Koppers Holdings Inc.
Form 10-Q
November 10, 2014

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, 2014

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, 2014 amounted to 20,495,011 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,	
	2014	*2013*	*2014*	*2013*
(Dollars in millions, except per share amounts)	*(Unaudited)*		*(Unaudited)*	
Net sales	$ 440.1	$ 395.2	$ 1,128.3	$ 1,136.5
Cost of sales (excluding items below)	377.0	330.6	974.0	970.0
Depreciation and amortization	11.2	7.2	29.8	21.8
Impairment and restructuring charges	2.6	0.0	18.1	0.0
Selling, general and administrative expenses	32.0	18.3	75.3	52.2
Operating profit	17.3	39.1	31.1	92.5
Other (loss) income	(0.2)	1.3	(0.3)	2.8
Interest expense	11.9	6.7	25.3	20.2
Income before income taxes	5.2	33.7	5.5	75.1
Income taxes	9.5	14.1	9.1	29.3
(Loss) income from continuing operations	(4.3)	19.6	(3.6)	45.8
Income (loss) from discontinued operations, net of tax benefit of $0.0, $0.1, $0.0 and $0.1	0.1	(0.1)	0.0	(0.1)
Net (loss) income	(4.2)	19.5	(3.6)	45.7
Net (loss) income attributable to noncontrolling interests	(1.5)	0.4	(4.7)	1.2
Net (loss) income attributable to Koppers	$ (2.7)	$ 19.1	$ 1.1	$ 44.5
(Loss) Earnings per common share attributable to Koppers common shareholders:				
Basic				
Continuing operations	$ (0.14)	$ 0.93	$ 0.05	$ 2.16
Discontinued operations	0.00	0.00	0.00	0.00
(Loss) Earnings per basic common share	$ (0.14)	$ 0.93	$ 0.05	$ 2.16
Diluted				
Continuing operations	$ (0.14)	$ 0.92	$ 0.05	$ 2.13
Discontinued operations	0.00	0.00	0.00	0.00
(Loss) Earnings per diluted common share	$ (0.14)	$ 0.92	$ 0.05	$ 2.13
Comprehensive (loss) income	$ (19.9)	$ 26.6	$ (14.1)	$ 42.3
Comprehensive (loss) income attributable to noncontrolling interests	(1.3)	0.8	(4.9)	1.5
Comprehensive (loss) income attributable to Koppers	$ (18.6)	$ 25.8	$ (9.2)	$ 40.8
Weighted average shares outstanding *(in thousands):*				
Basic	20,495	20,577	20,452	20,657

Diluted	20,603	20,801	20,593	20,887
Dividends declared per common share	$ 0.25	$ 0.25	$ 0.75	$ 0.75

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, 2014 (Unaudited)*	*December 31, 2013*
Assets		
Cash and cash equivalents	$ 75.1	$ 82.2
Accounts receivable, net of allowance of $6.5 and $3.6	229.5	157.9
Income tax receivable	6.4	9.0
Inventories, net	227.7	168.8
Deferred tax assets	20.2	10.0
Loan to related party	9.5	9.5
Other current assets	39.6	35.7
Total current assets	608.0	473.1
Equity in non-consolidated investments	5.7	6.6
Property, plant and equipment, net	286.8	197.0
Goodwill	238.0	72.7
Intangible assets, net	180.1	12.2
Deferred tax assets	10.3	9.3
Other assets	25.0	14.0
Total assets	$ 1,353.9	$ 784.9
Liabilities		
Accounts payable	$ 122.4	$ 107.6
Accrued liabilities	102.6	82.4
Dividends payable	5.1	5.1
Current maturities of long-term debt	30.0	0.0
Total current liabilities	260.1	195.1
Long-term debt	837.5	303.1
Accrued postretirement benefits	27.7	41.6
Deferred tax liabilities	20.6	14.7
Other long-term liabilities	43.0	40.6
Total liabilities	1,188.9	595.1
Commitments and contingent liabilities (Note 18)		
Equity		
Senior Convertible Preferred Stock, $0.01 par value per share; 10,000,000 shares authorized; no shares issued	0.0	0.0
Common Stock, $0.01 par value per share; 40,000,000 shares authorized; 21,938,260 and 21,722,492 shares issued	0.2	0.2
Additional paid-in capital	164.5	158.9
Retained earnings	56.7	71.3
Accumulated other comprehensive loss	(20.4)	(10.2)
Treasury stock, at cost, 1,443,248 and 1,390,494 shares	(52.4)	(50.4)
Total Koppers shareholders equity	148.6	169.8
Noncontrolling interests	16.4	20.0
Total equity	165.0	189.8

Total liabilities and equity	$	1,353.9	$	784.9

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,	
	2014	*2013*
(Dollars in millions)	*(Unaudited)*	
Cash provided by (used in) operating activities:		
Net (loss) income	$ (3.6)	$ 45.7
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	29.8	21.8
Impairment charges	4.7	0.0
Deferred income taxes	(3.2)	11.1
Equity loss (income), net of dividends received	0.9	(0.4)
Gain on sale of assets	0.0	(1.9)
Change in other liabilities	(10.9)	(14.2)
Non-cash interest expense	3.4	1.2
Stock-based compensation	4.6	4.7
Other	(1.5)	0.6
(Increase) decrease in working capital:		
Accounts receivable	(15.6)	(17.9)
Inventories	4.9	25.5
Accounts payable	(6.1)	(8.0)
Accrued liabilities and other working capital	3.4	(2.6)
Net cash provided by (used in) operating activities	10.8	65.6
Cash provided by (used in) investing activities:		
Capital expenditures	(59.0)	(29.4)
Acquisitions, (net of cash acquired)	(496.5)	0.0
Net cash proceeds from divestitures and asset sales	0.1	2.4
Net cash provided by (used in) investing activities	(555.4)	(27.0)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	520.7	97.9
Repayments of revolving credit	(305.8)	(97.9)
Borrowings of long-term debt	348.9	0.0
Issuances of Common Stock	0.7	0.2
Proceeds from issuance of noncontrolling interest	1.4	2.3
Repurchases of Common Stock	(2.0)	(17.5)
Payment of deferred financing costs	(11.1)	(1.2)
Dividends paid	(15.2)	(15.3)
Net cash provided by (used in) financing activities	537.6	(31.5)
Effect of exchange rate changes on cash	(0.1)	(1.4)
Net (decrease) increase in cash and cash equivalents	(7.1)	5.7
Cash and cash equivalents at beginning of period	82.2	66.7
Cash and cash equivalents at end of period	$ 75.1	$ 72.4

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, 2013 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2013.

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, 2013.

2. Dividends

On November 5, 2014, the Company s board of directors declared a quarterly dividend of 25 cents per common share, payable on January 5, 2015 to shareholders of record as of November 17, 2014.

3. Plant Closures and Discontinued Operations

On January 22, 2014, the Company announced its decision to discontinue coal tar distillation activities at its facility located in Uithoorn, the Netherlands. The decision was made as a result of a detailed analysis of its overall European manufacturing asset footprint in light of deteriorating market conditions in Europe and a variety of other factors, including regulatory requirements for significant capital expenditures at the facility. The Company has discontinued distillation activities and expects to complete closure at the site by the end of 2015. For the nine months ended September 30, 2014, the Company recorded closure costs of $13.1 million for severance and site demolition liabilities. In the fourth quarter of 2013, the Company recorded an asset impairment charge of $6.9 million related to the facility. The facility is part of the Carbon Materials and Chemicals segment.

In December 2011, the Company ceased manufacturing operations at its carbon black 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 closure is expected to be completed during 2015. The facility is part of the Carbon Materials and Chemicals segment.

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

(Dollars in millions)	*Severance and employee benefits*	*Environmental remediation*	*Site demolition*	*Other*	*Total*
Reserve at December 31, 2012	$ 0.2	$ 6.7	$ 6.3	$ 0.1	$ 13.3
Reversal of accrued charges	(0.1)	0.0	(0.3)	0.0	(0.4)
Cash paid	0.0	(0.1)	(2.0)	(0.1)	(2.2)
Currency translation	0.0	(1.0)	(0.7)	0.0	(1.7)
Reserve at December 31, 2013	$ 0.1	$ 5.6	$ 3.3	$ 0.0	$ 9.0
Accrual	10.0	0.0	3.1	0.0	13.1
Cash paid	(9.3)	0.0	(0.2)	0.0	(9.5)
Currency translation	(0.2)	(0.1)	(0.1)	0.0	(0.4)
Reserve at September 30, 2014	$ 0.6	$ 5.5	$ 6.1	$ 0.0	$ 12.2

4. Business Acquisitions

Koppers Ashcroft On January 20, 2014, the Company acquired the crosstie treating business and related manufacturing facility of Tolko Industries Ltd. located in Ashcroft, British Columbia, Canada. The purchase price was $29.8 million, subject to post-closing adjustments, and was funded primarily by available cash. The preliminary allocation of purchase price to acquired assets primarily consisted of inventory totaling $16.0 million, plant and equipment totaling $3.6 million, intangible assets consisting primarily of customer relationships totaling $7.4 million and Canadian tax deductible goodwill of $1.8 million. The goodwill is allocated to the Railroad and Utility Products and Services segment and the customer contracts will be amortized over a period of 12 years.

Osmose Entities On August 15, 2014, pursuant to the terms and conditions of a stock purchase agreement, Koppers Inc. acquired Osmose, Inc. and Osmose Railroad Services, Inc. (together, the Osmose Entities) from Osmose Holdings, Inc. The aggregate cash purchase price was $494.1 million, net of estimated cash acquired of $27.2 million, and included estimated net working capital adjustments and is subject to certain post-closing adjustments, including but not limited to, final net working capital adjustments. The cash purchase price was funded by a new credit agreement with a consortium of banks which provides for a $500 million revolving credit facility and a $300 million term loan.

Subsequent to the acquisition, Osmose, Inc. was renamed Koppers Performance Chemicals Inc. and Osmose Railroad Services, Inc. was renamed Koppers Railroad Structures Inc. Koppers Performance Chemicals Inc. s wood preservation business develops, manufactures and sells wood preservation chemicals and wood treatment technologies for infrastructure, residential and commercial construction, and agricultural markets. The wood preservation business has operations and sales in North America, South America, Europe, and Australasia. Substantially all of the businesses of Koppers Performance Chemicals Inc. are reported as a new segment, Performance Chemicals. Koppers Railroad Structures Inc. is a provider of railroad infrastructure services, including bridge inspection, engineering, maintenance and repair, and construction services for the Class I and shortline railroads in North America. Koppers Railroad Structures Inc. and one wood treating company are reported as part of the Railroad and Utility Products and Services segment.

The Osmose Entities had revenues of $391.5 million and net income from continuing operations of $19.3 million for the year ended December 31, 2013. Revenue from the Osmose Entities included in our results for the third quarter of 2014 totaled $53.4 million.

The Company has not completed detailed valuation analyses to determine the fair values of Osmose Entities assets and liabilities. Accordingly, the unaudited condensed consolidated financial information includes a preliminary fair value determination based on assumptions and estimates that, while considered reasonable under the circumstances, are subject to changes, which may be material. In addition, Koppers has not yet completed the due diligence necessary to identify all of the adjustments required to conform Osmose Entities accounting policies to the Company s or to identify other items that could significantly impact the fair value determination or the assumptions and adjustments made in the preparation of this unaudited condensed consolidated financial information.

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

The following table summarizes the Company s preliminary fair value estimates for the Osmose entities as of September 30, 2014:

(Dollars in millions)	*Initial Allocation*
Cash and cash equivalents	$ 27.2
Accounts receivable, net	60.0
Inventories, net	51.9
Other current assets	9.5
Property, plant and equipment	59.6
Goodwill	164.8
Intangible assets	164.2
Other assets	4.0
Total assets acquired	541.2
Accounts payable	21.2
Accrued liabilities	17.4
Other liabilities	8.5
Total liabilities assumed	47.1
Net assets acquired	$ 494.1

Goodwill is calculated as the excess of the consideration transferred over the assets acquired and represents the estimated future economic benefits arising from the other assets acquired that could not be individually identified and separately recognized. Goodwill of $158.0 million and $6.8 million has been allocated, on a preliminary basis, to the Performance Chemicals segment and the Railroad and Utility Products and Services segment, respectively. The Company expects that a significant portion of the goodwill recognized will be deductible for tax purposes, but this determination is dependent upon the finalization of the purchase price allocation process.

The following unaudited pro forma information presents a summary of the Company s revenues and net income from continuing operations as if the acquisition occurred on January 1, 2013 (the first day of the most recently completed fiscal year). The unaudited pro forma information is not necessarily indicative of operating results that would have been achieved had the acquisition been completed as of January 1, 2013 and does not intend to project the future financial results of the Company after the acquisition of the Osmose Entities. The unaudited pro forma information is based on certain assumptions, which management believes are reasonable, and do not reflect the cost of any integration activities or the benefits from the acquisition and synergies that may be derived from any integration activities.

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
(Dollars in millions)	*2014*	*2013*	*2014*	*2013*
Revenue	$ 500.1	$ 498.4	$ 1,392.9	$ 1,433.0
Income from continuing operations attributable to Koppers	3.4	23.2	16.4	45.1

Pro forma adjustments reflected in the unaudited pro forma information are based on items that are directly attributable to the acquisition of the Osmose Entities and related financing that are factually supportable and are expected to have a continuing impact on Koppers. These adjustments include, but are not limited to, depreciation and amortization related to fair value adjustments to property, plant and equipment and intangible assets, interest expense on acquisition-related debt, removal of acquisition related transaction expenses, elimination of intercompany sales and related income tax effects of the pro forma adjustments.

5. Fair Value Measurements

Carrying amounts and the related estimated fair values of the Company s financial instruments as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014		*December 31, 2013*	
(Dollars in millions)	*Fair Value*	*Carrying Value*	*Fair Value*	*Carrying Value*
Financial assets:				
Cash and cash equivalents, including restricted cash	$ 75.1	$ 75.1	$ 82.2	$ 82.2
Investments and other assets[(a)]	1.4	1.4	1.4	1.4
Financial liabilities:				
Long-term debt (including current portion)	$ 883.7	$ 867.5	$ 331.2	$ 303.1

(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.

6. Comprehensive Income and Equity

Total comprehensive income for the three and nine months ended September 30, 2014 and 2013 is summarized in the table below:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
(Dollars in millions)	*2014*	*2013*	*2014*	*2013*
Net (loss) income	$ (4.2)	$ 19.5	$ (3.6)	$ 45.7
Other comprehensive (loss) income:				
Change in currency translation adjustment	(10.6)	5.6	(9.8)	(0.4)
Change in foreign currency transactions of long-term subsidiary investments	(3.8)	0.3	(0.5)	(6.6)
Change in derivative financial instrument net loss, net of tax benefit of $(0.8), $0.0, $(0.8) and $0.0	(1.9)	0.0	(1.9)	0.0
Change in unrecognized pension net loss, net of tax expense of $0.2, $0.8, $0.7 and $2.3	0.6	1.2	1.8	3.5
Change in unrecognized prior service cost, net of tax expense of $0.0, $0.0, $0.0 and $0.0	0.0	0.0	(0.1)	0.1
Total comprehensive (loss) income	(19.9)	26.6	(14.1)	42.3
Less: comprehensive (loss) income attributable to noncontrolling interests	(1.3)	0.8	(4.9)	1.5
Comprehensive (loss) income attributable to Koppers	$ (18.6)	$ 25.8	$ (9.2)	$ 40.8

Amounts reclassified from accumulated other comprehensive income to net income consist of amounts shown for changes in unrecognized pension net loss, unrecognized prior service cost and unrecognized transition asset. These components of accumulated other comprehensive income are included in the computation of net periodic pension cost as disclosed in Note 13 Pensions and Postretirement Benefit Plans.

The following tables present the change in equity for the nine months ended September 30, 2014 and 2013, respectively:

(Dollars in millions)	*Total Koppers Shareholders Equity*	*Noncontrolling Interests*	*Total Equity*
Balance at December 31, 2013	$ 169.8	$ 20.0	$ 189.8
Net income (loss)	1.1	(4.7)	(3.6)
Issuance of common stock	0.7	0.0	0.7
Employee stock plans	4.9	0.0	4.9
Other comprehensive income (loss)	(10.3)	(0.2)	(10.5)
Dividends	(15.6)	0.0	(15.6)
Investment in noncontrolling interests	0.0	1.3	1.3
Repurchases of common stock	(2.0)	0.0	(2.0)
Balance at September 30, 2014	$ 148.6	$ 16.4	$ 165.0

(Dollars in millions)	*Total Koppers Shareholders Equity*	*Noncontrolling Interests*	*Total Equity*
Balance at December 31, 2012	$ 150.6	$ 17.5	$ 168.1
Net income	44.5	1.2	45.7
Issuance of common stock	0.2	0.0	0.2
Employee stock plans	5.2	0.0	5.2
Other comprehensive (loss) income	(3.7)	0.3	(3.4)
Dividends	(15.9)	0.0	(15.9)
Investment in noncontrolling interests	0.0	2.3	2.3
Repurchases of common stock	(17.5)	0.0	(17.5)
Balance at September 30, 2013	$ 163.4	$ 21.3	$ 184.7

7. Earnings per Common Share

The computation of basic earnings per common share for the periods presented is based upon the weighted average number of common shares outstanding during the periods. The computation of diluted earnings per common share includes the effect of non-vested nonqualified stock options and restricted stock units assuming such options and stock units were outstanding common shares at the beginning of the period. The effect of antidilutive securities is excluded from the computation of diluted 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)	*2014*	*2013*	*2014*	*2013*
Net (loss) income attributable to Koppers	$ (2.7)	$ 19.1	$ 1.1	$ 44.5
Less: income (loss) from discontinued operations	0.1	(0.1)	0.0	(0.1)
(Loss) Income from continuing operations attributable to Koppers	$ (2.8)	$ 19.2	$ 1.1	$ 44.6
Weighted average common shares outstanding:				
Basic	20,495	20,577	20,452	20,657

Effect of dilutive securities	108	224	141	230
Diluted	20,603	20,801	20,593	20,887
(Loss) earnings per common share continuing operations:				
Basic (loss) earnings per common share	$ (0.14)	$ 0.93	$ 0.05	$ 2.16
Diluted (loss) earnings per common share	(0.14)	0.92	0.05	2.13
Other data:				
Antidilutive securities excluded from computation of diluted earnings per common share	265	254	260	236

8. 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). The restricted stock units vest on the third anniversary of the grant date or ratably over three years, assuming continued employment by the participant. Performance stock units granted in 2011 have a two-year performance objective. Performance stock units granted after 2011 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.

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 for most participants. 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 as of September 30, 2014:

Performance Period	*Minimum Shares*	*Target Shares*	*Maximum Shares*
2012 2014	0	87,039	130,559
2013 2015	0	85,207	127,811
2014 2016	0	102,149	153,224

The following table shows a summary of the status and activity of non-vested stock awards for the nine months ended September 30, 2014:

	Restricted Stock Units	*Performance Stock Units*	*Total Stock Units*	*Weighted Average Grant Date Fair Value per Unit*
Non-vested at December 31, 2013	148,836	319,984	468,820	$ 40.30
Granted	95,067	108,506	203,573	$ 37.90
Credited from dividends	3,813	8,425	12,238	$ 38.52
Vested	(57,102)	(132,317)	(189,419)	$ 40.18
Forfeited	(12,695)	(24,218)	(36,913)	$ 39.51
Non-vested at September 30, 2014	177,919	280,380	458,299	$ 39.30

Stock options to most 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 for most participants. 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 for most participants. 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 2014 Grant	*February 2013 Grant*	*February 2012 Grant*
Grant date price per share of option award	$ 37.93	$ 42.76	$ 38.21
Expected dividend yield per share	2.75%	2.75%	2.75%
Expected life in years	6.5	6.5	6.5
Expected volatility	52.14%	53.77%	55.06%
Risk-free interest rate	1.98%	1.29%	1.34%
Grant date fair value per share of option awards	$ 15.26	$ 17.28	$ 15.82

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, 2014:

	Options	*Weighted Average Exercise Price per Option*	*Weighted Average Remaining Contractual Term (in years)*	*Aggregate Intrinsic Value (in millions)*
Outstanding at December 31, 2013	421,080	$ 35.96		
Granted	106,658	$ 37.93		
Exercised	(26,349)	$ 25.51		
Expired	(6,019)	$ 40.15		
Forfeited	(34,707)	$ 39.75		
Outstanding at September 30, 2014	460,663	$ 36.67	6.83	$ 0.7
Exercisable at September 30, 2014	202,863	$ 33.00	4.71	$ 0.7

Total stock-based compensation expense recognized for the three and nine months ended September 30, 2014 and 2013 is as follows:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
(Dollars in millions)	*2014*	*2013*	*2014*	*2013*
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	$ 1.4	$ 1.9	$ 4.6	$ 4.7
Less related income tax benefit	0.6	0.8	1.8	1.9
	$ 0.8	$ 1.1	$ 2.8	$ 2.8

As of September 30, 2014, total future compensation expense related to non-vested stock-based compensation arrangements totaled $7.4 million and the weighted-average period over which this cost is expected to be recognized is approximately 23 months.

9. Segment Information

The Company has three reportable segments: Carbon Materials and Chemicals, Railroad and Utility Products and Services, and Performance Chemicals. The Company s reportable segments contain 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 three 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 and 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 and Utility Products and Services segment sells treated and untreated wood products, manufactured products and services primarily to the railroad and public utility markets. Railroad products 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. Other rail services provided include bridge inspection, engineering, maintenance and repair, and construction services. Railroad services include bridge inspection and engineering services. Utility products include transmission and distribution poles and pilings.

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

The Company 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)	*2014*	*2013*	*2014*	*2013*
Revenues from external customers:				
Carbon Materials and Chemicals	$ 226.6	$ 241.6	$ 637.8	$ 692.4
Railroad and Utility Products and Services	167.4	153.6	444.4	444.1
Performance Chemicals	46.1	0.0	46.1	0.0
Total	$ 440.1	$ 395.2	$ 1,128.3	$ 1,136.5
Intersegment revenues:				
Carbon Materials and Chemicals	$ 20.7	$ 23.3	$ 62.0	$ 70.9
Performance Chemicals	0.8	0.0	0.8	0.0
Total	$ 21.5	$ 23.3	$ 62.8	$ 70.9
Depreciation and amortization expense[(a)]:				
Carbon Materials and Chemicals	$ 6.6	$ 4.5	$ 18.7	$ 13.5
Railroad and Utility Products and Services	2.2	2.7	8.7	8.3
Performance Chemicals	2.4	0.0	2.4	0.0
Total	$ 11.2	$ 7.2	$ 29.8	$ 21.8
Operating profit:				
Carbon Materials and Chemicals[(b)]	$ 5.2	$ 21.8	$ 0.2	$ 47.4
Railroad and Utility Products and Services	17.4	17.8	41.3	46.6
Performance Chemicals	1.3	0.0	1.3	0.0
Corporate[(c)]	(6.6)	(0.5)	(11.7)	(1.5)

Total	$ 17.3	$ 39.1	$ 31.1	$ 92.5

(a) Excludes impairment charges of $4.7 million for the nine months ended September 30, 2014 for Carbon Materials and Chemicals.

(b) Includes plant closure costs of $2.6 million and $13.4 million for the three and nine months ended September 30, 2014, respectively, for the Uithoorn, the Netherlands facility and impairment charges of $4.7 million for the nine months ended September 30, 2014 for the Tangshan, China facility.

(c) Operating loss for Corporate includes general and administrative costs for Koppers Holdings Inc., the parent company of Koppers Inc., acquisition and acquisition-related integration costs.

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, 2014*	*December 31, 2013*
Segment assets:		
Carbon Materials and Chemicals	$ 537.2	$ 535.5
Railroad and Utility Products and Services	293.8	179.3
Performance Chemicals	474.3	0.0
All other	48.6	70.1
Total	$ 1,353.9	$ 784.9
Goodwill:		
Carbon Materials and Chemicals	$ 67.2	$ 68.0
Railroad and Utility Products and Services	12.8	4.7
Performance Chemicals	158.0	0.0
Total	$ 238.0	$ 72.7

10. Income Taxes

Effective Tax Rate

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. Items that are not related to annual pretax ordinary income are recognized entirely in the interim period as discrete items.

Income taxes as a percentage of pretax income before discrete items was 94.2 percent and 46.4 percent for the three months ended September 30, 2014 and 2013, respectively. Discrete items included in income taxes for the three months ended September 30, 2014 consisted of a net tax benefit of $0.3 million primarily due to changes in unrecognized tax benefits. Discrete items included in income taxes for the three months ended September 30, 2013 consisted of a net tax benefit of $1.6 million primarily due to tax benefits on amended tax returns for prior years and changes in unrecognized tax benefits offset by the effect of a United Kingdom corporate tax rate reduction.

The effective tax rate for the third quarter of 2014 differs from the U.S. federal statutory rate of 35.0 percent due to taxes on foreign earnings (+47.7 percent), nondeductible expenses (+11.0 percent), uncertain tax positions (+2.7 percent), and state taxes (+0.1 percent) partially offset by the domestic manufacturing deduction (-1.8 percent) and tax credits (-0.5 percent). With respect to the third quarter of 2013, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent due to taxes on foreign earnings (+10.2 percent), state taxes (+1.8 percent), uncertain tax positions (+0.9 percent) and nondeductible expenses (+0.5 percent) partially offset by the domestic manufacturing deduction (-1.8 percent) and tax credits (-0.2 percent).

Income taxes as a percentage of pretax income before discrete items was 80.9 percent and 43.0 percent for the nine months ended September 30, 2014 and 2013, respectively. Discrete items included in income taxes for the nine months ended September 30, 2014 were a net tax benefit of $6.0 million which was primarily related to management s decision that a deferred tax liability for certain undistributed earnings of its European subsidiaries was no longer necessary as these earnings are permanently reinvested. Discrete items included in income taxes for the nine months ended September 30, 2013 consisted of a net tax benefit of $3.0 million primarily due to tax benefits on amended tax returns for prior years, changes in unrecognized tax benefits, and the fact that the Company is no longer subject to potential income tax examinations for certain years.

The effective tax rate for the first nine months of 2014 differs from the U.S. federal statutory rate of 35.0 percent primarily due to the taxes on foreign earnings (+38.8 percent), nondeductible expenses (+6.7 percent), uncertain tax positions (+2.0 percent), and state taxes (+0.8 percent) partially offset by the domestic manufacturing deduction (-2.0 percent) and tax credits (-0.4 percent). With respect to the first nine months of 2013, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to the taxes on foreign earnings (+6.6 percent), state taxes (+1.8 percent), uncertain tax positions (+0.8 percent) and nondeductible expenses (+0.5 percent) partially offset by the domestic manufacturing deduction (-1.7 percent).

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, and uncertain tax positions. To the extent that actual results vary from the estimates at the end of the third quarter, the actual tax provision recognized for 2014 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 2008.

As of September 30, 2014 and December 31, 2013, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately $4.5 million and $4.5 million, respectively. Unrecognized tax benefits totaled $5.8 million and $6.1 million as of September 30, 2014 and December 31, 2013, respectively. The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. As of September 30, 2014 and December 31, 2013 the Company had accrued approximately $1.4 million and $1.2 million for interest and penalties, respectively.

11. Inventories

Net inventories as of September 30, 2014 and December 31, 2013 are summarized in the table below:

(Dollars in millions)	*September 30, 2014*	*December 31, 2013*
Raw materials	$ 151.1	$ 105.4
Work in process	19.7	19.2
Finished goods	111.9	94.8
	282.7	219.4
Less revaluation to LIFO	55.0	50.6
Net	$ 227.7	$ 168.8

12. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2014 and December 31, 2013 are summarized in the table below:

(Dollars in millions)	*September 30, 2014*	*December 31, 2013*
Land	$ 19.4	$ 9.1
Buildings	45.0	30.6
Machinery and equipment	676.8	608.1
	741.2	647.8
Less accumulated depreciation	454.4	450.8
Net	$ 286.8	$ 197.0

Impairment Impairment charges for the nine months ended September 30, 2014 were $4.7 million ($2.8 million, net of non-controlling interest) and were related to the Carbon Material and Chemicals plant in Tangshan, China. This impairment charge was calculated using a probability-weighted discounted cash flow model.

The impairment of the Company s 60-percent owned plant in Tangshan, China is due to the forced closure of a neighboring metallurgical coke facility. In October 2013, the Company was informed by the Tangshan Municipal People s Government (Tangshan Government) of its intention to close the two coke batteries owned and operated by the Tangshan Iron and Steel

Group Co., Ltd (TISCO) in Tangshan, China. The Tangshan Government has ordered the closure of these coke batteries in an effort to improve the air quality in the Tangshan area. One TISCO coke battery closed in March 2014 and the Company has been informed that the remaining TISCO coke battery will cease production sometime within the next twelve to eighteen months.

The Company s 60-percent owned subsidiary, Koppers (China) Carbon & Chemical Company Limited (KCCC) is located near to TISCO s coke facility and relies on its operations for a significant portion of raw material supply, utilities and other shared services. Closure of the TISCO coke batteries directly impacts KCCC s ability to operate its coal tar distillation plant and the Company has determined that it is unable to continue coal tar distillation activities at the site once TISCO ceases production activities at the adjacent facility. The Company is continuing to evaluate its options, which include transitioning to a new location or entering into other strategic partnerships with other unrelated coal tar distillation companies.

The closure of KCCC s coal tar distillation facility would have a material adverse effect on the Company s business, financial condition, cash flow and results of operations. For the most recent year ended December 31, 2013, KCCC contributed operating profit of approximately $3.3 million after deducting profit attributable to non-controlling interests and excluding asset impairment charges. As of September 30, 2014, all fixed assets directly related to the facility have been substantially depreciated.

The Company believes it would be able to continue fulfilling current domestic Chinese customers and its export commitments with capacity at Koppers (Jiangsu) Carbon Chemical Company Limited, which commenced production in July 2014, its other 30-percent owned Chinese company and other commercial relationships in China. However, the Company s margin on export sales may be negatively affected as a result of these actions.

13. 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, 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 most plans for hourly employees, have been frozen or are scheduled to be frozen in the next two years. 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 and other benefit plans for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
(Dollars in millions)	*2014*	*2013*	*2014*	*2013*
Service cost	$ 0.7	$ 0.9	$ 1.9	$ 2.6
Interest cost	2.8	2.7	8.8	8.0
Expected return on plan assets	(3.5)	(3.2)	(10.5)	(9.5)
Amortization of prior service cost	0.0	0.0	(0.1)	0.1
Amortization of net loss	1.0	1.9	3.0	5.7
Net periodic benefit cost	$ 1.0	$ 2.3	$ 3.1	$ 6.9
Defined contribution plan expense	$ 1.3	$ 1.2	$ 4.5	$ 4.1
Other postretirement benefit plans	0.1	0.1	0.3	0.3
Multi-employer pension plan expense	0.0	0.1	0.2	0.4

14. Debt

Debt at September 30, 2014 and December 31, 2013 was as follows:

(Dollars in millions)	*Weighted Average Interest Rate*	*Maturity*	*September 30, 2014*	*December 31, 2013*
Term Loan	3.64%	2019	$ 300.0	$ 0.0
Revolving Credit Facility	3.64%	2019	214.9	0.0
Construction loans	6.12%	2018	55.7	6.6
Senior Notes	$7\ ^{7}/_{8}$%	2019	296.9	296.5
Total debt			867.5	303.1
Less short term debt and current maturities of long-term debt			30.0	0.0
Long-term debt			$ 837.5	$ 303.1

Revolving Credit Facility and Term Loan

On August 15, 2014, Koppers Inc. replaced its $350.0 million revolving credit facility with a new $500.0 senior secured revolving credit facility and a $300.0 million senior secured term loan to finance its acquisition of the Osmose Entities. Both borrowings mature on August 15, 2019. The interest rates on the new borrowings are variable and are based on LIBOR. The initial interest rate on the borrowings at August 15, 2014 was 3.25 percent. The senior secured term loan has quarterly principal repayment obligations of 2.5 percent of the original principal amount borrowed, or $7.5 million.

Borrowings under the revolving credit facility and term loan 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 and term loan contain 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.

As of September 30, 2014, the Company had $233.0 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, 2014, $52.1 million of commitments were utilized by outstanding letters of credit.

Construction Loans

On November 18, 2013, the Company s 75-percent owned subsidiary, Koppers (Jiangsu) Carbon Chemical Company Limited (KJCC) entered into two committed loan facility agreements for a combined commitment of RMB 265 million or approximately $44 million. The third party bank provided facility has a commitment amount of RMB 198.8 million and the other committed facility of RMB 66.2 million is provided by the 25-percent non-controlling shareholder in KJCC. Borrowings under the third party bank facility are secured by a letter of credit issued by a bank under the Koppers Inc. revolving credit facility. The committed facilities were used to finance the costs related to the construction of the coal tar distillation plant in Pizhou, Jiangsu province in China. The facilities are variable rate and have certain financial covenants that monitor minimum net worth and leverage. KJCC will repay the loans in six installments every six months starting in May 2016 with a final repayment on November 18, 2018, the maturity date of the loans.

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 2009 Senior Notes are our senior obligations, are fully and unconditionally guaranteed by KH and certain of our wholly-owned domestic subsidiaries, and, as of August 15, 2014, are secured equally and ratably with the obligations under our Senior Secured Credit Facilities.

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.

15. 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, 2014*	*December 31, 2013*
Balance at beginning of year	$ 23.2	$ 21.5
Accretion expense	1.8	1.2
Revision in estimated cash flows, net	4.3	6.7
Cash expenditures	(2.3)	(5.6)
Currency translation	(0.1)	(0.6)
Balance at end of period	$ 26.9	$ 23.2

16. 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, 2014*	*December 31, 2013*
Balance at beginning of year	$ 3.2	$ 3.9
Revenue earned	(0.5)	(0.7)
Balance at end of period	$ 2.7	$ 3.2

17. Derivative Financial Instruments

The Company utilizes derivative instruments to manage exposures to risks that have been identified and measured and are capable of being controlled. The primary risks managed by the company by using derivative instruments are commodity price risk associated with copper and foreign currency exchange risk associated with a number of currencies, principally the U.S. dollar, the Canadian dollar, the Euro and British pounds. Swap contracts on copper are used to manage the price risk associated with forecasted purchases of materials used in the Company s manufacturing processes. The Company enters into foreign currency forward contracts to manage foreign currency risk associated with the Company s receivable and payable balances. Generally, the Company enters into master netting arrangements with the counterparties and offsets net derivative positions with the same counterparties. Currently, the Company s agreements do not require cash collateral.

ASC Topic 815-10, Derivatives and Hedging, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. Derivative instruments fair value is determined using significant other observable inputs, or Level 2 in the fair value hierarchy. In accordance with ASC Topic 815-10, the Company designates commodity swaps as cash flow hedges of forecasted purchases of commodities. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative instruments representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of September 30, 2014, the Company has outstanding copper swap contracts totaling 21.9 million pounds and the fair value of these swap contracts was $(3.3) million which is classified in accrued liabilities in the condensed consolidated balance sheet. The amount of loss recognized in other comprehensive income totaled $1.9 million, net of tax, at September 30, 2014. The ineffective portion of the copper swap contracts totaled $0.1 million and was charged to cost of sales for the three and nine months ended September 30, 2014. In the next twelve months the Company estimates that $1.3 million of unrealized losses, net of tax, related to commodity price hedging will be reclassified from other comprehensive income into earnings.

Forward contracts related to foreign currency are not designated as hedges and fair value changes in these contracts are immediately charged to earnings and are classified in other income in the condensed consolidated statement of income. As of September 30, 2014, the Company has outstanding foreign currency forward contracts with a net fair value totaling $(0.1) million, of which $0.3 million is classified in accrued liabilities and $0.2 million is classified in other current assets in the condensed consolidated balance sheet.

18. 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 two 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 112 plaintiffs in 60 cases pending as of September 30, 2014 as compared to 111 plaintiffs in 61 cases pending as of December 31, 2013. As of September 30, 2014, there are a total of 59 cases pending in state court in Pennsylvania, and one case pending in state court in Tennessee. Koppers Inc. has been dismissed from three cases formerly pending in state court in Arkansas.

The plaintiffs in all 60 pending cases seek to recover compensatory damages, while plaintiffs in 55 cases also seek to recover punitive damages. The plaintiffs in the 59 cases filed in Pennsylvania state court seek unspecified damages in excess of the court s minimum jurisdictional limit. The plaintiffs in the 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, UCAR Carbon Company, Inc., Exxon Mobil Corporation, SGL Carbon Corporation and Alcoa, 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 in 2009. The property upon which the utility pole treatment plant was located was sold by Koppers Inc. to Beazer East, Inc. in 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. In a second amended complaint, plaintiffs define the putative class as consisting of all persons who are present record owners of residential real properties located in an area within a two-mile radius of the former Gainesville wood treating plant. Plaintiffs further allege that chemicals and contaminants from the Gainesville plant have contaminated real properties within the two mile geographical area, have caused property damage (diminution in value) and have placed residents and owners of the putative class properties at an elevated risk of exposure to and injury from the chemicals at issue. The second amended complaint seeks damages for diminution in property values, the establishment of a medical monitoring fund and punitive damages.

The case was removed to the United States District Court for the Northern District of Florida in December 2010. The district court dismissed Koppers Holdings Inc. in September 2013 on the ground that there was no personal jurisdiction. Plaintiffs appeal of the dismissal of Koppers Holdings Inc. was dismissed in December 2013. In May 2014, the Court entered an amended scheduling order for class certification, which sets a deadline of November 21, 2014 for completion of class factual discovery with expert witness discovery to follow. Discovery on the merits is stayed until further order of the court.

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.

Virgin Islands. Koppers Performance Chemicals Inc. (KPC) is currently a defendant in a putative class action lawsuit filed in the United States District Court of the Virgin Islands. The plaintiffs claim, on behalf of themselves and others similarly situated, that KPC s wood preservative products and formulas are defective, and the complaint alleges the following causes of action: breach of contract, negligence, strict liability, fraud and violation of Virgin Islands Consumer Fraud and Deceptive Business Practices statute. The putative class is defined as all users (residential or commercial) of wood products treated with KPC wood preserving products in the United States who purchased such wood products from January 1, 2004 to the present. Alternatively, plaintiffs allege that the putative class should be all persons and entities that have owned or acquired buildings or other structures physically located in the U.S. Virgin Islands that contain wood products treated with KPC wood preserving products from January 1, 2004 to the present. The complaint alleges plaintiffs are entitled to unspecified economic and compensatory damages , punitive damages, costs and disgorgement of profits. The complaint further requests a declaratory judgment and injunction to establish an inspection and disposal program for class members structures. The lawsuit was filed on July 16, 2014, and KPC has filed a motion to dismiss. Plaintiffs have not yet responded to KPC s motion to dismiss. 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.

Other Matters. 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 from the owner of the unaffiliated plant that included an initial claim for lost profits of approximately $1.7 million. In July 2013 the owner of the unaffiliated plant filed a request for arbitration with the Netherlands Arbitration Institute seeking damages for the business interruption claim plus interest, costs and legal fees. In its statement of claim to the arbitration board, the owner of the unaffiliated facility has claimed damages of at least $3.1 million for these costs. The arbitration hearing was held in June 2014 and a decision is not expected until late 2014 or 2015.

The Company has not provided a reserve for the claimed lost profits because, at this time, it cannot reasonably determine the probability of such loss, and the amount of such loss, if any, cannot be reasonably estimated. The Company does not currently believe that resolution of this matter will 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. Currently, at the properties acquired from Beazer East (which include all but two 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, 2013, 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 one of the potentially responsible parties (PRPs) at the Portland Harbor CERCLA site located on the Willamette River in Oregon. Koppers Inc. currently maintains a coal tar pitch terminal near the site. Koppers Inc. has responded 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 among more than 80 parties to the site. Koppers Inc. believes it is a *de minimus* contributor at the site. Additionally, a separate natural resources damages assessment (NRDA) is being conducted by a local trustee group. The NRDA is intended to identify further information necessary to estimate liabilities for remediation based settlements of national resource damages (NRD) claims. Koppers Inc. may also incur liabilities under the NRD process and has entered into a separate process to develop an allocation of NRDA cost.

In March 2012, a draft Feasibility Study (FS) was submitted to EPA by the Lower Willamette Group, a group of certain PRPs which has been conducting the investigation of the site. The draft FS identifies ten possible remedial alternatives which range in cost from approximately $170 million to $1.8 billion. The FS does not determine who is responsible for remediation costs or select remedies. The FS is under review by the EPA which will issue a final decision on the nature and extent of the final remediation. Responsibility for implementing and funding that work will be decided in the separate allocation process.

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 $0.8 million at September 30, 2014, the Company has not provided a reserve for these matters because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resources damages or how those costs will be allocated among the PRPs. Accordingly, the Company believes that 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.

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 2011 and the Company has reserved its expected remaining remediation costs of $1.9 million and has recorded a receivable, net of cash collections, from the owner of the adjacent property of $1.8 million as of September 30, 2014.

In December 2011, the Company ceased manufacturing operations at its Continental Carbon facility located in Kurnell, Australia. The Company has accrued its expected cost of site remediation resulting from the closure of $5.5 million as of September 30, 2014.

Environmental Reserves Rollforward. The following table reflects changes in the accrued liability for environmental matters, of which $6.7 million and $8.2 million are classified as current liabilities at September 30, 2014 and December 31, 2013, respectively:

		Period ended
(Dollars in millions)	*September 30, 2014*	*December 31, 2013*
Balance at beginning of year	$ 11.9	$ 14.1
Expense	0.4	1.8
Reversal of reserves	(0.2)	(1.2)
Cash expenditures	(2.6)	(0.9)
Acquisition	0.8	0.0
Currency translation	0.0	(1.9)
Balance at end of period	$ 10.3	$ 11.9

19. 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 the payment of principal and interest on the Senior Notes. The domestic guarantor subsidiaries include Koppers World-Wide Ventures Corporation, Koppers Delaware, Inc., Koppers Concrete Products, Inc., Concrete Partners, Inc., Koppers Performance Chemicals Inc., Koppers Railroad Structures Inc., Osmose NZ, LLC, Osmose-Nevada Limited Liability Company, Wood Protection LP, Wood Protection Management LLC and Koppers Asia LLC. Non-guarantor subsidiaries are owned directly or indirectly by Koppers Inc. or are owned directly or indirectly by Koppers World-Wide Ventures Corporation.

The guarantee of a guarantor subsidiary will be automatically and unconditionally released and discharged in the event of:

¡ any sale of the capital stock or substantially all of the assets of the guarantor subsidiary;

¡ the designation of the guarantor subsidiary as an unrestricted subsidiary in accordance with the indenture governing the Senior Notes; and

¡ the legal defeasance, covenant defeasance or satisfaction and discharge of the indenture governing the Senior Notes.

Koppers Holdings depends on the dividends from the earnings of Koppers Inc. and its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of any declared dividend of Koppers Holdings. Koppers Inc. s credit agreement prohibits it from making dividend payments to Koppers Holdings Inc. unless (1) such dividend payments are permitted by the indenture governing Koppers Inc. s Senior Notes and (2) no event of default or potential default has occurred or is continuing under the credit agreement. The indenture governing Koppers Inc. s Senior Notes restricts its ability to finance Koppers Holdings Inc. s payment of dividends if (1) a default has occurred or would result from such financing, (2) a restricted subsidiary of Koppers Inc. which is not a guarantor under the indenture is not able to incur additional indebtedness (as defined in the indenture), and (3) the sum of all restricted payments (as defined in the indenture) have exceeded the permitted amount (referred to as the basket) at such point in time.

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to $500.0 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.

The amount of restricted net assets unavailable for distribution to Koppers Holdings Inc. by Koppers Inc. totals $75 million as of September 30, 2014. Cash dividends paid to Koppers Holdings Inc. by its subsidiaries totaled $17.8 million and $33.2 million for the nine months ended

September 30, 2014 and 2013, respectively.

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, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013 is as follows. The condensed consolidating statement of comprehensive income for the three and nine months ended September 30, 2013 has been restated to revise the presentation of net income and related investments in subsidiaries under the equity method of accounting. This restatement changed the previously reported amounts for equity income, other income, interest expense, net income attributable to Koppers, comprehensive income attributable to Koppers and other related subtotals in the following columns: Parent, Koppers Inc., Domestic Guarantor Subsidiaries and Consolidating Adjustments. There was no change to amounts previously reported for the Consolidated totals.

The condensed consolidating statement of cash flows for the nine months ended September 30, 2013 has been restated to revise the presentation of intercompany dividends and intercompany lending agreements. This restatement changed the previously reported amounts for cash provided by or used in operating activities, investing activities and financing activities in the following columns: Koppers Inc., Domestic Guarantor Subsidiaries, Non-Guarantor Subsidiaries and Consolidating Adjustments. There was no change to amounts previously reported for the Parent or Consolidated columns except for rounding differences. There was no impact on the net increase or decrease in cash for any column.

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2014

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 220.5	$ 53.3	$ 189.6	$ (23.3)	$ 440.1
Cost of sales including depreciation and amortization	0.0	194.8	43.1	175.8	(22.9)	390.8
Selling, general and administrative	0.3	16.8	5.1	9.8	0.0	32.0
Operating profit (loss)	(0.3)	8.9	5.1	4.0	(0.4)	17.3
Other income (expense)	0.0	0.0	1.3	(0.3)	(1.2)	(0.2)
Equity income of subsidiaries	(2.6)	6.5	0.3	0.0	(4.2)	0.0
Interest expense (income)	0.0	11.4	0.0	1.7	(1.2)	11.9
Income taxes	(0.2)	6.6	0.2	2.9	0.0	9.5
Income from continuing operations	(2.7)	(2.6)	6.5	(0.9)	(4.6)	(4.3)
Discontinued operations	0.0	0.0	0.0	0.1	0.0	0.1
Noncontrolling interests	0.0	0.0	0.0	(1.5)	0.0	(1.5)
Net income attributable to Koppers	$ (2.7)	$ (2.6)	$ 6.5	$ 0.7	$ (4.6)	$ (2.7)
Comprehensive income attributable to Koppers	$ (18.6)	$ (18.4)	$ (10.1)	$ (9.6)	$ 38.1	$ (18.6)

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2013

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 230.1	$ 11.9	$ 164.0	$ (10.8)	$ 395.2
Cost of sales including depreciation and amortization	0.0	197.5	7.2	144.0	(10.9)	337.8
Selling, general and administrative	0.5	10.8	0.1	6.9	0.0	18.3
Operating profit (loss)	(0.5)	21.8	4.6	13.1	0.1	39.1
Other income (expense)	0.0	0.4	1.0	0.8	(0.9)	1.3
Equity income of subsidiaries	19.4	14.2	8.2	0.0	(41.8)	0.0
Interest expense (income)	0.0	6.8	0.0	0.8	(0.9)	6.7

Income taxes	(0.2)	10.2	0.0	4.1	0.0	14.1
Income from continuing operations	19.1	19.4	13.8	9.0	(41.7)	19.6
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.4	0.0	0.4
Net income attributable to Koppers	$ 19.1	$ 19.4	$ 13.8	$ 8.5	$ (41.7)	$ 19.1
Comprehensive income attributable to Koppers	$ 25.8	$ 26.0	$ 19.3	$ 5.3	$ (50.6)	$ 25.8

Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2014

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 600.5	$ 71.2	$ 501.0	$ (44.4)	$ 1,128.3
Cost of sales including depreciation and amortization	0.0	539.7	52.3	474.1	(44.2)	1,021.9
Selling, general and administrative	1.3	44.6	5.7	23.7	0.0	75.3
Operating profit (loss)	(1.3)	16.2	13.2	3.2	(0.2)	31.1
Other income (expense)	0.0	0.1	3.1	(0.2)	(3.3)	(0.3)
Equity income of subsidiaries	1.9	16.1	(6.7)	0.0	(11.3)	0.0
Interest expense (income)	0.0	24.7	0.0	3.9	(3.3)	25.3
Income taxes	(0.5)	5.8	(5.7)	9.5	0.0	9.1
Income from continuing operations	1.1	1.9	15.3	(10.4)	(11.5)	(3.6)
Discontinued operations	0.0	0.0	0.0	(0.0)	0.0	0.0
Noncontrolling interests	0.0	0.0	0.0	(4.7)	0.0	(4.7)
Net income attributable to Koppers	$ 1.1	$ 1.9	$ 15.3	$ (5.7)	$ (11.5)	$ 1.1
Comprehensive income attributable to Koppers	$ (9.2)	$ (8.3)	$ 3.5	$ (14.7)	$ 19.5	$ (9.2)

Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2013

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 660.3	$ 48.5	$ 470.0	$ (42.3)	$ 1,136.5
Cost of sales including depreciation and amortization	0.0	580.6	34.3	419.3	(42.4)	991.8
Selling, general and administrative	1.5	29.7	0.7	20.3	0.0	52.2
Operating profit (loss)	(1.5)	50.0	13.5	30.4	0.1	92.5
Other income (expense)	0.0	1.3	3.1	1.5	(3.1)	2.8
Equity income of subsidiaries	45.4	35.7	18.3	0.0	(99.4)	0.0
Interest expense (income)	0.0	20.3	0.0	3.0	(3.1)	20.2
Income taxes	(0.6)	21.3	0.2	8.4	0.0	29.3
Income from continuing operations	44.5	45.4	34.7	20.5	(99.3)	45.8
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	1.2	0.0	1.2
Net income attributable to Koppers	$ 44.5	$ 45.4	$ 34.7	$ 19.2	$ (99.3)	$ 44.5
Comprehensive income attributable to Koppers	$ 40.8	$ 41.6	$ 27.7	$ (0.4)	$ (68.9)	$ 40.8

Condensed Consolidating Balance Sheet

September 30, 2014

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
ASSETS						
Cash and cash equivalents	$ 0.0	$ 0.2	$ 1.8	$ 73.1	$ 0.0	$ 75.1
Receivables, net	0.0	91.3	35.8	108.8	0.0	235.9
Affiliated receivables	0.1	4.1	8.3	10.4	(22.9)	0.0
Inventories, net	0.0	87.8	31.5	108.8	(0.4)	227.7
Deferred tax assets	0.0	7.9	10.9	1.4	0.0	20.2
Other current assets	0.0	5.5	1.5	42.1	0.0	49.1
Total current assets	0.1	196.8	89.8	344.6	(23.3)	608.0
Equity investments	153.3	832.1	247.9	3.8	(1,231.4)	5.7
Property, plant and equipment, net	0.0	111.9	51.9	123.0	0.0	286.8
Goodwill	0.0	39.8	162.7	35.5	0.0	238.0
Intangible assets, net	0.0	2.4	162.7	15.0	0.0	180.1
Deferred tax assets	0.0	0.5	1.1	8.7	0.0	10.3
Affiliated loan receivables	0.0	32.6	155.9	41.5	(230.0)	0.0
Other noncurrent assets	0.0	19.4	3.7	1.9	0.0	25.0
Total assets	$ 153.4	$ 1,235.5	$ 875.7	$ 574.0	$ (1,484.7)	$ 1,353.9
LIABILITIES AND EQUITY						
Accounts payable	$ 0.1	$ 52.2	$ 8.3	$ 61.8	$ 0.0	$ 122.4
Affiliated payables	0.0	14.0	6.3	8.4	(28.7)	0.0
Accrued liabilities	4.7	33.8	19.9	49.3	0.0	107.7
Short-term debt and current portion of long-term debt	0.0	30.0	0.0	0.0	0.0	30.0
Total current liabilities	4.8	130.0	34.5	119.5	(28.7)	260.1
Long-term debt	0.0	781.8	0.0	55.7	0.0	837.5
Affiliated debt	0.0	121.0	32.6	76.4	(230.0)	0.0
Other long-term liabilities	0.0	55.2	10.8	25.3	0.0	91.3
Total liabilities	4.8	1,088.0	77.9	276.9	(258.7)	1,188.9
Koppers shareholders equity	148.6	147.5	797.8	280.7	(1,226.0)	148.6
Noncontrolling interests	0.0	0.0	0.0	16.4	0.0	16.4
Total liabilities and equity	$ 153.4	$ 1,235.5	$ 875.7	$ 574.0	$ (1,484.7)	$ 1,353.9

Condensed Consolidating Balance Sheet

December 31, 2013

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
ASSETS						
Cash and cash equivalents	$ 0.0	$ 29.9	$ 0.1	$ 52.2	$ 0.0	$ 82.2
Receivables, net	0.0	75.6	9.3	82.0	0.0	166.9
Affiliated receivables	0.2	1.1	3.9	2.3	(7.5)	0.0
Inventories, net	0.0	86.1	0.0	82.9	(0.2)	168.8
Deferred tax assets	0.0	7.9	1.5	0.6	0.0	10.0
Other current assets	0.0	7.3	0.6	37.3	0.0	45.2
Total current assets	0.2	207.9	15.4	257.3	(7.7)	473.1
Equity investments	174.7	333.5	182.9	4.6	(689.1)	6.6
Property, plant and equipment, net	0.0	112.2	0.0	84.8	0.0	197.0
Goodwill	0.0	39.8	0.0	32.9	0.0	72.7
Intangible assets, net	0.0	3.3	0.0	8.9	0.0	12.2
Deferred tax assets	0.0	2.4	(1.4)	8.3	0.0	9.3
Affiliated loan receivables	0.0	8.5	123.8	40.9	(173.2)	0.0
Other noncurrent assets	0.0	11.7	0.0	2.3	0.0	14.0
Total assets	$ 174.9	$ 719.3	$ 320.7	$ 440.0	$ (870.0)	$ 784.9
LIABILITIES AND EQUITY						
Accounts payable	$ 0.0	$ 48.3	$ 6.7	$ 52.6	$ 0.0	$ 107.6
Affiliated payables	0.0	1.9	4.0	8.6	(14.5)	0.0
Accrued liabilities	5.1	27.8	0.5	54.1	0.0	87.5
Total current liabilities	5.1	78.0	11.2	115.3	(14.5)	195.1
Long-term debt	0.0	296.5	0.0	6.6	0.0	303.1
Affiliated debt	0.0	109.5	8.5	55.2	(173.2)	0.0
Other long-term liabilities	0.0	67.6	2.5	26.8	0.0	96.9
Total liabilities	5.1	551.6	22.2	203.9	(187.7)	595.1
Koppers shareholders equity	169.8	167.7	298.5	216.1	(682.3)	169.8
Noncontrolling interests	0.0	0.0	0.0	20.0	0.0	20.0
Total liabilities and equity	$ 174.9	$ 719.3	$ 320.7	$ 440.0	$ (870.0)	$ 784.9

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2014

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Cash provided by (used in) operating activities	$ 16.5	$ (0.9)	$ 26.4	$ (4.5)	$ (26.7)	$ 10.8
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(508.0)	(15.1)	(47.2)	14.8	(555.5)
(Loans to) repayments from affiliates	0.0	(24.4)	(33.9)	(0.5)	58.8	0.0
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.1	0.0	0.0	0.0	0.1
Net cash provided by (used in) investing activities	0.0	(532.3)	(49.0)	(47.7)	73.6	(555.4)
Cash provided by (used in) financing activities:						
Borrowings (repayments) of long-term debt	0.0	514.9	0.0	48.9	0.0	563.8
Borrowings (repayments) of affiliated debt	0.0	17.5	24.3	17.0	(58.8)	0.0
Deferred financing costs	0.0	(11.1)	0.0	0.0	0.0	(11.1)
Other financing activities	0.0	0.0	0.0	1.4	0.0	1.4
Dividends paid	(15.2)	(17.8)	0.0	(8.9)	26.7	(15.2)
Stock issued (repurchased)	(1.3)	0.0	0.0	14.8	(14.8)	(1.3)
Net cash provided by (used in) financing activities	(16.5)	503.5	24.3	73.2	(46.9)	537.6
Effect of exchange rates on cash	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Net increase (decrease) in cash and cash equivalents	0.0	(29.7)	1.7	20.9	0.0	(7.1)
Cash and cash equivalents at beginning of year	0.0	29.9	0.1	52.2	0.0	82.2
Cash and cash equivalents at end of period	$ 0.0	$ 0.2	$ 1.8	$ 73.1	$ 0.0	$ 75.1

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2013

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Cash provided by (used in) operating activities	$ 32.6	$ 43.7	$ 2.5	$ 23.1	$ (36.3)	$ 65.6
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(13.3)	0.0	(16.1)	0.0	(29.4)
(Loans to) repayments from affiliates	0.0	(3.0)	(5.5)	(3.2)	11.7	0.0
Net cash proceeds (payments) from divestitures and asset sales	0.0	1.4	0.0	1.0	0.0	2.4
Net cash provided by (used in) investing activities	0.0	(14.9)	(5.5)	(18.3)	11.7	(27.0)
Cash provided by (used in) financing activities:						
Borrowings (repayments) of affiliated debt	0.0	8.7	3.0	0.0	(11.7)	0.0
Deferred financing costs	0.0	(1.2)	0.0	0.0	0.0	(1.2)
Other financing activities	0.0	0.0	0.0	2.3	0.0	2.3
Dividends paid	(15.3)	(33.2)	0.0	(3.1)	36.3	(15.3)
Stock issued (repurchased)	(17.3)	0.0	0.0	0.0	0.0	(17.3)

Net cash provided by (used in) financing activities	(32.6)	(25.7)	3.0	(0.8)	24.6	(31.5)
Effect of exchange rates on cash	0.0	0.1	0.0	(1.5)	0.0	(1.4)
Net increase (decrease) in cash and cash equivalents	0.0	3.2	0.0	2.5	0.0	5.7
Cash and cash equivalents at beginning of year	0.0	4.8	0.0	61.9	0.0	66.7
Cash and cash equivalents at end of period	$ 0.0	$ 8.0	$ 0.0	$ 64.4	$ 0.0	$ 72.4

20. Subsidiary Guarantor Information for Shelf Registration

Under a registration statement on Form S-3, Koppers Holdings may sell a combination of securities, including common stock, debt securities, preferred stock, depository shares, warrants and units, from time to time in one or more offerings. In addition, Koppers Inc. may sell debt securities from time to time under the registration statement. Debt securities may be fully and unconditionally guaranteed, on a joint and several basis, by Koppers Holdings, Koppers Inc. and/or other guarantor subsidiaries which will correspond to certain subsidiaries in the United States, Europe and Australia which are 100 percent owned by either Koppers Holdings or Koppers Inc. The non-guarantor subsidiaries consist of certain subsidiaries in the United States, China, India and Mauritius. Non-guarantor subsidiaries are owned directly by Koppers Inc. or are owned directly or indirectly by foreign guarantor subsidiaries. The guarantor subsidiaries that issue guarantees, if any, will be determined when a debt offering actually occurs under the registration statement and accordingly, the condensed consolidating financial information for subsidiary guarantors will be revised to identify the subsidiaries that actually provided guarantees. These guarantees will be governed pursuant to a supplemental indenture which the trustee and the issuing company would enter into concurrent with the debt offering.

Koppers Holdings depends on the dividends from the earnings of Koppers Inc. and its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of any declared dividend of Koppers Holdings. Koppers Inc. s credit agreement prohibits it from making dividend payments to Koppers Holdings Inc. unless (1) such dividend payments are permitted by the indenture governing Koppers Inc. s Senior Notes and (2) no event of default or potential default has occurred or is continuing under the credit agreement. The indenture governing Koppers Inc. s Senior Notes restricts its ability to finance Koppers Holdings Inc. s payment of dividends if (1) a default has occurred or would result from such financing, (2) a restricted subsidiary of Koppers Inc. which is not a guarantor under the indenture is not able to incur additional indebtedness (as defined in the indenture), and (3) the sum of all restricted payments (as defined in the indenture) have exceeded the permitted amount (referred to as the basket) at such point in time.

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to $500.0 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.

The amount of restricted net assets unavailable for distribution to Koppers Holdings Inc. by Koppers Inc. totals $75 million as of September 30, 2014. Cash dividends paid to Koppers Holdings Inc. by its subsidiaries totaled $17.8 million and $33.2 million for the nine months ended September 30, 2014 and 2013, respectively.

Separate condensed consolidating financial statement information for the parent, Koppers Inc., domestic guarantor subsidiaries, foreign guarantor subsidiaries and non-guarantor subsidiaries as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013 is as follows. The condensed consolidating statement of comprehensive income for the three and nine months ended September 30, 2013 has been restated to revise the presentation of net income and related investments in subsidiaries under the equity method of accounting. This restatement changed the previously reported amounts for equity income, other income, interest expense, net income attributable to Koppers, comprehensive income attributable to Koppers and other related subtotals in the following columns: Koppers Inc., Domestic Guarantor Subsidiaries, Foreign Guarantor Subsidiaries and Consolidating Adjustments. There was no change to amounts previously reported for the Consolidated totals.

The condensed consolidating statement of cash flows for the nine months ended September 30, 2013 has been restated to revise the presentation of intercompany dividends and intercompany lending agreements. This restatement changed the previously reported amounts for cash provided by or used in operating activities, investing activities and financing activities in the following columns: Koppers Inc., Domestic Guarantor Subsidiaries, Foreign Guarantor Subsidiaries, Non-Guarantor Subsidiaries and Consolidating Adjustments. There was no change to amounts previously reported for the Parent or Consolidated columns except for rounding differences. There was no impact on the net increase or decrease in cash for any column.

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2014

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Foreign Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 220.5	$ 17.1	$ 103.0	$ 121.7	$ (22.2)	$ 440.1
Cost of sales including depreciation and amortization	0.0	194.8	13.6	91.0	113.4	(22.0)	390.8
Selling, general and administrative	0.3	16.8	0.2	5.2	9.5	0.0	32.0
Operating profit (loss)	(0.3)	8.9	3.3	6.8	(1.2)	(0.2)	17.3
Other income (expense)	0.0	0.0	1.2	0.0	(0.3)	(1.1)	(0.2)
Equity income of subsidiaries	(2.6)	6.5	(0.4)	(4.1)	(0.1)	0.7	0.0
Interest expense (income)	0.0	11.4	0.0	1.0	0.6	(1.1)	11.9
Income taxes	(0.2)	6.6	0.2	2.5	0.4	0.0	9.5
Income from continuing operations	(2.7)	(2.6)	3.9	(0.8)	(2.6)	0.5	(4.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Noncontrolling interests	0.0	0.0	0.0	0.0	(1.5)	0.0	(1.5)
Net income attributable to Koppers	$ (2.7)	$ (2.6)	$ 3.9	$ (0.8)	$ (1.0)	$ 0.5	$ (2.7)
Comprehensive income attributable to Koppers	$ (18.6)	$ (18.4)	$ (12.4)	$ (10.4)	$ (5.9)	$ 47.1	$ (18.6)

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2013

(Dollars in millions)	*Parent*	*Koppers Inc.*	*Domestic Guarantor Subsidiaries*	*Foreign Guarantor Subsidiaries*	*Non-Guarantor Subsidiaries*	*Consolidating Adjustments*	*Consolidated*
Net sales	$ 0.0	$ 230.1	$ 11.9	$ 120.8	$ 43.3	$ (10.9)	$ 395.2
Cost of sales including depreciation and amortization	0.0	197.5	7.2	103.7	40.4	(11.0)	337.8
Selling, general and administrative	0.5	10.8	0.1	5.5	1.4	0.0	18.3
Operating profit (loss)	(0.5)	21.8	4.6	11.6	1.5	0.1	39.1
Other income (expense)	0.0	0.4	1.0	0.7	0.1	(0.9)	1.3
Equity income of subsidiaries	19.4	14.2	8.2	0.4	0.1	(42.3)	0.0
Interest expense (income)	0.0	6.8	0.0	0.7	0.0	(0.8)	6.7
Income taxes	(0.2)	10.2	0.0	3.8	0.3	0.0	14.1
Income from continuing operations	19.1	19.4	13.8	8.2	1.4	(42.3)	19.6
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.0	0.4	0.0	0.4
Net income attributable to Koppers	$ 19.1	$ 19.4	$ 13.8	$ 8.1	$ 1.0	$ (42.3)	$ 19.1