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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

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

Common Stock, par value $0.01 per share, outstanding at October 31, 2012 amounted to 20,580,166 shares.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine months ended September 30,	
	2012	*2011*	*2012*	*2011*
(Dollars in millions, except per share amounts)	*(Unaudited)*		*(Unaudited)*	
Net sales	$ 387.9	$ 381.2	$ 1,180.1	$ 1,097.2
Cost of sales (excluding items below)	331.4	315.0	1,003.2	922.4
Depreciation and amortization	6.7	6.7	21.1	19.5
Selling, general and administrative expenses	19.0	19.4	55.1	55.6
Operating profit	30.8	40.1	100.7	99.7
Other income	0.6	0.1	1.7	0.2
Interest expense	6.9	6.7	20.8	20.3
Income before income taxes	24.5	33.5	81.6	79.6
Income taxes	8.3	11.0	28.5	27.5
Income from continuing operations	16.2	22.5	53.1	52.1
Income (loss) from discontinued operations, net of tax benefit (expense) of $0.0, $(0.3), $0.2 and $0.6	0.0	0.2	(0.1)	(0.5)
Net income	16.2	22.7	53.0	51.6
Net income attributable to noncontrolling interests	0.2	0.3	1.0	0.5
Net income attributable to Koppers	$ 16.0	$ 22.4	$ 52.0	$ 51.1
Earnings per common share attributable to Koppers common shareholders:				
Basic				
Continuing operations	$ 0.77	$ 1.07	$ 2.52	$ 2.51
Discontinued operations	0.00	0.01	(0.01)	(0.03)
Earnings per basic common share	$ 0.77	$ 1.08	$ 2.51	$ 2.48
Diluted				
Continuing operations	$ 0.77	$ 1.07	$ 2.50	$ 2.49
Discontinued operations	0.00	0.01	(0.01)	(0.03)
Earnings per diluted common share	$ 0.77	$ 1.08	$ 2.49	$ 2.46
Comprehensive income	$ 25.3	$ 8.7	$ 60.8	$ 52.1
Comprehensive income attributable to noncontrolling interests	0.3	0.3	1.0	0.8
Comprehensive income attributable to Koppers	$ 25.0	$ 8.4	$ 59.8	$ 51.3
Weighted average shares outstanding *(in thousands):*				
Basic	20,694	20,603	20,709	20,598
Diluted	20,900	20,746	20,940	20,749

Dividends declared per common share	$ 0.24	$ 0.22	$ 0.72	$ 0.66

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)	*September 30, 2012 (Unaudited)*	*December 31, 2011*
Assets		
Cash and cash equivalents	$ 68.9	$ 54.1
Accounts receivable, net of allowance of $3.7 and $0.3	172.9	160.9
Income tax receivable	2.9	10.6
Inventories, net	190.5	159.0
Deferred tax assets	9.7	9.3
Loan to related party	11.7	11.7
Other current assets	23.2	21.8
Total current assets	479.8	427.4
Equity in non-consolidated investments	5.9	4.9
Property, plant and equipment, net	152.4	155.6
Goodwill	73.0	72.1
Deferred tax assets	34.5	44.3
Other assets	21.2	26.4
Total assets	$ 766.8	$ 730.7
Liabilities		
Accounts payable	$ 109.3	$ 102.1
Accrued liabilities	70.9	63.1
Dividends payable	5.6	5.2
Total current liabilities	185.8	170.4
Long-term debt	297.4	302.1
Accrued postretirement benefits	91.9	104.1
Other long-term liabilities	40.9	46.9
Total liabilities	616.0	623.5
Commitments and contingent liabilities (Note 16)		
Equity		
Senior Convertible Preferred Stock, $0.01 par value per share; 10,000,000 shares authorized; no shares issued	0.0	0.0
Common Stock, $0.01 par value per share; 40,000,000 shares authorized; 21,531,192 and 21,309,210 shares issued	0.2	0.2
Additional paid-in capital	149.1	142.9
Retained earnings	43.5	6.7
Accumulated other comprehensive loss	(22.5)	(30.2)
Treasury stock, at cost, 951,026 and 706,161 shares	(32.9)	(24.8)
Total Koppers shareholders equity	137.4	94.8
Noncontrolling interests	13.4	12.4
Total equity	150.8	107.2
Total liabilities and equity	$ 766.8	$ 730.7

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,	
(Dollars in millions)	*2012*	*2011*
	(Unaudited)	
Cash provided by (used in) operating activities:		
Net income	$ 53.0	$ 51.6
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	21.1	20.8
Gain on sale of assets	(0.2)	(0.2)
Deferred income taxes	7.7	4.2
Equity income, net of dividends received	(0.9)	(0.2)
Change in other liabilities	(8.3)	(3.2)
Non-cash interest expense	1.2	1.2
Stock-based compensation	5.1	3.7
Other	(0.2)	(2.9)
(Increase) decrease in working capital:		
Accounts receivable	(11.4)	(50.8)
Inventories	(29.9)	(2.5)
Accounts payable	6.7	9.5
Accrued liabilities and other working capital	10.6	13.3
Net cash provided by operating activities	54.5	44.5
Cash provided by (used in) investing activities:		
Capital expenditures	(15.6)	(19.6)
Acquisitions	(0.2)	(1.0)
Net cash proceeds from divestitures and asset sales	0.7	0.7
Net cash used in investing activities	(15.1)	(19.9)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	225.9	165.2
Repayments of revolving credit	(230.9)	(150.2)
Repayments of long-term debt	0.0	(1.0)
Issuances of Common Stock	0.8	0.2
Repurchases of Common Stock	(8.2)	(0.2)
Payment of deferred financing costs	(0.1)	(0.5)
Dividends paid	(14.5)	(13.6)
Net cash used in financing activities	(27.0)	(0.1)
Effect of exchange rate changes on cash	2.4	(0.6)
Net increase in cash and cash equivalents	14.8	23.9
Cash and cash equivalents at beginning of year	54.1	35.3
Cash and cash equivalents at end of period	$ 68.9	$ 59.2

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

KOPPERS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Unaudited)*

1. Basis of Presentation and New Accounting Standards

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

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

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

2. Dividends

On November 6, 2012, the Company s board of directors declared a quarterly dividend of 24 cents per common share, payable on January 7, 2013 to shareholders of record as of November 19, 2012.

3. Discontinued operations

In December 2011, the Company ceased manufacturing operations at its only carbon black facility located in Kurnell, Australia. This business was reclassified to discontinued operations in the first quarter of 2012 as run-off activities were completed. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The costs related to this closure totaled $41.0 million in the fourth quarter of 2011, of which $20.8 million was recorded as a component of cost of sales and $20.2 million was recorded as a component of depreciation and amortization. The Company estimates that total future closure costs related to this facility will be approximately $1.0 million. The closure is expected to be completed by 2014. The facility is part of the Carbon Materials & Chemicals segment.

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

(Dollars in millions)	*Severance and employee benefits*	*Environmental remediation*	*Inventory writedowns*	*Site demolition*	*Other*	*Total*
Reserve at December 31, 2011	$ 1.8	$ 6.7	$ 0.0	$ 6.2	$ 1.2	$ 15.9
Charges	0.1	0.0	0.4	0.0	0.0	0.5
Costs charged against assets	0.0	0.0	(0.4)	0.0	0.0	(0.4)
Reversals	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Cash paid	(1.6)	(0.1)	0.0	(0.3)	(0.5)	(2.5)
Currency translation	0.0	0.2	0.0	0.2	0.0	0.4

Reserve at September 30, 2012	$	0.2	$	6.8	$	0.0	$	6.1	$ 0.7	$ 13.8

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

	Three Months Ended September 30,		*Nine months ended September 30,*	
	2012	*2011*	*2012*	*2011*
Net sales	$ 0.3	$ 19.8	$ 5.7	$ 56.5
Operating profit (loss)	(0.1)	0.2	(0.3)	(1.5)

4. Fair Value Measurements

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

	September 30, 2012		*December 31, 2011*	
(Dollars in millions)	*Fair Value*	*Carrying Value*	*Fair Value*	*Carrying Value*
Financial assets:				
Cash and cash equivalents, including restricted cash	$ 68.9	$ 68.9	$ 54.1	$ 54.1
Investments and other assets[(a)]	1.3	1.3	1.3	1.3
Financial liabilities:				
Long-term debt (including current portion)	$ 332.2	$ 297.4	$ 324.4	$ 302.1

(a) Excludes equity method investments.

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

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

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

5. Comprehensive Income and Equity

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

	Three Months Ended September 30,		*Nine months ended September 30,*	
(Dollars in millions)	*2012*	*2011*	*2012*	*2011*
Net income	$ 16.2	$ 22.7	$ 53.0	$ 51.6
Other comprehensive income (loss):				
Change in currency translation adjustment	7.8	(14.9)	4.1	(2.2)
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	0.1	0.0	0.1	0.0
Change in unrecognized pension net loss, net of tax	1.3	1.0	3.8	2.9
Total comprehensive income	25.3	8.7	60.8	52.1

Less: comprehensive income attributable to noncontrolling interests		0.3		0.3		1.0		0.8
Comprehensive income attributable to Koppers	$	25.0	$	8.4	$	59.8	$	51.3

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

(Dollars in millions)	*Total Koppers Shareholders Equity*	*Noncontrolling Interests*	*Total Equity*
Balance at December 31, 2011	$ 94.8	$ 12.4	$ 107.2
Net income	52.0	1.0	53.0
Issuance of common stock	0.8	0.0	0.8
Employee stock plans	5.4	0.0	5.4
Other comprehensive income	7.8	0.0	7.8
Dividends	(15.2)	0.0	(15.2)
Repurchases of common stock	(8.2)	0.0	(8.2)
Balance at September 30, 2012	$ 137.4	$ 13.4	$ 150.8

(Dollars in millions)	*Total Koppers Shareholders Equity*	*Noncontrolling Interests*	*Total Equity*
Balance at December 31, 2010	$ 88.7	$ 11.2	$ 99.9
Net income	51.1	0.5	51.6
Issuance of common stock	0.2	0.0	0.2
Employee stock plans	4.1	0.0	4.1
Other comprehensive income	0.2	0.3	0.5
Dividends	(14.0)	0.0	(14.0)
Repurchases of common stock	(0.3)	0.0	(0.3)
Balance at September 30, 2011	$ 130.0	$ 12.0	$ 142.0

6. Earnings per Common Share

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

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

	Three Months Ended September 30,		*Nine months ended September 30,*	
(Dollars in millions, except share amounts, in thousands, and per share amounts)	*2012*	*2011*	*2012*	*2011*
Net income attributable to Koppers	$ 16.0	$ 22.4	$ 52.0	$ 51.1
Less: loss from discontinued operations	0.0	0.2	(0.1)	(0.5)
Income from continuing operations attributable to Koppers	$ 16.0	$ 22.2	$ 52.1	$ 51.6
Weighted average common shares outstanding:				
Basic	20,694	20,603	20,709	20,598
Effect of dilutive securities	206	143	231	151
Diluted	20,900	20,746	20,940	20,749

Earnings per common share continuing operations:				
Basic earnings per common share	$ 0.77	$ 1.07	$ 2.52	$ 2.51
Diluted earnings per common share	0.77	1.07	2.50	2.49
Other data:				
Antidilutive securities excluded from computation of diluted earnings per common share	203	219	191	103

7. Stock-based Compensation

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

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

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

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

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

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

Performance Period	*Minimum Shares*	*Target Shares*	*Maximum Shares*
2011 2012	0	84,342	126,513
2012 2014	0	100,031	150,047

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

	Restricted Stock Units	*Performance Stock Units*	*Total Stock Units*	*Weighted Average Grant Date Fair Value per Unit*
Non-vested at January 1, 2012	156,665	297,715	454,380	$ 26.43
Granted	67,012	104,598	171,610	$ 38.35
Credited from dividends	3,779	7,072	10,851	$ 35.67
Performance stock unit adjustment	0	(40,112)	(40,112)	$ 10.68
Vested	(85,187)	(87,013)	(172,200)	$ 18.69
Forfeited	(6,171)	(13,584)	(19,755)	$ 36.00
Non-vested at September 30, 2012	136,098	268,676	404,774	$ 36.11

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

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

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

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

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

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

	Options	*Weighted Average Exercise Price per Option*	*Weighted Average Remaining Contractual Term (in years)*	*Aggregate Intrinsic Value (in millions)*
Outstanding at January 1, 2012	353,452	$ 27.65		
Granted	95,899	$ 38.21		
Exercised	(49,782)	$ 16.15		
Expired	(2,413)	$ 39.99		
Forfeited	(11,420)	$ 36.00		
Outstanding at September 30, 2012	385,736	$ 31.44	7.22	$ 2.2
Exercisable at September 30, 2012	170,786	$ 25.53	5.52	$ 1.8

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

	Three Months Ended September 30,		*Nine months ended September 30,*	
(Dollars in millions)	*2012*	*2011*	*2012*	*2011*
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	$ 1.9	$ 1.5	$ 5.1	$ 3.7
Less related income tax benefit	0.8	0.6	2.0	1.5
	$ 1.1	$ 0.9	$ 3.1	$ 2.2

As of September 30, 2012, total future compensation expense related to non-vested stock-based compensation arrangements totaled $10.0 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 and carbon black feedstock. Carbon pitch is a critical raw material used in the production of aluminum and for the production of steel in electric arc furnaces. Naphthalene is used for the production of phthalic anhydride and as a surfactant in the production of concrete. Phthalic anhydride is used in the production of plasticizers, polyester resins and alkyd paints. Creosote is used in the treatment of wood and carbon black feedstock is used in the production of carbon black.

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

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

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

	Three Months Ended September 30,		*Nine months ended September 30,*	
(Dollars in millions)	*2012*	*2011*	*2012*	*2011*
Revenues from external customers:				
Carbon Materials & Chemicals	$ 241.1	$ 245.6	$ 757.3	$ 701.3
Railroad & Utility Products	146.8	135.6	422.8	395.9
Total	$ 387.9	$ 381.2	$ 1,180.1	$ 1,097.2
Intersegment revenues:				
Carbon Materials & Chemicals	$ 27.0	$ 25.9	$ 83.8	$ 71.5
Depreciation and amortization expense:				
Carbon Materials & Chemicals	$ 4.2	$ 4.5	$ 12.6	$ 12.8
Railroad & Utility Products	2.5	2.2	8.5	6.7
Total	$ 6.7	$ 6.7	$ 21.1	$ 19.5
Operating profit:				
Carbon Materials & Chemicals	$ 18.4	$ 30.7	$ 65.1	$ 70.5
Railroad & Utility Products	12.8	9.9	36.9	30.2
Corporate	(0.4)	(0.5)	(1.3)	(1.0)
Total	$ 30.8	$ 40.1	$ 100.7	$ 99.7

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

(Dollars in millions)	*September 30, 2012*	*December 31, 2011*
Segment assets:		
Carbon Materials & Chemicals	$ 528.7	$ 495.2
Railroad & Utility Products	184.8	164.6
All other	53.3	70.9
Total	$ 766.8	$ 730.7
Goodwill:		
Carbon Materials & Chemicals	$ 70.2	$ 69.4
Railroad & Utility Products	2.8	2.7
Total	$ 73.0	$ 72.1

9. Income Taxes

Effective Tax Rate

Income taxes as a percentage of pretax income before discrete items was 35.2 percent and 35.6 percent for the three months ended September 30, 2012 and 2011, respectively. Discrete items included in income taxes for the three months ended September 30, 2012 consisted of a net tax benefit of $0.3 million due primarily to changes in unrecognized tax benefits partially offset by the effect of a United Kingdom corporate tax rate change and tax return to provision adjustments. Discrete items included in income taxes for the three months ended September 30, 2011 consisted of a net tax benefit of $0.9 million due to tax return to provision adjustments and changes in unrecognized tax benefits.

The effective tax rate for the third quarter of 2012 differs from the U.S. federal statutory rate of 35.0 percent due to state taxes (+1.6 percent), nondeductible expenses (+0.4 percent) and unrecognized tax benefits (+0.7 percent) partially offset by the domestic manufacturing deduction (-2.5 percent). With respect to the third quarter of 2011, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent due to state taxes (+0.9 percent), nondeductible expenses (+0.5 percent) and unrecognized tax benefits (+1.0 percent) partially offset by the taxes on foreign earnings (-0.3 percent) and the domestic manufacturing deduction (-1.5 percent).

Income taxes as a percentage of pretax income before discrete items was 34.7 percent and 35.8 percent for the nine months ended September 30, 2012 and 2011, respectively. Discrete items included in income taxes for the nine months ended September 30, 2012 consisted of net tax expense of $0.2 million due primarily to a tax reserve associated with our 2011 European restructuring project partially offset by changes to other unrecognized tax benefits. Discrete items included in income taxes for the nine months ended September 30, 2011 consisted of a net tax benefit of $0.9 million due to tax return to provision adjustments and changes in unrecognized tax benefits.

The effective tax rate for the first nine months of 2012 differs from the U.S. federal statutory rate of 35.0 percent primarily due to state taxes (+1.6 percent), nondeductible expenses (+0.7 percent) and unrecognized tax benefits (+0.8 percent) partially offset by taxes on foreign earnings (-1.5 percent) and the domestic manufacturing deduction (-1.9 percent). With respect to the first nine months of 2011, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to state taxes (+1.0 percent), nondeductible expenses (+0.6 percent) and unrecognized tax benefits (+0.9 percent) partially offset by taxes on foreign earnings (-0.3 percent) and the domestic manufacturing deduction (-1.4 percent).

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

Uncertain Tax Positions

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

As of September 30, 2012 and December 31, 2011, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately $5.0 million and $7.1 million, respectively. Unrecognized tax benefits totaled $7.8 million and $9.9 million as of September 30, 2012 and December 31, 2011, respectively. The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. As of September 30, 2012 and December 31, 2011 the Company had accrued approximately $1.1 million and $0.9 million for interest and penalties, respectively.

10. Inventories

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

(Dollars in millions)	*September 30, 2012*	*December 31, 2011*
Raw materials	$ 114.9	$ 91.5
Work in process	14.6	20.1
Finished goods	111.1	95.1
	240.6	206.7
Less revaluation to LIFO	50.1	47.7
Net	$ 190.5	$ 159.0

11. Property, Plant and Equipment

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

(Dollars in millions)	*September 30, 2012*	*December 31, 2011*
Land	$ 6.7	$ 6.6
Buildings	35.1	34.7
Machinery and equipment	603.2	593.5
	645.0	634.8
Less accumulated depreciation	492.6	479.2
Net	$ 152.4	$ 155.6

In October 2012, a subsidiary of the Company signed an agreement to construct a coal tar distillation facility in China. Construction is expected to commence in late 2012 and is expected to be completed by mid-2014. The Company s expected capital requirement commitment for the 75 percent-owned facility is approximately $70 million and will be financed by available cash and incremental financing.

Koppers Wood Products Pty Ltd., a subsidiary of the Company, signed an asset purchase agreement in September 2012 to acquire the Western Poles business from Ridolfo Forestry Products Pty Limited. The closing of the transaction is subject to certain conditions and is expected to be completed by the end of November 2012. The Western Poles business is engaged in the procurement and processing of timber for the western

Australian utility pole market. The Company will fund the acquisition with available cash on hand.

12. Pensions and Postretirement Benefit Plans

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

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

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

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

	Three Months Ended September 30,		*Nine months ended September 30,*	
	2012	*2011*	*2012*	*2011*
(Dollars in millions)				
Service cost	$ 0.8	$ 0.8	$ 2.6	$ 2.5
Interest cost	2.8	2.8	8.0	8.4
Expected return on plan assets	(2.7)	(2.8)	(8.0)	(8.3)
Amortization of prior service cost	0.0	0.0	0.1	0.1
Amortization of net loss	2.0	1.6	6.1	4.7
Amortization of transition asset	(0.0)	0.0	(0.2)	(0.2)
Net periodic benefit cost	$ 2.9	$ 2.4	$ 8.6	$ 7.2
Defined contribution plan expense	$ 1.1	$ 1.3	$ 3.8	$ 4.1
Multi-employer pension plan expense	0.1	0.2	0.3	0.7
Other postretirement benefit plans	0.2	0.1	0.5	0.5

13. Debt

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

	Weighted Average Interest Rate	*Maturity*	*September 30, 2012*	*December 31, 2011*
(Dollars in millions)				
Revolving Credit Facility	2.46%	2015	$ 1.4	$ 6.4
Senior Notes	$7\,^{7}/_{8}$%	2019	296.0	295.7
Total debt			297.4	302.1
Less short term debt and current maturities of long-term debt			0.0	0.0
Long-term debt			$ 297.4	$ 302.1

Revolving Credit Facility

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

million for the three months ended September 30, 2012 and 2011, respectively, and $0.7 million and $0.8 million for the nine months ended September 30, 2012 and 2011, respectively. Commitment fees are charged to interest expense.

As of September 30, 2012, the Company had $280.7 million of unused revolving credit availability for working capital purposes after restrictions from certain letter of credit commitments and other covenants. As of September 30, 2012, $11.5 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.

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)	*September 30, 2012*	*December 31, 2011*
Balance at beginning of year	$ 21.3	$ 17.0
Accretion expense	0.8	1.1
Revision in estimated cash flows, net	1.2	6.3
Expenses incurred	(2.0)	(3.1)
Currency translation	0.2	0.0
Balance at end of period	$ 21.5	$ 21.3

15. Deferred Revenue from Extended Product Warranty Liabilities

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

(Dollars in millions)	*September 30, 2012*	*December 31, 2011*
Balance at beginning of year	$ 4.8	$ 5.7
Revenue earned	(0.6)	(0.9)
Balance at end of period	$ 4.2	$ 4.8

16. Commitments and Contingent Liabilities

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

Legal Proceedings

Coal Tar Pitch Cases. Koppers Inc., along with other defendants, is currently a defendant in lawsuits filed in three states in which the plaintiffs claim they suffered a variety of illnesses (including cancer) as a result of exposure to coal tar pitch sold by the defendants. There are approximately 136 plaintiffs in 75 cases pending as of September 30, 2012 as compared to 131 plaintiffs in 73 cases at December 31, 2011. As of September 30, 2012, there are a total of 70 cases pending in state court in Pennsylvania, four in Arkansas, and one case pending in state court in Tennessee.

The plaintiffs in all 75 pending cases seek to recover compensatory damages, while plaintiffs in 67 cases also seek to recover punitive damages. The plaintiffs in the 70 cases filed in Pennsylvania state court seek unspecified damages in excess of the court s minimum jurisdictional limit. The plaintiffs in the Arkansas state court cases each seek compensatory damages in excess of $50,000 in addition to punitive damages. The plaintiffs in the Tennessee state court case each seek damages of $15.0 million. The other defendants in these lawsuits vary from case to case and include companies such as Beazer East, Inc., United States Steel Corporation, Honeywell International Inc., Vertellus Specialties Inc., Dow Chemical Company, Rust-Oleum Corporation, UCAR Carbon Company, Inc., Exxon Mobil Corporation, Chemtura Corporation, SGL Carbon Corporation, Alcoa, Inc., and PPG Industries, Inc. Discovery is proceeding in these cases. No trial dates have been set in any of these cases.

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

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

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

The case was removed to the United States District Court for the Northern District of Florida in December 2010. Koppers Holdings Inc. filed a motion to dismiss alleging that the Court lacks personal jurisdiction over it. The Court has not yet ruled on Koppers Holdings Inc. s motion to dismiss. The plaintiffs were granted leave to file a supplemental amended complaint which expands the boundaries of the class affected area from its original size. The Court granted the parties joint motion to stay the proceedings until early January 2013 so that the parties can explore the possibility of resolving the case. The Court has not yet scheduled a class certification hearing or trial.

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

Other Matters. In February 2012, approximately 400 tons of liquid carbon pitch leaked from a storage tank at the Company s terminal facility in Portland, Victoria, Australia. All of the coal tar pitch was contained within the tank farm area and no release of material to water or soil occurred. Costs directly associated with the leak totaled $3.7 million for the nine months ended September 30, 2012, net of estimated insurance recoveries. Expenses associated with the incident include inventory losses, emergency response expenses, incremental logistics expenses, and material clean-up and removal expenses. The Company received two claims for damages totaling approximately $0.5 million from entities who allege that their businesses were adversely affected during the temporary closure of Portland s harbor. In spite of the Company s requests, no additional information regarding the largest claim has been received by the Company. The Company has not provided a reserve for these claims because, at this time, it cannot reasonably determine the probability of a loss, and the amount of the loss, if any, cannot be reasonably estimated. The Company does not currently believe that the resolution of these two matters will involve a loss contingency that would be material to the financial statements.

In July 2012, Koppers Netherlands B.V. s (Koppers Netherlands) coal tar distillation plant suffered a series of electrical disruptions which significantly affected plant operations and prevented the resumption of plant operations for a period of approximately three weeks. As a result of the suspension of operations, the coal tar distillation plant was unable to provide steam and other services to an adjacent unaffiliated plant. This unaffiliated plant and Koppers Netherlands plant share certain services and plant infrastructure under a cost sharing agreement. In September 2012, Koppers Netherlands received a business interruption claim of approximately $1.7 million from the owner of the unaffiliated plant. Koppers Netherlands has not received detailed information used by the unaffiliated plant to determine the alleged loss. Until this information is provided and reviewed by Koppers Netherlands, it is unable to determine the validity of the actual damages incurred. 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.

In October 2012, the Company received a claim from a customer alleging that a carbon product sold by the Company was inadequate for its intended use. The customer is requesting a refund of the purchase price, recovery of transport costs and reimbursement of unspecified operational losses associated with the use of the product. The Company has requested technical data about the product from the customer and has commenced discussions with the customer to seek a resolution of this matter; however these discussions are in the early stages. In the Company s judgment, the range of reasonably possible loss, in excess of amounts expensed by the Company in the third quarter for this matter, will not involve a loss contingency that would be material to the financial statements.

Environmental and Other Litigation Matters

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

Environmental and Other Liabilities Retained or Assumed by Others. The Company s subsidiaries have agreements with former owners of certain of their operating locations under which the former owners retained, assumed and/or agreed to indemnify such subsidiaries against certain environmental and other liabilities. The most significant of these agreements was entered into at Koppers Inc. s formation on December 29, 1988 (the Acquisition). Under the related asset purchase agreement between Koppers Inc. and Beazer East, subject to certain limitations, Beazer East retained the responsibility for and agreed to indemnify Koppers Inc. against certain liabilities, damages, losses and costs, including, with certain limited exceptions, liabilities under and costs to comply with environmental laws to the extent attributable to acts or omissions occurring prior to the Acquisition and liabilities related to products sold by Beazer East prior to the Acquisition (the Indemnity). Beazer Limited, the parent company of Beazer East, unconditionally guaranteed Beazer East s performance of the Indemnity pursuant to a guarantee (the Guarantee). In 1998, the parent company of Beazer East purchased an insurance policy under which the funding and risk of certain environmental and other liabilities relating to the former Koppers Company, Inc. operations of Beazer East (which includes locations purchased from Beazer East by Koppers Inc.) are underwritten by Centre Solutions (a member of the Zurich Group) and Swiss Re. Beazer East is a wholly-owned, indirect subsidiary of Heidelberg Cement AG.

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

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

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

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

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

Domestic Environmental Matters. Koppers Inc. has been named as a potentially responsible party (a PRP) at the Portland Harbor CERCLA site located on the Willamette River in Oregon. Koppers Inc. has replied to an Environmental Protection Agency (EPA) information request and has executed a PRP agreement which outlines the process to develop an allocation of past and future costs. The current estimate for past costs incurred in the remedial investigation/feasibility study is approximately $100 million. Koppers Inc. currently operates a coal tar pitch terminal near the site. Koppers Inc. has accrued its estimated cost of participation in the PRP group. Separate from the EPA activities, a natural resources damages assessment is being conducted by a local trustee group.

In September 2009, Koppers Inc. received a general notice letter notifying it that it may be a PRP at the Newark Bay CERCLA site. In January 2010, Koppers Inc. submitted a response to the general notice letter asserting that Koppers Inc. is a *de minimus* party at this site. Other than the estimated costs of participating in the PRP group at the Portland Harbor and Newark Bay CERCLA sites totaling $0.7 million at September 30, 2012, the Company has not provided a reserve for these matters because, at this time, it cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. An unfavorable resolution of these matters may have a material adverse effect on the Company s business, financial condition, cash flows and results of operations.

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

Australian Environmental Matters. Soil and groundwater contamination has been detected at certain of the Company s Australian facilities. At the Company s tar distillation facility in Newcastle, New South Wales, Australia, soil contamination from an abandoned underground coal tar pipeline and other groundwater contamination have been detected at a property adjacent to the facility. In 2011, the Company and the owner of the adjacent property reached an agreement in which the Company will contribute $1.6 million and the owner of the adjacent property will contribute $7.5 million toward remediation of the property. The agreement provides that the Company will assume responsibility for the management of the remediation effort and will indemnify the current owner for any remediation costs in excess of its agreed contribution. At the completion of the remediation, the agreement provides that the property will be transferred to the Company. The remediation project commenced in the fourth quarter of 2011 and the Company has reserved its expected remaining remediation costs of $5.1 million and has recorded a receivable, net of cash collections, from the owner of the adjacent property of $3.1 million as of September 30, 2012.

In December 2011, the Company ceased manufacturing operations at its Continental Carbon facility located in Kurnell, Australia. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The Company has accrued its expected cost of site remediation resulting from the closure of $6.8 million as of September 30, 2012.

Other Australian environmental matters include soil and groundwater remediation at a number of current and former facilities in Australia. The Company has reserved $1.3 million for remediation costs at the remaining Australian sites.

Environmental Reserves Rollforward. The following table reflects changes in the accrued liability for environmental matters, of which $8.0 million and $8.1 million are classified as current liabilities at September 30, 2012 and December 31, 2011, respectively:

		Period ended
(Dollars in millions)	*September 30, 2012*	*December 31, 2011*
Balance at beginning of year	$ 17.7	$ 6.6
Expense	0.9	8.0
Reversal of reserves	(0.2)	(1.6)
Cash expenditures	(4.3)	(2.4)
Assumed remediation liability in exchange for cash	0.0	7.5
Currency translation	0.6	(0.4)
Balance at end of year	$ 14.7	$ 17.7

17. Subsidiary Guarantor Information for Koppers Inc. Senior Notes

On December 1, 2009, Koppers Inc. issued $300.0 million principal value of Senior Notes. Koppers Holdings and each of Koppers Inc. s 100 percent-owned material domestic subsidiaries other than Koppers Assurance, Inc. fully and unconditionally guarantee, on a joint and several basis, 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, 2012 and 2011 and for the three and nine months ended September 30, 2012 and 2011 is as follows:

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2012

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 238.2	$ 15.1	$ 147.8	$ (13.2)	$ 387.9
Cost of sales including depreciation and amortization	0.0	211.0	9.3	129.7	(11.9)	338.1
Selling, general and administrative	0.4	11.6	0.4	6.6	0.0	19.0
Operating profit (loss)	(0.4)	15.6	5.4	11.5	(1.3)	30.8
Other income (expense)	16.3	0.4	0.3	(0.1)	(16.3)	0.6
Interest expense (income)	0.1	6.9	0.0	1.2	(1.3)	6.9
Income taxes	(0.2)	7.0	0.1	1.4	0.0	8.3
Income from continuing operations	16.0	2.1	5.6	8.8	(16.3)	16.2
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	$ 16.0	$ 2.1	$ 5.6	$ 8.6	$ (16.3)	$ 16.0
Comprehensive income attributable to Koppers	$ 25.0	$ 3.3	$ 8.1	$ 13.9	$ (25.3)	$ 25.0

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2011

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 226.5	$ 16.2	$ 147.3	$ (8.8)	$ 381.2
Cost of sales including depreciation and amortization	0.0	195.3	10.0	123.8	(7.4)	321.7
Selling, general and administrative	0.5	11.6	0.4	6.9	0.0	19.4
Operating profit (loss)	(0.5)	19.6	5.8	16.6	(1.4)	40.1
Other income (expense)	22.7	0.2	0.0	(0.1)	(22.7)	0.1
Interest expense (income)	(0.2)	6.9	0.1	1.2	(1.3)	6.7
Income taxes	0.0	7.7	0.0	3.3	0.0	11.0
Income from continuing operations	22.4	5.2	5.7	12.0	(22.8)	22.5
Discontinued operations	0.0	(0.3)	0.0	0.5	0.0	0.2
Noncontrolling interests	0.0	0.0	0.0	0.3	0.0	0.3
Net income attributable to Koppers	$ 22.4	$ 4.9	$ 5.7	$ 12.2	$ (22.8)	$ 22.4
Comprehensive income attributable to Koppers	$ 8.4	$ 5.8	$ 0.1	$ 2.6	$ (8.5)	$ 8.4

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Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2012

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 689.1	$ 73.0	$ 466.7	$ (48.7)	$ 1,180.1
Cost of sales including depreciation and amortization	0.0	601.9	49.2	412.9	(39.7)	1,024.3
Selling, general and administrative	1.3	33.0	1.6	19.2	0.0	55.1
Operating profit (loss)	(1.3)	54.2	22.2	34.6	(9.0)	100.7
Other income (expense)	52.9	0.4	0.8	0.5	(52.9)	1.7
Interest expense (income)	0.1	20.7	0.0	3.9	(3.9)	20.8
Income taxes	(0.5)	20.5	0.3	8.2	0.0	28.5
Income from continuing operations	52.0	13.4	22.7	23.0	(58.0)	53.1
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	1.0	0.0	1.0
Net income attributable to Koppers	$ 52.0	$ 13.4	$ 22.7	$ 21.9	$ (58.0)	$ 52.0
Comprehensive income attributable to Koppers	$ 59.8	$ 16.9	$ 24.9	$ 24.0	$ (65.8)	$ 59.8

Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2011

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 640.1	$ 48.2	$ 436.6	$ (27.7)	$ 1,097.2
Cost of sales including depreciation and amortization	0.0	565.4	22.6	369.4	(15.5)	941.9
Selling, general and administrative	1.0	31.6	1.4	21.6	0.0	55.6
Operating profit (loss)	(1.0)	43.1	24.2	45.6	(12.2)	99.7
Other income (expense)	51.8	0.3	0.0	(0.1)	(51.8)	0.2
Interest expense (income)	(0.1)	20.7	0.1	3.7	(4.1)	20.3
Income taxes	(0.2)	18.3	0.2	9.2	0.0	27.5
Income from continuing operations	51.1	4.4	23.9	32.6	(59.9)	52.1
Discontinued operations	0.0	0.1	0.0	(0.6)	0.0	(0.5)
Noncontrolling interests	0.0	0.0	0.0	0.5	0.0	0.5
Net income attributable to Koppers	$ 51.1	$ 4.5	$ 23.9	$ 31.5	$ (59.9)	$ 51.1
Comprehensive income attributable to Koppers	$ 51.3	$ 7.2	$ 21.4	$ 31.3	$ (59.9)	$ 51.3

Condensed Consolidating Balance Sheet

September 30, 2012

(Dollars in millions)	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Cash and cash equivalents	$ 0.0	$ 0.1	$ 0.0	$ 68.8	$ 0.0	$ 68.9
Accounts receivable, net	0.0	115.1	317.9	80.6	(337.8)	175.8
Inventories, net	0.0	100.0	0.0	90.6	(0.1)	190.5
Deferred tax assets	0.0	11.0	(1.5)	0.2	0.0	9.7
Other current assets	0.0	7.8	0.1	27.0	0.0	34.9
Total current assets	0.0	234.0	316.5	267.2	(337.9)	479.8
Equity investments	142.9	77.1	27.1	4.1	(245.3)	5.9
Property, plant and equipment, net	0.0	100.3	0.0	52.1	0.0	152.4
Goodwill	0.0	39.8	0.0	33.2	0.0	73.0
Deferred tax assets	0.0	34.8	(10.5)	10.2	0.0	34.5
Other noncurrent assets	0.0	16.4	127.1	43.6	(165.9)	21.2
Total assets	$ 142.9	$ 502.4	$ 460.2	$ 410.4	$ (749.1)	$ 766.8
LIABILITIES AND EQUITY						
Accounts payable	$ 1.0	$ 365.6	$ 15.3	$ 65.2	$ (337.8)	$ 109.3
Accrued liabilities	4.5	32.4	(0.9)	40.5	0.0	76.5
Short-term debt and current portion of long-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	5.5	398.0	14.4	105.7	(337.8)	185.8
Long-term debt	0.0	398.4	0.0	64.8	(165.8)	297.4
Other long-term liabilities	0.0	103.9	2.6	26.4	(0.1)	132.8
Total liabilities	5.5	900.3	17.0	196.9	(503.7)	616.0
Koppers stockholders equity	137.4	(397.9)	443.2	200.1	(245.4)	137.4
Noncontrolling interests	0.0	0.0	0.0	13.4	0.0	13.4
Total liabilities and equity	$ 142.9	$ 502.4	$ 460.2	$ 410.4	$ (749.1)	$ 766.8

Condensed Consolidating Balance Sheet

December 31, 2011

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

Condensed Consolidating Statement of Cash Flows

For the Nine months Ended September 30, 2012

(Dollars in millions)	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash provided by (used in) operating activities	$ 21.8	$ 32.0	$ 0.0	$ 15.5	$ (14.8)	$ 54.5
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(12.2)	0.0	(3.6)	0.0	(15.8)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.3	0.0	0.4	0.0	0.7