

Koppers Holdings Inc.
Form 10-Q
May 04, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

Commission file number 1-32737

KOPPERS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State of incorporation)

20-1878963
(IRS Employer Identification No.)

436 Seventh Avenue

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 227-2001

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes x No "

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

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

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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 April 30, 2012 amounted to 20,754,415 shares.

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Three Months Ended March 31,</i>	
	<i>2012</i>	<i>2011</i>
	<i>(Unaudited)</i>	
<i>(Dollars in millions, except per share amounts)</i>		
Net sales	\$ 380.9	\$ 341.5
Cost of sales (excluding items below)	326.9	296.1
Depreciation and amortization	6.8	6.4
Selling, general and administrative expenses	18.0	17.7
Operating profit	29.2	21.3
Other income	0.7	0.0
Interest expense	6.9	6.9
Income before income taxes	23.0	14.4
Income taxes	7.2	5.2
Income from continuing operations	15.8	9.2
Income (loss) from discontinued operations, net of tax (expense) benefit of \$(0.1) and \$0.2	0.1	(0.2)
Net income	15.9	9.0
Net income attributable to noncontrolling interests	0.3	0.1
Net income attributable to Koppers	\$ 15.6	\$ 8.9
Earnings per common share attributable to Koppers common shareholders:		
Basic		
Continuing operations	\$ 0.74	\$ 0.44
Discontinued operations	0.01	(0.01)
Earnings per basic common share	\$ 0.75	\$ 0.43
Diluted		
Continuing operations	\$ 0.74	\$ 0.44
Discontinued operations	0.01	(0.01)
Earnings per diluted common share	\$ 0.75	\$ 0.43
Comprehensive income	\$ 22.6	\$ 16.8
Comprehensive income attributable to noncontrolling interests	0.3	0.2
Comprehensive income attributable to Koppers	\$ 22.3	\$ 16.6
Weighted average shares outstanding <i>(in thousands)</i> :		
Basic	20,669	20,588
Diluted	20,903	20,724
Dividends declared per common share	\$ 0.24	\$ 0.22

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

	March 31, 2012 (Unaudited)	December 31, 2011
<i>(Dollars in millions, except per share amounts)</i>		
Assets		
Cash and cash equivalents	\$ 42.6	\$ 54.1
Accounts receivable, net of allowance of \$0.2 and \$0.3	191.2	160.9
Income tax receivable	1.2	10.6
Inventories, net	178.2	159.0
Deferred tax assets	9.6	9.3
Loan to related party	11.7	11.7
Other current assets	20.2	21.8
Total current assets	454.7	427.4
Equity in non-consolidated investments	5.4	4.9
Property, plant and equipment, net	153.7	155.6
Goodwill	73.0	72.1
Deferred tax assets	41.5	44.3
Other assets	25.8	26.4
Total assets	\$ 754.1	\$ 730.7
Liabilities		
Accounts payable	\$ 96.6	\$ 102.1
Accrued liabilities	60.9	63.1
Dividends payable	5.6	5.2
Total current liabilities	163.1	170.4
Long-term debt	314.3	302.1
Accrued postretirement benefits	104.8	104.1
Other long-term liabilities	46.7	46.9
Total liabilities	628.9	623.5
Commitments and contingent liabilities (Note 16)		
Equity		
Senior Convertible Preferred Stock, \$0.01 par value per share; 10,000,000 shares authorized; no shares issued	0.0	0.0
Common Stock, \$0.01 par value per share; 40,000,000 shares authorized; 21,505,028 and 21,309,210 shares issued	0.2	0.2
Additional paid-in capital	145.1	142.9
Retained earnings	17.2	6.7
Accumulated other comprehensive loss	(23.5)	(30.2)
Treasury stock, at cost, 750,613 and 706,161 shares	(26.5)	(24.8)
Total Koppers shareholders' equity	112.5	94.8
Noncontrolling interests	12.7	12.4
Total equity	125.2	107.2
Total liabilities and equity	\$ 754.1	\$ 730.7

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Dollars in millions)</i>	<i>Three Months Ended March 31,</i>	
	<i>2012</i>	<i>2011</i>
	<i>(Unaudited)</i>	
Cash provided by (used in) operating activities:		
Net income	\$ 15.9	\$ 9.0
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	6.8	6.8
Deferred income taxes	2.0	0.2
Equity income, net of dividends received	(0.5)	0.0
Change in other liabilities	2.4	1.2
Non-cash interest expense	0.4	0.4
Stock-based compensation	1.5	0.8
Other	0.2	0.0
(Increase) decrease in working capital:		
Accounts receivable	(28.5)	(39.8)
Inventories	(16.7)	(5.6)
Accounts payable	(6.5)	11.5
Accrued liabilities and other working capital	7.2	6.0
Net cash used in operating activities	(15.8)	(9.5)
Cash provided by (used in) investing activities:		
Capital expenditures	(3.4)	(4.4)
Acquisitions, net of cash acquired	0.0	(0.6)
Net cash proceeds from divestitures and asset sales	0.2	0.0
Net cash used in investing activities	(3.2)	(5.0)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	98.1	76.1
Repayments of revolving credit	(86.0)	(51.6)
Repayments of long-term debt	0.0	(0.9)
Issuances of Common Stock	0.6	0.2
Repurchases of Common Stock	(1.7)	(0.2)
Payment of deferred financing costs	0.0	(0.5)
Dividends paid	(4.5)	(4.5)
Net cash provided by financing activities	6.5	18.6
Effect of exchange rate changes on cash	1.0	1.1
Net increase (decrease) in cash and cash equivalents	(11.5)	5.2
Cash and cash equivalents at beginning of year	54.1	35.3
Cash and cash equivalents at end of period	\$ 42.6	\$ 40.5

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

KOPPERS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and New Accounting Standards

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

The financial information included herein should be read in conjunction with the Company's audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2011.

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

2. Dividends

On May 3, 2012, the Company's board of directors declared a quarterly dividend of 24 cents per common share, payable on July 9, 2012 to shareholders of record as of May 15, 2012.

3. Discontinued operations

In December 2011, the Company ceased manufacturing operations at its carbon black facility located in Kurnell, Australia. This business was reclassified to discontinued operations in the first quarter of 2012 as run-off activities were completed. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The costs related to this closure totaled \$41.0 million in the fourth quarter of 2011, of which \$20.8 million was recorded as a component of cost of sales and \$20.2 million was recorded as a component of depreciation and amortization. The Company estimates that total future closure costs related to this facility will be approximately \$1.6 million. The closure is expected to be completed by 2014. The facility is part of the Carbon Materials & Chemicals segment.

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

	<i>Severance and employee benefits</i>	<i>Environmental remediation</i>	<i>Inventory writedowns</i>	<i>Site demolition</i>	<i>Other</i>	<i>Total</i>
<i>(Dollars in millions)</i>						
Reserve at December 31, 2011	\$ 1.8	\$ 6.7	\$ 0.0	\$ 6.2	\$ 1.2	\$ 15.9
Charges	0.0	0.0	0.3	0.0	0.0	0.3
Costs charged against assets	0.0	0.0	(0.3)	0.0	0.0	(0.3)
Reversals	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Cash paid	(0.9)	0.0	0.0	0.0	(0.2)	(1.1)
Currency translation	0.0	0.2	0.0	0.2	0.0	0.4
Reserve at March 31, 2012	\$ 0.8	\$ 6.9	\$ 0.0	\$ 6.4	\$ 1.0	\$ 15.1

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Net sales and operating profit from discontinued operations for the three months ended March 31, 2012 and 2011 consist of the following amounts:

	Three Months Ended March 31,	
	2012	2011
Net sales	\$ 5.1	\$ 17.6
Operating profit	0.3	(0.5)

4. Fair Value Measurements

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

	March 31, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<i>(Dollars in millions)</i>				
Financial assets:				
Cash and cash equivalents, including restricted cash	\$ 42.6	\$ 42.6	\$ 54.1	\$ 54.1
Investments and other assets ^(a)	1.3	1.3	1.3	1.3
Financial liabilities:				
Long-term debt (including current portion)	\$ 340.3	\$ 314.3	\$ 324.4	\$ 302.1

(a) Excludes equity method investments.

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

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

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

5. Comprehensive Income and Equity

Total comprehensive income for the three months ended March 31, 2012 and 2011 is summarized in the table below:

	Three Months Ended March 31,	
	2012	2011
<i>(Dollars in millions)</i>		
Net income	\$ 15.9	\$ 9.0
Other comprehensive income (loss):		
Change in currency translation adjustment	5.5	6.9
Change in unrecognized pension net loss, net of tax	1.3	0.9
Change in unrecognized transition asset, net of tax	(0.1)	0.0
Total comprehensive income	22.6	16.8
Less: comprehensive income attributable to noncontrolling interests	0.3	0.2

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Comprehensive income attributable to Koppers	\$ 22.3	\$ 16.6
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The following tables present the change in equity for the three months ended March 31, 2012 and 2011, respectively:

<i>(Dollars in millions)</i>	<i>Total Koppers Shareholders</i>		<i>Total Equity</i>
	<i>Equity</i>	<i>Noncontrolling Interests</i>	
Balance at December 31, 2011	\$ 94.8	\$ 12.4	\$ 107.2
Net income	15.6	0.3	15.9
Issuance of common stock	0.6	0.0	0.6
Employee stock plans	1.6	0.0	1.6
Other comprehensive income	6.7	0.0	6.7
Dividends	(5.1)	0.0	(5.1)
Repurchases of common stock	(1.7)	0.0	(1.7)
Balance at March 31, 2012	\$ 112.5	\$ 12.7	\$ 125.2

<i>(Dollars in millions)</i>	<i>Total Koppers Shareholders</i>		<i>Total Equity</i>
	<i>Equity</i>	<i>Noncontrolling Interests</i>	
Balance at December 31, 2010	\$ 88.7	\$ 11.2	\$ 99.9
Net income	8.9	0.1	9.0
Issuance of common stock	0.2	0.0	0.2
Employee stock plans	0.9	0.0	0.9
Other comprehensive income	7.7	0.1	7.8
Dividends	(4.6)	0.0	(4.6)
Repurchases of common stock	(0.2)	0.0	(0.2)
Balance at March 31, 2011	\$ 101.6	\$ 11.4	\$ 113.0

6. Earnings per Common Share

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

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

<i>(Dollars in millions, except share amounts, in thousands, and per share amounts)</i>	<i>Three Months Ended March 31,</i>	
	<i>2012</i>	<i>2011</i>
Net income attributable to Koppers	\$ 15.6	\$ 8.9
Less: Income (loss) from discontinued operations	0.1	\$ (0.2)
Income from continuing operations attributable to Koppers	\$ 15.5	\$ 9.1
Weighted average common shares outstanding:		
Basic	20,669	20,588
Effect of dilutive securities	234	136

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Diluted	20,903	20,724
Earnings per common share - continuing operations:		
Basic earnings per common share	\$ 0.74	\$ 0.44
Diluted earnings per common share	0.74	0.44
Other data:		
Antidilutive securities excluded from computation of diluted earnings per common share	181	95

7. Stock-based Compensation

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

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

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

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

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

The following table shows a summary of the performance stock units with uncompleted performance periods as of March 31, 2012:

<i>Performance Period</i>	<i>Minimum Shares</i>	<i>Target Shares</i>	<i>Maximum Shares</i>
2011 - 2012	0	88,010	132,015
2012 - 2014	0	104,598	156,897

The following table shows a summary of the status and activity of non-vested stock awards for the three months ended March 31, 2012:

	<i>Restricted Stock Units</i>	<i>Performance Stock Units</i>	<i>Total Stock Units</i>	<i>Weighted Average Grant Date Fair Value per Unit</i>
Non-vested at January 1, 2012	156,665	297,715	454,380	\$ 26.43
Granted	52,046	104,598	156,644	\$ 38.21
Credited from dividends	3,358	7,072	10,430	\$ 35.74
Performance stock unit adjustment	0	(40,112)	(40,112)	\$ 10.68
Vested	(69,243)	(87,013)	(156,256)	\$ 16.42
Forfeited	(1,022)	(1,523)	(2,545)	\$ 36.43
Non-vested at March 31, 2012	141,804	280,737	422,541	\$ 36.16

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

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

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

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

The following table shows a summary of the status and activity of stock options for the three months ended March 31, 2012:

	<i>Options</i>	<i>Weighted Average Exercise Price per Option</i>	<i>Weighted Average Remaining Contractual Term (in years)</i>	<i>Aggregate Intrinsic Value (in millions)</i>
Outstanding at January 1, 2012	353,452	\$ 27.65		
Granted	95,899	\$ 38.21		
Exercised	(39,562)	\$ 15.26		
Outstanding at March 31, 2012	409,789	\$ 31.32	7.71	\$ 3.2
Exercisable at March 31, 2012	183,419	\$25.39	6.04	\$2.5

Total stock-based compensation expense recognized for the three months ended March 31, 2012 and 2011 is as follows:

	<i>Three Months Ended March 31,</i>	
	<i>2012</i>	<i>2011</i>
<i>(Dollars in millions)</i>		
Stock-based compensation expense recognized:		
Selling, general and administrative expenses	\$ 1.5	\$ 0.8
Less related income tax benefit	0.6	0.3