

Koppers Holdings Inc.
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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 No

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

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

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

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

Common Stock, par value \$0.01 per share, outstanding at July 31, 2016 amounted to 20,652,388 shares.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Dollars in millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2016 (Unaudited)	2015 (Unaudited)	June 30, 2016 (Unaudited)	2015 (Unaudited)
Net sales	\$385.1	\$ 431.6	\$731.9	\$ 829.4
Cost of sales (excluding items below)	303.8	354.7	592.3	697.3
Depreciation and amortization	13.1	17.7	28.2	32.7
Gain on sale of business	0.0	0.0	0.0	(3.2)
Impairment and restructuring charges	6.0	2.1	11.1	5.7
Selling, general and administrative expenses	30.2	31.1	60.5	62.9
Operating profit	32.0	26.0	39.8	34.0
Other income	0.4	0.2	2.0	0.4
Interest expense	14.3	12.9	26.6	25.9
Income before income taxes	18.1	13.3	15.2	8.5
Income tax provision	6.8	5.4	6.3	4.8
Income from continuing operations	11.3	7.9	8.9	3.7
Income from discontinued operations, net of tax				
expense of \$0.0, \$0.0, \$0.4 and \$0.0	0.0	0.0	0.6	0.0
Net income	11.3	7.9	9.5	3.7
Net loss attributable to noncontrolling interests	(0.8)	(1.1)	(1.3)	(1.9)
Net income attributable to Koppers	\$12.1	\$ 9.0	\$10.8	\$ 5.6
Earnings per common share attributable to Koppers				
common shareholders:				
Basic -				
Continuing operations	\$0.58	\$ 0.44	\$0.49	\$ 0.28
Discontinued operations	0.00	0.00	0.03	0.00
Earnings per basic common share	\$0.58	\$ 0.44	\$0.52	\$ 0.28
Diluted -				
Continuing operations	\$0.57	\$ 0.44	\$0.49	\$ 0.27
Discontinued operations	0.00	0.00	0.03	0.00
Earnings per diluted common share	\$0.57	\$ 0.44	\$0.52	\$ 0.27
Comprehensive income (loss)	\$9.9	\$ 11.1	\$17.3	\$ (3.1)
Comprehensive loss attributable to noncontrolling interests	(1.0)	(1.1)	(1.5)	(1.9)
Comprehensive income (loss) attributable to Koppers	\$10.9	\$ 12.2	\$18.8	\$ (1.2)
Weighted average shares outstanding (in thousands):				
Basic	20,640	20,545	20,611	20,529
Diluted	20,944	20,640	20,798	20,603

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

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KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

	June 30,	December 31,
	2016	2015
	(Unaudited)	
(Dollars in millions, except per share amounts)		
Assets		
Cash and cash equivalents	\$ 16.4	\$ 21.8
Accounts receivable, net of allowance of \$7.6 and \$6.5	174.7	155.0
Income tax receivable	5.4	4.6
Inventories, net	223.3	226.4
Loan to related party	9.5	9.5
Other current assets	32.0	27.0
Total current assets	461.3	444.3
Property, plant and equipment, net	279.2	277.8
Goodwill	187.5	186.6
Intangible assets, net	149.9	156.1
Deferred tax assets	33.4	36.6
Other assets	9.5	11.5
Total assets	\$ 1,120.8	\$ 1,112.9
Liabilities		
Accounts payable	\$ 146.0	\$ 140.8
Accrued liabilities	102.2	99.8
Current maturities of long-term debt	40.1	39.9
Total current liabilities	288.3	280.5
Long-term debt	670.6	682.4
Accrued postretirement benefits	52.0	53.6
Deferred tax liabilities	6.0	5.7
Other long-term liabilities	95.9	103.1
Total liabilities	1,112.8	1,125.3
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; 80,000,000 shares authorized;		
22,127,559 and 22,015,994 shares issued	0.2	0.2
Additional paid-in capital	171.2	167.8
Accumulated deficit	(43.2)	(54.0)
Accumulated other comprehensive loss	(71.8)	(79.8)
Treasury stock, at cost, 1,475,170 and 1,459,164 shares	(53.0)	(52.7)
Total Koppers shareholders' equity (deficit)	3.4	(18.5)
Noncontrolling interests	4.6	6.1
Total equity (deficit)	8.0	(12.4)

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Total liabilities and equity (deficit)	\$ 1,120.8	\$ 1,112.9
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in millions)	Six Months Ended	
	June 30,	
	2016	2015
	(Unaudited)	(Unaudited)
Cash provided by (used in) operating activities:		
Net income	\$9.5	\$ 3.7
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	28.2	32.7
Impairment charges	0.0	5.7
Gain on sale of business	0.0	(3.2)
Deferred income taxes	0.3	(0.6)
Equity loss, net of dividends received	0.7	1.1
Change in other liabilities	(5.2)	0.1
Non-cash interest expense	3.9	1.8
Stock-based compensation	3.4	2.0
Deferred revenue	(1.1)	29.0
Other	3.9	(2.5)
Changes in working capital:		
Accounts receivable	(19.5)	(10.5)
Inventories	6.0	4.5
Accounts payable	4.8	44.2
Accrued liabilities	3.3	(27.4)
Other working capital	(3.9)	(2.5)
Net cash provided by operating activities	34.3	78.1
Cash (used in) provided by investing activities:		
Capital expenditures	(21.3)	(17.3)
Acquisitions, net of cash acquired	0.0	(15.3)
Net cash proceeds from divestitures and asset sales	0.6	12.5
Net cash used in investing activities	(20.7)	(20.1)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	290.3	299.6
Repayments of revolving credit	(288.2)	(342.8)
Borrowings of long-term debt	0.0	1.6
Repayments of long-term debt	(15.0)	(15.0)
Issuances of Common Stock	0.1	0.0
Repurchases of Common Stock	(0.3)	(0.3)
Payment of deferred financing costs	(1.4)	(1.0)
Dividends paid	0.0	(8.7)
Net cash used in financing activities	(14.5)	(66.6)
Effect of exchange rate changes on cash	(4.5)	8.7
Net (decrease) increase in cash and cash equivalents	(5.4)	0.1
Cash and cash equivalents at beginning of period	21.8	51.1
Cash and cash equivalents at end of period	\$16.4	\$ 51.2

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

KOPPERS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

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, 2015 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2015. Certain prior period amounts in the notes to the consolidated financial statements have been reclassified to conform to the current period's presentation.

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, 2015.

2. New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This ASU simplifies certain aspects of the accounting for share-based payment transactions, including income tax requirements, forfeitures, and presentation on the balance sheet and the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016 and for the interim periods therein. The Company is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," that amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. ASU 2016-08 also provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date of the standard for the Company will coincide with the effective date of ASU 2014-09 on January 1, 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU 2016-02 requires an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than one year. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. The standard is effective January 1, 2019 and early adoption is permitted. The guidance requires a modified retrospective adoption. The Company is currently evaluating the impact of the adoption of ASU 2016-02 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires companies to present debt issuance costs associated with a debt liability as a deduction from the carrying amount of that debt liability on the balance sheet rather than being capitalized as an asset. The standard is effective for interim and annual periods beginning after December 15, 2015, and retrospective presentation is required. The Company adopted this guidance as of January 1, 2016, which resulted in \$10.2 million and \$12.5 million of debt issuance costs being reclassified from other assets to long-term debt as of June 30, 2016 and December 31, 2015, respectively.

In February 2015, the FASB released updated consolidation guidance that entities must use to evaluate specific ownership and contractual arrangements that lead to a consolidation conclusion. The updates could change consolidation outcomes affecting presentation and disclosures. The Company adopted this guidance as of January 1, 2016, which did not have a material effect on the Company's financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity can either adopt this amendment retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of initial application. This guidance will be effective January 1, 2018. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company's financial statements.

3. Plant Closures and Divestitures

In March 2016, the Company discontinued production at its 60-percent owned Carbon Materials and Chemicals (“CMC”) plant located in Tangshan, China. The Company’s 60-percent owned subsidiary, Koppers (China) Carbon & Chemical Company Limited (“KCCC”) is located adjacent to a metallurgical coke facility owned by KCCC’s minority partner, which also closed. The KCCC plant relied on the coke facility for a significant portion of raw material supply, utilities and other shared services. In 2015, the Company recorded a severance charge of \$0.9 million. For the six months ended June 30, 2016, the Company has recorded inventory write-down charges of \$0.7 million in connection with the facility.

In February 2016, the Company announced plans, which were approved by management and the board in December 2015, to cease coal tar distillation operations at both of its United Kingdom CMC facilities. Accordingly, the Company recorded environmental charges, an asset retirement obligation and fixed asset impairment charges totaling \$13.9 million during the year ended December 31, 2015. For the three and six months ended June 30, 2016, the Company recorded severance charges of \$0.1 and \$1.8 million. In July 2016, the Company sold substantially all of its CMC tar distillation properties and assets in the United Kingdom. In exchange, the Company transferred cash to the buyer and the buyer assumed historical environmental and asset retirement obligations.

In January 2016, the Company announced its decision to discontinue coal tar distillation activities, which were approved by management and the board in December 2015, at its CMC plant located in Clairton, Pennsylvania. Accordingly, the Company recorded severance, inventory write-down, asset retirement obligation and fixed asset impairment charges totaling \$18.8 million during the year ended December 31, 2015. For the three and six months ended June 30, 2016, the Company recorded additional asset retirement obligation charges of \$0.7 and \$1.0 million. As of June 30, 2016, the remaining net book value of fixed assets subject to impairment was \$3.4 million and consist primarily of storage and logistical assets which will continue to be used for the foreseeable future. Coal tar distillation activities at Clairton were substantially discontinued at the end of July 2016.

In March 2015, the Company announced its decision to discontinue production at its Railroad and Utility Products and Services (“RUPS”) plant located in Green Spring, West Virginia. Accordingly, the Company recorded severance, asset retirement obligation and fixed asset impairment charges of \$5.7 million during the year ended December 31, 2015. For the three and six months ended June 30, 2016, the Company has recorded additional asset retirement obligation charges of \$0.6 and \$1.9 million in connection with the facility. As of June 30, 2016, the facility is closed.

In January 2015, Koppers Inc. sold its RUPS North American utility pole business for cash of \$12.3 million and a promissory note of \$1.3 million. The Company recognized a gain of \$3.2 million on this transaction in 2015. The promissory note is repayable in three remaining equal annual installments. This gain is reported in “Gain on sale of business” on the Consolidated Statement of Operations. The proceeds of the sale are reported within “Net cash proceeds from divestitures and asset sales” on the Condensed Consolidated Statement of Cash Flows. For the three and six months ended June 30, 2016, the Company has recorded asset retirement obligation charges of \$0.8 and \$1.5 million in connection with assets that were associated with this business line.

In January 2014, the Company announced its decision to discontinue coal tar distillation activities at its CMC facility located in Uithoorn, the Netherlands. In the second quarter of 2016, the Company recorded a \$3.7 million net present value accrual related to future real estate lease obligations, net of estimated sublease revenue, at the closed site. The Company determined that it met the cease-use criteria required for the accrual of these costs upon the completion of site demolition in April 2016.

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

	Severance and employee benefits	Environmental remediation	Site demolition	Other	Total
(Dollars in millions)					
Reserve at December 31, 2014	\$ 0.0	\$ 4.1	\$ 3.9	\$0.1	\$8.1
Accrual	2.2	0.6	24.2	1.3	28.3
Cost charged against assets	0.0	0.0	0.0	(1.3)	(1.3)
Reversal of accrued charges	0.0	0.0	(0.3)	0.0	(0.3)
Cash paid	(0.2)	0.0	(4.8)	(0.1)	(5.1)
Currency translation	0.0	(0.4)	(0.3)	0.0	(0.7)
Reserve at December 31, 2015	\$ 2.0	\$ 4.3	\$ 22.7	\$0.0	\$29.0
Accrual	2.1	0.0	4.6	4.4	11.1
Cost charged against assets	0.0	0.0	0.0	(0.7)	(0.7)
Reversal of accrued charges	(0.2)	0.0	(0.4)	(0.2)	(0.8)
Cash paid	(0.6)	(0.1)	(5.0)	0.0	(5.7)
Currency translation	(0.1)	0.0	(0.8)	0.2	(0.7)
Reserve at June 30, 2016	\$ 3.2	\$ 4.2	\$ 21.1	\$3.7	\$32.2

4. Related Party Transactions

As of June 30, 2016, the Company has loaned \$9.5 million to Tangshan Koppers Kailuan Carbon Chemical Company Limited (“TKK”), a 30-percent owned company in China. The loan was repayable in six equal monthly installments beginning in June 2015. TKK defaulted on the first installment payment of \$1.6 million due in June 2015 and each monthly payment thereafter. The Company is engaged in negotiations with TKK’s controlling shareholder regarding repayment of the loan in addition to the potential sale of the Company’s 30-percent interest in TKK. The Company recognized an equity loss from TKK of \$0.7 million for the six months ended June 30, 2016 and 2015. As of June 30, 2016, management has concluded that it is probable that the full principal amount of the loan remains collectible, and accordingly, no provision has been recorded.

5. Fair Value Measurements

Carrying amounts and the related estimated fair values of the Company’s financial instruments as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
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	Fair Value	Carrying Value	Fair Value	Carrying Value
(Dollars in millions)				
Financial assets:				
Cash and cash equivalents, including restricted cash	\$ 16.4	\$ 16.4	\$ 21.8	\$ 21.8
Investments and other assets ^(a)	1.1	1.1	1.1	1.1
Financial liabilities:				
Long-term debt (including current portion)	\$ 721.9	\$ 710.7	\$ 724.6	\$ 722.3

(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 term loan and revolving credit facility approximate carrying value due to the variable rate nature of these instruments.

6. Comprehensive Income (Loss) and Equity (Deficit)

Total comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015 is summarized in the table below:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
(Dollars in millions)				
Net income	\$11.3	\$7.9	\$9.5	\$3.7
Other comprehensive income (loss):				
Change in currency translation adjustment	(3.0)	2.4	3.4	(8.2)
Change in unrealized gains (losses) on cash flow hedges, net of tax (expense) benefit of \$(0.9), \$0.1, \$(2.5) and \$0.3	1.3	(0.2)	3.7	(0.5)
Change in unrecognized pension net income, net of tax expense of \$(0.1), \$(0.4), \$(0.3) and \$(0.8)	0.3	1.0	0.7	2.0
Change in unrecognized prior service cost, net of tax expense of \$0.0, \$0.0, \$0.0 and \$0.0	0.0	0.0	0.0	(0.1)
Total comprehensive income (loss)	9.9	11.1	17.3	(3.1)
Less: Comprehensive loss attributable to noncontrolling interests	(1.0)	(1.1)	(1.5)	(1.9)
Comprehensive income (loss) attributable to Koppers	\$10.9	\$12.2	\$18.8	\$(1.2)

Amounts reclassified from accumulated other comprehensive loss to net income consist of amounts shown for changes in unrecognized pension net loss and unrecognized prior service cost. 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. Other amounts reclassified from accumulated other comprehensive income include losses related to derivative financial instruments, net of tax, of \$1.7 million and \$3.2 million for the three and six months ended June 30, 2016, respectively and \$0.9 million and \$1.9 million for the three and six months ended June 30, 2015, respectively.

The following tables present the change in equity (deficit) for the six months ended June 30, 2016 and 2015, respectively:

(Dollars in millions)	Total Koppers	Noncontrolling	Total Equity
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	Shareholders' Interests		(Deficit)
	Equity (Deficit)		
Balance at December 31, 2015	\$ (18.5)	\$ 6.1	\$ (12.4)
Net income (loss)	10.8	(1.3)	9.5
Employee stock plans	3.4	0.0	3.4
Other comprehensive income	8.0	(0.2)	7.8
Repurchases of common stock	(0.3)	0.0	(0.3)
Balance at June 30, 2016	\$ 3.4	\$ 4.6	\$ 8.0

Total
Koppers

	Shareholders' Noncontrolling		Total
(Dollars in millions)	Equity	Interests	Equity
Balance at December 31, 2014	\$ 70.0	\$ 13.9	\$ 83.9
Net income (loss)	5.6	(1.9)	3.7
Employee stock plans	2.0	0.0	2.0
Other comprehensive loss	(6.9)	0.0	(6.9)
Dividends	0.0	(3.5)	(3.5)
Repurchases of common stock	(0.3)	0.0	(0.3)
Balance at June 30, 2015	\$ 70.4	\$ 8.5	\$ 78.9

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 loss per common share, if any.

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

	Three Months		Six Months Ended	
	Ended June 30, 2016	2015	June 30, 2016	2015
(Dollars in millions, except share amounts, in thousands, and per share amounts)				
Net income attributable to Koppers	\$12.1	\$9.0	\$10.8	\$5.6
Less: Income from discontinued operations	0.0	0.0	0.6	0.0
Income from continuing operations attributable to				
Koppers	\$12.1	\$9.0	\$10.2	\$5.6
Weighted average common shares outstanding:				
Basic	20,640	20,545	20,611	20,529
Effect of dilutive securities	304	95	187	74
Diluted	20,944	20,640	20,798	20,603
Income per common share – continuing operations:				
Basic income per common share	\$0.58	\$0.44	\$0.49	\$0.28
Diluted income per common share	0.57	0.44	0.49	0.27
Other data:				
Antidilutive securities excluded from computation of				
diluted earnings per common share	424	442	572	644

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.

Restricted Stock Units and Performance Stock Units

Under the LTIP, the board of directors granted restricted stock units and performance stock units to certain employee participants (collectively, the “stock units”). For grants to employees prior to 2015, restricted stock units vest on the third anniversary of the grant date, assuming continued employment by the participant. For the March 2015 and 2016 grants to employees, the restricted stock units vest in four equal annual installments. Restricted stock units that 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 restricted stock units and performance stock units with a performance condition is the market price of the underlying common stock on the date of grant.

Performance stock units granted prior to 2016 vest based upon a performance condition. These performance stock units generally have three-year performance objectives and all performance stock units have a three-year period for

vesting (if the applicable performance objective is achieved). For awards granted prior to 2016, the applicable performance objective is based upon a multi-year cumulative value creation calculation that considers the Company's financial performance 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 or 200 percent (depending on the grant date) of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest.

Performance stock units granted in 2016 vest based upon a market condition. These performance stock units have a three-year performance objective and a three-year period for vesting (if the applicable performance objective is achieved). The applicable performance objective is based on the Company's total shareholder return ("TSR") relative to the Standard & Poors SmallCap 600 Materials Index, which consisted of 34 companies as of June 30, 2016. The number of performance stock units granted represents the target award and participants have the ability to earn between zero and 200 percent of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest. The Company has the discretion to settle the award in cash rather than shares, although the Company currently expects that all awards will be settled by the issuance of shares.

Compensation expense for non-vested performance stock units with a market condition is recorded over the vesting period based on the fair value at the date of grant. The Company calculated the fair value of the awards on the date of grant using the Monte Carlo valuation model and the assumptions listed below:

	March 2016 Grant	
Grant date price per share of performance award	\$	18.11
Expected dividend yield per share		0.00 %
Expected volatility		40.86 %
Risk-free interest rate		0.96 %
Look-back period in years		2.84
Grant date fair value per share of performance award	\$	23.70

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

The following table shows a summary of the performance stock units as of June 30, 2016:

	Minimum	Target	Maximum
Performance Period	Shares	Shares	Shares
2014 – 2016	0	91,394	137,091
2015 – 2017	0	213,786	427,572
2016 – 2018	0	262,622	525,244

The following table shows a summary of the status and activity of non-vested stock awards for the six months ended June 30, 2016:

	Restricted	Performance	Total	Weighted Average
	Stock	Stock	Stock	Grant Date Fair
	Units	Units	Units	Value per Unit
Non-vested at December 31, 2015	213,208	397,399	610,607	\$ 27.29
Granted	169,782	264,981	434,763	\$ 21.97
Credited from dividends	950	1,712	2,662	\$ 25.47
Vested	(96,186)	0	(96,186)	\$ 28.86
Forfeited	(5,882)	(93,582)	(99,464)	\$ 39.51

Non-vested at June 30, 2016 281,872 570,510 852,382 \$ 22.97

Stock Options

Prior to 2015, stock options to most executive officers vest and become exercisable upon the completion of a three-year service period commencing on the grant date. For the 2015 and 2016 grants, the stock options vest in four equal annual installments. The stock options have a term of 10 years. In the event of termination of employment, other than retirement, death or disability, any non-vested options are forfeited. In the event of termination of employment due to retirement, death or disability, pro-rata vesting of the options over the service period will result. There are special vesting provisions for the stock options related to a change in control.

Compensation expense for non-vested stock options is recorded over the vesting period based on the fair value at the date of grant. The Company calculated the fair value of stock options on the date of grant using the Black-Scholes-Merton model and the assumptions listed below:

	March 2016 Grant	March 2015 Grant	February 2014 Grant
Grant date price per share of stock option award	\$ 18.11	\$ 17.57	\$ 37.93
Expected dividend yield per share	0.00	% 3.40	% 2.75
Expected life in years	5.96	5.75	6.50
Expected volatility	40.86	% 42.27	% 52.14
Risk-free interest rate	1.45	% 1.73	% 1.98
Grant date fair value per share of option award	\$ 7.41	\$ 5.20	\$ 15.26

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 Company suspended its dividend in February 2015 and does not expect to declare any dividends for the foreseeable future. The expected life in years for the

March 2016 and 2015 grants is based on historical exercise data of options previously granted by the Company. The expected life in years for grants prior to 2015 are 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 at the time of those grants. 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 six months ended June 30, 2016:

		Weighted Average		
		Exercise Price	Contractual Term	Aggregate Intrinsic
	Options	per Option	(in years)	Value (in millions)
Outstanding at December 31, 2015	774,249	\$ 28.46		
Granted	211,193	\$ 18.11		
Exercised	(4,551)	\$ 17.57		
Outstanding at June 30, 2016	980,891	\$ 26.28	6.97	\$ 3.1
Exercisable at June 30, 2016	462,480	\$ 33.17	4.66	\$ 1.5

Stock Compensation Expense

Total stock-based compensation expense recognized for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
(Dollars in millions)				
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	\$2.3	\$1.3	\$3.4	\$2.0
Less related income tax benefit	1.0	0.5	1.4	0.8
	\$1.3	\$0.8	\$2.0	\$1.2

As of June 30, 2016, total future gross compensation expense related to non-vested stock-based compensation arrangements, which are expected to vest, totaled \$12.8 million and the weighted-average period over which this cost is expected to be recognized is approximately 32 months.

9. Segment Information

The Company has three reportable segments: Railroad and Utility Products and Services, Carbon Materials and Chemicals, and Performance Chemicals. The Company's reportable segments contain multiple aggregated business units since management believes the long-term financial performance of these business units is affected by similar economic conditions. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

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 and services 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. The segment also operates a railroad services business that conducts engineering, design, repair and inspection services for railroad bridges. Utility products include the treating of transmission and distribution poles and pilings.

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 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, income taxes or operating costs of Koppers Holdings Inc. The accounting policies of the

reportable segments are the same as those described in the summary of significant accounting policies. Intersegment transactions are eliminated in consolidation.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(Dollars in millions)				
Revenues from external customers:				
Railroad and Utility Products and Services	\$164.4	\$170.9	\$315.8	\$329.0
Carbon Materials and Chemicals	112.3	158.4	219.7	316.6
Performance Chemicals	108.4	102.3	196.4	183.8
Total	\$385.1	\$431.6	\$731.9	\$829.4
Intersegment revenues:				
Carbon Materials and Chemicals	\$21.0	\$20.0	\$41.9	\$40.5
Performance Chemicals	1.9	2.2	3.9	4.3
Total	\$22.9	\$22.2	\$45.8	\$44.8
Depreciation and amortization expense:				
Railroad and Utility Products and Services ^(a)	\$3.8	\$6.4	\$7.0	\$10.5
Carbon Materials and Chemicals	4.5	6.5	11.6	12.7
Performance Chemicals	4.8	4.8	9.6	9.5
Total	\$13.1	\$17.7	\$28.2	\$32.7
Operating profit (loss):				
Railroad and Utility Products and Services ^(b)	\$18.5	\$15.0	\$32.0	\$30.4
Carbon Materials and Chemicals	(8.3)	(2.9)	(25.9)	(13.8)
Performance Chemicals	22.4	15.5	35.0	21.9
Corporate ^(c)	(0.6)	(1.6)	(1.3)	(4.5)
Total	\$32.0	\$26.0	\$39.8	\$34.0

(a) Excludes impairment charges of \$2.5 million for the six months ended June 30, 2015 for a wood treating facility in the United States.

(b) Includes gain on sale of the Company's North American utility pole business of \$3.2 million and impairment charges of \$2.5 million for the six months ended June 30, 2015.

(c) Operating loss for Corporate includes general and administrative costs for Koppers Holdings Inc., the parent company of Koppers Inc., and foreign exchange revaluation related to intercompany loans in connection with a legal reorganization of the Company.

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

	June 30,	December 31,
	2016	2015

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(Dollars in millions)

Segment assets:		
Railroad and Utility Products and Services	\$260.9	\$ 254.1
Carbon Materials and Chemicals	356.3	368.4
Performance Chemicals	456.0	441.3
All other	47.6	49.1
Total	\$1,120.8	\$ 1,112.9
Goodwill:		
Railroad and Utility Products and Services	\$10.1	\$ 9.9
Performance Chemicals	177.5	176.7
Total	\$187.5	\$ 186.6

10. Income Taxes

Effective Tax Rate

The income tax provision for interim periods is based on an estimated annual effective income tax rate, which requires management to make estimates of annual pretax income by domestic and foreign jurisdictions and other forecasted items that impact taxable income. Items that are not related to annual pretax ordinary income are recognized entirely in the interim period as a discrete item. In addition, the results of certain entities that have historical pre-tax losses and current year estimated pre-tax losses that are not projected to be utilized are also excluded from the estimated annual effective income tax rate.

Income taxes as a percentage of pretax income were 37.6 percent and 40.6 percent for each of the three months ended June 30, 2016 and 2015, respectively, principally due to continuing and cumulative losses in our Chinese subsidiaries that are not expected to generate a future benefit. These losses are excluded from the determination of the annual effective income tax rate, as discussed above. Discrete items included in income taxes for the three months ended June 30, 2016 and June 30, 2015, respectively, were not material.

Income taxes as a percentage of pretax income were 41.4 percent and 56.5 percent for the six months ended June 30, 2016 and 2015, respectively, principally due to continuing and cumulative losses in our Chinese subsidiaries that are not expected to generate a future benefit. These losses are excluded from the determination of the annual effective income tax rate, as discussed above. Discrete items included in income taxes for the six months ended June 30, 2016 and June 30, 2015, respectively, were not material.

The estimated annual effective income tax rate, excluding the items discussed above, was 31.1 percent and 30.8 percent for the six months ended June 30, 2016 and 2015, respectively.

This estimated annual effective income tax rate differs from the U.S. federal statutory rate due to:

	June 30,		June 30,	
	2016		2015	
Federal income tax rate	35.0	%	35.0	%
State income taxes, net of federal tax benefit	1.6		1.1	
Foreign earnings taxed at different rates	(6.5)	(7.4)
Change in tax contingency reserves	0.5		1.0	
Nondeductible expenses	0.9		1.1	
Tax credits	(0.4)	0.0	
Estimated annual effective income tax rate	31.1	%	30.8	%

During the year, management regularly updates the estimates based on changes in various factors such as product prices, shipments, product mix, operating and administrative costs, earnings mix by taxable jurisdiction, repatriation of foreign earnings, uncertain tax positions and the ability to claim tax credits. To the extent that actual results vary from these estimates, the actual annual effective income tax rate at the end of the year could be materially different from the estimated annual effective income tax rate as of the end of the second 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 2011.

As of June 30, 2016 and December 31, 2015, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately \$4.5 million and \$4.1 million, respectively. Unrecognized tax benefits totaled \$7.8 million and \$7.7 million as of June 30, 2016 and December 31, 2015, respectively. The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. As of June

30, 2016 and December 31, 2015 the Company had accrued approximately \$1.6 million and \$1.2 million for interest and penalties, respectively.

11. Inventories

Net inventories as of June 30, 2016 and December 31, 2015 are summarized in the table below:

	June 30, December 31,	
	2016	2015
(Dollars in millions)		
Raw materials	\$ 156.7	\$ 169.8
Work in process	14.5	15.5
Finished goods	105.2	97.4
	\$ 276.4	\$ 282.7
Less revaluation to LIFO	53.1	56.3
Net	\$ 223.3	\$ 226.4

12. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2016 and December 31, 2015 are summarized in the table below:

	June 30, December 31,	
	2016	2015
(Dollars in millions)		
Land	\$ 17.4	\$ 17.6
Buildings	61.8	62.8
Machinery and equipment	706.9	705.6
	\$ 786.1	\$ 786.0
Less accumulated depreciation	506.9	508.2
Net	\$ 279.2	\$ 277.8

Impairments – There were no impairment charges for the six months ended June 30, 2016. Impairment charges were \$2.5 million for the six months ended June 30, 2015. The 2015 charges were related to the Railroad and Utility Products and Services wood treating plant in Green Spring, West Virginia and were calculated using a probability-weighted discounted cash flow model.

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 (“ERISA”), local statutory law or as determined by the board of directors. The defined benefit pension plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for three domestic non-qualified defined benefit pension plans for certain key executives.

In the U.S., all qualified defined benefit pension plans for salaried and hourly employees have been closed to new participants and have been frozen. Accordingly, these pension plans no longer accrue additional years of service or recognize future increases in compensation for benefit purposes.

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 six months ended June 30, 2016 and 2015:

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	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
(Dollars in millions)				
Service cost	\$0.4	\$0.5	\$0.9	\$1.0
Interest cost	2.8	2.6	5.6	5.4
Expected return on plan assets	(2.6)	(3.0)	(5.3)	(6.0)
Amortization of prior service cost	0.0	0.0	0.0	(0.1)
Amortization of net loss	0.6	1.7	1.2	3.3
Net periodic benefit cost	\$1.2	\$1.8	\$2.4	\$3.6
Defined contribution plan expense ^(a)	\$1.7	\$2.0	\$3.8	\$2.0

(a) The six months ended June 30, 2015 includes reversal of 2014 discretionary 401k match accrual of \$2.2 million.

14. Debt

Debt at June 30, 2016 and December 31, 2015 was as follows:

(Dollars in millions)	Weighted		June 30, December 31,	
	Average	Maturity	2016	2015
	Interest Rate			
Term Loan	4.24%	2019	\$ 247.5	\$ 262.5
Revolving Credit Facility	4.24%	2019	131.9	130.0
Construction and other loans	4.81%	2018	43.7	44.8
Senior Notes	7 ⁷ / ₈ %	2019	297.8	297.5
Total debt			720.9	734.8
Less short term debt and current maturities of				
long-term debt			40.1	39.9
Less unamortized debt issuance costs			10.2	12.5
Long-term debt			\$ 670.6	\$ 682.4
Revolving Credit Facility				

On August 15, 2014, Koppers Inc. entered into a \$500.0 million senior secured revolving credit facility and a \$300.0 million senior secured term loan (the "Senior Secured Credit Facilities"). Both borrowings mature on August 15, 2019. The interest rates on these borrowings are variable and are based on LIBOR. 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.

The Company entered into an amendment of the revolving credit facility dated April 8, 2016 which reduced the \$500.0 million senior secured revolving credit facility to \$300.0 million and also amended the leverage ratio covenant requirements. In connection with the amendment, \$2.0 million of prior deferred financing costs were required to be written off through interest expense.

As of June 30, 2016, the Company had \$126.2 million of unused revolving credit availability for working capital purposes after restrictions from certain letter of credit commitments and other covenants. As of June 30, 2016, \$41.9 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.

KJCC will repay the loans in six installments every six months starting in June 2018 with a final repayment on December 21, 2020, the maturity date of the loans.

Senior Notes

The Koppers Inc. $7\frac{7}{8}$ 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 $8\frac{1}{8}$ percent per annum. The Senior Notes are our senior obligations, are fully and unconditionally guaranteed by Koppers Holdings Inc. and certain of our wholly-owned domestic subsidiaries, and 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, 2015, the Company is entitled to redeem all or a portion of the Senior Notes at a redemption price of 102.625 percent of principal value, declining to a redemption price of 101.313 on or after December 1, 2016 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; and cleaning costs for leased and owned rail cars and barges. The following table reflects changes in the carrying values of asset retirement obligations:

	June 30, December 31,	
	2016	2015
(Dollars in millions)		
Asset retirement obligation at beginning of year	\$ 46.5	\$ 30.5
Acquisition	0.0	0.7
Accretion expense	3.8	3.7
Revision in estimated cash flows	0.3	24.4
Cash expenditures	(5.0)	(12.1)
Currency translation	(0.8)	(0.7)
Balance at end of period	\$ 44.8	\$ 46.5

16. Deferred Revenue

The Company defers revenues associated with extended product warranty liabilities based on historical loss experience and sales of extended warranties on certain products. In addition, the Company received an advance payment in 2015 related to an amendment to a 50-year supply agreement with a customer in China. The deferred revenue associated with this amendment is being amortized over the life of the underlying contract. The following table reflects changes in the carrying values of deferred revenue:

	June 30, December 31,	
	2016	2015
(Dollars in millions)		
Balance at beginning of year	\$ 30.1	\$ 2.5
Advance payment	0.0	30.0
Revenue earned	(0.4)	(1.0)

Currency translation	(0.7)	(1.4)
Balance at end of period	\$ 29.0	\$ 30.1

Deferred revenue classified in other long-term liabilities in the consolidated balance sheet totaled \$28.0 million as of June 30, 2016 and \$29.1 million as of December 31, 2015.

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 New Zealand 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. Generally, the Company will not hedge cash flow exposures for durations longer than 30 months. 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 certain 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 (loss) income and is reclassified into cost of sales 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 immediately in cost of sales.

For those commodity swaps which are not designated as cash flow hedges, the fair value of the commodity swap is recognized as an asset or liability in the consolidated balance sheet and the related gain or loss on the derivative is reported in current earnings.

As of June 30, 2016 and December 31, 2015, the Company has outstanding copper swap contracts of the following amounts:

	Units Outstanding (in Pounds)		Net Fair Value - Asset (Liability)	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
(Amounts in millions)				
Cash flow hedges	36.1	17.3	\$(3.5)	\$(9.8)
Not designated as hedges	3.5	4.0	(0.5)	(0.7)
Total	39.6	21.3	\$(4.0)	\$(10.5)

As of June 30, 2016 and December 31, 2015, the fair value of the outstanding copper swap contracts is recorded in the balance sheet as follows:

	June 30, 2016		December 31, 2015	
	2016	2015	2016	2015
(Dollars in millions)				
Other current assets	\$ 1.6	\$ 0.1		
Accrued liabilities	(5.6)	(10.6)		
Net liability on balance sheet	\$(4.0)	\$(10.5)		
Accumulated other comprehensive loss, net of tax	\$ 2.3	\$ 6.1		

In the next twelve months the Company estimates that \$2.6 million of unrealized losses, net of tax, related to commodity price hedging will be reclassified from other comprehensive income (loss) into earnings.

See Note 6 – Comprehensive Income (Loss) and Equity (Deficit), for amounts recorded in other comprehensive income and for amounts reclassified from accumulated other comprehensive income to net income for the periods specified below. For the three and six months ended June 30, 2016 and 2015, the following amounts were recognized in earnings related to copper swap contracts:

Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
2016	2015	2016	2015

(Dollars in millions)

Gain from ineffectiveness of cash flow hedges	\$1.3	\$0.0	\$0.1	\$0.1
Gain from contracts not designated as hedges	0.1	0.0	0.3	0.0
Net	\$1.4	\$0.0	\$0.4	\$0.1

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 cost of sales in the condensed consolidated statement of income. As of June 30, 2016, the Company has outstanding foreign currency forward contracts with a net fair value totaling \$(2.5) million, consisting of a gross derivative liability of \$3.7 million (recognized in accrued liabilities in the balance sheet) and a gross derivative asset of \$1.2 million (recognized in other current assets in the balance sheet). As of December 31, 2015, the Company has outstanding currency forward contracts with a net fair value totaling \$(1.9) million, recognized as a liability in accrued liabilities in the balance sheet.

As of June 30, 2016 and December 31, 2015, the net currency units outstanding were:

	June 30, 2016	December 31, 2015
(In millions)		
British Pounds	GBP 8.8	GBP 5.9
New Zealand Dollars	NZD 18.0	NZD 22.5
United States Dollars	USD 42.2	USD 36.0
Canadian Dollars	CAD 1.8	CAD 4.0

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. is one of several defendants 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 110 plaintiffs in 56 cases pending as of June 30, 2016, compared to 110 plaintiffs in 59 cases pending as of December 31, 2015. As of June 30, 2016, there are a total of 55 cases pending in state court in Pennsylvania, and one case pending in state court in Tennessee.

The plaintiffs in all 56 pending cases seek to recover compensatory damages. Plaintiffs in 51 of those cases also seek to recover punitive damages. The plaintiffs in the 55 cases filed in Pennsylvania state court seek unspecified damages in excess of the court's minimum jurisdictional limit. The plaintiff in the Tennessee state court case seeks damages of \$15.0 million. The other defendants in these lawsuits vary from case to case and include companies such as Beazer East, Inc. ("Beazer East"), United States Steel Corporation, Honeywell International Inc., Vertellus Specialties Inc., Dow Chemical Company, UCAR Carbon Company, Inc., 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 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, cleaning of allegedly contaminated homes and punitive damages. The plaintiffs presently seek a class comprised of all current property owners of single family residential properties with a polygon-shaped area extending approximately two miles from the former plant area (which area encompasses approximately 7,000 owners).

Under the current scheduling order, class factual discovery closed in May 2015 and expert witness discovery was completed in August 2015. Discovery on the merits is stayed until further order of the court. Motions were subsequently filed by each side to strike or limit the testimony of the other side's experts. Plaintiffs filed a motion for class certification on September 30, 2015 and the response of Koppers Inc. was filed on October 30, 2015. A hearing

on plaintiffs' motion for class certification and the parties' motions relating to experts was held in January 2016 and the parties await a ruling from 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. ("PC") is currently a defendant in a putative class action lawsuit filed in July 2014 in the United States District Court of the Virgin Islands. The plaintiffs claim, on behalf of themselves and others similarly situated, that PC'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 the 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 PC 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 PC 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. On July 19, 2016, plaintiffs filed a motion not to proceed with the matter.

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 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 (“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. One site currently owned and operated by Koppers Inc. in the United States is listed on the National Priorities List promulgated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"). Currently, at the properties acquired from Beazer East (which includes the National Priorities List site and all but one of the sites permitted under the Resource Conservation and Recovery Act ("RCRA")), a significant portion of all investigative,

cleanup and closure activities are being conducted and paid for by Beazer East pursuant to the terms of the Indemnity. In addition, other of Koppers Inc.'s sites are or have been operated under RCRA and various other environmental permits, and remedial and closure activities are being conducted at some of these sites.

To date, the parties that retained, assumed and/or agreed to indemnify the Company against the liabilities referred to above, including Beazer East, have performed their obligations in all material respects. The Company believes that, for the last three years ended December 31, 2015, amounts paid by Beazer East as a result of its environmental remediation obligations under the Indemnity have averaged in total approximately \$10 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 settlements of natural 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.

The EPA completed its own Feasibility Study ("FS") and issued a proposed plan for public comment in June 2016. The proposed remedy includes a combination of sediment removal, capping, enhanced and monitored natural remediation and riverbank improvements. The FS does not determine who is responsible for remediation costs. The net present value and undiscounted cost of the proposed remedy as estimated in the Proposed Plan are approximately \$800 million and \$1.2 billion, respectively. 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 \$0.9 million at June 30, 2016 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 at the sites. 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.

In connection with Koppers Inc.'s acquisition of Osmose, Inc., there are two plant sites in the United States where the Company has recorded an environmental remediation liability for soil and groundwater contamination which occurred prior to the acquisition. As of June 30, 2016, the Company's estimated environmental remediation liability for these acquired sites totals \$5.1 million.

Foreign Environmental Matters. In connection with Koppers Inc.'s acquisition of Osmose, Inc., there are three plant sites located in the United Kingdom and Australia where the Company has recorded an environmental remediation liability for soil and groundwater contamination which occurred prior to the acquisition. As of June 30, 2016, the Company's estimated environmental remediation liability for these acquired sites totals \$7.0 million. Osmose Holdings, Inc. has provided an indemnity of up to \$5 million for certain environmental response costs incurred prior to August 15, 2017 (the "Osmose Indemnity"). For the three months ended June 30, 2016, the Company recorded an increase in the receivable under the Osmose Indemnity of \$2.9 million related to expected indemnity recoveries associated with the acquired United Kingdom site. At June 30, 2016, the receivable with respect to the Osmose Indemnity totaled \$4.0 million.

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 \$3.7 million as of June 30, 2016.

Environmental Reserves Rollforward. The following table reflects changes in the accrued liability for environmental matters, of which \$10.6 million and \$7.0 million are classified as current liabilities at June 30, 2016 and December 31, 2015, respectively:

	Period ended	
	June 30,	December 31,
	2016	2015
(Dollars in millions)		
Balance at beginning of year	\$19.8	\$ 7.8
Expense	0.4	1.2
Reversal of reserves	0.0	(0.5)
Cash expenditures	(1.2)	(1.4)
Acquisition	0.0	13.7
Currency translation	(0.5)	(1.0)
Balance at end of period	\$18.5	\$ 19.8

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 Asia LLC, Koppers Ventures LLC, Koppers Performance Chemicals Inc., Koppers – Nevada LLC, Koppers NZ, LLC, Koppers Railroad Structures Inc., Wood Protection LP and Wood Protection Management LLC. Non-guarantor subsidiaries are owned directly or indirectly by Koppers Inc.

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. Senior Secured Credit Facilities, as amended, provide for a revolving credit facility of up to \$300.0 million and a term loan of \$247.5 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 and 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 June 30, 2016, Koppers Inc.net assets are \$3.9 million, which is not restricted for distribution to Koppers Holdings Inc. Cash dividends paid to Koppers Holdings Inc. by its subsidiaries totaled \$0.7 million and \$5.8 million for the six months ended June 30, 2016 and 2015, respectively.

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Condensed Consolidating Statement of Operations

For the Three Months Ended June 30, 2016

	Domestic					
	Parent	Koppers Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
(Dollars in millions)						
Net sales	\$ 0.0	\$ 181.6	\$ 87.3	\$ 142.3	\$ (26.1)	\$ 385.1
Cost of sales including depreciation and amortization	0.0	167.8	63.6	117.6	(26.1)	322.9
Selling, general and administrative	0.3	10.9	4.2	14.8	0.0	30.2
Operating profit (loss)	(0.3)	2.9	19.5	9.9	0.0	32.0
Other income (loss)	0.0	0.0	0.7	0.1	(0.4)	0.4
Equity income (loss) of subsidiaries	12.4	26.3	6.0	0.0	(44.7)	0.0
Interest expense	0.0	13.7	0.0	1.0	(0.4)	14.3
Income taxes	0.0	2.8	0.3	3.7	0.0	6.8
Income (loss) from continuing operations	12.1	12.7	25.9	5.3	(44.7)	11.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Noncontrolling interests	0.0	0.0	0.0	(0.8)	0.0	(0.8)
Net income (loss) attributable to Koppers	\$ 12.1	\$ 12.7	\$ 25.9	\$ 6.1	\$ (44.7)	\$ 12.1
Comprehensive income (loss) attributable to Koppers	\$ 10.9	\$ 11.3	\$ 24.8	\$ 3.6	\$ (39.7)	\$ 10.9

Condensed Consolidating Statement of Operations

For the Three Months Ended June 30, 2015

	Domestic					
	Parent	Koppers Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
(Dollars in millions)						
Net sales	\$ 0.0	\$ 209.2	\$ 97.0	\$ 153.2	\$ (27.8)	\$ 431.6
Cost of sales including depreciation	0.0	201.0	71.6	129.1	(27.2)	374.5

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and amortization						
Selling, general and administrative	0.6	10.4	9.6	10.5	0.0	31.1
Operating profit (loss)	(0.6)	(2.2)	15.8	13.6	(0.6)	26.0
Other income (loss)	0.0	2.9	1.0	(3.1)	(0.6)	0.2
Equity income (loss) of subsidiaries	9.1	22.3	5.5	0.0	(36.9)	0.0
Interest expense	(0.1)	11.5	(0.1)	2.2	(0.6)	12.9
Income taxes	(0.4)	2.4	0.2	3.2	0.0	5.4
Income (loss) from continuing						
operations	9.0	9.1	22.2	5.1	(37.5)	7.9
Noncontrolling interests	0.0	0.0	0.0	(1.1)	0.0	(1.1)
Net income (loss) attributable to						
Koppers	\$ 9.0	\$ 9.1	\$ 22.2	\$ 6.2	\$ (37.5)	\$ 9.0
Comprehensive income (loss)						
attributable to Koppers	\$ 12.4	\$ 12.3	\$ 24.9	\$ 9.0	\$ (46.4)	\$ 12.2

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Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2016

(Dollars in millions)	Domestic						
	Parent	Koppers		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
		Inc.					
Net sales	\$ 0.0	\$ 349.5	\$ 167.3	\$ 262.7	\$ (47.6)	\$ 731.9	
Cost of sales including depreciation and amortization	0.0	335.8	121.9	222.8	(48.9)	631.6	
Gain on sale of business	0.0	0.0	0.0	0.0	0.0	0.0	
Selling, general and administrative	0.8	20.9	14.2	24.6	0.0	60.5	
Operating (loss) profit	(0.8)	(7.2)	31.2	15.3	1.3	39.8	
Other income (loss)	0.0	0.1	2.7	0.1	(0.9)	2.0	
Equity income of subsidiaries	11.6	43.5	8.1	0.0	(63.2)	0.0	
Interest expense	0.0	25.1	0.0	2.4	(0.9)	26.6	
Income taxes	0.0	(0.6)	0.4	6.5	0.0	6.3	
Income from continuing operations	10.8	11.9	41.6	6.5	(61.9)	8.9	
Discontinued operations	0.0	0.0	0.0	0.6	0.0	0.6	
Noncontrolling interests	0.0	0.0	0.0	(1.3)	0.0	(1.3)	
Net income attributable to Koppers	\$ 10.8	\$ 11.9	\$ 41.6	\$ 8.4	\$ (61.9)	\$ 10.8	
Comprehensive income (loss) attributable to Koppers	\$ 18.8	\$ 19.5	\$ 49.3	\$ 12.2	\$ (81.0)	\$ 18.8	

Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2015

(Dollars in millions)	Domestic						
	Parent	Koppers		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
		Inc.					
Net sales	\$ 0.0	\$ 397.0	\$ 171.7	\$ 309.2	\$ (48.5)	\$ 829.4	
Cost of sales including depreciation and amortization	0.0	385.6	131.6	265.1	(46.6)	735.7	
Gain on sale of business	0.0	(3.2)	0.0	0.0	0.0	(3.2)	
Selling, general and administrative	1.1	22.2	18.6	21.0	0.0	62.9	
Operating (loss) profit	(1.1)	(7.6)	21.5	23.1	(1.9)	34.0	
Other income (loss)	0.0	3.1	2.0	(3.6)	(1.1)	0.4	
Equity income (loss) of subsidiaries	6.1	31.9	9.7	0.0	(47.7)	0.0	

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Interest expense	0.0	23.1	0.0	3.9	(1.1)	25.9
Income taxes	(0.6)	(1.8)	0.3	6.9	0.0	4.8
Income (loss) from continuing						
operations	5.6	6.1	32.9	8.7	(49.6)	3.7
Noncontrolling interests	0.0	0.0	0.0	(1.9)	0.0	(1.9)
Net income (loss) attributable to						
Koppers	\$ 5.6	\$ 6.1	\$ 32.9	\$ 10.6	\$ (49.6)	\$ 5.6
Comprehensive income (loss)						
attributable to Koppers	\$ (1.2)	\$ (0.8)	\$ 24.6	\$ 4.6	\$ (28.4)	\$ (1.2)

Condensed Consolidating Balance Sheet

June 30, 2016

	Domestic					
	Koppers		Guarantor	Non-Guarantor	Consolidating	
(Dollars in millions)	Parent	Inc.	Subsidiaries	Subsidiaries	Adjustments	Consolidated
ASSETS						
Cash and cash equivalents	\$ 0.0	\$ 0.0	\$ 0.1	\$ 16.3	\$ 0.0	\$ 16.4
Receivables, net	0.0	65.5	37.6	77.0	0.0	180.1
Affiliated receivables	0.2	13.3	5.2	8.0	(26.7)	0.0
Inventories, net	0.0	105.5	23.4	95.4	(1.0)	223.3
Other current assets	0.0	5.0	2.4	33.8	0.0	41.2
Total current assets	0.2	189.3	68.7	230.5	(27.4)	461.3
Equity investments	3.2	735.0	177.1	0.0	(915.3)	0.0
Property, plant and equipment, net	0.0	121.5	39.0	118.7	0.0	279.2
Goodwill	0.0	0.8	153.1	33.6	0.0	187.5
Intangible assets, net	0.0	8.2	112.4	29.3	0.0	149.9
Deferred tax assets	0.0	29.6	(1.6)	5.4	0.0	33.4
Affiliated loan receivables	0.0	34.7	243.9	32.2	(310.8)	0.0
Other assets	0.0	3.5	4.6	1.4	0.0	9.5
Total assets	\$ 3.4	\$ 1,122.6	\$ 797.2	\$ 451.1	\$ (1,253.5)	\$ 1,120.8
LIABILITIES AND EQUITY						
(DEFICIT)						
Accounts payable	\$ 0.0	\$ 68.5	\$ 33.1	\$ 44.4	\$ 0.0	\$ 146.0
Affiliated payables	0.0	13.9	0.2	20.7	(34.8)	0.0
Accrued liabilities	0.0	33.2	21.6	47.4	0.0	102.2
Current maturities of long-term debt	0.0	30.2	0.0	9.9	0.0	40.1
Total current liabilities	0.0	145.8	54.9	122.4	(34.8)	288.3
Long-term debt	0.0	637.0	0.0	33.6	0.0	670.6
Affiliated debt	0.0	254.5	22.9	33.4	(310.8)	0.0
Other long-term liabilities	0.0	81.4	13.1	59.4	0.0	153.9
Total liabilities	0.0	1,118.7	90.9	248.8	(345.6)	1,112.8
Koppers shareholders' equity (deficit)	3.4	3.9	706.3	197.7	(907.9)	3.4
Noncontrolling interests	0.0	0.0	0.0	4.6	0.0	4.6
Total liabilities and equity (deficit)	\$ 3.4	\$ 1,122.6	\$ 797.2	\$ 451.1	\$ (1,253.5)	\$ 1,120.8

Condensed Consolidating Balance Sheet

December 31, 2015

	Domestic					
	Parent	Koppers		Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Inc.		Subsidiaries	Subsidiaries			
(Dollars in millions)						
ASSETS						
Cash and cash equivalents	\$0.0	\$0.1	\$ 0.7	\$ 21.0	\$ 0.0	\$ 21.8
Receivables, net	0.0	60.4	23.7	75.5	0.0	159.6
Affiliated receivables	0.0	14.3	15.2	4.4	(33.9)	0.0
Inventories, net	0.0	111.9	24.9	91.8	(2.2)	226.4
Other current assets	0.0	3.7	1.9	30.9	0.0	36.5
Total current assets	0.0	190.4	66.4	223.6	(36.1)	444.3
Equity investments	(19.0)	703.2	165.7	0.0	(849.9)	0.0
Property, plant and equipment, net	0.0	117.5	41.2	119.1	0.0	277.8
Goodwill	0.0	0.8	153.1	32.7	0.0	186.6
Intangible assets, net	0.0	8.7	117.6	29.8	0.0	156.1
Deferred tax assets	0.0	29.8	0.8	5.7	0.3	36.6
Affiliated loan receivables	0.7	29.6	222.6	31.7	(284.6)	0.0
Other assets	(0.2)	4.5	4.9	2.3	0.0	11.5
Total assets	\$(18.5)	\$1,084.5	\$ 772.3	\$ 444.9	\$ (1,170.3)	\$ 1,112.9
LIABILITIES AND EQUITY						
(DEFICIT)						
Accounts payable	\$0.0	\$73.8	\$ 18.9	\$ 48.1	\$ 0.0	\$ 140.8
Affiliated payables	0.0	16.6	10.9	15.3	(42.8)	0.0
Accrued liabilities	0.0	35.6	23.4	40.8	0.0	99.8
Current maturities of long-term debt	0.0	30.2	0.0	9.7	0.0	39.9
Total current liabilities	0.0	156.2	53.2	113.9	(42.8)	280.5
Long-term debt	0.0	647.5	0.0	34.9	0.0	682.4
Affiliated debt	0.0	217.5	29.5	36.9	(283.9)	0.0
Other long-term liabilities	0.0	81.6	13.2	67.6	0.0	162.4
Total liabilities	0.0	1,102.8	95.9	253.3	(326.7)	1,125.3
Koppers shareholders' equity (deficit)	(18.5)	(18.3)	676.4	185.5	(843.6)	(18.5)
Noncontrolling interests	0.0	0.0	0.0	6.1	0.0	6.1
Total liabilities and equity (deficit)	\$(18.5)	\$1,084.5	\$ 772.3	\$ 444.9	\$ (1,170.3)	\$ 1,112.9

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2016

	Koppers		Domestic			
	Parent	Inc.	Guarantor	Non-Guarantor	Consolidating	Consolidated
			Subsidiaries	Subsidiaries	Adjustments	
(Dollars in millions)						
Cash provided by (used in) operating						
activities	\$ 0.2	\$ (2.6)	\$ 47.5	\$ 9.0	\$ (19.8)	\$ 34.3
Cash provided by (used in) investing						
activities:						
Capital expenditures and						
acquisitions	0.0	(14.4)	(1.5)	(5.4)	0.0	(21.3)
Repayments (loans to) from						
affiliates	0.0	(5.1)	(21.3)	(0.5)	26.9	0.0
Net cash proceeds						
from divestitures and asset						
sales	0.0	0.1	0.4	0.1	0.0	0.6
Net cash provided by (used in)						
investing activities	0.0	(19.4)	(22.4)	(5.8)	26.9	(20.7)
Cash provided by (used in) financing						
activities:						
Borrowings (repayments) of						
long-term debt	0.0	(13.1)	0.0	0.2	0.0	(12.9)
Borrowings (repayments) of						
affiliated debt	0.0	37.1	(6.6)	(3.6)	(26.9)	0.0
Dividends paid	0.0	(0.7)	(19.1)	0.0	19.8	0.0
Stock repurchased	(0.2)	0.0	0.0	0.0	0.0	(0.2)
Net cash provided by (used in)						
financing activities	(0.2)	21.9	(25.7)	(3.4)	(7.1)	(14.5)
Effect of exchange rates on cash	0.0	0.0	0.0	(4.5)	0.0	(4.5)
Net increase (decrease) in cash and	0.0	(0.1)	(0.6)	(4.7)	0.0	(5.4)

cash equivalents						
Cash and cash equivalents at						
beginning of year	0.0	0.1	0.7	21.0	0.0	21.8
Cash and cash equivalents at end of						
period	\$ 0.0	\$ 0.0	\$ 0.1	\$ 16.3	\$ 0.0	\$ 16.4

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2015

	Koppers		Domestic			
	Parent	Inc.	Guarantor	Non-Guarantor	Consolidating	Consolidated
			Subsidiaries	Subsidiaries	Adjustments	
(Dollars in millions)						
Cash provided by (used in) operating						
activities	\$ 5.4	\$ 10.6	\$ 32.2	\$ 38.8	\$ (8.9)	\$ 78.1
Cash provided by (used in) investing						
activities:						
Capital expenditures and						
acquisitions	0.0	(26.9)	(3.1)	(2.6)	0.0	(32.6)
Repayments (loans to) from						
affiliates	0.0	5.1	(21.4)	(1.1)	17.4	0.0
Net cash proceeds from						
divestitures and asset sales	0.0	12.2	0.0	0.3	0.0	12.5
Net cash provided by (used in)						
investing activities	0.0	(9.6)	(24.5)	(3.4)	17.4	(20.1)
Cash provided by (used in) financing						
activities:						
Borrowings (repayments) of						
long-term debt	0.0	(57.9)	0.1	1.2	0.0	(56.6)
Borrowings (repayments) of						
affiliated debt	0.0	64.0	(5.1)	(41.5)	(17.4)	0.0
Deferred financing costs	0.0	(1.0)	0.0	0.0	0.0	(1.0)
Dividends paid	(5.1)	(5.8)	(3.1)	(3.6)	8.9	(8.7)
Stock repurchased	(0.3)	0.0	0.0	0.0	0.0	(0.3)
Net cash provided by (used in)						
financing activities	(5.4)	(0.7)	(8.1)	(43.9)	(8.5)	(66.6)
Effect of exchange rates on cash	0.0	0.0	0.0	8.7	0.0	8.7
Net increase (decrease) in cash and						
cash equivalents	0.0	0.3	(0.4)	0.2	0.0	0.1

Cash and cash equivalents at

beginning of year	0.0	0.0	0.9	50.2	0.0	51.1
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Cash and cash equivalents at end of

period	\$ 0.0	\$ 0.3	\$ 0.5	\$ 50.4	\$ 0.0	\$ 51.2
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Australia. We also provide rail joint bar products as well as various services to the railroad industry. Through our CMC business, we process coal tar into a variety of products, including carbon pitch, creosote, carbon black feedstock, naphthalene and phthalic anhydride, which are intermediate materials necessary in the production of aluminum, the pressure treatment of wood, the production of carbon black for the rubber industry, the production of high-strength concrete, and the production of plasticizers and specialty chemicals, respectively. Through our PC business, we believe that we are the global leader in developing, manufacturing and marketing wood preservation chemicals and wood treatment technologies for use in pressure treating lumber for residential, industrial and agricultural applications.

Outlook

Trend Overview

Our businesses and results of operations are affected by various competitive and other factors including (i) the impact of global economic conditions on demand for our products, including the impact of imported products from competitors in certain regions where we operate; (ii) raw materials pricing and availability, in particular the cost and availability of hardwood lumber for railroad crossties, the cost and amount of coal tar available in global markets, which is negatively affected by reductions in steel production, and scrap copper prices; (iii) volatility in oil prices, which impacts the cost of coal tar and certain other raw materials, as well as selling prices and margins for certain of our products including carbon black feedstock, phthalic anhydride, and naphthalene; (iv) competitive conditions in global carbon pitch markets; and (v) changes in foreign exchange rates.

Railroad and Utility Products and Services

The primary end-market for RUPS is the North American railroad industry, which has a large installed base of wood crossties that require periodic replacement. As a result, demand for crossties has historically been relatively stable. We sell treated and untreated wood products, rail joint bars and services primarily to the railroad markets in the United States and Canada, and utility poles to the utility sector in Australia. We also operate a railroad services business that conducts engineering, design, repair and inspection services primarily for railroad bridges in the U.S. and Canada.

The supply of untreated crossties can vary at times based upon weather conditions in addition to other factors. In 2013 and 2014, the availability of untreated crossties was reduced below normal levels due to increased demand for hardwood lumber in alternative markets such as construction and crane mats for the oil and gas industry. Supply increased in 2015 due to a combination of the softening of demand for crane mats, and increased pricing for crossties that motivated sawmills to direct a higher level of production to the railroad industry. Despite the recent improved supply environment, inventory levels of hardwood lumber in certain regions of the U.S. are still depleted and in need of replenishing, which at current rates, are expected to be achieved by mid-2017. We have a nationwide wood procurement team that maintains close working relationships with a network of hardwood crosstie concentration yards. The first component of our revenue stream occurs when we procure the untreated crossties, on behalf of our customers, at a nominal markup. This practice provides the railroad customers with an assured level of inventory and minimizes our working capital usage as untreated crossties go through a six- to nine-month air seasoning process before they are ready to be pressure treated. Subsequent to the air seasoning period, the next phase provides higher-margin revenues for the RUPS segment through treating crossties, switch ties and various types of lumber used for railroad bridges and crossings. During any given year, there is a seasonal effect in the winter months on our crosstie business depending on weather conditions for harvesting lumber and installation.

Over the past twelve months, rail freight has begun to decline due to lower shipments of coal, oil and gas, durable goods, and related products. As a result of their declining revenue base, many of the major companies in the rail industry have reduced both operating and capital spending in 2016, which is likely to have a negative short-term impact on sales of various products and services that we provide to that industry. Therefore, we expect that current year revenues and profitability will reflect a slight decline year-over-year due to the combined effects of lower demand in our rail joint product line caused by reductions in capital budgets for most North American Class I railroads, softness in the utility pole business in Australia, and the discontinuance of utility pole toll treating services provided to a U.S.-based utility pole company. Also, the lower demand has allowed the market to reduce raw material purchase prices primarily in the Eastern U.S. which, due to certain pass-through conditions, will further reduce our revenues in the near term.

Recently, we signed long-term rail joint agreements with two of our largest railroad customers, representing market share gains for a critical maintenance-of-way part of the RUPS business. The contracts, with a term of three years and five years, are expected to collectively increase year-over-year sales for the rail joint business.

Overall, the long-term prognosis for the railroad industry and the products and services that we provide to it remains favorable. Currently, the railroad industry is managing the cyclical downturn in the oil and gas industry, while looking to replace demand lost to what is likely a long-term reduction in coal production. At the same time, the railroads are building their revenue base of shipments of non-energy related products. We believe that with our vertical integration capabilities in wood treatment, our products and services provide value to our railroad customers.

Carbon Materials and Chemicals

The primary products produced by CMC are carbon pitch, which is sold primarily to the aluminum industry for the production of carbon anodes, and creosote, which is a registered pesticide in the U.S. and used primarily in the pressure treatment of railroad crossties. The smelting of aluminum requires significant amounts of energy, which is a major cost component for the aluminum industry. As a result, new production facilities are being built in regions with low energy costs such as the Middle East, while regions with higher energy costs such as the United States, Australia and Western Europe

have seen significant amounts of smelting capacity idled or closed over the past decade. This geographic shift accelerated during the past 12 months with further curtailments and closures in the U.S. Accordingly, we have experienced significantly lower sales volumes due to the reduction in aluminum production.

Some of our CMC products, particularly carbon black feedstock, phthalic anhydride and naphthalene, have end market pricing that is linked to oil. Historically, when oil prices increase we have benefited in terms of revenues and profitability from the higher pricing for these products as the cost of coal tar has not increased proportionally with oil. Conversely, the recent significant decline in oil prices has resulted in lower selling prices and profitability for carbon black feedstock, phthalic anhydride and naphthalene. However, the unfavorable impact to sales and margins is partially offset by increased sales volumes of phthalic anhydride and lower input costs, because a significant portion of our coal tar in certain regions is also affected by the price of oil, resulting in lower raw material and finished product costs.

Historically, CMC results have been closely linked to aluminum demand and production, as well as the price of oil, and we seek to lessen our exposure to these commodity markets going forward. We believe that the economic environment related to these factors will not meaningfully improve, and as such, we have undertaken a strategy to reduce our reliance on the aluminum industry. In 2014, we began our multi-year restructuring plan and are in the process of streamlining the CMC business to address overcapacity and greatly reduce fixed costs in our operations. When completed, we expect the profitability for this segment to improve substantially as we fully realize the benefit of our cost savings initiatives.

The availability of coal tar, the primary raw material for our CMC business, is linked to levels of metallurgical coke production. As the global steel industry, excluding Asia, has reduced production of steel produced using metallurgical coke, the volumes of coal tar have also been reduced. Over the past years, the coal tar distillation industry has operated in an excess capacity mode, which further increased the competition for a limited amount of coal tar in North America. In certain regions such as China there are competing markets for coal tar which may also limit our access to our raw material supply in those regions. Our ability to obtain coal tar and the price we are able to negotiate for coal tar has a significant impact on the level of profitability of our business. Significant increases in raw material costs can result in margin dilution if the increased cost of the raw material cannot be passed on to the customer. Additionally, in regions where the available supply of our products exceeds demand and the pricing is competitive, we may not be able to recover raw material cost increases in the selling prices for our end products. As our CMC business consolidates its operating footprint and lowers production levels, we anticipate that our raw material needs will be significantly less than historically required and we will continue to evaluate potential opportunities to lower our overall input costs.

Performance Chemicals

The largest geographic market for wood treating chemicals sold by our PC business is in North America, and the largest application for our products is the residential remodeling market. We also have a market presence in Europe, South America, Australia and New Zealand. Product demand for our PC business has historically been influenced by existing home sales which is a leading indicator of consumer spending on remodeling projects. The year-over-year annual rate of seasonally adjusted existing home sales in the U.S. has consistently increased since the beginning of 2014, and is well above lows experienced in the 2008 through 2010 timeframe. As a result, remodeling activity in the U.S. has consistently increased over that same time frame as measured by the Leading Indicator of Remodeling Activity (“LIRA”). More recent data of existing home sales indicates that the rate of annualized growth is moderating which could result in a slower growth rate of remodeling activity in the future. Nevertheless, LIRA year-over-year growth projections anticipate growth in home improvement and expenditures will reach eight percent by the start of 2017 which is in excess of its five percent historical average.

PC is the largest global manufacturer and supplier of water based wood preservatives and wood specialty additives to treaters who supply pressure treated wood products to large retailers and independent lumber dealers. These retailers and dealers, in turn, serve the residential, agricultural and industrial pressure treated wood market. Our primary products are copper based wood preservatives, including micronized copper azole (“MicroPro®”) and micronized pigments (“MicroShades®”). Applications for these products include decking, fencing, utility poles, construction lumber and other outdoor structures.

As most of the products sold by PC are copper-based products, changes in the price and availability of copper can have a significant impact on product pricing and margins. We attempt to smooth out the variability in copper pricing through entering into hedging transactions for the majority of our copper needs, which range from six months up to 30 months. Those hedges typically match expected customer purchases and receive hedge accounting treatment. From time to time, we enter into hedge transactions based upon long-term forecasted needs of copper. Those hedges are typically marked to market on a quarterly basis.

In North America, we are vertically integrated through the manufacturing of copper compounds for our copper based wood preservatives. We believe our vertical integration is part of our proprietary processes and reflects an important competitive advantage. In addition, we believe this provides our customers with the security of a continuous supply of wood preservative chemicals.

We have seen favorable market trends in the repair and remodeling markets and existing home sales in 2016. In addition, starting in the second quarter of 2016, we have observed that large retailers and lumber dealers are opting for a product mix with higher levels of preservative retention. This shift towards a higher retention product mix simplifies the treating and stocking processes for the treaters that purchase PC products and their end-customers. It is still difficult to predict whether, and for how long, these trends will last and to quantify the total impact it will have on PC sales, operating profit, and cash flow.

CMC Restructuring Initiatives

Our CMC business and results of operations have been negatively affected in recent years by difficult economic conditions in North America, Europe and China. Certain key end markets experienced significant reductions in demand that have negatively affected the profitability for most of our products produced and sold in the geographical regions we operate, and we expect this to continue for at least the foreseeable future. Additionally, over the last several years, our profitability in North America has been negatively impacted from increased levels of imports from competitors in Europe due to weak end-market demand there. The geographic shift in end-market demand has resulted in a trend of declining utilization rates in North America and Europe over that same period.

As a result, we have embarked on a plan to restructure our CMC operating footprint that we expect will eventually reduce our global number of coal tar distillation and related facilities from the 11 that existed at the end of 2013 to four in total by the end of 2016. The remaining facilities are located in regions where we believe we hold key competitive advantages that allow us to better serve our global customers: Stickney, Illinois; Nyborg, Denmark; Mayfield, Australia; and Jiangsu Province, China.

The closure of the first facility occurred in April 2014 as we ceased coal tar distillation in Uithoorn, the Netherlands. During 2015, we ceased coal tar distillation activities at our Follansbee, West Virginia facility. Finally, during 2016, we expect to complete the permanent closure or sale of four additional tar distillation facilities located in Clairton, Pennsylvania; Scunthorpe, U.K.; Port Clarence, U.K. and Tangshan, China. The U.K. and China facilities suspended production activities in December 2015 and February 2016, respectively, and coal tar distillation activities were substantially discontinued at the end of July 2016 at the Clairton facility. Furthermore, we are attempting to sell our 30-percent interest in the TKK joint venture in China, with the timing of the sale completion subject to approval from the provincial government.

The reduction in operating capacity at these locations resulted in impairments or other costs of \$36.5 million in the year ended December 31, 2015 and a total of \$29.5 million for the two years ended December 31, 2014. As a result of these initiatives, we expect additional restructuring and related charges to earnings of between \$10 million to \$18 million through 2020, of which approximately \$1 million to \$8 million are estimated to be non-cash. The overall expected future cash requirements for the CMC plant closures listed above are estimated to be approximately \$40 million through 2020. There may be additional curtailments or closures at our other CMC facilities as part of our efforts to reduce our cost structure and improve capacity utilization in our business.

With respect to our Port Clarence and Scunthorpe operations in the United Kingdom, in July 2016 we completed the sale of our tar distillation properties and assets at these locations to U.K.-based Industrial Chemicals Group Limited ("ICGL"). The terms of the agreement provide for the transfer of essentially all assets at the two sites to ICGL in exchange for ICGL assuming all historical environmental-related and asset retirement-related liabilities at both sites.

In addition, Koppers made a cash contribution towards these costs that will be ratably paid to ICGL from escrow over the next three years. As part of the transaction, in order to enable us to continue to meet our customer obligations, ICGL has agreed to provide terminal services to us for the storage and shipping of coal tar, as well as production services to our subsidiary, Koppers Specialty Chemicals.

We believe that, through these restructuring initiatives, we are significantly transforming our CMC business model by streamlining the operating footprint and reducing reliance on and exposure to the carbon pitch markets.

Seasonality and Effects of Weather on Operations

Our quarterly operating results fluctuate due to a variety of factors that are outside of our control, including inclement weather conditions, which in the past have affected operating results. Operations at some of our facilities have at times been reduced during the winter months. Moreover, demand for some of our products declines during periods of inclement weather. As a result of the foregoing, we anticipate that we may experience material fluctuations in quarterly operating

results. Historically, our operating results have been significantly lower in the first and fourth calendar quarters as compared to the second and third calendar quarters.

Results of Operations – Comparison of Three Months Ended June 30, 2016 and 2015

Consolidated Results

Net sales for the three months ended June 30, 2016 and 2015 are summarized by segment in the following table:

	Three Months Ended June 30,		Net	
	2016	2015	Change	
(Dollars in millions)				
Railroad and Utility Products and Services	\$ 164.4	\$ 170.9	-4	%
Carbon Materials and Chemicals	112.3	158.4	-29	%
Performance Chemicals	108.4	102.3	6	%
	\$385.1	\$431.6	-11	%

RUPS net sales decreased by \$6.5 million or four percent compared to the prior year period. The sales decrease was primarily due to lower sales volumes of treated crossties and utility products. The reduction in crossties is attributed to lower spending in the rail industry due to the impact of reduced freight car loadings and rail traffic. The decrease in sales of utility products was due to reduced demand in the Australian utility pole market, reduced toll-treating of utility poles in the United States and foreign exchange translation.

CMC net sales decreased by \$46.1 million or 29 percent compared to the prior year period due mainly to lower sales volumes for carbon pitch, carbon black feedstock and naphthalene combined with lower sales prices for carbon pitch and naphthalene.

Lower carbon materials sales volumes decreased sales by nine percent compared to the second quarter of 2015 as carbon pitch sales volumes were lower in the United States and China. Reduced volume in the United States is due to the continuing reduction of aluminum manufacturing capacity and reduced volume in China is a result of the closure of the Company's coal tar distillation facility in Tangshan, China.

Sales of distillates, specifically creosote and carbon black feedstock, decreased sales by another nine percent compared to the second quarter of 2015 driven by lower sales volumes for carbon black feedstock from Chinese, European and North American operations.

Sales of coal tar chemicals declined by one percent due primarily to a two percent reduction in sales volumes of naphthalene and a one percent decline in sales prices over the prior year period. The decline in sales volumes and prices for naphthalene was partially offset by a four percent increase in sales volumes of phthalic anhydride over the prior year period.

PC net sales increased by \$6.1 million or six percent compared to the prior year period. The sales increase was due primarily to higher domestic sales volumes for some copper based and non-copper based wood preservatives and additives. Higher sales volumes were driven primarily by favorable market trends in the repair and remodeling markets and existing home sales as well as treated wood dealers stocking and selling treated wood with higher preservative retention levels. These gains were offset in part by higher customer development costs, which are

reflected as a reduction of net sales, compared to the prior year period.

Cost of sales as a percentage of net sales was 79 percent for the quarter ended June 30, 2016 compared to 83 percent in the prior year quarter due mainly to higher gross margins for PC driven by increased sales volumes and improved cost performance, which more than offset lower gross margins from CMC.

Depreciation and amortization for the quarter ended June 30, 2016 was \$4.6 million lower when compared to the prior year period due mainly to a reduction in assets related to our shutdown of distillation activities in the United States and United Kingdom as well as reduced accelerated depreciation and asset retirement obligation amortization in the prior year period related to the closure of our wood treating facility in Green Spring, West Virginia.

Impairment and restructuring expenses for the quarter ended June 30, 2016 were \$3.9 million higher when compared to the prior year period due mainly to an accrual for future real estate lease obligations, net of estimated sublease revenue, at our closed coal tar distillation facility in Uithoorn, the Netherlands.

Selling, general and administrative expenses for the quarter ended June 30, 2016 were \$0.9 million lower when compared to the prior year period due mainly to reduced legal fees for PC.

Other income for the quarter ended June 30, 2016 was \$0.4 million compared to \$0.2 million in the prior year period as licensing royalties received by PC offset equity method losses for CMC related to our TKK facility in China.

Interest expense for the quarter ended June 30, 2016 was \$1.4 million higher than the prior year period as a result of the write-off of debt issuance costs totaling \$2.0 million in the second quarter of 2016 due to the reduction of borrowing capacity under our revolving credit agreement. This write-off was partially offset by reduced interest expense from reduced average debt levels as compared to the prior year period.

Income taxes for the quarter ended June 30, 2016 were \$6.8 million, an increase of \$1.4 million when compared to the prior year period. Income taxes were 37.6 percent and 40.6 percent of our pre-tax income for the quarters ended June 30, 2016 and 2015, respectively, principally due to the losses of our Chinese subsidiaries that are not expected to generate any future income tax benefit. Excluding these pre-tax losses, our effective income tax rate increased to 31.3 percent from 30.8 percent when compared to the prior year period. This increase was primarily due to the geographical mix of pre-tax earnings along with additional state income taxes.

Segment Results

Segment operating profit for the three months ended June 30, 2016 and 2015 is summarized by segment in the following table:

	Three Months Ended June 30,		% Change	
	2016	2015		
(Dollars in millions)				
Operating profit (loss):				
Railroad and Utility Products and Services	\$ 18.5	\$ 15.0	23	%
Carbon Materials and Chemicals	(8.3)	(2.9)	-186	%
Performance Chemicals	22.4	15.5	45	%
Corporate	(0.6)	(1.6)	63	%
	\$ 32.0	\$ 26.0	23	%
Operating profit (loss) as a percentage of net sales:				
Railroad and Utility Products and Services	11.3 %	8.8 %	2.5	%