.1)       | 0.0                                   | 0.0                           | 0.0                          | (40.1)       |
| Deferred financing costs                                       | 0.0     | (0.4)        | 0.0                                   | 0.0                           | 0.0                          | (0.4)        |
| Dividends paid                                                 | (13.5)  | (4.5)        | 0.0                                   | (5.0)                         | 4.5                          | (18.5)       |
| Stock issued (repurchased)                                     | (0.9)   | 0.0          | 0.0                                   | 0.0                           | 0.0                          | (0.9)        |
| Net cash provided by (used in) financing activities            | (14.4)  | (45.0)       | 0.0                                   | (5.0)                         | 4.5                          | (59.9)       |
| Effect of exchange rates on cash                               | 0.0     | 0.0          | 0.0                                   | 2.0                           | 0.0                          | 2.0          |
| Net increase (decrease) in cash and cash equivalents           | (0.2)   | (11.2)       | 0.0                                   | (13.9)                        | 0.0                          | (25.3)       |
| Cash and cash equivalents at beginning of year                 | 0.2     | 12.9         | 0.0                                   | 45.3                          | 0.0                          | 58.4         |
| Cash and cash equivalents at end of period                     | \$ 0.0  | \$ 1.7       | \$ 0.0                                | \$ 31.4                       | \$ 0.0                       | \$ 33.1      |

# Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2009

|                                                                | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------------------------|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                                   |         |              |                                       |                               |                              |              |
| Cash provided by (used in) operating activities                | \$ 13.7 | \$ 75.9      | \$ 0.0                                | \$ 16.7                       | \$ (13.7)                    | \$ 92.6      |
| Cash provided by (used in) investing activities:               |         |              |                                       |                               |                              |              |
| Capital expenditures and acquisitions                          | 0.0     | (8.2)        | 0.0                                   | (3.0)                         | 0.0                          | (11.2)       |
| Net cash proceeds (payments) from divestitures and asset sales | 0.0     | (1.1)        | 0.0                                   | 0.0                           | 0.0                          | (1.1)        |
| Net cash (used in) investing activities                        | 0.0     | (9.3)        | 0.0                                   | (1.5)                         | 0.0                          | (12.3)       |
| Cash provided by (used in) financing activities:               |         |              |                                       |                               |                              |              |
| Borrowings (repayments) of long-term debt                      | 0.0     | (0.1)        | 0.0                                   | 0.0                           | 0.0                          | (0.1)        |
| Dividends paid                                                 | (13.5)  | (13.7)       | 0.0                                   | 0.0                           | 13.7                         | (13.5)       |
| Net cash provided by (used in) financing activities            | (13.5)  | (13.8)       | 0.0                                   | 0.0                           | 13.7                         | (13.6)       |
| Effect of exchange rates on cash                               | 0.0     | (1.5)        | 0.0                                   | 2.6                           | 0.0                          | 1.1          |

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

|                                                      |        |         |        |         |        |          |
|------------------------------------------------------|--------|---------|--------|---------|--------|----------|
| Net increase (decrease) in cash and cash equivalents | 0.2    | 51.3    | 0.0    | 16.3    | 0.0    | 67.8     |
| Cash and cash equivalents at beginning of year       | 0.0    | 37.5    | 0.0    | 25.6    | 0.0    | 63.1     |
| Cash and cash equivalents at end of period           | \$ 0.2 | \$ 88.8 | \$ 0.0 | \$ 41.9 | \$ 0.0 | \$ 130.9 |

# 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 and warrants, from time to time in one or more offerings with an aggregate offering price of up to \$325 million. 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 subsidiaries in the United States, Europe and Australia. The non-guarantor subsidiaries consist of certain subsidiaries in the United States, China 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.

Separate condensed consolidating financial statement information for the parent, Koppers Inc., domestic guarantor subsidiaries, foreign guarantor subsidiaries and non-guarantor subsidiaries as of September 30, 2010 and 2009 and for the three and nine months ended September 30, 2010 and 2009 is as follows:

## Condensed Consolidating Statement of Operations

For the Three Months Ended September 30, 2010

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                                      |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 196.1     | \$ 10.2                               | \$ 95.8                              | \$ 40.5                       | \$ (6.3)                     | \$ 336.3     |
| Cost of sales including depreciation and amortization | 0.0     | 171.4        | (1.1)                                 | 81.8                                 | 35.5                          | (0.2)                        | 287.4        |
| Selling, general and administrative                   | 0.3     | 8.1          | 0.3                                   | 4.8                                  | 1.9                           | 0.0                          | 15.4         |
| Operating profit (loss)                               | (0.3)   | 16.6         | 11.0                                  | 9.2                                  | 3.1                           | (6.1)                        | 33.5         |
| Other income (expense)                                | 15.8    | 0.0          | (0.1)                                 | 0.0                                  | 0.1                           | (15.8)                       | 0.0          |
| Interest expense (income)                             | (0.1)   | 7.0          | 0.0                                   | 1.9                                  | 0.1                           | (2.3)                        | 6.6          |
| Income taxes                                          | 0.0     | 8.0          | 0.1                                   | 2.9                                  | 0.1                           | 0.0                          | 11.1         |
| Income from continuing operations                     | 15.6    | 1.6          | 10.8                                  | 4.4                                  | 3.0                           | (19.6)                       | 15.8         |
| Discontinued operations                               | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | 0.0          |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 0.2                           | 0.0                          | 0.2          |
| Net income attributable to Koppers                    | \$ 15.6 | \$ 1.6       | \$ 10.8                               | \$ 4.4                               | \$ 2.8                        | \$ (19.6)                    | \$ 15.6      |

# Condensed Consolidating Statement of Operations

For the Three Months Ended September 30, 2009

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                                      |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 179.0     | \$ 5.6                                | \$ 98.3                              | \$ 19.7                       | \$ (12.8)                    | \$ 289.8     |
| Cost of sales including depreciation and amortization | 0.0     | 156.0        | (7.9)                                 | 81.7                                 | 16.5                          | (2.7)                        | 243.6        |
| Selling, general and administrative                   | 0.6     | 5.7          | 0.4                                   | 5.3                                  | 1.0                           | 0.0                          | 13.0         |
| Operating profit (loss)                               | (0.6)   | 17.3         | 13.1                                  | 11.3                                 | 2.2                           | (10.1)                       | 33.2         |
| Other income (expense)                                | 20.1    | 0.0          | 0.0                                   | 0.2                                  | (0.5)                         | (20.1)                       | (0.3)        |
| Interest expense (income)                             | 5.1     | 5.4          | 0.0                                   | 1.0                                  | (0.1)                         | (1.4)                        | 10.0         |
| Income taxes                                          | (2.0)   | 4.2          | 0.1                                   | 3.0                                  | 0.5                           | 0.0                          | 5.8          |
| Income from continuing operations                     | 16.4    | 7.7          | 13.0                                  | 7.5                                  | 1.3                           | (28.8)                       | 17.1         |
| Discontinued operations                               | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | 0.0          |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 0.7                           | 0.0                          | 0.7          |
| Net income attributable to Koppers                    | \$ 16.4 | \$ 7.7       | \$ 13.0                               | \$ 7.5                               | \$ 0.6                        | \$ (28.8)                    | \$ 16.4      |

# Condensed Consolidating Statement of Operations

For the Nine Months Ended September 30, 2010

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                                      |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 549.8     | \$ 35.3                               | \$ 273.4                             | \$ 112.2                      | \$ (33.0)                    | \$ 937.7     |
| Cost of sales including depreciation and amortization | 0.0     | 490.8        | 13.0                                  | 221.8                                | 100.8                         | (19.6)                       | 806.8        |
| Selling, general and administrative                   | 1.4     | 24.0         | 2.8                                   | 15.0                                 | 4.6                           | 0.0                          | 47.8         |
| Operating profit (loss)                               | (1.4)   | 35.0         | 19.5                                  | 36.6                                 | 6.8                           | (13.4)                       | 83.1         |
| Other income (expense)                                | 39.9    | 0.1          | (0.3)                                 | 1.7                                  | 0.3                           | (39.9)                       | 1.8          |
| Interest expense (income)                             | (0.1)   | 21.0         | 0.0                                   | 3.8                                  | 0.5                           | (4.8)                        | 20.4         |
| Income taxes                                          | (0.4)   | 15.6         | 0.3                                   | 9.4                                  | 0.1                           | 0.0                          | 25.0         |
| Income (loss) from continuing operations              | 39.0    | (1.5)        | 18.9                                  | 25.1                                 | 6.5                           | (48.5)                       | 39.5         |
| Discontinued operations                               | 0.0     | 0.0          | (0.2)                                 | 0.0                                  | 0.0                           | 0.0                          | (0.2)        |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 0.3                           | 0.0                          | 0.3          |
| Net income (loss) attributable to Koppers             | \$ 39.0 | \$ (1.5)     | \$ 18.7                               | \$ 25.1                              | \$ 6.2                        | \$ (48.5)                    | \$ 39.0      |

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

## Condensed Consolidating Statement of Operations

For the Nine Months Ended September 30, 2009

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                                      |                               |                              |              |
| Net sales                                             | \$ 0.0  | \$ 564.1     | \$ 22.6                               | \$ 251.8                             | \$ 58.9                       | \$ (43.3)                    | \$ 854.1     |
| Cost of sales including depreciation and amortization | 0.0     | 495.0        | (3.1)                                 | 213.7                                | 50.0                          | (27.3)                       | 728.3        |
| Selling, general and administrative                   | 1.7     | 20.5         | 1.2                                   | 14.7                                 | 2.8                           | 0.0                          | 40.9         |
| Operating profit (loss)                               | (1.7)   | 48.6         | 24.5                                  | 23.4                                 | 6.1                           | (16.0)                       | 84.9         |
| Other income (expense)                                | 42.8    | 0.2          | (0.2)                                 | 0.2                                  | (0.7)                         | (42.8)                       | (0.5)        |
| Interest expense (income)                             | 14.5    | 16.7         | 0.0                                   | 2.8                                  | (0.1)                         | (3.7)                        | 30.2         |
| Income taxes                                          | (5.6)   | 17.4         | 0.2                                   | 6.1                                  | 1.6                           | 0.0                          | 19.7         |
| Income from continuing operations                     | 32.2    | 14.7         | 24.1                                  | 14.7                                 | 3.9                           | (55.1)                       | 34.5         |
| Discontinued operations                               | 0.0     | (0.3)        | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | (0.3)        |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 2.0                           | 0.0                          | 2.0          |
| Net income attributable to Koppers                    | \$ 32.2 | \$ 14.4      | \$ 24.1                               | \$ 14.7                              | \$ 1.9                        | \$ (55.1)                    | \$ 32.2      |

## Condensed Consolidating Balance Sheet

September 30, 2010

|                                    | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>       |         |              |                                       |                                      |                               |                              |              |
| <b>ASSETS</b>                      |         |              |                                       |                                      |                               |                              |              |
| Cash and cash equivalents          | \$ 0.0  | \$ 1.7       | \$ 0.0                                | \$ 18.8                              | \$ 12.6                       | \$ 0.0                       | \$ 33.1      |
| Accounts receivable, net           | 20.8    | 128.2        | 424.7                                 | 80.7                                 | 67.5                          | (555.8)                      | 166.1        |
| Inventories, net                   | 0.0     | 70.5         | 0.0                                   | 69.1                                 | 12.1                          | (0.4)                        | 151.3        |
| Deferred tax assets                | 0.0     | 10.0         | (1.5)                                 | 0.0                                  | 0.0                           | 0.0                          | 8.5          |
| Other current assets               | 0.0     | 9.2          | 0.2                                   | 5.8                                  | 6.2                           | 0.0                          | 21.4         |
| Total current assets               | 20.8    | 219.6        | 423.4                                 | 174.4                                | 98.4                          | (556.2)                      | 380.4        |
| Equity investments                 | 69.2    | 77.1         | 26.3                                  | 18.5                                 | 13.7                          | (200.2)                      | 4.6          |
| Property, plant and equipment, net | 0.0     | 88.1         | 0.0                                   | 43.2                                 | 23.7                          | 0.0                          | 155.0        |
| Goodwill                           | 0.0     | 36.9         | 0.0                                   | 24.6                                 | 8.3                           | 0.0                          | 69.8         |
| Deferred tax assets                | 0.0     | 64.1         | (47.7)                                | 4.9                                  | 0.0                           | 0.0                          | 21.3         |
| Other noncurrent assets            | 0.0     | 19.3         | 0.0                                   | 1.0                                  | 5.6                           | 0.0                          | 25.9         |
| Total assets                       | \$ 90.0 | \$ 505.1     | \$ 402.0                              | \$ 266.6                             | \$ 149.7                      | \$ (756.4)                   | \$ 657.0     |
| <b>LIABILITIES AND EQUITY</b>      |         |              |                                       |                                      |                               |                              |              |
| Accounts payable                   | \$ 0.2  | \$ 489.2     | \$ 7.2                                | \$ 99.2                              | \$ 45.7                       | \$ (555.8)                   | \$ 85.7      |
| Accrued liabilities                | 4.1     | 30.6         | (0.1)                                 | 20.7                                 | 7.4                           | 0.0                          | 62.7         |
|                                    | 0.0     | 0.2          | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | 0.2          |

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

Short-term debt and current portion of  
long-term debt

|                              |         |          |          |          |          |            |          |
|------------------------------|---------|----------|----------|----------|----------|------------|----------|
| Total current liabilities    | 4.3     | 520.0    | 7.1      | 119.9    | 53.1     | (555.8)    | 148.6    |
| Long-term debt               | 0.0     | 295.2    | 0.0      | 0.0      | 0.7      | 0.0        | 295.9    |
| Other long-term liabilities  | 0.0     | 93.6     | 0.0      | 13.4     | 8.8      | 0.0        | 115.8    |
| Total liabilities            | 4.3     | 908.8    | 7.1      | 133.3    | 62.6     | (555.8)    | 560.3    |
| Koppers stockholders' equity | 85.7    | (403.7)  | 394.9    | 133.3    | 76.1     | (200.6)    | 85.7     |
| Noncontrolling interests     | 0.0     | 0.0      | 0.0      | 0.0      | 11.0     | 0.0        | 11.0     |
| Total liabilities and equity | \$ 90.0 | \$ 505.1 | \$ 402.0 | \$ 266.6 | \$ 149.7 | \$ (756.4) | \$ 657.0 |

# Condensed Consolidating Balance Sheet

December 31, 2009

|                                                       | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                                      |                               |                              |              |
| <b>ASSETS</b>                                         |         |              |                                       |                                      |                               |                              |              |
| Cash and cash equivalents                             | \$ 0.2  | \$ 12.9      | \$ 0.0                                | \$ 36.9                              | \$ 8.4                        | \$ 0.0                       | \$ 58.4      |
| S-T investments & restricted cash                     | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 4.4                           | 0.0                          | 4.4          |
| Accounts receivable, net                              | 36.1    | 121.3        | 415.8                                 | 42.2                                 | 41.1                          | (516.9)                      | 139.6        |
| Inventories, net                                      | 0.0     | 78.9         | 0.0                                   | 67.0                                 | 7.0                           | (0.2)                        | 152.7        |
| Deferred tax assets                                   | 0.0     | 10.0         | (1.5)                                 | 0.0                                  | 0.0                           | 0.0                          | 8.5          |
| Other current assets                                  | 0.0     | 6.9          | 0.3                                   | 6.8                                  | 3.5                           | (0.1)                        | 17.4         |
| Total current assets                                  | 36.3    | 230.0        | 414.6                                 | 152.9                                | 64.4                          | (517.2)                      | 381.0        |
| Equity investments                                    | 12.7    | 77.2         | 14.8                                  | 17.1                                 | 3.4                           | (120.5)                      | 4.7          |
| Property, plant and equipment, net                    | 0.0     | 90.9         | 0.0                                   | 41.8                                 | 16.6                          | 0.0                          | 149.3        |
| Goodwill                                              | 0.0     | 37.0         | 0.0                                   | 23.3                                 | 1.3                           | 0.0                          | 61.6         |
| Deferred tax assets                                   | 0.0     | 68.2         | (47.7)                                | 5.4                                  | 0.0                           | 0.0                          | 25.9         |
| Other noncurrent assets                               | 0.0     | 19.6         | 0.0                                   | 0.8                                  | 1.4                           | 0.1                          | 21.9         |
| Total assets                                          | \$ 49.0 | \$ 522.9     | \$ 381.7                              | \$ 241.3                             | \$ 87.1                       | \$ (637.6)                   | \$ 644.4     |
| <b>LIABILITIES AND EQUITY</b>                         |         |              |                                       |                                      |                               |                              |              |
| Accounts payable                                      | \$ 0.6  | \$ 473.9     | \$ 10.2                               | \$ 91.5                              | \$ 8.0                        | \$ (516.9)                   | \$ 67.3      |
| Accrued liabilities                                   | 4.6     | 29.4         | (0.1)                                 | 20.5                                 | 9.9                           | 0.0                          | 64.3         |
| Short-term debt and current portion of long-term debt | 0.0     | 0.2          | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | 0.2          |
| Total current liabilities                             | 5.2     | 503.5        | 10.1                                  | 112.0                                | 17.9                          | (516.9)                      | 131.8        |
| Long-term debt                                        | 0.0     | 335.1        | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | 335.1        |
| Other long-term liabilities                           | 0.0     | 96.3         | 0.0                                   | 16.0                                 | 10.4                          | 0.0                          | 122.7        |
| Total liabilities                                     | 5.2     | 934.9        | 10.1                                  | 128.0                                | 28.3                          | (516.9)                      | 589.6        |
| Koppers stockholders' equity                          | 43.8    | (412.0)      | 371.6                                 | 113.3                                | 47.8                          | (120.7)                      | 43.8         |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 0.0                                  | 11.0                          | 0.0                          | 11.0         |
| Total liabilities and equity                          | \$ 49.0 | \$ 522.9     | \$ 381.7                              | \$ 241.3                             | \$ 87.1                       | \$ (637.6)                   | \$ 644.4     |

# Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2010

|                                                                | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                                   |         |              |                                       |                                      |                               |                              |              |
| Cash provided by (used in) operating activities                | \$ 14.2 | \$ 43.1      | \$ 0.0                                | \$ (15.9)                            | \$ 27.4                       | \$ (4.5)                     | \$ 64.3      |
| Cash provided by (used in) investing activities:               |         |              |                                       |                                      |                               |                              |              |
| Capital expenditures and acquisitions                          | 0.0     | (9.5)        | 0.0                                   | (3.5)                                | (20.6)                        | 0.0                          | (33.6)       |
| Net cash proceeds (payments) from divestitures and asset sales | 0.0     | 0.2          | 0.0                                   | 1.6                                  | 0.1                           | 0.0                          | 1.9          |
| Net cash provided by (used in) investing activities            | 0.0     | (9.3)        | 0.0                                   | (1.9)                                | (20.5)                        | 0.0                          | (31.7)       |
| Cash provided by (used in) financing activities:               |         |              |                                       |                                      |                               |                              |              |
| Borrowings (repayments) of long-term debt                      | 0.0     | (40.1)       | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | (40.1)       |
| Deferred financing costs                                       | 0.0     | (0.4)        | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | (0.4)        |
| Dividends paid                                                 | (13.5)  | (4.5)        | 0.0                                   | 0.0                                  | (5.0)                         | 4.5                          | (18.5)       |
| Stock issued (repurchased)                                     | (0.9)   | 0.0          | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | (0.9)        |
| Net cash provided by (used in) financing activities            | (14.4)  | (45.0)       | 0.0                                   | 0.0                                  | (5.0)                         | 4.5                          | (59.9)       |
| Effect of exchange rates on cash                               | 0.0     | 0.0          | 0.0                                   | (0.3)                                | 2.3                           | 0.0                          | 2.0          |
| Net increase (decrease) in cash and cash equivalents           | (0.2)   | (11.2)       | 0.0                                   | (18.1)                               | 4.2                           | 0.0                          | (25.3)       |
| Cash and cash equivalents at beginning of year                 | 0.2     | 12.9         | 0.0                                   | 36.9                                 | 8.4                           | 0.0                          | 58.4         |
| Cash and cash equivalents at end of period                     | \$ 0.0  | \$ 1.7       | \$ 0.0                                | \$ 18.8                              | \$ 12.6                       | \$ 0.0                       | \$ 33.1      |

# Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2009

|                                                                | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------------------------|---------|--------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                                   |         |              |                                       |                                      |                               |                              |              |
| Cash provided by (used in) operating activities                | \$ 13.7 | \$ 75.9      | \$ 0.0                                | \$ 14.4                              | \$ 2.3                        | \$ (13.7)                    | \$ 92.6      |
| Cash provided by (used in) investing activities:               |         |              |                                       |                                      |                               |                              |              |
| Capital expenditures and acquisitions                          | 0.0     | (8.2)        | 0.0                                   | (1.5)                                | (1.5)                         | 0.0                          | (11.2)       |
| Net cash proceeds (payments) from divestitures and asset sales | 0.0     | (1.1)        | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | (1.1)        |
| Net cash (used in) investing activities                        | 0.0     | (9.3)        | 0.0                                   | (1.5)                                | (1.5)                         | 0.0                          | (12.3)       |
| Cash provided by (used in) financing activities:               |         |              |                                       |                                      |                               |                              |              |
| Borrowings (repayments) of long-term debt                      | 0.0     | (0.1)        | 0.0                                   | 0.0                                  | 0.0                           | 0.0                          | (0.1)        |
| Dividends paid                                                 | (13.5)  | (13.7)       | 0.0                                   | 0.0                                  | 0.0                           | 13.7                         | (13.5)       |
| Net cash provided by (used in) financing activities            | (13.5)  | (13.8)       | 0.0                                   | 0.0                                  | 0.0                           | 13.7                         | (13.6)       |
| Effect of exchange rates on cash                               | 0.0     | (1.5)        | 0.0                                   | 2.6                                  | 0.0                           | 0.0                          | 1.1          |
| Net increase (decrease) in cash and cash equivalents           | 0.2     | 51.3         | 0.0                                   | 15.5                                 | 0.8                           | 0.0                          | 67.8         |
| Cash and cash equivalents at beginning of year                 | 0.0     | 37.5         | 0.0                                   | 18.7                                 | 6.9                           | 0.0                          | 63.1         |
| Cash and cash equivalents at end of period                     | \$ 0.2  | \$ 88.8      | \$ 0.0                                | \$ 34.2                              | \$ 7.7                        | \$ 0.0                       | \$ 130.9     |

## 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, 2009.*

### 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, the Netherlands, and Denmark.

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, carbon black feedstock, naphthalene and phthalic anhydride, which are intermediate materials necessary in the production of aluminum, the pressure treatment of wood, the production of rubber, 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 the provision of utility poles to the electric and telephone utility industries.

### 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 could be negatively impacted by reductions in steel production; (iii) volatility in oil prices, which impacts 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.

Our businesses and results of operations have been negatively impacted by the global economic recession starting in late 2008. Although the global economy and our key end markets have stabilized and in some cases started to recover, we have continued to experience reduced demand for some products in 2010 as improvement in our key end markets is expected to emerge over time. In the past two years, we have seen significant reductions in global production of aluminum, steel, rubber, concrete, plastics and paints, among other end-market products, that represent markets in which our products are consumed. We believe that there will continue to be uncertainty regarding the levels of production going forward, although in 2010 we have seen increases in production for aluminum, steel, rubber and plastics that appear to be indicative of a recovery in these markets. In addition to reduced demand for some of our products, many of our customers have been aggressively attempting to reduce their manufactured raw material costs. Accordingly, some of our customers have moved to short-term pricing arrangements as opposed to long-term contracts with periodic pricing reviews.

In the past 18 months we have seen the temporary idling or closure of several aluminum smelters, particularly in North America and Europe, as demonstrated by the fact that global production of aluminum declined by approximately six percent in 2009 over 2008 levels. While few smelters have closed or reduced production over the past twelve months, we believe that restarts for some of these smelters may be delayed as newer, more cost effective smelters come on line in regions with lower cost energy, particularly in the Middle East. However, we believe we are well positioned to supply the new Middle Eastern smelters due to our capacity expansions in China and are currently supplying several of these new smelters.

While our volume of carbon pitch shipped to the Middle East from our China operations has increased during 2010 as new aluminum smelters have come online, profit margins in China have decreased as local raw material costs have increased in response to reduced availability and higher oil prices and selling prices have come under pressure in the Middle East due to an excess supply of carbon pitch available from other parts of Asia.

Our carbon black facility in Australia has experienced operating problems related to a boiler that impacted profitability in the first and second quarters of 2010 by approximately \$0.5 million and \$1.8 million, respectively. Although the problem was resolved in the third quarter, the impact on third quarter 2010 results was approximately \$0.3 million.

Our railroad business is down substantially through the first three quarters of 2010 from an unusually strong prior year as the railroads have reduced their untreated crosstie purchases and treating volumes as they have reduced levels of inventory on hand.

#### *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.

Due to the concentration of our North American operating facilities in the eastern and mid-western portions of the United States, we were negatively impacted by heavy snowstorm activity in January and February 2010. This resulted in higher operating and logistics costs as well as lower production and shipments of our products from these locations. These conditions had a negative impact on our results for the first quarter of 2010.

# Results of Operations Comparison of Three Months Ended September 30, 2010 and 2009

## Consolidated Results

**Net sales** for the three months ended September 30, 2010 and 2009 are summarized by segment in the following table:

|                              | Three Months Ended September 30, |          | Net    |
|------------------------------|----------------------------------|----------|--------|
|                              | 2010                             | 2009     | Change |
| (Dollars in millions)        |                                  |          |        |
| Carbon Materials & Chemicals | \$ 218.4                         | \$ 173.1 | +26%   |
| Railroad & Utility Products  | 117.9                            | 116.7    | +1%    |
|                              | \$ 336.3                         | \$ 289.8 | +16%   |

**CM&C net sales** increased by \$45.3 million or 26 percent due to the following changes in pricing, volume and foreign exchange:

|                                   | Price | Volume | Foreign<br>Exchange | Net<br>Change |
|-----------------------------------|-------|--------|---------------------|---------------|
| Carbon Materials <sup>(a)</sup>   | -3%   | +15%   | +1%                 | +13%          |
| Distillates <sup>(b)</sup>        | +1%   | +4%    | 0%                  | +5%           |
| Coal Tar Chemicals <sup>(c)</sup> | +3%   | +3%    | 0%                  | +6%           |
| Other <sup>(d)</sup>              | 0%    | +2%    | 0%                  | +2%           |
| Total CM&C                        | +1%   | +24%   | +1%                 | +26%          |

(a) Includes carbon pitch, petroleum pitch and refined tar.

(b) Includes creosote and carbon black feedstock.

(c) Includes naphthalene and phthalic anhydride.

(d) Includes carbon black, benzole, freight and other products.

Carbon materials volumes for carbon pitch increased in China by five percent due to additional demand from new smelters in the Middle East and in Europe by six percent due to the acquisition in the Netherlands and higher volumes from Denmark and the UK. The volume increases were partially offset by price decreases totaling three percent.

Prices for distillates increased by one percent due primarily to higher oil prices that resulted in higher selling prices for carbon black feedstock. The increase in distillate sales volume of four percent is due primarily to higher creosote volumes in North America and higher carbon black feedstock sales in Europe as a result of the acquisition in the Netherlands.

For coal tar chemicals, increases in phthalic anhydride prices in the U.S. of one percent and naphthalene prices of two percent were experienced. Higher volumes of phthalic anhydride of three percent resulted from an increase in market share compared to the prior year.

**R&UP net sales** increased by \$1.2 million or one percent due to the following changes in volume and pricing:

|                                   | Price | Volume | Net<br>Change |
|-----------------------------------|-------|--------|---------------|
| Railroad Crossties <sup>(a)</sup> | 0%    | +1%    | +1%           |
| TSO Crossties <sup>(b)</sup>      | +3%   | -3%    | 0%            |
| Distribution Poles                | 0%    | -1%    | -1%           |
| Other <sup>(c)</sup>              | +1%   | 0%     | +1%           |

|            |     |     |     |
|------------|-----|-----|-----|
| Total R&UP | +4% | -3% | +1% |
|------------|-----|-----|-----|

(a) Includes treated and untreated railroad crossties.

(b) Includes sales from treatment services only ( TSO ).

(c) Includes creosote, transmission poles, pilings, freight and other treated and untreated lumber products.

Sales volume increases for untreated railroad crossties totaled three percent in the quarter ended September 30, 2010, while volumes for treated railroad crossties decreased by two percent as Class I railroads continued to aggressively manage inventory

in 2010. Price increases for TSO crossties amounted to three percent but were offset by lower volumes of three percent as demand was lower than in the prior year quarter. Distribution pole sales in the U.S. decreased one percent due to lower volumes.

**Cost of sales** as a percentage of net sales was 83 percent for the quarter ended September 30, 2010 and 82 percent for the quarter ended September 30, 2009. Overall, cost of sales increased \$42.9 million between periods. Cost of sales was favorably impacted by a net \$0.8 million adjustment to our self insured retention liabilities for the three months ended September 30, 2010 as compared to the prior period. The adjustment is as a result of favorable claim experience.

**Depreciation and amortization** for the quarter ended September 30, 2010 was \$0.9 million higher when compared to the prior year period due primarily to additional depreciation expense from Koppers Netherlands which was acquired in March 2010.

**Selling, general and administrative expenses** for the quarter ended September 30, 2010 were \$2.4 million higher when compared to the prior year period primarily due to incremental expenses related to Koppers Netherlands and higher stock-based compensation expenses.

**Interest expense** for the quarter ended September 30, 2010 was \$3.4 million lower when compared to the prior year period primarily due to lower average borrowings and lower borrowing costs as compared to the prior period. Lower average borrowings resulted from the use of operating cash flow to reduce debt and lower borrowing costs resulted from the refinancing of long-term debt in the fourth quarter of 2009 at lower interest rates.

**Income taxes** for the quarter ended September 30, 2010 were \$5.3 million higher when compared to the prior year period due primarily to a higher effective income tax rate. The Company's effective income tax rate for the quarter ended September 30, 2010 was 40.0 percent as compared to the prior year period of 24.8 percent. The difference in effective tax rates between periods was primarily caused by the decision to not repatriate earnings from Europe in 2009, certain tax return to provision adjustments in 2010 and a higher concentration of earnings in higher tax jurisdictions during 2010's third quarter.

### Segment Results

**Segment operating profit** for the three months ended September 30, 2010 and 2009 are summarized by segment in the following table:

|                                                | Three Months Ended September 30, |         |          |
|------------------------------------------------|----------------------------------|---------|----------|
|                                                | 2010                             | 2009    | % Change |
| <i>(Dollars in millions)</i>                   |                                  |         |          |
| Operating profit:                              |                                  |         |          |
| Carbon Materials & Chemicals                   | \$ 26.1                          | \$ 23.8 | +10%     |
| Railroad & Utility Products                    | 7.7                              | 10.0    | -23%     |
| Corporate                                      | (0.3)                            | (0.6)   | -50%     |
|                                                | \$ 33.5                          | \$ 33.2 | +1%      |
| Operating profit as a percentage of net sales: |                                  |         |          |
| Carbon Materials & Chemicals                   | 12.0%                            | 13.7%   | -1.7%    |
| Railroad & Utility Products                    | 6.5%                             | 8.6%    | -2.1%    |
|                                                | 10.0%                            | 11.5%   | -1.5%    |

**Carbon Materials & Chemicals net sales and operating profit** by geographic region for the three months ended September 30, 2010 and 2009 are summarized in the following table:

|                              | Three months ended September 30, |          |          |
|------------------------------|----------------------------------|----------|----------|
|                              | 2010                             | 2009     | % Change |
| <i>(Dollars in millions)</i> |                                  |          |          |
| Net sales:                   |                                  |          |          |
| North America                | \$ 86.8                          | \$ 70.7  | +23%     |
| Europe                       | 60.0                             | 49.7     | +21%     |
| Australia                    | 40.8                             | 40.1     | +2%      |
| China                        | 30.8                             | 18.1     | +70%     |
| Intrasegment                 | 0.0                              | (5.5)    | -100%    |
|                              | \$ 218.4                         | \$ 173.1 | +26%     |
| Operating profit:            |                                  |          |          |
| North America                | \$ 16.2                          | \$ 11.9  | +36%     |
| Europe                       | 5.8                              | 7.0      | -17%     |
| Australia                    | 4.3                              | 3.2      | +34%     |
| China                        | (0.2)                            | 1.5      | -113%    |
| Intrasegment                 | 0.0                              | 0.2      | -100%    |
|                              | \$ 26.1                          | \$ 23.8  | +10%     |

**North American CM&C sales** increased by \$16.1 million due primarily to higher volumes for pitch, refined tar, creosote and phthalic anhydride totaling \$13.9 million and higher prices for phthalic anhydride totaling \$2.4 million. These increases were partially offset by lower prices for pitch of \$1.7 million. Operating profit as a percentage of net sales increased to 19 percent from 17 percent between periods reflecting higher volumes and prices for phthalic anhydride in the third quarter of 2010.

**European CM&C sales** increased by \$10.3 million due to incremental sales from the acquisition in the Netherlands of \$14.3 million which were partially offset by changes in European currencies compared to the US dollar amounting to approximately \$3.0 million. Operating profit as a percentage of net sales was ten percent as compared to 14 percent between periods due primarily to integration costs for the acquisition in the Netherlands.

**Australian CM&C sales** increased by \$0.7 million as \$3.7 million of positive foreign exchange translation impact was partially offset by a \$2.3 million reduction in volumes for carbon black. Operating profit as a percentage of net sales was 11 percent for the three months ended September 30, 2010 as compared to eight percent for the prior period, reflecting lower raw material costs which offset lower selling prices for carbon pitch.

**Chinese CM&C sales** increased by \$12.7 million due to higher volumes of carbon pitch and naphthalene totaling \$9.8 million and higher sales of miscellaneous products amounting to \$4.9 million. Operating loss for the three months ended September 30, 2010 was \$0.2 million as compared to operating profit as a percent of sales of eight percent for the three months ended September 30, 2009 due to higher raw material costs combined with lower selling prices in export markets for carbon pitch as a result of excess supply in 2010.

**Railroad & Utility Products operating profit** as a percentage of net sales decreased to seven percent from nine percent between periods due to lower volumes of treating services to the Class I railroads.

# Results of Operations Comparison of Nine Months Ended September 30, 2010 and 2009

## Consolidated Results

**Net sales** for the nine months ended September 30, 2010 and 2009 are summarized by segment in the following table:

|                              | Nine Months Ended September 30, |          | Net    |
|------------------------------|---------------------------------|----------|--------|
|                              | 2010                            | 2009     | Change |
| (Dollars in millions)        |                                 |          |        |
| Carbon Materials & Chemicals | \$ 600.1                        | \$ 479.5 | +25%   |
| Railroad & Utility Products  | 337.6                           | 374.6    | -10%   |
|                              | \$ 937.7                        | \$ 854.1 | +10%   |

**CM&C net sales** increased by \$120.6 million or 25 percent due to the following changes in pricing, volume and foreign exchange:

|                                   | Price | Volume | Foreign<br>Exchange | Net<br>Change |
|-----------------------------------|-------|--------|---------------------|---------------|
| Carbon Materials <sup>(a)</sup>   | -6%   | +12%   | +2%                 | +8%           |
| Distillates <sup>(b)</sup>        | +3%   | +2%    | 0%                  | +5%           |
| Coal Tar Chemicals <sup>(c)</sup> | +5%   | +3%    | 0%                  | +8%           |
| Other <sup>(d)</sup>              | +1%   | +2%    | +1%                 | +4%           |
| Total CM&C                        | +3%   | +19%   | +3%                 | +25%          |

*(a) Includes carbon pitch, petroleum pitch and refined tar.*

*(b) Includes creosote and carbon black feedstock.*

*(c) Includes naphthalene and phthalic anhydride.*

*(d) Includes carbon black, benzole, freight and other products.*

Carbon materials volumes for carbon pitch increased six percent in China due to increased shipments to the Middle East, and four percent in Europe due to the acquisition in the Netherlands. Offsetting this increase were lower sales prices for carbon pitch in all regions totaling six percent.

Distillate pricing for carbon black feedstock increased three percent due to higher average worldwide oil prices. Distillate sales volume increased due to the acquisition in the Netherlands.

Coal tar chemicals experienced increases in phthalic anhydride and naphthalene prices of three percent and two percent, respectively, in the year to date period comparison. Higher volumes of phthalic anhydride of two percent resulted from an increase in market share from the prior year, and higher volumes of naphthalene of one percent were due to the acquisition in the Netherlands. With respect to other products, prices for benzole increased one percent as compared to the prior year and various other products combined for a two percent increase in volumes.

**R&UP net sales** decreased by \$37.0 million or ten percent due to the following changes in volume, pricing and foreign currency:

|                                   | Price | Volume | Foreign<br>Exchange | Net<br>Change |
|-----------------------------------|-------|--------|---------------------|---------------|
| Railroad Crossties <sup>(a)</sup> | -2%   | -7%    | 0%                  | -9%           |
| TSO Crossties <sup>(b)</sup>      | +1%   | 0%     | 0%                  | +1%           |
| Distribution Poles                | 0%    | -1%    | +1%                 | 0%            |

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

|                      |     |      |     |      |
|----------------------|-----|------|-----|------|
| Other <sup>(c)</sup> | 0%  | -2%  | 0%  | -2%  |
| Total R&UP           | -1% | -10% | +1% | -10% |

(a) Includes treated and untreated railroad crossties.

(b) Includes sales from treatment services only ( TSO ).

(c) Includes creosote, transmission poles, pilings, freight and other treated and untreated lumber products.

The primary reason for the sales decline in the R&UP segment for the first nine months of 2010 compared to the comparable 2009 period is a seven percent volume decrease in railroad crossties due to the Class I railroads' decision to reduce inventory levels.

**Cost of sales** as a percentage of net sales was 84 percent for the nine months ended September 30, 2010 and 83 percent for the nine months ended September 30, 2009. Overall, cost of sales increased \$76.5 million between periods. Cost of sales was favorably impacted by a net \$3.2 million adjustment to our self insured retention liabilities for the nine months ended September 30, 2010 as compared to the prior period. The adjustment is as a result of favorable claims experience.

**Depreciation and amortization** for the nine months ended September 30, 2010 was \$2.0 million higher when compared to the prior year period due partially to additional depreciation expense from Koppers Netherlands which was acquired in March 2010 and the negative effect of foreign currency translation due to the weakening of the U.S. dollar to most major currencies in 2010.

**Selling, general and administrative expenses** for the nine months ended September 30, 2010 were \$6.9 million higher when compared to the prior year period primarily due to acquisition costs related to Koppers Netherlands of \$1.8 million, higher stock based compensation expenses and incremental selling, general and administrative expenses from Koppers Netherlands.

**Interest expense** for the nine months ended September 30, 2010 was \$9.8 million lower when compared to the prior year period due primarily to lower average borrowings and lower borrowing costs as compared to the prior period. Lower average borrowings resulted from the use of operating cash flow to reduce debt and lower borrowing costs resulted from the refinancing of long-term debt in the fourth quarter of 2009 at lower interest rates.

**Income taxes** for the nine months ended September 30, 2010 were \$5.3 million higher when compared to the prior year. The Company's effective income tax rate for the nine months ended September 30, 2010 was 38.2 percent as compared to the prior year period of 36.2 percent. The difference in effective tax rates between periods was primarily caused by the impact of nondeductible expenses in 2010.

### Segment Results

**Segment operating profits** for the nine months ended September 30, 2010 and 2009 are summarized by segment in the following table:

|                                                | Nine Months Ended September 30, |         |          |
|------------------------------------------------|---------------------------------|---------|----------|
|                                                | 2010                            | 2009    | % Change |
| (Dollars in millions)                          |                                 |         |          |
| Operating profit:                              |                                 |         |          |
| Carbon Materials & Chemicals                   | \$ 58.2                         | \$ 50.2 | +16%     |
| Railroad & Utility Products                    | 26.3                            | 36.4    | -28%     |
| Corporate                                      | (1.4)                           | (1.7)   | -18%     |
|                                                | \$ 83.1                         | \$ 84.9 | -2%      |
| Operating profit as a percentage of net sales: |                                 |         |          |
| Carbon Materials & Chemicals                   | 9.7%                            | 10.5%   | -0.8%    |
| Railroad & Utility Products                    | 7.8%                            | 9.7%    | -1.9%    |
|                                                | 8.9%                            | 9.9%    | -1.0%    |

**Carbon Materials & Chemicals net sales and operating profit** by geographic region for the nine months ended September 30, 2010 and 2009 are summarized in the following table:

|                              | Nine months ended September 30, |          |          |
|------------------------------|---------------------------------|----------|----------|
|                              | 2010                            | 2009     | % Change |
| <i>(Dollars in millions)</i> |                                 |          |          |
| Net sales:                   |                                 |          |          |
| North America                | \$ 237.9                        | \$ 210.8 | +13%     |
| Europe                       | 169.9                           | 128.3    | +32%     |
| Australia                    | 109.9                           | 102.1    | +8%      |
| China                        | 86.5                            | 54.6     | +58%     |
| Intrasegment                 | (4.1)                           | (16.3)   | -75%     |
|                              | \$ 600.1                        | \$ 479.5 | +25%     |
| Operating profit:            |                                 |          |          |
| North America                | \$ 32.1                         | \$ 26.4  | +22%     |
| Europe                       | 17.1                            | 12.3     | +39%     |
| Australia                    | 9.5                             | 7.8      | +22%     |
| China                        | (0.5)                           | 4.6      | -111%    |
| Intrasegment                 | 0.0                             | (0.9)    | -100%    |
|                              | \$ 58.2                         | \$ 50.2  | +16%     |

**North American CM&C sales** increased by \$27.1 million due primarily to higher volumes for pitch, refined tar and phthalic anhydride totaling \$17.7 million and higher pricing for phthalic anhydride of \$13.8 million. These increases were partially offset by lower prices for pitch of \$6.8 million. Operating profit as a percentage of net sales increased to 13.5 percent from 12.5 percent in the prior year period.

**European CM&C sales** increased by \$41.6 million due to \$32.7 million of incremental sales from the acquisition in the Netherlands coupled with higher prices for carbon black feedstock, naphthalene and benzole of \$20.8 million. These increases were partially offset by reductions in pricing for carbon pitch of \$6.2 million. Operating profit as a percentage of net sales was ten percent, unchanged from the prior year.

**Australian CM&C sales** increased by \$7.8 million as foreign currency translation resulted in an increase in sales totaling \$17.0 million, partially offset by a reduction in carbon pitch prices totaling \$10.2 million. Operating profit as a percentage of net sales was nine percent for the nine months ended September 30, 2010, as compared to eight percent for the prior year period.

**Chinese CM&C sales** increased by \$31.9 million due primarily to higher sales volumes of carbon pitch to the Middle East of \$28.3 million as aluminum smelting capacity has increased in this region. Operating loss was \$0.5 million for the nine months ended September 30, 2010 as compared to an operating profit margin of eight percent for the nine months ended September 30, 2009 as higher raw material costs in China combined with lower selling prices for carbon pitch in its export markets have compressed margins.

**Railroad & Utility Products operating profit** as a percentage of net sales decreased to eight percent from ten percent between periods due to lower volumes for treated and untreated railroad crossties from the Class I railroads, which negatively impacted margins. .

#### Cash Flow

**Net cash provided by operating activities** was \$64.3 million for the nine months ended September 30, 2010 as compared to net cash provided by operating activities of \$92.6 million for the nine months ended September 30, 2009. The decrease of \$28.3 million in net cash provided by operations is due primarily to higher working capital requirements, particularly accounts receivable, as compared to the prior period.

**Net cash used by investing activities** was \$31.7 million for the nine months ended September 30, 2010 as compared to net cash used by investing activities of \$12.3 million for the nine months ended September 30, 2009. The first nine months of 2010 included the acquisition of Koppers Netherlands totaling \$19.5 million partially offset by the proceeds from the sale of an Australian property for \$1.6 million.

**Net cash used by financing activities** was \$59.9 million for the nine months ended September 30, 2010 as compared to net cash used by financing activities of \$13.6 million for the nine months ended September 30, 2009. The first nine months of 2010 included the repayment of borrowings on the revolving credit facility of \$40.0 million.

**Dividends paid** were \$18.5 million for the nine months ended September 30, 2010 as compared to dividends paid of \$13.5 million for the nine months ended September 30, 2009. Dividends totalling \$13.5 million in both periods reflect a quarterly dividend rate of 22 cents per common share on Koppers Holdings common stock. In addition, for the nine months ended September 30, 2010, dividends of \$5.0 million were paid to noncontrolling interests with respect to a partially owned subsidiary.

On November 3, 2010, our board of directors declared a quarterly dividend of 22 cents per common share, payable on January 7, 2011 to shareholders of record as of November 15, 2010.

#### 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. In addition, the terms of Koppers Inc.'s revolving credit facility and the terms of Koppers Inc.'s 7/8% Senior Notes due 2019 (the "Senior Notes") indenture place restrictions on the amount of dividends it may pay to Koppers Holdings. The amount of permitted dividends under the revolving credit facility is generally limited by Koppers Inc.'s fixed charge coverage ratio covenant, among other terms. The amount of permitted dividends under the Senior Note indenture is primarily determined by a calculated basket. The basket is 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.

Notwithstanding the foregoing, the Senior Notes indenture 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.

Significant reductions in net income, or increases to indebtedness affecting compliance with financial covenants or availability under the revolving credit facility would restrict Koppers Inc.'s ability to pay dividends. As of September 30, 2010, the amount of dividends which may be declared by Koppers Inc. under the terms of the Senior Notes, in addition to the \$20.0 million annual allowance, amounted to \$159.2 million.

##### *Liquidity*

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 Koppers Inc.'s assets. The revolving credit facility contains certain covenants that restrict Koppers Inc.'s ability to incur additional indebtedness, create liens on its assets, pay dividends and make capital expenditures, investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. to meet certain financial ratios.

As of September 30, 2010, we had \$236.9 million of unused revolving credit availability for working capital purposes after restrictions by various debt covenants and certain letter of credit commitments. As of September 30, 2010, \$11.3 million of commitments were utilized by outstanding letters of credit.

The following table summarizes our estimated liquidity as of September 30, 2010 (*dollars in millions*):

|                                                  |          |
|--------------------------------------------------|----------|
| Cash and cash equivalents                        | \$ 33.1  |
| Amount available under revolving credit facility | 236.9    |
| Amount available under other credit facilities   | 15.1     |
| Total estimated liquidity                        | \$ 285.1 |

Our estimated liquidity was \$230.2 million at December 31, 2009.

As of September 30, 2010, we had \$325.0 million aggregate amount of common stock, debt securities, preferred stock, depositary shares and warrants (or a combination of these securities) available to be issued under our registration statement on Form S-3 filed in 2009.

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 for working capital, capital maintenance programs and mandatory defined benefit plan funding. We may also use cash to pursue potential strategic acquisitions. Capital expenditures in 2010, excluding acquisitions, are expected to total approximately \$25 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:

- j The fixed charge coverage ratio, calculated as of the end of each fiscal quarter for the previous four fiscal quarters then ended, is not permitted to be less than 1.10. The fixed charge coverage ratio at September 30, 2010 was 2.10.
- j The leverage ratio, calculated as of the end of each fiscal quarter for the previous four fiscal quarters then ended, is not permitted to exceed 4.50. The leverage ratio at September 30, 2010 was 2.37.
- j The senior secured leverage ratio, calculated as of the end of each fiscal quarter for the previous four fiscal quarters then ended, is not permitted to exceed 2.75. The senior secured leverage ratio at September 30, 2010 was 0.

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

At September 30, 2010, 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

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

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, 2009.

## 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, 2009.

### 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 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 September 30, 2010 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, 2009.

### 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

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

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2010 and 2009, (ii) the Condensed Consolidated Balance Sheet at September 30, 2010 and December 31, 2009, (iii) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2010 and 2009, and (iv) Notes to Condensed Consolidated Financial Statements for the nine months ended September 30, 2010. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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: November 4, 2010

By: /s/ LEROY M. BALL

Leroy M. Ball

Vice President and Chief Financial Officer  
(Principal Financial Officer,

Principal Accounting Officer)