Koppers Holdings Inc.
Form 10-Q
November 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 September 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.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company) 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, 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 September 30,		*Nine Months Ended September 30,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions, except per share amounts)	*(Unaudited)*		*(Unaudited)*	
Net sales	$ 401.0	$ 336.3	$ 1,153.7	$ 937.7
Cost of sales (excluding items below)	333.9	280.4	978.4	786.4
Depreciation and amortization	7.1	7.0	20.8	20.4
Selling, general and administrative expenses	19.7	15.4	56.3	47.8
Operating profit	40.3	33.5	98.2	83.1
Other income (loss)	0.4	0.0	0.6	1.8
Interest expense	6.7	6.6	20.3	20.4
Income before income taxes	34.0	26.9	78.5	64.5
Income taxes	11.3	11.1	26.9	25.0
Income from continuing operations	22.7	15.8	51.6	39.5
Loss on sale of discontinued operations, net of tax benefit of $0.1	0.0	0.0	0.0	(0.2)
Net income	22.7	15.8	51.6	39.3
Net income attributable to noncontrolling interests	0.3	0.2	0.5	0.3
Net income attributable to Koppers	$ 22.4	$ 15.6	$ 51.1	$ 39.0
Earnings per common share attributable to Koppers common shareholders:				
Basic				
Continuing operations	$ 1.08	$ 0.76	$ 2.48	$ 1.91
Discontinued operations	0.00	0.00	0.00	(0.01)
Earnings per basic common share	$ 1.08	$ 0.76	$ 2.48	$ 1.90
Diluted				
Continuing operations	$ 1.08	$ 0.75	$ 2.46	$ 1.90
Discontinued operations	0.00	0.00	0.00	(0.01)
Earnings per diluted common share	$ 1.08	$ 0.75	$ 2.46	$ 1.89
Weighted average shares outstanding *(in thousands):*				
Basic	20,603	20,566	20,598	20,533
Diluted	20,746	20,648	20,749	20,666
Dividends declared per common share	$ 0.22	$ 0.22	$ 0.66	$ 0.66

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Dollars in millions, except share amounts)	*September 30, 2011 (Unaudited)*	*December 31, 2010*
Assets		
Cash and cash equivalents	$ 59.2	$ 35.3
Accounts receivable, net of allowance of $0.8 and $0.5	179.5	128.9
Income tax receivable	0.0	11.9
Inventories, net	167.1	165.4
Deferred tax assets	5.9	5.9
Other current assets	23.7	23.0
Total current assets	435.4	370.4
Equity in non-consolidated investments	4.9	4.7
Property, plant and equipment, net	168.8	168.2
Goodwill	72.3	72.1
Deferred tax assets	20.1	26.1
Other assets	27.7	27.7
Total assets	$ 729.2	$ 669.2
Liabilities		
Accounts payable	$ 96.8	$ 87.9
Accrued liabilities	59.7	55.4
Dividends payable	5.2	5.1
Short-term debt and current portion of long-term debt	0.0	1.0
Total current liabilities	161.7	149.4
Long-term debt	310.6	295.4
Accrued postretirement benefits	76.5	86.1
Other long-term liabilities	38.4	38.4
Total liabilities	587.2	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; 21,309,210 and 21,278,480 shares issued	0.2	0.2
Additional paid-in capital	141.2	137.0
Retained earnings (deficit)	25.5	(11.7)
Accumulated other comprehensive loss	(12.1)	(12.3)
Treasury stock, at cost, 706,161 and 700,203 shares	(24.8)	(24.5)
Total Koppers shareholders equity	130.0	88.7
Noncontrolling interests	12.0	11.2
Total equity	142.0	99.9
Total liabilities and equity	$ 729.2	$ 669.2

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

3

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended September 30,	
	2011	*2010*
(Dollars in millions)	*(Unaudited)*	
Cash provided by (used in) operating activities:		
Net income	$ 51.6	$ 39.3
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	20.8	20.4
Gain on sale of fixed assets	(0.2)	(1.0)
Deferred income taxes	4.2	3.9
Equity income, net of dividends received	(0.2)	0.1
Change in other liabilities	(3.2)	(5.6)
Non-cash interest expense	1.2	1.3
Stock-based compensation	3.7	2.5
Other	(2.9)	0.4
(Increase) decrease in working capital:		
Accounts receivable	(50.8)	(35.2)
Inventories	(2.5)	12.6
Accounts payable	9.5	6.9
Accrued liabilities and other working capital	13.3	18.7
Net cash provided by operating activities	44.5	64.3
Cash provided by (used in) investing activities:		
Capital expenditures	(19.6)	(13.7)
Acquisitions, net of cash acquired	(1.0)	(19.9)
Net cash proceeds from divestitures and asset sales	0.7	1.9
Net cash used in investing activities	(19.9)	(31.7)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	165.2	138.9
Repayments of revolving credit	(150.2)	(178.9)
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	(13.6)	(18.5)
Net cash used in financing activities	(0.1)	(59.9)
Effect of exchange rate changes on cash	(0.6)	2.0
Net increase (decrease) in cash and cash equivalents	23.9	(25.3)
Cash and cash equivalents at beginning of year	35.3	58.4
Cash and cash equivalents at end of period	$ 59.2	$ 33.1

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 November 2, 2011, the Company s board of directors declared a quarterly dividend of 22 cents per common share, payable on January 6, 2012 to shareholders of record as of November 14, 2011.

3. Business Acquisition

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 $0.0 million and $1.8 million for the three months and nine months ended September 30, 2010, respectively, and are charged to selling, general and administrative expenses.

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 $343.3 million and operating profit of $34.3 million for the three months ended September 30, 2010 and pro forma revenue of $965.6 million and operating profit of $83.7 million for the nine months ended September 30, 2010.

4. Fair Value Measurements

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

(Dollars in millions)	*September 30, 2011* Fair Value	Carrying Value	*December 31, 2010* Fair Value	Carrying Value
Financial assets:				
Cash and cash equivalents, including restricted cash	$ 59.2	$ 59.2	$ 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)	$ 326.3	$ 310.6	$ 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 nine months ended September 30, 2011 and 2010 is summarized in the table below:

(Dollars in millions)	*Three Months Ended September 30,* 2011	2010	*Nine Months Ended September 30,* 2011	2010
Net income	$ 22.7	$ 15.8	$ 51.6	$ 39.3
Other comprehensive income (loss):				
Change in currency translation adjustment	(14.9)	20.3	(2.2)	6.9
Change in unrecognized pension transition asset, net of tax	(0.1)	(0.1)	(0.2)	(0.2)
Change in unrecognized pension net loss, net of tax	1.0	0.8	2.9	2.5
Total comprehensive income	8.7	36.8	52.1	48.5
Less: comprehensive income attributable to noncontrolling interests	0.3	0.4	0.8	0.6
Comprehensive income attributable to Koppers	$ 8.4	$ 36.4	$ 51.3	$ 47.9

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

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

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,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions, except share amounts, in thousands, and per share amounts)				
Net income attributable to Koppers	$ 22.4	$ 15.6	$ 51.1	$ 39.0
Less: discontinued operations	0.0	0.0	0.0	(0.2)
Income from continuing operations attributable to Koppers	$ 22.4	$ 15.6	$ 51.1	$ 39.2
Weighted average common shares outstanding:				
Basic	20,603	20,566	20,598	20,533
Effect of dilutive securities	143	82	151	133
Diluted	20,746	20,648	20,749	20,666
Earnings per common share continuing operations:				
Basic earnings per common share	$ 1.08	$ 0.76	$ 2.48	$ 1.91
Diluted earnings per common share	1.08	0.75	2.46	1.90
Other data:				
Antidilutive securities excluded from computation of diluted earnings per common share	219	162	103	151

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 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 outstanding as of September 30, 2011:

Performance Period	*Minimum Shares*	*Target Shares*	*Maximum Shares*
2009 2011	0	137,144	205,716
2010 2011	0	66,600	99,900
2011 2012	0	91,004	136,506

The following table shows a summary of the status and activity of non-vested stock awards for the nine months ended September 30, 2011:

	Restricted Stock Units	*Performance Stock Units*	*Total Stock Units*	*Weighted Average Grant Date Fair Value per Unit*
Non-vested 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	(1,619)	(4,003)	(5,622)	$ 34.51
Non-vested at September 30, 2011	160,326	303,207	463,533	$ 26.44

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 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 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 nine months ended September 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			
Forfeited	(4,899)	$	34.64			
Outstanding at September 30, 2011	353,452	$	27.65	7.52	$	1.3
Exercisable at September 30, 2011	95,568	$	34.70	5.76	$	0.0

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

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions)				
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	$ 1.5	$ 0.7	$ 3.7	$ 2.5
Less related income tax benefit	0.6	0.3	1.5	1.0
	$ 0.9	$ 0.4	$ 2.2	$ 1.5

As of September 30, 2011, total future compensation expense related to non-vested stock-based compensation arrangements totaled $8.1 million and the weighted-average period over which this cost is expected to be recognized is approximately 24 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 September 30,		*Nine Months Ended September 30,*	
	2011	*2010*	*2011*	*2010*
(Dollars in millions)				
Revenues from external customers:				
Carbon Materials & Chemicals	$ 265.4	$ 218.4	$ 757.8	$ 600.1
Railroad & Utility Products	135.6	117.9	395.9	337.6
Total	$ 401.0	$ 336.3	$ 1,153.7	$ 937.7
Intersegment revenues:				
Carbon Materials & Chemicals	$ 25.9	$ 25.1	$ 71.5	$ 75.4
Depreciation and amortization expense:				
Carbon Materials & Chemicals	$ 4.9	$ 5.0	$ 14.1	$ 14.2
Railroad & Utility Products	2.2	2.0	6.7	6.2
Total	$ 7.1	$ 7.0	$ 20.8	$ 20.4
Operating profit:				
Carbon Materials & Chemicals	$ 30.9	$ 26.1	$ 69.0	$ 58.2
Railroad & Utility Products	9.9	7.7	30.2	26.3
Corporate	(0.5)	(0.3)	(1.0)	(1.4)
Total	$ 40.3	$ 33.5	$ 98.2	$ 83.1

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

	September 30,	*December 31,*
	2011	*2010*
(Dollars in millions)		
Segment assets:		
Carbon Materials & Chemicals	$ 521.8	$ 447.4
Railroad & Utility Products	164.2	154.8
All other	43.2	67.0
Total	$ 729.2	$ 669.2
Goodwill:		
Carbon Materials & Chemicals	$ 69.6	$ 69.6
Railroad & Utility Products	2.7	2.5
Total	$ 72.3	$ 72.1

9. Income Taxes

Effective Tax Rate

Income taxes as a percentage of pretax income was 33.3 percent and 41.3 percent for the three months ended September 30, 2011 and 2010, respectively. Discrete items included in income taxes for the three months ended September 30, 2011 and September 30, 2010 consisted of a net tax benefit of $(0.9) million and net tax expense of $0.3 million, respectively, due to tax return to provision adjustments and changes in unrecognized tax benefits. The effective tax rate, exclusive of discrete items, for the third quarter of 2011 of 35.6 percent 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 (-0.2 percent) and the domestic manufacturing deduction (-1.9 percent). With respect to the third quarter of

11

2010, the effective tax rate, exclusive of discrete items, of 40.0 percent differs from the U.S. federal statutory rate of 35.0 percent due to taxes on foreign earnings (+3.5 percent), nondeductible expenses (+1.6 percent) and state taxes (+1.2 percent) partially offset by the domestic manufacturing deduction (-1.7 percent).

Income taxes as a percentage of pretax income was 34.3 percent and 38.8 percent for the nine months ended September 30, 2011 and 2010, respectively. Discrete items included in income taxes for the nine months ended September 30, 2011 and September 30, 2010 consisted of a net tax benefit of $(0.9) million and a net tax expense of $0.3 million, respectively, due to tax return to provision adjustments and changes in unrecognized tax benefits. The effective tax rate, exclusive of discrete items, for the first nine months of 2011 of 35.5 percent 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 (-0.7 percent) and the domestic manufacturing deduction (-1.6 percent). With respect to the first nine months of 2010, the effective tax rate, exclusive of discrete items, of 38.2 percent differs from the U.S. federal statutory rate of 35.0 percent primarily due to taxes on foreign earnings (+2.1 percent), nondeductible expenses (+1.3 percent) and state taxes (+0.9 percent) partially offset by the domestic manufacturing deduction (-1.9 percent).

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 2011 could be materially different from the forecasted annual tax provision as of the end of the third quarter.

Uncertain Tax Positions

The Company or one of its subsidiaries files income tax returns in 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, 2011 and December 31, 2010, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately $3.6 million and $3.5 million, respectively. Unrecognized tax benefits totaled $6.6 million and $6.5 million as of September 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 September 30, 2011 and December 31, 2010, the Company had accrued approximately $0.7 million.

10. Inventories

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

(Dollars in millions)	*September 30, 2011*	*December 31, 2010*
Raw materials	$ 110.7	$ 107.6
Work in process	17.8	7.6
Finished goods	86.3	95.0
	214.8	210.2
Less revaluation to LIFO	47.7	44.8
Net	$ 167.1	$ 165.4

11. Property, Plant and Equipment

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

(Dollars in millions)	*September 30, 2011*	*December 31, 2010*
Land	$ 6.6	$ 7.6
Buildings	37.8	36.5
Machinery and equipment	624.3	605.5
	668.7	649.6
Less accumulated depreciation	499.9	481.4
Net	$ 168.8	$ 168.2

Since the fourth quarter of 2010, our carbon black facility in Australia has faced an uncertain operating environment that has drawn into question its ability to maintain an acceptable level of long-term profitability without some change in operating structure. As a result, management has spent the past several quarters reviewing various options to restore the carbon black operations to a more stable level of earnings going forward. Unfortunately, the viability of those options has been recently affected by an event occurring in October 2011 related to raw material supply that has left us to conclude that we will likely realize a substantial increase in the cost of our raw material beginning at some point in the fourth quarter of 2011. As a result we expect to recognize a one-time non-cash impairment charge of approximately $22 million in the fourth quarter of 2011.

In addition, this has caused us to re-evaluate our strategic options for this facility moving forward, the conclusion of which will likely result in the Company incurring restructuring and other costs over the next several quarters, which could be substantial. Estimates of such costs are currently being developed and will be integral in coming to a decision during the fourth quarter as to the ultimate strategic alternative selected.

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 nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
(Dollars in millions)	*2011*	*2010*	*2011*	*2010*
Service cost	$ 0.8	$ 0.8	$ 2.5	$ 2.4
Interest cost	2.8	3.0	8.4	8.6
Expected return on plan assets	(2.8)	(2.5)	(8.3)	(7.4)
Amortization of prior service cost	0.0	0.0	0.1	0.1
Amortization of net loss	1.6	1.3	4.7	3.9
Amortization of transition asset	0.0	(0.1)	(0.2)	(0.2)

Net periodic benefit cost	$ 2.4	$ 2.5	$ 7.2	$ 7.4

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

(Dollars in millions)	*Three Months Ended September 30, 2011*	*2010*	*Nine Months Ended September 30, 2011*	*2010*
Defined contribution plan expense	$ 1.3	$ 1.1	$ 4.1	$ 1.8
Multi-employer pension plan expense	0.2	0.2	0.7	0.5
Other postretirement benefit plans	0.1	0.2	0.5	0.6

13. Debt

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

(Dollars in millions)	*Weighted Average Interest Rate*	*Maturity*	*September 30, 2011*	*December 31, 2010*
Revolving Credit Facility	2.48%	2015	$ 15.0	$ 0.0
Senior Notes	7 7/8%	2019	295.6	295.3
Other debt, including capital leases	0.00%	Various	0.0	1.1
Total debt			310.6	296.4
Less short term debt and current maturities of long-term debt			0.0	1.0
Long-term debt			$ 310.6	$ 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 $0.2 million and $0.8 million for the three months and nine months ended September 30, 2011, respectively, and totaled $0.4 million and $1.0 million for the three months and nine months ended September 30, 2010, respectively. Commitment fees are charged to interest expense.

As of September 30, 2011, the Company had $267.5 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, 2011, $13.7 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 had 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 related to bank debt incurred by TKK which matured in August 2011. In August 2011, the guarantee obligation expired. Accordingly, the related party guarantee obligation is no longer reflected as a liability in the balance sheet as of September 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)	*September 30, 2011*	*December 31, 2010*
Balance at beginning of year	$ 17.0	$ 16.6
Accretion expense	0.8	1.3
Revision in estimated cash flows, net	0.3	1.5
Cash expenditures	(2.3)	(2.4)
Acquisitions	0.0	0.3
Currency translation	0.1	(0.3)
Balance at end of period	$ 15.9	$ 17.0

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, 2011*	*December 31, 2010*
Balance at beginning of year	$ 5.7	$ 6.7
Revenue earned	(0.7)	(1.0)
Balance at end of period	$ 5.0	$ 5.7

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 five 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 129 plaintiffs in 71 cases pending as of September 30, 2011 as compared to 111 plaintiffs in 62 cases at December 31, 2010. As of September 30, 2011, there are a total of 66 cases pending in state court in Pennsylvania, two in Arkansas, and one case each pending in state courts in Tennessee, Indiana and Illinois.

The plaintiffs in all 71 pending cases seek to recover compensatory damages, while plaintiffs in 62 cases also seek to recover punitive damages. The plaintiffs in the 66 cases filed in Pennsylvania state court seek unspecified damages in excess of the court s minimum jurisdictional limit. The plaintiffs in the Arkansas state court cases each seek compensatory damages in excess of $50,000 in addition to punitive damages. The plaintiffs in the case filed in Indiana state court also seek damages in an unspecified amount. The plaintiffs in the Tennessee state court case each seek damages of $15.0 million. The plaintiff in the Illinois state court case seeks compensatory damages in excess of $50,000.

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.

Somerville Cases. Koppers Inc. is currently defending four sets of state court cases in Texas (*Antu, Baade, Hensen* and *Moses*) involving 44 plaintiffs who allegedly have worked or resided in Somerville, Texas, where Koppers Inc. has operated a wood treatment plant since 1995. These cases are pending in Burleson County, Texas, and Tarrant County, Texas. The BNSF Railway Company (BNSF) has also been named as a defendant in these cases. The complaints allege that plaintiffs have suffered personal injuries (including death, in some cases) resulting from exposure to wood preservative chemicals used at the Somerville, Texas wood treatment plant. The complaints in the *Moses, Davis* and *Asselin* cases additionally allege that plaintiffs have suffered property damage.

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

Currently, there are 17 plaintiffs in the *Moses* cases, two plaintiffs in the *Antu* case, and seven plaintiffs in the *Baade* cases with claims pending against Koppers Inc. There are 18 plaintiffs in the *Hensen* case with claims pending against Koppers Inc. No cases pending against Koppers Inc. have discovery completion dates or trial dates.

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

Grenada. Koppers Inc., together with various co-defendants (including Beazer East), was named as a defendant in toxic tort lawsuits in federal court in Mississippi and in state court in Mississippi arising from the operation of the Grenada facility. The complaints alleged that plaintiffs were exposed to harmful levels of various toxic chemicals, including creosote, pentachlorophenol, polycyclic aromatic hydrocarbons and dioxin, as a result of soil, surface water and groundwater contamination and air emissions from the Grenada facility.

Counsel for the plaintiffs in the Grenada state and federal cases and counsel for the Company and Beazer East engaged in mediation in December 2010. As a result of the mediation, a settlement agreement was reached with respect to all outstanding state and federal cases, except for one case pending in state court. The terms of the settlement agreement provide that the pending cases will either be dismissed or, with respect to certain specified cases, plaintiffs attorney may withdraw as counsel in lieu of dismissal. As a result of this agreement, the Company included a charge with respect to the state and federal litigation in its financial statements for the year ended December 31, 2010. On August 22, 2011, the settlement payment was made by Koppers Inc. and as of September 30, 2011, all claims, except for one case pending in state court, have been dismissed by the courts.

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 Aluchua County, Florida by residential real property owners located in neighborhoods adjacent to the former utility pole treatment plant in Gainesville. The complaint named the Company, Koppers Inc., Beazer East and several other parties as defendants. The complaint alleges that chemicals and contaminants from the plant have contaminated plaintiffs properties, have caused property damage and have placed residents and owners of the properties at an elevated risk of exposure to the alleged chemicals. The complaint seeks injunctive relief and compensatory damages for diminution in property values and loss of use and enjoyment. The case was removed to the United States District Court for the Northern District of Florida in December 2010. Plaintiffs sought to have the case remanded back to state court. In September, 2011, the Court ruled that the case properly belonged in Federal Court and the parties agreed to a schedule for discovery starting in the first half of 2012. No trials have been scheduled. 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.

Legal Reserves Rollforward. The following table reflects changes in the accrued liability for legal proceedings:

		Period Ended
	September 30,	*December 31,*
(Dollars in millions)	*2011*	*2010*
Balance at beginning of year	$ 3.0	$ 0.0
Accrual of reserves	0.0	3.0
Cash expenditures	(3.0)	0.0
Balance at end of period	$ 0.0	$ 3.0

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, 2010, amounts paid by Beazer East as a result of its environmental remediation obligations under the Indemnity have averaged in total approximately $11 million per year. Periodically, issues have arisen between Koppers Inc. and Beazer East and/or other indemnitors that have been resolved without arbitration. Koppers Inc. and Beazer East engage in discussions from time to time that involve, among other things, the allocation of environmental costs related to certain operating and closed facilities.

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

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

The Illinois Environmental Protection Agency has requested that Koppers Inc. conduct a voluntary investigation of soil and groundwater at its Stickney, Illinois carbon materials and chemicals facility. Koppers Inc. is also conducting an investigation of soil and groundwater at a leased terminal site located adjacent to the Stickney facility. Koppers Inc. is conducting such investigations in cooperation with Beazer East. The Company re-estimated its share of the remediation costs during the second quarter of 2011 and reduced its reserve by $0.6 million. The Company s reserve for this matter was $0.2 million as of September 30, 2011.

Australian Environmental Matters. Soil and groundwater contamination has been detected at certain of the Company s Australian facilities. At the Company s tar distillation facility in Newcastle, New South Wales, Australia, soil contamination from an abandoned underground coal tar pipeline and other groundwater contamination have been detected at a property adjacent to the facility. In December 2006 the Company and the owner of the adjacent property reached an agreement in principle pursuant to which the Company will contribute $1.5 million and the owner of the adjacent property will contribute $6.9 million toward remediation of the property. Subject to the approval of a remediation action plan by local environmental authorities, the agreement in principle provides that the Company will assume responsibility for the management of the remediation effort and will indemnify the current owner for any remediation costs in excess of its agreed contribution. The Company finalized this agreement in the second quarter of 2011. At the completion of the remediation, the agreement provides that the property will be transferred to the Company. The Company has reserved its expected total remediation costs of $8.2 million at September 30, 2011 and has recorded a receivable from the owner of the adjacent property of $6.4 million at September 30, 2011.

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

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

		Period Ended
	September 30,	*December 31,*
(Dollars in millions)	*2011*	*2010*
Balance at beginning of year	$ 6.6	$ 10.7
Expense	0.9	1.2
Reduction of reserves	(1.6)	(4.3)
Cash expenditures	(1.7)	(1.5)
Assumed remediation liability in exchange for cash	7.5	0.0
Currency translation	(0.7)	0.5
Balance at end of year	$ 11.0	$ 6.6

17. Subsidiary Guarantor Information for Koppers Inc. Senior Notes

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

19

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, 2011 and 2010 and for the three and nine months ended September 30, 2011 and 2010 is as follows:

Condensed Consolidating Statement of 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	$ 167.1	$ (8.8)	$ 401.0
Cost of sales including depreciation and amortization	0.0	195.3	10.0	143.1	(7.4)	341.0
Selling, general and administrative	0.5	11.6	0.4	7.2	0.0	19.7
Operating profit (loss)	(0.5)	19.6	5.8	16.8	(1.4)	40.3
Other income (expense)	22.7	0.2	0.0	0.2	(22.7)	0.4
Interest expense (income)	(0.2)	6.9	0.1	1.2	(1.3)	6.7
Income taxes	0.0	8.0	0.0	3.3	0.0	11.3
Income from continuing operations	22.4	4.9	5.7	12.5	(22.8)	22.7
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

Condensed Consolidating Statement of Income

For the Three Months Ended September 30, 2010

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

Condensed Consolidating Statement of 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	$ 493.1	$ (27.7)	$ 1,153.7
Cost of sales including depreciation and amortization	0.0	565.4	22.6	426.7	(15.5)	999.2
Selling, general and administrative	1.0	31.6	1.4	22.3	0.0	56.3
Operating profit (loss)	(1.0)	43.1	24.2	44.1	(12.2)	98.2
Other income (expense)	51.8	0.3	0.0	0.3	(51.8)	0.6
Interest expense (income)	(0.1)	20.7	0.1	3.7	(4.1)	20.3
Income taxes	(0.2)	18.2	0.2	8.7	0.0	26.9
Income from continuing operations	51.1	4.5	23.9	32.0	(59.9)	51.6
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

Condensed Consolidating Statement of Income

For the Nine Months Ended September 30, 2010

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

Condensed Consolidating Balance Sheet

September 30, 2011

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
ASSETS						
Cash and cash equivalents	$ 0.0	$ 2.2	$ 0.0	$ 57.0	$ 0.0	$ 59.2
Accounts receivable, net	2.1	102.7	477.0	126.9	(529.2)	179.5
Inventories, net	0.0	89.0	0.0	78.1	0.0	167.1
Deferred tax assets	0.0	7.4	(1.5)	0.0	0.0	5.9
Other current assets	0.0	9.6	0.3	13.8	0.0	23.7
Total current assets	2.1	210.9	475.8	275.8	(529.2)	435.4
Equity investments	132.4	77.1	26.2	4.0	(234.8)	4.9
Property, plant and equipment, net	0.0	96.5	0.0	72.3	0.0	168.8
Goodwill	0.0	40.1	0.0	32.2	0.0	72.3
Deferred tax assets	0.0	59.7	(43.8)	4.2	0.0	20.1
Other noncurrent assets	0.0	19.2	0.0	8.6	(0.1)	27.7
Total assets	$ 132.4	$ 503.5	$ 458.2	$ 397.1	$ (764.1)	$ 729.2
LIABILITIES AND EQUITY						
Accounts payable	$ 0.2	$ 501.8	$ 8.6	$ 115.5	$ (529.3)	$ 96.8
Accrued liabilities	4.3	(7.6)	34.8	33.4	0.0	64.9
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	4.5	494.2	43.4	148.9	(529.3)	161.7
Long-term debt	0.0	310.6	0.0	0.0	0.0	310.6
Other long-term liabilities	0.0	89.5	2.9	22.5	0.0	114.9
Total liabilities	4.5	894.3	46.3	171.4	(529.3)	587.2
Koppers shareholders equity	130.0	(390.8)	411.9	213.7	(234.8)	130.0
Noncontrolling interests	0.0	0.0	0.0	12.0	0.0	12.0
Total liabilities and equity	$ 134.5	$ 503.5	$ 458.2	$ 397.1	$ (764.1)	$ 729.2

Condensed Consolidating Balance Sheet

December 31, 2010

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
ASSETS						
Cash and cash equivalents	$ 0.0	$ 8.4	$ 0.0	$ 26.9	$ 0.0	$ 35.3
S-T investments & restricted cash	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable, net	16.6	80.3	460.9	107.2	(524.2)	140.8
Inventories, net	0.0	78.3	1.2	85.9	0.0	165.4
Deferred tax assets	0.0	7.4	(1.5)	0.0	0.0	5.9
Other current assets	0.0	6.9	0.3	15.8	0.0	23.0
Total current assets	16.6	181.3	460.9	235.8	(524.2)	370.4
Equity investments	76.7	77.1	26.2	3.8	(179.1)	4.7
Property, plant and equipment, net	0.0	94.7	0.0	73.5	0.0	168.2
Goodwill	0.0	39.5	0.0	32.6	0.0	72.1
Deferred tax assets	0.0	65.4	(43.8)	4.5	0.0	26.1
Other noncurrent assets	0.0	21.6	0.0	6.2	(0.1)	27.7
Total assets	$ 93.3	$ 479.6	$ 443.3	$ 356.4	$ (703.4)	$ 669.2
LIABILITIES AND EQUITY						
Accounts payable	$ 0.0	$ 492.5	$ 15.1	$ 104.5	$ (524.2)	$ 87.9
Accrued liabilities	4.6	(6.3)	34.8	27.4	0.0	60.5
Short-term debt and current portion of long-term debt	0.0	0.1	0.0	0.9	0.0	1.0
Total current liabilities	4.6	486.3	49.9	132.8	(524.2)	149.4
Long-term debt	0.0	295.4	0.0	0.0	0.0	295.4
Other long-term liabilities	0.0	99.6	3.0	21.9	0.0	124.5
Total liabilities	4.6	881.3	52.9	154.7	(524.2)	569.3
Koppers shareholders equity	88.7	(401.7)	390.4	190.5	(179.2)	88.7
Noncontrolling interests	0.0	0.0	0.0	11.2	0.0	11.2
Total liabilities and equity	$ 93.3	$ 479.6	$ 443.3	$ 356.4	$ (703.4)	$ 669.2

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2011

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Cash provided by (used in) operating activities	$ 13.6	$ (6.6)	$ 0.0	$ 37.5	$ 0.0	$ 44.5
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(14.7)	0.0	(4.9)	0.0	(19.6)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.6	0.0	(0.9)	0.0	(0.3)
Net cash provided by (used in) investing activities	0.0	(14.1)	0.0	(5.8)	0.0	(19.9)
Cash provided by (used in) financing activities:						
Borrowings (repayments) of long-term debt	0.0	14.9	0.0	(0.9)	0.0	14.0
Deferred financing costs	0.0	(0.5)	0.0	0.0	0.0	(0.5)
Dividends paid	(13.6)	0.0	0.0	0.0	0.0	(13.6)
Stock issued (repurchased)	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by (used in) financing activities	(13.6)	14.4	0.0	(0.9)	0.0	(0.1)
Effect of exchange rates on cash	0.0	0.1	0.0	(0.7)	0.0	(0.6)
Net increase (decrease) in cash and cash equivalents	0.0	(6.2)	0.0	30.1	0.0	23.9
Cash and cash equivalents at beginning of year	0.0	8.4	0.0	26.9	0.0	35.3
Cash and cash equivalents at end of period	$ 0.0	$ 2.2	$ 0.0	$ 57.0	$ 0.0	$ 59.2

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2010

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

Cash and cash equivalents at end of period	$ 0.0	$ 1.7