Koppers Holdings Inc.
Form 10-Q
August 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

Commission file number 1-32737

KOPPERS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	20-1878963
(State of incorporation)	(IRS Employer Identification No.)

436 Seventh Avenue

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 227-2001

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

Common Stock, par value $0.01 per share, outstanding at July 29, 2011 amounted to 20,603,049 shares.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	*2010*	*2011*	*2010*
(Dollars in millions, except per share amounts)	*(Unaudited)*		*(Unaudited)*	
Net sales	$ 393.6	$ 327.1	$ 752.7	$ 601.4
Cost of sales (excluding items below)	330.9	272.3	644.5	506.0
Depreciation and amortization	6.9	7.0	13.7	13.4
Selling, general and administrative expenses	18.7	15.0	36.6	32.4
Operating profit	37.1	32.8	57.9	49.6
Other income	0.1	0.1	0.2	1.8
Interest expense	6.7	6.9	13.6	13.8
Income before income taxes	30.5	26.0	44.5	37.6
Income taxes	10.6	9.7	15.6	13.9
Income from continuing operations	19.9	16.3	28.9	23.7
Loss on sale of discontinued operations, net of tax benefit of $0.0, $0.1, $0.0 and $0.1	0.0	(0.2)	0.0	(0.2)
Net income	19.9	16.1	28.9	23.5
Net income attributable to noncontrolling interests	0.1	0.0	0.2	0.1
Net income attributable to Koppers	$ 19.8	$ 16.1	$ 28.7	$ 23.4
Earnings per common share attributable to Koppers common shareholders:				
Basic				
Continuing operations	$ 0.96	$ 0.79	$ 1.39	$ 1.15
Discontinued operations	0.00	(0.01)	0.00	(0.01)
Earnings per basic common share	$ 0.96	$ 0.78	$ 1.39	$ 1.14
Diluted				
Continuing operations	$ 0.96	$ 0.79	$ 1.39	$ 1.14
Discontinued operations	0.00	(0.01)	0.00	(0.01)
Earnings per diluted common share	$ 0.96	$ 0.78	$ 1.39	$ 1.13
Weighted average shares outstanding *(in thousands):*				
Basic	20,603	20,558	20,596	20,516
Diluted	20,739	20,643	20,731	20,659
Dividends declared per common share	$ 0.22	$ 0.22	$ 0.44	$ 0.44

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Dollars in millions, except per share amounts)	*June 30, 2011 (Unaudited)*	*December 31, 2010*
Assets		
Cash and cash equivalents	$ 53.6	$ 35.3
Accounts receivable, net of allowance of $0.9 and $0.1	187.6	128.9
Income tax receivable	1.9	11.9
Inventories, net	162.1	165.4
Deferred tax assets	5.9	5.9
Other current assets	27.1	23.0
Total current assets	438.2	370.4
Equity in non-consolidated investments	23.7	4.7
Property, plant and equipment, net	172.4	168.2
Goodwill	74.6	72.1
Deferred tax assets	22.9	26.1
Other assets	29.3	27.7
Total assets	$ 761.1	$ 669.2
Liabilities		
Accounts payable	$ 103.9	$ 87.9
Accrued liabilities	64.9	55.4
Related party guarantee obligation	18.9	0.0
Dividends payable	5.2	5.1
Short-term debt and current portion of long-term debt	0.0	1.0
Total current liabilities	192.9	149.4
Long-term debt	310.0	295.4
Accrued postretirement benefits	83.0	86.1
Other long-term liabilities	38.7	38.4
Total liabilities	624.6	569.3
Commitments and contingent liabilities (Note 16)		
Equity		
Senior Convertible Preferred Stock, $0.01 par value per share; 10,000,000 shares authorized; no shares issued	0.0	0.0
Common Stock, $0.01 par value per share; 40,000,000 shares authorized; 21,309,310 and 21,278,480 shares issued and outstanding	0.2	0.2
Additional paid-in capital	139.7	137.0
Retained earnings (deficit)	7.8	(11.7)
Accumulated other comprehensive income (loss)	2.0	(12.3)
Treasury stock, at cost, 706,161 and 700,203 shares	(24.8)	(24.5)
Total Koppers stockholders equity	124.9	88.7
Noncontrolling interests	11.6	11.2
Total equity	136.5	99.9
Total liabilities and equity	$ 761.1	$ 669.2

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30,	
	2011	*2010*
(Dollars in millions)	*(Unaudited)*	
Cash provided by (used in) operating activities:		
Net income	$ 28.9	$ 23.5
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	13.7	13.4
Loss on sale of fixed assets	0.0	(1.3)
Deferred income taxes	2.2	0.7
Equity income, net of dividends received	(0.1)	0.0
Change in other liabilities	0.2	(2.4)
Non-cash interest expense	0.8	0.8
Stock-based compensation	2.2	1.8
Other	(3.0)	0.7
(Increase) decrease in working capital:		
Accounts receivable	(54.7)	(35.7)
Inventories	7.3	0.6
Accounts payable	14.8	14.8
Accrued liabilities and other working capital	13.5	15.7
Net cash provided by operating activities	25.8	32.6
Cash provided by (used in) investing activities:		
Capital expenditures	(12.2)	(7.7)
Acquisitions	(1.0)	(22.3)
Net cash proceeds from divestitures and asset sales	0.1	1.7
Net cash used in investing activities	(13.1)	(28.3)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	117.5	96.4
Repayments of revolving credit	(103.0)	(122.4)
Repayments of long-term debt	(1.0)	(0.1)
Issuances of Common Stock	0.2	0.0
Repurchases of Common Stock	(0.2)	(0.9)
Payment of deferred financing costs	(0.5)	(0.4)
Dividends paid	(9.1)	(14.0)
Net cash provided by (used in) financing activities	3.9	(41.4)
Effect of exchange rate changes on cash	1.7	(3.2)
Net increase (decrease) in cash and cash equivalents	18.3	(40.3)
Cash and cash equivalents at beginning of year	35.3	58.4
Cash and cash equivalents at end of period	$ 53.6	$ 18.1

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, 2010 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2010.

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, 2010.

2. Dividends

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

3. Business Acquisitions

Koppers Netherlands On March 1, 2010, the Company acquired 100 percent of the outstanding shares of privately-owned Cindu Chemicals B.V. (Cindu) for cash of $21.6 million. Cindu was subsequently renamed Koppers Netherlands B.V. (Koppers Netherlands). Koppers Netherlands is a Dutch company which operates a 140,000 metric ton coal tar distillation plant in Uithoorn, Netherlands. The acquisition strengthens the Company s presence in Europe and increases the Company s ability to service its export markets.

Acquisition expenses were $0.2 million and $1.8 million for the three months and six months ended June 30, 2010, respectively, and are charged to selling, general and administrative expenses.

Portec On December 22, 2010, the Company acquired the rail joint bar business of Portec Rail Products, Inc. located in Huntington, West Virginia. The purchase price was cash of $10.7 million. The preliminary allocation of purchase price to acquired assets consisted of inventory totaling $7.1 million, plant and equipment totaling $2.7 million, intangible assets consisting primarily of customer relationships totaling $0.6 million and tax deductible goodwill of $0.3 million. The goodwill is allocated to the Railroad and Utility Products segment.

Other acquisitions On October 31, 2010, the Company acquired the midwestern United States refined tar business of Stella Jones Inc. for cash of $6.1 million. The allocation of purchase price to acquired assets consisted of inventory totaling $1.6 million and intangible assets consisting primarily of customer relationships totaling $1.7 million and tax deductible goodwill of $2.8 million. The goodwill is allocated to the Carbon Materials and Chemicals segment.

Pro-forma information The consolidated pro forma results of operations if the above acquisitions had been completed as of the beginning of the year in 2010 would have been pro forma revenue of $334.2 million and operating profit of $33.5 million for the three months ended June 30, 2010 and pro forma revenue of $622.3 million and operating profit of $49.4 million for the six months ended June 30, 2010.

4. Fair Value Measurements

Carrying amounts and the related estimated fair values of the Company s financial instruments as of June 30, 2011 and December 31, 2010 are as follows:

(Dollars in millions)	*June 30, 2011* Fair Value	Carrying Value	*December 31, 2010* Fair Value	Carrying Value
Financial assets:				
Cash and cash equivalents, including restricted cash	$ 53.6	$ 53.6	$ 35.3	$ 35.3
Investments and other assets[(a)]	1.3	1.3	1.3	1.3
Financial liabilities:				
Long-term debt (including current portion)	$ 335.6	$ 310.0	$ 324.5	$ 296.4

(a) Excludes equity method investments.

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

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

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

5. Comprehensive Income and Equity

Total comprehensive income for the three and six months ended June 30, 2011 and 2010 is summarized in the table below:

(Dollars in millions)	*Three Months Ended June 30,* 2011	2010	*Six Months Ended June 30,* 2011	2010
Net income	$ 19.9	$ 16.1	$ 28.9	$ 23.5
Other comprehensive income (loss):				
Change in currency translation adjustment	5.8	(11.7)	12.8	(13.3)
Change in unrecognized pension transition asset, net of tax	(0.1)	0.0	(0.1)	(0.1)
Change in unrecognized pension net loss, net of tax	1.0	0.9	1.9	1.7
Total comprehensive income	26.6	5.3	43.5	11.8
Less: comprehensive income attributable to noncontrolling interests	0.2	0.1	0.5	0.2
Comprehensive income attributable to Koppers	$ 26.4	$ 5.2	$ 43.0	$ 11.6

The following tables present the change in equity for the six months ended June 30, 2011 and June 30, 2010, respectively:

(Dollars in millions)	*Total Koppers Shareholders Equity*	*Noncontrolling Interests*	*Total Equity*
Balance at January 1, 2011	$ 88.7	$ 11.2	$ 99.9

Net income	28.7	0.2	28.9
Issuance of common stock	0.2	0.0	0.2
Employee stock plans	2.3	0.0	2.3
Other comprehensive income	14.4	0.2	14.6
Dividends	(9.2)	0.0	(9.2)
Repurchases of common stock	(0.2)	0.0	(0.2)
Balance at June 30, 2011	$ 124.9	$ 11.6	$ 136.5

(Dollars in millions)	*Total Koppers Shareholders Equity*	*Noncontrolling Interests*	*Total Equity*
Balance at January 1, 2010	$ 43.8	$ 11.0	$ 54.8
Net income	23.4	0.1	23.5
Issuance of common stock	3.7	0.0	3.7
Employee stock plans	4.1	0.0	4.1
Other comprehensive (loss) income	(11.8)	0.1	(11.7)
Dividends	(9.2)	(0.6)	(9.8)
Repurchases of common stock	(0.9)	0.0	(0.9)
Balance at June 30, 2010	$ 53.1	$ 10.6	$ 63.7

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 June 30,		*Six Months Ended June 30,*	
(Dollars in millions, except share amounts, in thousands, and per share amounts)	*2011*	*2010*	*2011*	*2010*
Net income attributable to Koppers	$ 19.8	$ 16.1	$ 28.7	$ 23.4
Less: discontinued operations	0.0	(0.2)	0.0	(0.2)
Income from continuing operations attributable to Koppers	$ 19.8	$ 16.3	$ 28.7	$ 23.6
Weighted average common shares outstanding:				
Basic	20,603	20,558	20,596	20,516
Effect of dilutive securities	136	85	135	143
Diluted	20,739	20,643	20,731	20,659
Earnings per common share continuing operations:				
Basic earnings per common share	$ 0.96	$ 0.79	$ 1.39	$ 1.15
Diluted earnings per common share	0.96	0.79	1.39	1.14
Other data:				
Antidilutive securities excluded from computation of diluted earnings per common share	74	162	98	145

7. Stock-based Compensation

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

Under the LTIP, the board of directors granted restricted stock units and performance stock units to certain employee participants (collectively, the stock units) each year starting in 2007. The restricted stock units vest on the third anniversary of the grant date, assuming continued employment by the participant. Performance stock units granted in 2011 and 2010 each have a two-year performance objective. Performance stock units granted before 2010 have three-year performance objectives. Regardless of whether the measurement period for the applicable performance objective is two or three years, all performance stock units have a three-year period for vesting (if the applicable performance objective is obtained). The applicable performance objective is based upon a multi-year cumulative value creation calculation commencing on the first day of each

grant year. The number of performance stock units granted represents the target award and participants have the ability to earn between zero and 150 percent of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest. The performance stock units originally awarded in 2008 did not vest in 2011 as the related performance objectives were not achieved.

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.

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

Compensation expense for 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 June 30, 2011:

Performance Period	*Minimum Shares*	*Target Shares*	*Maximum Shares*
2009 2011	0	137,144	205,716
2010 2011	0	68,457	102,686
2011 2012	0	93,115	139,673

The following table shows a summary of the status and activity of nonvested stock awards for the six months ended June 30, 2011:

	Restricted Stock Units	*Performance Stock Units*	*Total Stock Units*	*Weighted Average Grant Date Fair Value per Unit*
Nonvested at January 1, 2011	121,397	257,002	378,399	$ 23.31
Granted	60,501	93,115	153,616	$ 40.41
Credited from dividends	3,627	7,693	11,320	$ 27.31
Performance stock unit adjustment	0	(50,600)	(50,600)	$ 38.92
Vested	(23,580)	0	(23,580)	$ 38.92
Forfeited	(17)	0	(17)	$ 36.61
Nonvested at June 30, 2011	161,928	307,210	469,138	$ 26.54

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:

	February 2011 Grant	*August 2010 Grant*	*February 2010 Grant*	*February 2009 Grant*
Grant date price per share of option award	$ 40.26	$ 20.00	$ 28.10	$ 15.26
Expected dividend yield per share	2.50%	2.50%	2.50%	2.50%
Expected life in years	6.5	6.5	6.5	6.5
Expected volatility	60.00%	62.00%	62.00%	51.00%

Risk-free interest rate	3.02%	3.05%	3.05%	2.05%
Grant date fair value per share of option awards	$ 19.28	$ 9.82	$ 13.81	$ 6.19

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 stock. The risk-free interest rate is based on U.S. Treasury bill rates for the expected life of the option.

The following table shows a summary of the status and activity of stock options for the six months ended June 30, 2011:

	Options	*Weighted Average Exercise Price per Option*	*Weighted Average Remaining Contractual Term (in years)*	*Aggregate Intrinsic Value (in millions)*
Outstanding at January 1, 2011	291,591	$ 24.63		
Granted	73,910	$ 40.26		
Exercised	(7,150)	$ 29.97		
Outstanding at June 30, 2011	358,351	$ 27.75	7.79	$ 3.9
Exercisable at June 30, 2011	95,568	$ 34.70	6.01	$ 0.4

Total stock-based compensation expense recognized for the three and six months ended June 30, 2011 and 2010 is as follows:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions)				
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	$ 1.4	$ 0.9	$ 2.2	$ 1.8
Less related income tax benefit	0.6	0.4	0.9	0.7
	$ 0.8	$ 0.5	$ 1.3	$ 1.1

As of June 30, 2011, total future compensation expense related to non-vested stock-based compensation arrangements totaled $9.2 million and the weighted-average period over which this cost is expected to be recognized is approximately 27 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, manufactured products and services primarily to the railroad and public utility markets. Railroad products include procuring and treating items such as crossties, switch ties and various types of lumber used for railroad bridges and crossings and the manufacture of rail joint bars. Utility products include transmission and distribution poles and pilings.

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

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions)				
Revenues from external customers:				
Carbon Materials & Chemicals	$ 256.2	$ 208.4	$ 492.4	$ 381.7
Railroad & Utility Products	137.4	118.7	260.3	219.7
Total	$ 393.6	$ 327.1	$ 752.7	$ 601.4
Intersegment revenues:				
Carbon Materials & Chemicals	$ 18.1	$ 27.2	$ 45.6	$ 50.3
Depreciation and amortization expense:				
Carbon Materials & Chemicals	$ 4.5	$ 5.1	$ 9.2	$ 9.6
Railroad & Utility Products	2.4	1.9	4.5	3.8
Total	$ 6.9	$ 7.0	$ 13.7	$ 13.4
Operating profit:				
Carbon Materials & Chemicals	$ 24.5	$ 21.4	$ 38.1	$ 32.1
Railroad & Utility Products	12.8	11.9	20.3	18.6
Corporate	(0.2)	(0.5)	(0.5)	(1.1)
Total	$ 37.1	$ 32.8	$ 57.9	$ 49.6

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

	June 30,	*December 31,*
	2011	*2010*
(Dollars in millions)		
Segment assets:		
Carbon Materials & Chemicals	$ 548.2	$ 447.4
Railroad & Utility Products	167.6	154.8
All other	45.3	67.0
Total	$ 761.1	$ 669.2
Goodwill:		
Carbon Materials & Chemicals	$ 71.8	$ 69.6
Railroad & Utility Products	2.8	2.5
Total	$ 74.6	$ 72.1

9. Income Taxes

Effective Tax Rate

Income taxes as a percentage of pretax income was 34.9 percent and 37.3 percent for the three months ended June 30, 2011 and 2010, respectively. Discrete items of $(0.1) million were included in the tax provision for the three months ended June 30, 2011. The effective tax rate for the second quarter of 2011 differs from the U.S. federal statutory rate of 35.0 percent due to state taxes (+1.1 percent), nondeductible expenses (+0.6 percent) and unrecognized tax benefits (+0.9 percent) partially offset by the taxes on foreign earnings (-2.9 percent) and the domestic manufacturing deduction (-0.3 percent). With respect to the second quarter of 2010, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent due to taxes on foreign earnings (+1.4 percent), nondeductible expenses (+1.0 percent) and unrecognized tax benefits (+1.3 percent) partially offset by the domestic manufacturing deduction (-2.0 percent).

Income taxes as a percentage of pretax income was 35.2 percent and 36.9 percent for the six months ended June 30, 2011 and 2010, respectively. Discrete items of $(0.1) million were included in the tax provision for the six months ended June 30, 2011. The effective tax rate for the first six months of 2011 differs from the U.S. federal statutory rate of 35.0 percent primarily due to state taxes (+1.1 percent), nondeductible expenses (+0.7 percent) and unrecognized tax benefits (+0.9 percent) partially offset by taxes on foreign earnings (-2.1 percent) and the domestic manufacturing deduction (-0.7 percent). With respect to the first six months of 2010, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to taxes on foreign earnings (+1.1 percent), nondeductible expenses (+1.1 percent) and unrecognized tax benefits (+1.0 percent) partially offset by the domestic manufacturing deduction (-2.0 percent).

The income tax provision for interim periods is based on an estimated annual effective tax rate, which requires management to make its best estimate of annual pretax income by domestic and foreign jurisdictions and other items that impact taxable income. During the year, management regularly updates estimates based on changes in various factors such as product prices, shipments, product mix, operating and administrative costs, earnings mix by taxable jurisdiction, repatriation of foreign earnings, uncertain tax positions and the ability to claim tax credits such as the non-conventional fuel tax credit. To the extent that actual results vary from the estimates at the end of the second quarter, the actual tax provision recognized for 2011 could be materially different from the forecasted annual tax provision as of the end of the second quarter.

Uncertain Tax Positions

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

As of June 30, 2011 and December 31, 2010, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately $3.9 million and $3.5 million, respectively. Unrecognized tax benefits totaled $6.6 million and $6.5 million as of June 30, 2011 and December 31, 2010, respectively. The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. As of June 30, 2011 and December 31, 2010, the Company had accrued approximately $0.7 million.

10. Inventories

Net inventories as of June 30, 2011 and December 31, 2010 are summarized in the table below:

(Dollars in millions)	*June 30, 2011*	*December 31, 2010*
Raw materials	$ 109.7	$ 107.6
Work in process	13.1	7.6
Finished goods	85.5	95.0
	208.3	210.2
Less revaluation to LIFO	46.2	44.8
Net	$ 162.1	$ 165.4

11. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2011 and December 31, 2010 are summarized in the table below:

(Dollars in millions)	*June 30, 2011*	*December 31, 2010*
Land	$ 7.7	$ 7.6
Buildings	38.2	36.5
Machinery and equipment	633.2	605.5
	679.1	649.6
Less accumulated depreciation	506.7	481.4

Net	$ 172.4	$ 168.2

12. Pensions and Postretirement Benefit Plans

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

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

The following table provides the components of net periodic benefit cost for the pension plans for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions)				
Service cost	$ 0.9	$ 0.8	$ 1.7	$ 1.6
Interest cost	2.7	2.6	5.6	5.6
Expected return on plan assets	(2.7)	(2.4)	(5.5)	(4.9)
Amortization of prior service cost	0.1	0.1	0.1	0.1
Amortization of net loss	1.5	1.3	3.1	2.6
Amortization of transition asset	(0.1)	0.0	(0.2)	(0.1)
Net periodic benefit cost	$ 2.4	$ 2.4	$ 4.8	$ 4.9

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions)				
Defined contribution plan expense	$ 1.3	$ 1.2	$ 2.8	$ 2.6
Multi-employer pension plan expense	0.1	0.1	0.3	0.2
Other postretirement benefit plans	0.2	0.2	0.4	0.4

13. Debt

Debt at June 30, 2011 and December 31, 2010 was as follows:

	Weighted Average Interest Rate	*Maturity*	*June 30, 2011*	*December 31, 2010*
(Dollars in millions)				
Revolving Credit Facility	2.44%	2015	$ 14.5	$ 0.0
Senior Notes	7 7/8%	2019	295.5	295.3
Other debt, including capital leases	8.00%	Various	0.0	1.1
Total debt			310.0	296.4
Less short term debt and current maturities of long-term debt			0.0	1.0

Long-term debt	$ 310.0	$ 295.4

Revolving Credit Facility

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to $300.0 million at variable rates. Borrowings under the revolving credit facility are secured by a first priority lien on substantially all of the assets of Koppers Inc. and its material domestic subsidiaries. The revolving credit facility contains certain covenants for Koppers Inc. and its restricted subsidiaries that limit capital expenditures, additional indebtedness, liens, dividends, investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. and its restricted subsidiaries to meet certain financial ratios. In March 2011, the Company amended the revolving credit facility to extend the expiration of the facility to March 22, 2015. Commitment fees totaled $0.3 million and $0.6 million for each of the three months and six months ended June 30, 2011 and 2010 and are charged to interest expense.

As of June 30, 2011, the Company had $267.2 million of unused revolving credit availability for working capital purposes after restrictions from certain letter of credit commitments and other covenants. As of June 30, 2011, $10.9 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. 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 $18.9 million in support of the Company s 30-percent investment in Tangshan Koppers Kailuan Carbon Chemical Company Limited (TKK) located in the Hebei Province of China. The guarantee relates to bank debt incurred by TKK which matures in August 2011. Based on current credit conditions in China, it is likely that the joint venture partners will provide bridge loans to TKK when the bank debt matures in August. Accordingly, the Company has reflected the full amount of the guarantee with an offsetting amount to equity investment at June 30, 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:

(Dollars in millions)	*June 30, 2011*	*December 31, 2010*
Balance at beginning of year	$ 17.0	$