

Koppers Holdings Inc.  
Form 10-K  
February 25, 2013  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share  
Title of Each Class

New York Stock Exchange  
Name of Exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

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  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

The aggregate market value of Common Stock held by non-affiliates of the registrant, based on the closing sales price of the Common Stock on the New York Stock Exchange on June 30, 2012 was \$690.3 million (affiliates, for this purpose, have been deemed to be Directors and executive officers of Koppers Holdings Inc.).

As of January 31, 2013, 20,634,103 shares of Common Stock of the registrant were issued and outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

**Table of Contents**

TABLE OF CONTENTS

| <i>Item</i>  | <i>Page</i> |
|--|-------------|
| Part I   |             |
| 1. <u>Business</u>   | 5           |
| 1A. <u>Risk Factors</u>  | 10          |
| 1B. <u>Unresolved Staff Comments</u>   | 21          |
| 2. <u>Properties</u>   | 22          |
| 3. <u>Legal Proceedings</u>  | 22          |
| 4. <u>Mine Safety Disclosures</u>  | 23          |
| Part II  |             |
| 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 25          |
| 6. <u>Selected Financial Data</u>  | 26          |
| 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | 27          |
| 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 37          |
| 8. <u>Financial Statements and Supplementary Data</u>  | 38          |
| 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                             | 82          |
| 9A. <u>Controls and Procedures</u>   | 82          |
| 9B. <u>Other Information</u>   | 83          |
| Part III   |             |
| 10. <u>Directors, Executive Officers and Corporate Governance</u>  | 84          |
| 11. <u>Executive Compensation</u>  | 84          |
| 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>                  | 84          |
| 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                                       | 84          |
| 14. <u>Principal Accountant Fees and Services</u>  | 84          |
| Part IV  |             |
| 15. <u>Exhibits and Financial Statement Schedules</u>  | 85          |
| Signatures   |             |
| <u>Signatures</u>  | 91          |

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**FORWARD-LOOKING INFORMATION**

This report and the documents incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and may include, but are not limited to, statements about sales levels, restructuring, profitability and anticipated expenses and cash outflows. All forward-looking statements involve risks and uncertainties. All statements contained herein that are not clearly historical in nature are forward-looking, and words such as believe, anticipate, expect, estimate, may, will, should, continue, plan, likely or other similar words or phrases are generally intended to identify forward-looking statements. Any forward-looking statement contained herein, in press releases, written statements or other documents filed with the SEC, or in our communications with and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls are subject to known and unknown risks, uncertainties and contingencies. Many of these risks, uncertainties and contingencies are beyond our control, and may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Factors that might affect such forward-looking statements include, among other things:

- i general economic and business conditions;
- i demand for our goods and services;
- i availability of and fluctuations in the prices of key raw materials, including coal tar and timber;
- i competitive conditions in the industries in which we operate;
- i the ratings on our debt and our ability to repay or refinance our outstanding indebtedness as it matures;
- i our ability to operate within the limitations of our debt covenants;
- i interest rate fluctuations and other changes in borrowing costs;
- i other capital market conditions, including foreign currency rate fluctuations;
- i economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across countries;
- i potential impairment of our goodwill and/or long-lived assets;
- i parties who are obligated to indemnify us for legal and environmental liabilities fail to perform under their legal obligations;

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

- j changes in laws, including increased tax rates, regulations or accounting standards, third-party relations and approvals, and decisions of courts, regulators and governmental bodies;
  
- j the effects of competition, including locations of competitors and operating and market competition;
  
- j unfavorable resolution of litigation against us; and
  
- j the other factors set forth under Risk Factors.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward looking statements contained in this report and the documents incorporated by reference herein may not in fact occur. We undertake no obligation to publicly update or revise any forward looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

### **PART I**

#### **ITEM 1. BUSINESS**

##### General

*In this report, unless otherwise noted or the context otherwise requires, (i) the term "Koppers", "Koppers Holdings", the "Company", we or us refers to Koppers Holdings Inc. and its consolidated subsidiaries, (ii) the term "KH" refers to Koppers Holdings Inc. and not any of its subsidiaries and (iii) the term "KI" refers to Koppers Inc. and not any of its subsidiaries. Koppers Inc. is a wholly-owned subsidiary of Koppers Holdings Inc. Koppers Holdings Inc. has substantially no operations independent of Koppers Inc. and its subsidiaries. The use of these terms is not intended to imply that Koppers Holdings and Koppers Inc. are not separate and distinct legal entities from each other and from their respective subsidiaries.*

## Table of Contents

Koppers Holdings Inc. was incorporated in November 2004 as a holding company for Koppers Inc. We are a leading integrated global provider of carbon compounds and commercial wood treatment products and services. Our products are used in a variety of niche applications in a diverse range of end-markets, including the aluminum, railroad, specialty chemical, utility, concrete and steel industries. We serve our customers through a comprehensive global manufacturing and distribution network, with manufacturing facilities located in the United States, Australia, China, the United Kingdom, the Netherlands and Denmark.

We operate two principal business segments: Carbon Materials & Chemicals and Railroad & Utility Products.

Our operations are, to a substantial extent, vertically integrated. Through our Carbon Materials & Chemicals business, we process coal tar into a variety of products, including carbon pitch, creosote, naphthalene and phthalic anhydride, which are intermediate materials necessary in the production of aluminum, the pressure treatment of wood, the production of high-strength concrete, and the production of plasticizers and specialty chemicals, respectively. Through our Railroad & Utility Products business, we believe that we are the largest supplier of railroad crossties to the North American railroads.

### Carbon Materials & Chemicals

Carbon pitch, naphthalene, and creosote are produced through the distillation of coal tar, a by-product generated through the processing of coal into coke for use in steel and iron manufacturing. Coal tar distillation involves the conversion of coal tar into a variety of intermediate chemical products in processes beginning with distillation. During the distillation process, heat and vacuum are utilized to separate coal tar into three primary components: carbon pitch (approximately 50 percent), chemical oils (approximately 20 percent) and creosote (approximately 30 percent). The diagram below shows the streams derived from coal tar distillation:

Our Carbon Materials & Chemicals business ( CM&C ) manufactures the following principal products:

- i carbon pitch, a critical raw material used in the production of aluminum and steel;
- i naphthalene, used for the production of phthalic anhydride and as a surfactant in the production of concrete;
- i phthalic anhydride, used in the production of plasticizers, polyester resins and alkyd paints; and
- i creosote and carbon black feedstock, used in the treatment of wood or as a feedstock in the production of carbon black, respectively.

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**Carbon Pitch**

Carbon pitch is a critical raw material used in the production of aluminum and for the production of steel in electric arc furnaces. Approximately one ton of carbon pitch is required for every 10 tons of aluminum produced and there are currently no known viable substitutes for carbon pitch in the aluminum production process. Over 90 percent of our carbon pitch is sold to the aluminum industry, typically under long-term contracts ranging from three to five years. Many of these long-term contracts have provisions for periodic pricing reviews. We have been a leading supplier of carbon pitch to the aluminum industry for over 20 years, and we believe we are the largest producer of carbon pitch for the aluminum industry. Competitive factors in the carbon pitch market include price, quality, service and security of supply. We believe we have a competitive advantage based on our global presence and long-term raw material supply contracts.

**Naphthalene & Phthalic Anhydride**

Chemical oils are further processed to produce naphthalene which we sell into the industrial sulfonate market for use as dispersants or in the concrete additive and gypsum board markets. Additional end-uses include oil field additives, agricultural emulsifiers, synthetic tanning agents and dyestuffs. In the United States, we also use naphthalene as a feedstock in the manufacture of phthalic anhydride. The primary markets for phthalic anhydride are in the production of plasticizers, unsaturated polyester resins and alkyd resins. We believe our ability to utilize our internally produced naphthalene gives us a more stable supply and generally lower-cost feedstock for the production of phthalic anhydride compared to our competitors.

**Creosote & Carbon Black Feedstock**

In the United States, creosote is used as a commercial wood treatment chemical to preserve railroad cross-ties and lumber, utility poles and piling. The majority of our domestically produced creosote is sold to our Railroad & Utility Products business. In Australia, China and Europe, creosote is sold primarily into the carbon black market for use as a feedstock in the production of carbon black. In Europe and China creosote is also sold to wood treaters. Our wood treating plants in the United States purchase substantially all of their creosote from our tar distillation plants. We believe we are the only major competitor in this market that is integrated in this fashion. The remainder of our creosote is sold to railroads and other wood treaters.

**Other Products**

Other products include the sale of refined tars, benzole and specialty chemicals.

Our CM&C business manufactures its primary products and sells them directly to our global customer base under long-term contracts or through purchase orders negotiated by our regional sales personnel and coordinated through our global marketing group in the United States. We believe we have a strategic advantage over our competitors based on our ability to access coal tar from many global suppliers. Our nine coal tar distillation facilities including joint ventures and four carbon materials terminals give us the ability to offer customers multiple sourcing and a consistent supply of high quality products.

**Railroad & Utility Products**

Our Railroad & Utility Products business ( R&UP ) sells treated and untreated wood products, rail joint bars and services primarily to the railroad and public utility markets in the United States and Australia. We also produce concrete cross-ties, a complementary product to our wood treatment business, through a joint venture in the United States.

Railroad products include procuring and treating items such as cross-ties, switch ties and various types of lumber used for railroad bridges and crossings. Railroad products also include manufacturing and selling rail joint bars, which are steel bars used to join rails together for railroads. Utility products include transmission and distribution poles for electric and telephone utilities and piling used in industrial foundations, beach housing, docks and piers. The R&UP business operates 13 wood treating plants, one rail joint bar manufacturing facility, one co-generation facility and 13 pole distribution yards located throughout the United States and Australia. Our network of plants is strategically located near timber supplies to enable us to access raw materials and service customers effectively. In addition, our cross-tie treating plants are typically adjacent to our railroad customers' track lines, and our pole distribution yards are typically located near our utility customers.





## **Table of Contents**

Our R&UP business manufactures its primary products and sells them directly to our customers through long-term contracts and purchase orders negotiated by our regional sales personnel and coordinated through our marketing group at corporate headquarters.

Hardwoods, such as oak and other species, are the major raw materials in wood crossties. Hardwood prices, which account for more than 50 percent of a finished crosstie's cost, fluctuate with the demand from other hardwood lumber markets, such as oak flooring, pallets and other specialty lumber products. Weather conditions can be a factor in the supply of raw material, as unusually wet or inclement conditions may make it difficult to harvest timber.

In the United States, hardwood lumber is procured by us from hundreds of small sawmills throughout the northeastern, midwestern and southern areas of the country. The crossties are shipped via rail car or trucked directly to one of our crosstie treating plants, all of which are on line with a major railroad. The crossties are either air-stacked for a period of six to twelve months or artificially dried by a process called boultonizing. Once dried, the crossties are pressure treated with creosote, a product of our CM&C business.

We believe we are the largest supplier of railroad crossties in North America. There is one principal competitor and several smaller regional competitors in the North American market. Competitive factors in the railroad crosstie market include price, quality, service and security of supply. We believe we have a competitive advantage due to our national network of treating plants and direct access to our major customers' rail lines, which provide for security of supply and logistics advantages for our customers.

Our R&UP business' largest customer base is the North American Class I railroad market, which buys approximately 80 percent of all crossties produced in the United States and Canada. We also have relationships with many of the approximately 550 short-line and regional rail lines. This also forms the customer base for our rail joint bar products. The railroad crosstie market is a mature market with approximately 23 million replacement crossties (both wood and non-wood) purchased during 2012. We currently supply all seven of the North American Class I railroads and have contracts with six of them.

Demand for railroad crossties may decline during winter months due to inclement weather conditions which make it difficult to install railroad crossties. As a result, operating results may vary from quarter to quarter depending on the severity of weather conditions and other variables affecting our products.

Utility poles are produced mainly from softwoods such as pine in the United States and from hardwoods of the eucalyptus species in Australia. Most of these poles are purchased from large timber owners and individual landowners and shipped to one of our pole-peeling facilities. We treat poles with a variety of preservatives, including pentachlorophenol, copper chrome arsenates and creosote.

In the United States the market for utility pole products is characterized by a large number of small, highly competitive producers selling into a price-sensitive industry. The utility pole market is highly fragmented domestically, with over 200 investor-owned electric and telephone utilities and 2,900 smaller municipal utilities and rural electric associations. In recent years we have seen our utility pole volumes decrease due to industry deregulation, its impact on maintenance programs, and overcapacity in the pole treating business. We expect demand for utility poles to remain at low levels. In Australia, in addition to utility poles, we market smaller poles to the agricultural, landscape and vineyard markets.

We have a number of principal competitors in the U.S. utility products market. There are few barriers to entry in the utility products market, which consists primarily of regional wood treating companies operating small to medium-size plants and serving local markets.

### **Equity Investments**

KSA Limited Partnership, located in Portsmouth, Ohio, produces concrete crossties, a complementary product to our wood treatment crosstie business. We own 50 percent of KSA, with the other 50 percent owned by subsidiaries of Heidelberg Cement AG. KSA Limited Partnership also provides concrete turnouts for rail traffic switching and used crosstie rehabilitation.

Tangshan Koppers Kailuan Carbon Chemical Company ( TKK ) is a coal tar distillation facility located in China in the Hebei Province near the Jingtang Port. We hold a 30 percent investment in TKK.

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

Research and Development

Our research efforts are directed toward new product development regarding alternate uses for coal tar and technical service efforts to promote the use of creosote and vacuum-distilled carbon pitch. Expenditures for research and development were \$2.3 million, \$1.9 million and \$2.1 million, for the years ended December 31, 2012, 2011 and 2010, respectively.

Technology and Licensing

In 1988, we acquired certain assets from Koppers Company, Inc., including the patents, patent applications, trademarks, copyrights, transferable licenses, inventories, trade secrets and proprietary processes used in the businesses acquired. The most important trademark acquired was the name Koppers. The association of the name with the chemical, building, wood preservation and coke industries is beneficial to our company, as it represents long-standing, high quality products. As long as we continue to use the name Koppers and comply with applicable registration requirements, our right to use the name Koppers should continue without expiration. The expiration of other intellectual property rights is not expected to materially affect our business.

Backlog

Generally, Koppers does not manufacture its products against a backlog of orders. Inventory and production levels are typically driven by expectations of future demand based on contractual obligations.

Seasonality

Demand for certain products may decline during winter months due to weather conditions. As a result, operating results may vary from quarter to quarter depending on the severity of weather conditions and other variables affecting our products.

Segment Information

Please see Note 8, Segment Information, under Item 8 of this Form 10-K for financial information relating to business segments and geographic areas. See also Item 1A. Risk Factors Risks Related to Our Business Demand for our products is cyclical and we may experience prolonged depressed market conditions for our products.

Non-U.S. Operations

Koppers has a significant investment in non-U.S. operations. Therefore, we are subject to certain risks that are inherent to foreign operations, including complying with applicable laws relating to foreign practices, the laws of foreign countries in which we operate, political and economic conditions in international markets and fluctuations in foreign exchange rates.

Environmental Matters

Our operations and properties are subject to extensive federal, state, local and foreign environmental laws and regulations relating to protection of the environment and human health and safety, including those concerning the treatment, storage and disposal of wastes, the investigation and remediation of contaminated soil and groundwater, the discharge of effluents into waterways, the emission of substances into the air, as well as various health and safety matters. Environmental laws and regulations are subject to frequent amendment and have historically become more stringent over time. We have incurred and could incur in the future significant costs as the result of our failure to comply with, and liabilities under, environmental laws and regulations, including cleanup costs, civil and criminal penalties, injunctive relief and denial or loss of, or imposition of significant restrictions on, environmental permits. In addition, we have been and could in the future be subject to suit by private parties in connection with alleged violations of, or liabilities under, environmental laws and regulations. See Item 1A. Risk Factors Risks Related to Our Business We are subject to extensive environmental laws and regulations and may incur significant costs as a result of continued compliance with, violations of or liabilities under environmental laws and regulations and Note 18 of the Notes to Consolidated Financial Statements, Commitments and Contingent Liabilities.



**Table of Contents**

Employees and Employee Relations

As of December 31, 2012, we had 574 salaried employees and 1,086 non-salaried employees. Listed below is a breakdown of employees by our businesses, including administration.

| <i>Business</i>              | <i>Salaried</i> | <i>Non-Salaried</i> | <i>Total</i> |
|------------------------------|-----------------|---------------------|--------------|
| Carbon Materials & Chemicals | 285             | 406                 | 691          |
| Railroad & Utility Products  | 204             | 674                 | 878          |
| Administration               | 85              | 6                   | 91           |
| <b>Total Employees</b>       | <b>574</b>      | <b>1,086</b>        | <b>1,660</b> |

Of our employees, approximately 60 percent are represented by approximately 15 different labor unions and are covered under numerous labor agreements. The United Steelworkers of America currently represent more than 250 of our employees at six of our facilities and, therefore, represents the largest number of our unionized employees.

Internet Access

Our Internet address is [www.koppers.com](http://www.koppers.com). Our recent filings on Form 10-K, 10-Q and 8-K and any amendments to those documents can be accessed without charge on our website under Investor Relations SEC Filings. The contents of our internet site are not incorporated by reference into this document.

**ITEM 1A. RISK FACTORS**

*You should carefully consider the risks described below before investing in our publicly traded securities. Our business is subject to the risks that affect many other companies, such as competition, technological obsolescence, labor relations, general economic conditions, geopolitical events and international operations.*

Risks Related to Our Business

Conditions in the global economy and global capital markets may adversely affect our results of operations, financial condition and cash flows.

The U.S and global economy and capital markets have experienced significant uncertainties and volatility in the past few years. Our business and operating results for the last four years were significantly affected by these global economic issues. Many of our customers have experienced deterioration of their business during the latest business cycle. They may experience cash flow shortages and may have difficulty obtaining financing. As a result, our customers may delay or cancel plans to purchase our products and may not be able to fulfill their payment obligations to us in a timely fashion. Our suppliers may be experiencing similar conditions which could impact their ability to supply us with raw materials and otherwise fulfill their obligations to us. If global economic conditions deteriorate significantly, there could be a material adverse effect to our results of operations, financial condition and cash flows.

In addition, we rely on our \$300.0 million revolving credit agreement with a consortium of banks to provide us with liquidity to meet our working capital needs. At December 31, 2012, we had \$290.0 million of available borrowing capacity under this arrangement. Our ability to fund our liquidity needs and working capital requirements could be impacted in the event that disruptions in the credit markets result in the banks being unable to lend to us under our revolving credit agreement.

Global economic issues could prevent us from accurately forecasting demand for our products which could have a material effect on our results of operations and our financial condition.

Adverse global economic issues, market instability and volatile commodity price fluctuations make it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demands, which could cause us to procure raw materials in excess of end-product demand. This could cause a material increase to our inventory carrying costs and result in significant inventory lower of cost or market charges.



---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

We may be required to recognize impairment charges for our long-lived assets.

At December 31, 2012, the net carrying value of long-lived assets (property, plant and equipment, goodwill, other intangible assets and equity investments) totaled approximately \$272 million. In accordance with generally accepted accounting principles, we periodically assess these assets to determine if they are impaired. As recently as the year ended 2011, we recognized a charge of \$20 million related to a decision to close our Australian carbon black facility. Significant negative industry or economic trends, disruptions to our business, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may result in impairments to goodwill and other long-lived assets. Future impairment charges could significantly affect our results of operations in the periods recognized. Impairment charges would also reduce our shareholder's equity and could affect compliance with the covenants in our debt agreements.

We may not be able to compete successfully in any or all of the industry segments in which we operate.

The markets in which we operate are highly competitive, and this competition could harm our business, results of operations, cash flow and financial condition. If we are unable to respond successfully to changing competitive conditions, the demand for our products could be affected. We believe that the most significant competitive factor for our products is selling price. Some of our competitors have greater financial resources and larger capitalization than we do.

Demand for our products is cyclical and we may experience prolonged depressed market conditions for our products.

Our products are sold primarily in markets which historically have been cyclical, such as the aluminum and specialty chemical.

i The principal consumers of our carbon pitch are primary aluminum smelters. Although the aluminum industry has experienced growth on a long-term basis, there may be cyclical periods of weak demand which could result in decreased primary aluminum production. Our pitch sales have historically declined during such cyclical periods of weak global demand for aluminum.

i The principal use of our phthalic anhydride is in the manufacture of plasticizers and flexible vinyl, which are used mainly in the housing and automobile industries. Therefore, a decline in remodeling and construction or global automobile production could reduce the demand for phthalic anhydride.

We are dependent on major customers for a significant portion of our net sales, and the loss of one or more of our major customers could result in a significant reduction in our profitability as a whole or the profitability of a particular product. For the year ended December 31, 2012, our top ten customers accounted for approximately 40 percent of our net sales. During this same period, our two largest customers each accounted for approximately eight percent of our total net sales.

Fluctuations in the price, quality and availability of our primary raw materials could reduce our profitability.

Our operations depend on an adequate supply of quality raw materials being available on a timely basis. The loss of a key source of supply or a delay in shipments could cause a significant increase in our operating expenses. For example, our operations are highly dependent on a relatively small number of freight transportation services. We are also dependent on specialized ocean-going transport vessels that we lease to deliver raw materials to our facilities and finished goods to our customers. Interruptions in such freight services could impair our ability to receive raw materials and ship finished products in a timely manner. We are also exposed to price and quality risks associated with raw material purchases. Such risks include the following:

i The primary raw material used by our Carbon Materials & Chemicals business is coal tar, a by-product of furnace coke production. A shortage in the supply of domestic coal tar or a reduction in the quality of coal tar could require us to increase coal tar and carbon pitch imports, as well as the use of petroleum substitutes to meet future carbon pitch demand. This could cause a significant increase in our operating expenses if we are unable to pass these costs on to our customers.



## Table of Contents

- ⌋ In certain circumstances coal tar may also be used as an alternative to fuel. In the past, increases in energy prices have resulted in higher coal tar costs which we have attempted to pass through to our customers. If these increased costs cannot be passed through to our customers, it could result in margin reductions for our coal tar-based products.
  
- ⌋ The availability and cost of softwood and hardwood lumber are critical elements in our production of pole products and railroad crossties, respectively. Historically, the supply and cost of hardwood for railroad crossties have been subject to availability and price pressures. We may not be able to obtain wood raw materials at economical prices in the future.
  
- ⌋ Our price realizations and profit margins for phthalic anhydride have historically fluctuated with the price of orthoxylene and its relationship to our cost to produce naphthalene; however, during periods of excess supplies of phthalic anhydride, margins may be reduced despite high levels for orthoxylene prices.

If the costs of raw materials increase significantly and we are unable to offset the increased costs with higher selling prices, our profitability will decline.

Our products may be rendered obsolete or less attractive by changes in regulatory, legislative or industry requirements.

Changes in regulatory, legislative or industry requirements may render certain of our products obsolete or less attractive. Our ability to anticipate changes in these requirements, especially changes in regulatory standards, will be a significant factor in our ability to remain competitive. We may not be able to comply in the future with new regulatory, legislative and/or industrial standards that may be necessary for us to remain competitive and certain of our products may, as a result, become obsolete or less attractive to our customers.

The development of new technologies or changes in our customers' products could reduce the demand for our products.

Our products are used for a variety of applications by our customers. Changes in our customers' products or processes may enable our customers to reduce consumption of the products we produce or make our products unnecessary. Customers may also find alternative materials or processes that no longer require our products.

Hazards associated with chemical manufacturing may cause suspensions or interruptions of our operations.

Due to the nature of our business, we are exposed to the hazards associated with chemical manufacturing and the related use, storage and transportation of raw materials, products and wastes in our manufacturing facilities and our distribution centers, such as fires, explosions and accidents that could lead to a suspension or interruption of operations. Any disruption could reduce the productivity and profitability of a particular manufacturing facility or of our company as a whole. Other hazards include the following:

- ⌋ piping and storage tank leaks and ruptures;
  
- ⌋ mechanical failure;
  
- ⌋ exposure to hazardous substances; and
  
- ⌋ chemical spills and other discharges or releases of toxic or hazardous wastes, substances or gases.

These hazards, among others, may cause personal injury and loss of life, damage to property and contamination of the environment, which could lead to government fines or work stoppage injunctions, cleanup costs and lawsuits by injured persons. While we are unable to predict the outcome of such matters, if determined adversely to us, we may not have adequate insurance to cover related costs or liabilities and, if not, we may not have sufficient cash flow to pay for such costs or liabilities. Such outcomes could harm our customer goodwill and reduce our profitability.



## Edgar Filing: Koppers Holdings Inc. - Form 10-K

We are subject to extensive environmental laws and regulations and may incur significant costs as a result of continued compliance with, violations of or liabilities under environmental laws and regulations.

Like other companies involved in environmentally sensitive businesses, our operations and properties are subject to extensive federal, state, local and foreign environmental laws and regulations, including those concerning the following, among other things:

- i the treatment, storage and disposal of wastes;

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

- j the investigation and remediation of contaminated soil and groundwater;
  
- j the discharge of effluents into waterways;
  
- j the emission of substances into the air;
  
- j the marketing, sale, use and registration of our chemical products, such as creosote;
  
- j the European Union's regulation under the Registration Evaluation Authorization and Restriction of Chemicals, which requires manufacturers or importers of substances manufactured or imported into the EU in quantities of one tonne per year or more to register with a central European Chemicals Agency; and
  
- j other matters relating to environmental protection and various health and safety matters.

We have incurred, and expect to continue to incur, significant costs to comply with environmental laws and regulations and as a result of remedial obligations. We could incur significant costs, including cleanup costs, fines, civil and criminal sanctions and claims by third parties for property damage and personal injury, as a result of violations of or liabilities under environmental laws and regulations. We accrue for environmental liabilities when a determination can be made that they are probable and reasonably estimable. Total environmental reserves at December 31, 2012 and December 31, 2011 were \$14.1 million and \$17.7 million, respectively, which include provisions primarily for environmental fines and remediation. For the last three fiscal years, our annual capital expenditures in connection with environmental control facilities averaged approximately \$5.1 million, and annual operating expenses for environmental matters, excluding depreciation, averaged approximately \$14.7 million. Management estimates that capital expenditures in connection with matters relating to environmental control facilities will be approximately \$9.9 million for 2013. Contamination has been identified and is being investigated and remediated at many of our sites by us or other parties. We believe that we will have continuing significant expenditures associated with compliance with environmental laws and regulations and, to the extent not covered by insurance or available recoveries under third-party indemnification arrangements, for present and future remediation efforts at plant sites and third-party waste sites and other liabilities associated with environmental matters. There can be no assurance that these expenditures will not exceed current estimates and will not have a material adverse effect on our business, financial condition, cash flow and results of operations.

Actual costs and liabilities to us may exceed forecasted amounts. Moreover, currently unknown environmental issues, such as the discovery of additional contamination or the imposition of additional sampling or cleanup obligations with respect to our sites or third party sites, may result in significant additional costs, and potentially significant expenditures could be required in order to comply with future changes to environmental laws and regulations or the interpretation or enforcement thereof. We also are involved in various litigation and proceedings relating to environmental matters and toxic tort claims.

Future climate change regulation could result in increased operating costs and reduced demand for our products.

Although the United States has not ratified the Kyoto Protocol, a number of federal laws related to greenhouse gas, or GHG, emissions are being considered by Congress. Additionally, various federal, state and regional regulations and initiatives have been enacted or are being considered.

Member States of the European Union each have an overall cap on emissions which are approved by the European Commission and implement the EU Emissions Trading Directive as commitment to the Kyoto Protocol. Under this Directive, organizations apply to the Member State for an allowance of GHG emissions. These allowances are tradable so as to enable companies that manage to reduce their GHG emissions to sell their excess allowances to companies that are not reaching their emissions objectives. Failure to purchase sufficient allowances will require the purchase of allowances at a current market price.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

Legislation aimed at reducing GHG emissions by placing a cost on the production of GHG emissions was introduced and passed by the Australian government in 2011. The legislation will be implanted using a two stage approach. The first stage is a fixed price carbon pricing mechanism which commenced on July 1, 2012 with a price that will be fixed for the first three years. The second stage is a market-based emissions trading arrangement commencing on July 1, 2015 where the carbon price will transition from a fixed price to a market price.

Any laws or regulations that may be adopted to restrict or reduce emissions of GHGs could cause an increase to our raw material costs, could require us to incur increased operating costs and could have an adverse effect on demand for our products.

---

**Table of Contents**

Beazer East and Beazer Limited may not continue to meet their obligations to indemnify us.

Under the terms of the asset purchase agreement between us and Koppers Company, Inc. (now known as Beazer East, Inc.) upon the formation of KI in 1988, subject to certain limitations, Beazer East and Beazer Limited assumed the liability for and indemnified us against, among other things, certain clean-up liabilities for contamination occurring prior to the purchase date at sites acquired from Beazer East and certain third-party claims arising from such contamination (the Indemnity). Beazer East and Beazer Limited (which are indirect subsidiaries of Heidelberg Cement AG) may not continue to meet their obligations. In addition, Beazer East could in the future choose to challenge its obligations under the Indemnity or our satisfaction of the conditions to indemnification imposed on us thereunder. The government and other third parties may have the right under applicable environmental laws to seek relief directly from us for any and all such costs and liabilities. In July 2004, we entered into an agreement with Beazer East to amend the December 29, 1988 asset purchase agreement to provide, among other things, for the continued tender of pre-closing environmental liabilities to Beazer East under the Indemnity through July 2019. As consideration for the agreement, we, among other things, paid Beazer East \$7.0 million and agreed to share toxic tort litigation defense costs arising from sites acquired from Beazer East. Qualified expenditures under the Indemnity are not subject to a monetary limit.

The Indemnity provides for the resolution of issues between KI 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 KI and Beazer East. Arbitration decisions under the Indemnity are final and binding on the parties. Periodically, issues have arisen between KI and Beazer East and/or other indemnitors that have been resolved without arbitration. From time to time, KI and Beazer East have engaged in discussions that involve, among other things, the allocation of environmental costs related to certain operating and closed facilities.

Without reimbursement under the Indemnity, the obligation to pay the costs and assume the liabilities relating to these matters would have a significant impact on our net income. Furthermore, without reimbursement, we could be required to record a contingent liability on our balance sheet with respect to environmental matters covered by the Indemnity, which could result in our having significant negative net worth. Finally, the Indemnity does not afford us indemnification against environmental costs and liabilities attributable to acts or omissions occurring after the closing of the acquisition of assets from Beazer East under the asset purchase agreement, nor is the Indemnity applicable to liabilities arising in connection with other acquisitions by us after that closing.

The insurance that we maintain may not fully cover all potential exposures.

We maintain property, casualty, general liability and workers' compensation insurance, but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside the coverage, of our insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance for companies in our industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

Adverse weather conditions may reduce our operating results.

Our quarterly operating results fluctuate due to a variety of factors that are outside our control, including inclement weather conditions, which in the past have caused a decline in our operating results. For example, adverse weather conditions have at times negatively impacted our supply chain as wet conditions impacted logging operations, reducing our ability to procure crossties. In addition, adverse weather conditions have had a negative impact on our customers in the pavement sealer businesses, resulting in a negative impact on our sales of these products. Moreover, demand for many of our products declines during periods of inclement weather.

We are subject to risks inherent in foreign operations, including additional legal regulation and changes in social, political and economic conditions.

We have operations in the United States, Australia, China, the United Kingdom, the Netherlands and Denmark, and sell our products in many foreign countries. For the year ended December 31, 2012, net sales from products sold by our foreign subsidiaries accounted for approximately 37 percent of our total net sales.

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

Doing business on a global basis requires us to comply with the laws and regulations of the U.S. government and various international jurisdictions. These regulations place restrictions on our operations, trade practices and partners and investment decisions. In particular, our international operations are subject to U.S. and foreign anti-corruption laws and regulations, such as the Foreign Corrupt Practices Act, and economic sanction programs administered by the U.S. Treasury Department's Office of Foreign Assets Control. Violations of these laws and regulations may result in civil or criminal penalties, including fines.

In addition, as a global business, we are also exposed to market risks relating to fluctuations in interest rates and foreign currency exchange rates. Our international revenues could be reduced by currency fluctuations or devaluations. Changes in currency exchange rates could lower our reported revenues and could require us to reduce our prices to remain competitive in foreign markets, which could also reduce our profitability. We have not historically hedged our financial statement exposure and, as a result, we could incur unanticipated losses. We are also subject to potentially increasing transportation and shipping costs associated with international operations. Furthermore, we are also exposed to risks associated with changes in the laws and policies governing foreign investments in countries where we have operations as well as, to a lesser extent, changes in U.S. laws and regulations relating to foreign trade and investment.

Our strategy to selectively pursue complementary acquisitions may present unforeseen integration obstacles or costs.

Our business strategy includes the potential acquisition of businesses and entering into joint ventures and other business combinations that we expect would complement and expand our existing products and the markets where we sell our products. We may not be able to successfully identify suitable acquisition or joint venture opportunities or complete any particular acquisition, combination, joint venture or other transaction on acceptable terms. We cannot predict the timing and success of our efforts to acquire any particular business and integrate the acquired business into our existing operations. Also, efforts to acquire other businesses or the implementation of other elements of this business strategy may divert managerial resources away from our business operations. In addition, our ability to engage in strategic acquisitions may depend on our ability to raise substantial capital and we may not be able to raise the funds necessary to implement our acquisition strategy on terms satisfactory to us, if at all. Our failure to identify suitable acquisition or joint venture opportunities may restrict our ability to grow our business. In addition, we may not be able to successfully integrate businesses that we acquire in the future, which could lead to increased operating costs, a failure to realize anticipated operating synergies, or both.

Litigation against us could be costly and time-consuming to defend, and due to the nature of our business and products, we may be liable for damages arising out of our acts or omissions, which may have a material adverse affect on us.

We produce chemicals that require appropriate procedures and care to be used in handling them or using them to manufacture other products. As a result of the nature of some of the products we use and produce, we may face product liability, toxic tort and other claims relating to incidents involving the handling, storage and use of and exposure to our products.

For example, we are a defendant in a significant number of lawsuits in which the plaintiffs claim they have suffered a variety of illnesses (including cancer) and/or property damage as a result of exposure to coal tar pitch, benzene, wood treatment chemicals and other chemicals. A further description of the material claims against us is included in Note 18 of the consolidated financial statements.

We are indemnified for certain product liability exposures under the Indemnity with Beazer East related to products sold prior to the closing of the acquisition of assets from Beazer East. Beazer East and Beazer Limited may not continue to meet their obligations under the Indemnity. In addition, Beazer East could choose to challenge its obligations under the Indemnity or our satisfaction of the conditions to indemnification imposed on us thereunder.

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

In addition to the above, we are regularly subject to legal proceedings and claims that arise in the ordinary course of business, such as workers compensation claims, governmental investigations, employment disputes, and customer and supplier disputes arising out of the conduct of our business. Litigation could result in substantial costs and may divert management's attention and resources away from the day-to-day operation of our business.



## **Table of Contents**

Labor disputes could disrupt our operations and divert the attention of our management and may cause a decline in our production and a reduction in our profitability.

Of our employees, approximately 60 percent are represented by approximately 15 different labor unions and are covered under numerous labor agreements. The United Steelworkers of America currently represent more than 250 of our employees at six of our facilities and, therefore, represent the largest number of our unionized employees. Every year, a number of labor agreements are scheduled to expire. We may not be able to reach new agreements without union action or on terms satisfactory to us. Any future labor disputes with any such unions could result in strikes or other labor protests, which could disrupt our operations and divert the attention of our management from operating our business. If we were to experience a strike or work stoppage, it may be difficult for us to find a sufficient number of employees with the necessary skills to replace these employees. Any such labor disputes could cause a decline in our production and a reduction in our profitability.

Our post-retirement obligations are currently underfunded. We expect to make significant cash payments to our pension and other post-retirement plans, which will reduce the cash available for our business.

As of December 31, 2012, our benefit obligation under our defined benefit pension plans exceeded the fair value of plan assets by approximately \$80 million. Our pension asset funding to total pension obligation ratio was 69 percent as of December 31, 2012. The underfunding was caused, in large part, by fluctuations in the financial markets that have caused the value of the assets in our defined benefit pension plans to be significantly lower than anticipated and by fluctuations in interest rates which increased the discounted pension liabilities. In addition, our obligations for other post-retirement benefit obligations are unfunded and total approximately \$11 million at December 31, 2012.

During the years ended December 31, 2012 and December 31, 2011, we contributed \$22.4 million and \$16.4 million, respectively, to our post-retirement benefit plans. With respect to our U.S. defined benefit pension plan which is our largest plan, we had funding obligations of \$10.3 million in 2012. We estimate that mandatory funding for this plan will be approximately \$7 million in 2013 and between \$12 and \$16 million in 2014 unless legislative changes occur.

Management expects that any future obligations under our post-retirement benefit plans that are not currently funded will be funded from our future cash flow from operations. If our contributions to our post-retirement benefit plans are insufficient to fund the post-retirement benefit plans adequately to cover our future obligations, the performance of the assets in our pension plans does not meet our expectations or other actuarial assumptions or mandatory funding laws are modified, our contributions to our post-retirement benefit plans could be materially higher than we expect, thus reducing the cash available for our business.

We may incur significant charges in the event we close all or part of a manufacturing plant or facility.

We periodically assess our manufacturing operations in order to manufacture and distribute our products in the most efficient manner. Based on our assessments, we may make capital improvements to modernize certain units, move manufacturing or distribution capabilities from one plant or facility to another plant or facility, discontinue manufacturing or distributing certain products or close all or part of a manufacturing plant or facility.

We depend on our senior management team and the loss of any member could adversely affect our operations.

Our success is dependent on the management, experience and leadership skills of our senior management team. Our senior management team has an average of over 20 years of industry experience. The loss of any of these individuals or an inability to attract, retain and maintain additional personnel with similar industry experience could prevent us from implementing our business strategy. We cannot assure you that we will be able to retain our existing senior management personnel or to attract additional qualified personnel when needed.

### **Risks Relating to Our Common Stock**

Our stock price may be extremely volatile.

There has been significant volatility in the market price and trading volume of equity securities, which is unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock.

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

Some specific factors that may have a significant effect on our common stock market price include the following:

- i actual or anticipated fluctuations in our operating results or future prospects;
- i the public's reaction to our press releases, our other public announcements and our filings with the Securities and Exchange Commission, or the SEC;
- i strategic actions by us or our competitors, such as acquisitions or restructurings;
- i new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- i changes in accounting standards, policies, guidance, interpretations or principles;
- i adverse conditions in the financial markets or general economic conditions, including those resulting from war, incidents of terrorism and responses to such events;
- i sales of common stock by us, members of our management team or a significant shareholder; and
- i changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or the aluminum or railroad industry generally.

We cannot predict the extent to which investor interest in our company will continue to support an active trading market on the New York Stock Exchange (the NYSE) or otherwise or how liquid that market will continue to be. If there does not continue to be an active trading market for our common stock, you may have difficulty selling any of our common stock that you buy.

Future sales, or the perception of future sales, of a substantial amount of our common stock may depress the price of the shares of our common stock.

Future sales, or the perception or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities at a time and price that we deem appropriate.

We may issue shares of our common stock, or other securities, from time to time as consideration for future acquisitions and investments. We may also issue shares of our common stock, or other securities, in connection with employee stock compensation programs and board of directors' compensation. In addition, we may issue shares of our common stock or other securities in public or private offerings as part of our efforts to raise additional capital. In the event any such acquisition, investment, issuance under stock compensation programs or offering is significant, the number of shares of our common stock or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. We may also grant registration rights covering those shares or other securities in connection with any such acquisitions and investments. Any additional capital raised through the sale of our equity securities may dilute your percentage ownership in us.

You may not receive dividends because our board of directors could, in its discretion, depart from or change our dividend policy at any time.



## Edgar Filing: Koppers Holdings Inc. - Form 10-K

We are not required to pay dividends, and our shareholders are not guaranteed, and do not have contractual rights, to receive dividends. Our board of directors may decide at any time, in its discretion, to decrease the amount of dividends, otherwise change or revoke the dividend policy or discontinue entirely the payment of dividends. Our board of directors could depart from or change our dividend policy, for example, if it were to determine that we had insufficient cash to take advantage of other opportunities with attractive rates of return or if we failed to reach a sufficient level of profitability. In addition, if we do not pay dividends, for whatever reason, your shares of our common stock could become less liquid and the market price of our common stock could decline.

The ability of Koppers Inc. and its subsidiaries to pay dividends or make other payments or distributions to us will depend on our operating results and may be restricted by, among other things, the covenants in Koppers Inc.'s revolving credit facility. Our ability to pay dividends is also limited by the indentures governing Koppers Inc.'s outstanding notes as well as Pennsylvania law and may in the future be limited by the covenants of any future outstanding indebtedness we or our subsidiaries incur. If a dividend is paid in violation of Pennsylvania law, each director approving the dividend could be liable to the corporation if the director did not act with such care as a person of ordinary prudence would use under similar circumstances. Directors are entitled to rely in good faith on information provided by employees of the corporation and experts retained by the corporation.

---

## Table of Contents

Directors who are held liable would be entitled to contribution from any shareholders who received an unlawful dividend knowing it to be unlawful. Furthermore, we are a holding company with no operations, and unless we receive dividends, distributions, advances, transfers of funds or other payments from our subsidiaries, we will be unable to pay dividends on our common stock.

Provisions of our charter documents may inhibit a takeover, which could negatively affect our stock price.

Provisions of our charter documents and the Business Corporation Law of Pennsylvania, the state in which we are organized, could discourage potential acquisition proposals or make it more difficult for a third party to acquire control of our company, even if doing so might be beneficial to our shareholders. Our Amended and Restated Articles of Incorporation (our Articles of Incorporation ) and Bylaws provide for various procedural and other requirements that could make it more difficult for shareholders to effect certain corporate actions. For example, our Articles of Incorporation, authorize our board of directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock without any vote or action by our shareholders. Our board of directors can therefore authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock. The following additional provisions could make it more difficult for shareholders to effect certain corporate actions:

- j Our board of directors is classified into three classes. Each director will serve a three-year term and will stand for re-election once every three years.
  
- j Our shareholders will be able to remove directors only for cause by the affirmative vote of the holders of a majority of the outstanding shares of our capital stock entitled to vote in the election of directors. Vacancies on our board of directors may be filled only by our board of directors.
  
- j Under Pennsylvania law, cumulative voting rights are available to the holders of our common stock if our Articles of Incorporation have not negated cumulative voting. Our Articles of Incorporation provide that our shareholders do not have the right to cumulative votes in the election of directors.
  
- j Our Articles of Incorporation do not permit shareholder action without a meeting by consent except for the unanimous consent of all holders of our common stock. The Articles of Incorporation also provide that special meetings of our shareholders may be called only by the board of directors or the chairman of the board of directors.
  
- j Our Bylaws provide that shareholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of shareholders must provide timely notice of their proposal in writing to the corporate secretary. These provisions may discourage acquisition proposals and may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting stock or may delay, prevent or deter a merger, acquisition, tender offer or proxy contest, which may negatively affect our stock price.

### Risks Relating to the Koppers Inc. 7<sup>7</sup>/<sub>8</sub>% Senior Notes Due 2019 (the Senior Notes ) and Other Indebtedness

Our level of indebtedness could limit cash flow available for our operations and could adversely affect our ability to service our debt or obtain additional financing, if necessary.

We have and will continue to have a significant amount of indebtedness. Our level of indebtedness could restrict our operations and make it more difficult for us to satisfy our obligations under the Senior Notes. Among other things, our substantial indebtedness could:

- j limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes;

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

- j make it more difficult for us to satisfy our financial obligations, including those with respect to the Senior Notes;
  
- j increase our vulnerability to general adverse economic and industry conditions;
  
- j require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

• limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we compete; and

• place us at a competitive disadvantage compared to our competitors that have less debt.

In addition, the indentures governing the Senior Notes and Koppers Inc.'s revolving credit facility contain financial and other restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of the repayment of all of our debts.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

We may be able to incur substantial additional indebtedness in the future. The terms of the Senior Notes indenture and Koppers Inc.'s revolving credit facility do not fully prohibit us from doing so. Koppers Inc.'s \$300.0 million revolving credit facility permits additional borrowing and all of those borrowings would rank senior to the Senior Notes and the guarantees to the extent of the collateral securing such facility. In addition, the indenture relating to the Senior Notes will permit us to incur all of those borrowings under Koppers Inc.'s revolving credit facility and substantial additional indebtedness, including additional secured indebtedness. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the Senior Notes, and to fund planned capital expenditures and research and development efforts will depend on our ability to generate cash in the future. Although there can be no assurances, we believe that the cash provided by our operations will be sufficient to provide for our cash requirements for the foreseeable future. However, our ability to satisfy our obligations will depend on our future operating performance and financial results, which will be subject, in part, to factors beyond our control, including interest rates and general economic, financial and business conditions. We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, including the Senior Notes, or to fund our other liquidity needs. If we are unable to generate sufficient cash flow to service our debt, we may be required to:

• refinance all or a portion of our debt, including the Senior Notes;

• obtain additional financing;

• sell some of our assets or operations;

• reduce or delay capital expenditures and acquisitions; or

• revise or delay our strategic plans.

If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that we would be able to take any of these actions, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt instruments.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

The covenants in Koppers Inc.'s revolving credit facility impose restrictions that may limit our ability to take certain actions. Our failure to comply with these covenants could result in the acceleration of our outstanding indebtedness.

Koppers Inc.'s revolving credit facility contains minimum fixed charge coverage and maximum leverage ratios. Additionally, the facility includes covenants limiting liens, mergers, asset sales, dividends and the incurrence of debt. Our ability to borrow under Koppers Inc.'s revolving credit facility will depend upon satisfaction of these covenants. Events beyond our control can affect our ability to meet those covenants.

If we are unable to meet the terms of our financial covenants, or if we break any of these covenants, a default could occur. A default, if not waived, would entitle our lenders to declare all amounts borrowed under it immediately due and payable, which could also cause the acceleration of obligations under certain other agreements. In the event of acceleration of our outstanding indebtedness, there can be no assurance that we would be able to repay our debt or obtain new financing to refinance our debt. Even if new financing is made available to us, it may not be on terms acceptable to us.

## Table of Contents

The Senior Notes are unsecured and are effectively subordinated to our current and future secured indebtedness.

The Senior Notes are unsecured, and are effectively subordinated to all our current secured indebtedness and any future secured indebtedness that we may incur to the extent of the assets securing such indebtedness. At December 31, 2012, we have a \$300.0 million secured revolving credit facility. The revolving credit agreement and indenture governing the Senior Notes permit us to incur a substantial amount of additional indebtedness. The Senior Notes do not have the right to any security interests in any collateral.

In the event of our insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, we may not have sufficient assets to pay amounts due on any or all of the Senior Notes then outstanding. Holders of the Senior Notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the Senior Notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure holders of our Senior Notes that there will be sufficient assets to pay amounts due on the Senior Notes. As a result, holders of the Senior Notes may receive less, ratably, than holders of our secured indebtedness.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture or may be prohibited from making a repurchase offer required by the indenture.

Upon the occurrence of certain specific kinds of change of control events, we will be required to offer to repurchase all outstanding Senior Notes at 101 percent of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase. The source of funds for that purchase of Senior Notes will be available cash or cash generated from Koppers Inc. or its subsidiaries operations or other potential sources, including borrowings, sales of assets or equity financing. It is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of Senior Notes or that restrictions in our other indebtedness will not allow such repurchases. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the Senior Notes indenture.

Holders of Senior Notes may not be able to determine when a change of control giving rise to their right to have the Senior Notes repurchased by us has occurred following a sale of substantially all of our assets.

A change of control, as defined in the indenture governing the Senior Notes, requires us to make an offer to repurchase all outstanding Senior Notes. The definition of change of control includes a phrase relating to the sale, lease or transfer of all or substantially all of our assets. There is no precise established definition of the phrase substantially all under applicable law. Accordingly, the ability of a holder of Senior Notes to require us to repurchase its Senior Notes as a result of a sale, lease or transfer of less than all of our assets to another individual, group or entity may be uncertain.

The claims of holders of Senior Notes will be structurally subordinated to claims of creditors of any of Koppers Inc.'s subsidiaries that do not guarantee the notes.

Only Koppers Holdings and the wholly-owned domestic restricted subsidiaries of Koppers Inc. guarantee the Senior Notes. The Senior Notes are not guaranteed by any of our non-U.S. subsidiaries. Subject to certain limitations, the indenture governing the Senior Notes permits the non-guarantor subsidiaries to acquire additional assets and incur additional indebtedness. Holders of Senior Notes would not have any claim as a creditor against any of the non-guarantor subsidiaries to the assets and earnings of those subsidiaries. The claims of the creditors of those subsidiaries, including their trade creditors, banks and other lenders, will have priority over any of Koppers Inc.'s claims or those of Koppers Inc.'s other subsidiaries as equity holders of the non-guarantor subsidiaries. Consequently, in any insolvency, liquidation, reorganization, dissolution or other winding-up of any of the non-guarantor subsidiaries, creditors of those subsidiaries would be paid before any amounts would be distributed to Koppers Inc. or to any of the other guarantors as equity and thus be available to satisfy the obligations under the Senior Notes and the guarantees. Accordingly, there can be no assurance that any of the assets of the non-guarantor subsidiaries will be available to satisfy the obligations under the Senior Notes and the guarantees. In addition, Koppers Holdings has substantially no operations independent of Koppers Inc. and its subsidiaries, and there can be no assurance that Koppers Holdings will have any assets available to satisfy the obligations under its guarantee. As of December 31, 2012, the non-guarantor subsidiaries had approximately \$126 million of liabilities (including trade payables but excluding intercompany indebtedness).

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

Our subsidiaries that do not guarantee the Senior Notes accounted for approximately \$582 million, or 37 percent of our net sales and approximately \$50 million, or 39 percent of our operating profit, for the year ended December 31, 2012, and approximately \$378 million, or 49 percent of our total assets as of December 31, 2012. Amounts are presented after giving effect to intercompany eliminations.

Federal or state laws allow courts, under specific circumstances, to void debts, including guarantees, and could require holders of Senior Notes to return payments received from guarantors.

The Senior Notes are guaranteed by Koppers Holdings and the wholly-owned domestic restricted subsidiaries of Koppers Inc. If a bankruptcy proceeding or lawsuit were to be initiated by unpaid creditors, the Senior Notes and the guarantees of the Senior Notes could come under review for federal or state fraudulent transfer violations. Under federal bankruptcy law and comparable provisions of state fraudulent transfer laws, obligations under the Senior Notes or a guarantee of the Senior Notes could be voided, or claims in respect of the Senior Notes or a guarantee of the Senior Notes could be subordinated to all other debts of the debtor or that guarantor if, among other things, the debtor or the guarantor, at the time it incurred the debt evidenced by such Senior Notes or guarantee:

- i received less than reasonably equivalent value or fair consideration for the incurrence of such debt or guarantee; and

- i one of the following applies:

- i it was insolvent or rendered insolvent by reason of such incurrence;

- i it was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or

- i it intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by the debtor or guarantor under the Senior Notes or guarantee of the Senior Notes could be voided and required to be returned to the debtor or guarantor, as the case may be, or deposited in a fund for the benefit of the creditors of the debtor or guarantor.

The measure of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a debtor or a guarantor would be considered insolvent if:

- i the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all its assets;

- i the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- i it could not pay its debts as they become due.

We cannot be sure as to the standards that a court would use to determine whether or not a guarantor was solvent at the relevant time, or, regardless of the standard that the court uses, that the issuance of the guarantees of the Senior Notes would not be voided or subordinated to the guarantor's other debt. If a guarantee was legally challenged, it could also be subject to the claim that, because it was incurred for our benefit, and only indirectly for the benefit of the guarantor, the obligations of the guarantor were incurred for less than fair consideration. A court could thus void the obligations under a guarantee or subordinate a guarantee to a guarantor's other debt or take other action detrimental to holders of the

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

Senior Notes.

The trading price of the Senior Notes may be volatile.

The trading price of the Senior Notes could be subject to significant fluctuations in response to, among other factors, changes in our operating results, interest rates, the market for non-investment grade debt securities, general economic conditions and securities analysts' recommendations, if any, regarding our securities.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



**Table of Contents****ITEM 2. PROPERTIES**

The following chart sets forth information regarding our production facilities. Generally, our production facilities are suitable and adequate for the purposes for which they are intended and overall have sufficient capacity to conduct business in the upcoming year.

| <i>Primary Product Line</i>             | <i>Location</i>                       | <i>Description of Property Interest</i> |
|---|---------------------------------------|---|
| <b>Carbon Materials &amp; Chemicals</b> |                                       |   |
| Carbon pitch                            | Clairton, Pennsylvania                | Owned                                   |
| Carbon pitch                            | Follansbee, West Virginia             | Owned                                   |
| Carbon pitch <sup>(a)</sup>             | Jingtang, Hebei Province, China       | Leased                                  |
| Carbon pitch                            | Mayfield, New South Wales, Australia  | Owned                                   |
| Carbon pitch                            | Nyborg, Denmark                       | Owned/Leased                            |
| Carbon pitch                            | Port Clarence, United Kingdom         | Owned                                   |
| Carbon pitch                            | Portland, Oregon                      | Leased                                  |
| Carbon pitch                            | Scunthorpe, United Kingdom            | Owned                                   |
| Carbon pitch, phthalic anhydride        | Stickney, Illinois                    | Owned                                   |
| Carbon pitch                            | Tangshan, Hebei Province, China       | Leased                                  |
| Carbon pitch                            | Uithoorn, the Netherlands             | Leased                                  |
| <b>Railroad &amp; Utility Products</b>  |                                       |   |
| Railroad crossties, utility poles       | Bunbury, Western Australia, Australia | Owned/Leased                            |
| Railroad crossties, utility poles       | Denver, Colorado                      | Owned                                   |
| Railroad crossties, utility poles       | Florence, South Carolina              | Owned                                   |
| Railroad crossties                      | Galesburg, Illinois                   | Leased                                  |
| Utility poles                           | Grafton, New South Wales, Australia   | Owned                                   |
| Railroad crossties                      | Green Spring, West Virginia           | Owned                                   |
| Railroad crossties                      | Guthrie, Kentucky                     | Owned                                   |
| Rail joint bars                         | Huntington, West Virginia             | Leased                                  |
| Utility poles                           | Longford, Tasmania, Australia         | Owned                                   |
| Railroad crossties                      | Muncy, Pennsylvania                   | Owned                                   |
| Railroad crossties                      | North Little Rock, Arkansas           | Owned                                   |
| Concrete crossties <sup>(b)</sup>       | Portsmouth, Ohio                      | Owned                                   |
| Railroad crossties                      | Roanoke, Virginia                     | Owned                                   |
| Railroad crossties                      | Somerville, Texas                     | Owned                                   |
| Pine products                           | Takura, Queensland, Australia         | Leased                                  |

*(a) Ownership percentage is 30 percent.*

*(b) Ownership percentage is 50 percent.*

Our corporate offices are located in leased office space in Pittsburgh, Pennsylvania. The lease term expires on December 31, 2023.

**ITEM 3. LEGAL PROCEEDINGS**

We are involved in litigation and various proceedings relating to environmental laws and regulations, toxic tort, product liability and other matters. An adverse outcome for certain of these cases could result in a material adverse effect on our business, cash flows and results of operations. The information related to legal matters set forth in Note 18 to the Consolidated Financial Statements of Koppers Holdings Inc. is hereby incorporated by reference.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**EXECUTIVE OFFICERS OF THE COMPANY**

The following table sets forth the names, ages and positions of our and Koppers Inc.'s executive officers as of February 6, 2013. Our executive officers hold their positions until the annual meeting of the board of directors or until their respective successors are elected and qualified.

| <i>Name</i>                | <i>Age</i> | <i>Position</i>  |
|----------------------------|------------|--|
| Walter W. Turner           | 66         | President and Chief Executive Officer of Koppers Holdings Inc. and Koppers Inc. and Director of Koppers Holdings Inc. and Koppers Inc. |
| Leroy M. Ball              | 44         | Vice President and Chief Financial Officer, Koppers Holdings Inc. and Koppers Inc.   |
| James T. Dietz             | 56         | Vice President, Global Business Services and Technology, Koppers Inc.  |
| Joseph P. Dowd             | 52         | Vice President, North American Carbon Materials & Chemicals, Koppers Inc.  |
| Donald E. Evans            | 47         | Vice President, European Operations, Koppers Inc.  |
| Daniel R. Groves           | 46         | Vice President, Human Resources, Koppers Inc.  |
| Leslie S. Hyde             | 52         | Vice President, Safety and Environmental Affairs, Koppers Inc.   |
| Steven R. Lacy             | 57         | Senior Vice President, Administration, General Counsel and Secretary, Koppers Holdings Inc. and Koppers Inc.                           |
| Thomas D. Loadman          | 58         | Vice President and General Manager, Railroad and Utility Products & Services, Koppers Inc.   |
| Mark R. McCormack          | 53         | Vice President, Australian Operations, Koppers Inc.  |
| Brian H. McCurrie          | 52         | Senior Vice President, Global Carbon Materials & Chemicals, Koppers Inc.   |
| Markus G. Spiess           | 52         | Vice President, Global Sales and Marketing, Global Carbon Materials & Chemicals, Koppers Inc.  |
| Louann E. Tronsberg-Deihle | 49         | Treasurer, Koppers Holdings Inc. and Koppers Inc.  |
| J. Robin Zhu               | 48         | Vice President, China Operations, Koppers Inc.   |

*Mr. Turner* was elected President and Chief Executive Officer in, and has been our director since, November 2004. He has been President and Chief Executive Officer and director of Koppers Inc. since February 1998.

*Mr. Ball* was elected Vice President and Chief Financial Officer in August 2010. Prior to joining Koppers, Mr. Ball was Senior Vice President and Chief Financial Officer of Calgon Carbon Inc. (granular activated carbon products and treatment systems) since 2002.

*Mr. Dietz* was elected Vice President, Global Business Services and Technology of Koppers Inc., in May 2011 effective July 2011. He joined Koppers in 1995 and has held positions in operations and engineering. Most recently, he was Vice President, European Operations of Koppers Inc., from January 2007 through June 2011.

*Mr. Dowd* joined Koppers Inc. and was elected Vice President, North American Carbon Materials & Chemicals, Koppers Inc. effective July 2012. Prior to joining Koppers, Mr. Dowd was General Manager and Vice President of North American Recycling for Exide Technologies, Inc. (lead-acid battery manufacturing) from September 2010 to October 2011. Prior to that, Mr. Dowd was Global President and Chief Operating Officer of Silberline Manufacturing (specialty chemicals) from March 2005 to October 2009.

*Mr. Evans* was elected Vice President, European Operations, in May 2011 effective July 2011. Mr. Evans had been previously elected Vice President, Strategic Planning and Growth of Koppers Inc. in August 2010, and prior to that had been elected Vice President, Global Marketing, Sales and Development, Carbon Materials & Chemicals of Koppers Inc. in January 2007. From October 2004 through December 2006, Mr. Evans was Vice President for Advanced Recycling Systems (industrial equipment manufacturing).

*Mr. Groves* joined Koppers Inc. and was elected Vice President, Human Resources in May 2011. Prior to joining Koppers Inc. in May 2011, Mr. Groves was Senior Vice President – HR Business Partner at PNC Financial Services Group, Inc. (financial services)



**Table of Contents**

from May 2010 to April 2011. From April 2007 to July 2009, Mr. Groves was Vice President – Human Resources at Highmark, Inc. (health insurance). Prior to that, Mr. Groves served as Director of Compensation and HRIS from March 2005 to April 2007 of Highmark, Inc.

*Ms. Hyde* was elected Vice President, Safety and Environmental Affairs of Koppers Inc. in January 2005. Prior to that date, Ms. Hyde held the position of Manager, Environmental Department of Koppers Inc. since 1999.

*Mr. Lacy* was elected Senior Vice President, Administration, General Counsel and Secretary in November 2004 and has been Senior Vice President, Administration, General Counsel and Secretary of Koppers Inc. since January 2004. Mr. Lacy had previously been elected Vice President, Law and Human Resources and Secretary of Koppers Inc. in July 2002.

*Mr. Loadman* was elected Vice President and General Manager, Railroad and Utility Products & Services of Koppers Inc. in November 1994.

*Mr. McCormack* was elected Vice President, Australian Operations of Koppers Inc. in November 2006. Mr. McCormack had been elected Vice President, Global Marketing, Sales and Development, Carbon Materials & Chemicals of Koppers Inc. in February 2002.

*Mr. McCurrie* was elected Senior Vice President, Global Carbon Materials & Chemicals of Koppers Inc. in February 2010. Mr. McCurrie had been Vice President and Chief Financial Officer of Koppers Inc. since October 2003.

*Mr. Spiess* was elected Vice President, Global Sales and Marketing, Global Carbon Materials & Chemicals of Koppers Inc. in February 2011. Mr. Spiess had been Vice President, Global Supply, European Marketing and Sales, European Operations of Koppers Inc. since November 2007. From July 2007 through October 2007, Mr. Spiess was a Business Development Manager for L&M Rohstoffhandelsgesellschaft GmbH (ferroalloy and bulk trading). Prior to that, Mr. Spiess was the executive Vice President, Aromatics Division for Ruetgers Chemicals GmbH (coal tar distillation for chemical industry).

*Ms. Tronsberg-Deihle* was elected Treasurer of Koppers Holdings Inc. and Koppers Inc. in August 2008. In July 2008, Ms. Tronsberg-Deihle was appointed as our Treasurer. Ms. Tronsberg-Deihle was the Assistant Treasurer and Risk Manager of WESCO Distribution Inc. (global provider of services and procurement solutions) from 1995 to June 2008.

*Mr. Zhu* was elected Vice President, China Operations of Koppers Inc. in February 2013. Mr. Zhu had previously been appointed Vice President, China Operations of Koppers Inc. in March 2011. Prior to that, Mr. Zhu served as Operations Manager, China Operations of Koppers Inc. from January 2010 to March 2011. From December 2007 to January 2010, Mr. Zhu served as General Manager of Koppers (China) Carbon & Chemical Co., Ltd.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common shares are listed and traded on the NYSE under the symbol **KOP**.

The number of registered holders of Koppers common shares at January 31, 2013 was 94.

See Note 20 to the consolidated financial statements below for information concerning dividends and high and low market prices of our common shares during the past two years.

**Dividend Policy**

Our board of directors adopted a dividend policy, which reflects its judgment that our shareholders would be better served if we distributed to them, as quarterly dividends payable at the discretion of our board of directors, a portion of the cash generated by our business in excess of our expected cash needs rather than retaining it or using the cash for other purposes. Our expected cash needs include operating expenses and working capital requirements, interest and principal payments on our indebtedness, capital expenditures, incremental costs associated with being a public company, taxes and certain other costs. On an annual basis we expect to pay dividends with cash flow from operations, but, due to seasonal or other temporary fluctuations in cash flow, we may from time to time use temporary short-term borrowings to pay quarterly dividends.

We are not required to pay dividends, and our shareholders will not be guaranteed, or have contractual or other rights, to receive dividends. Our board of directors may decide, in its discretion, at any time, to decrease the amount of dividends, otherwise modify or repeal the dividend policy or discontinue entirely the payment of dividends.

Because we are a holding company, substantially all the assets shown on our consolidated balance sheet are held by our subsidiaries. Accordingly, our earnings and cash flow and our ability to pay dividends are dependent upon the earnings and cash flows of our subsidiaries and the distribution or other payment of such earnings to us in the form of dividends. Our ability to pay dividends is restricted by limitations on the ability of our only direct subsidiary, Koppers Inc., to pay dividends, as a result of limitations imposed by Koppers Inc.'s credit agreement, the indenture governing Koppers Inc.'s 7/8% Senior Notes due 2019 (the Senior Notes) and by Pennsylvania law. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Restrictions on Dividends to Koppers Holdings.

**Equity Compensation Plans**

| <i>Plan Category</i>                                   | <i>Number of securities to be issued upon exercise of outstanding options, warrants and rights</i> | <i>Weighted-average exercise price of outstanding options, warrants and rights</i> | <i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)</i> |
|--|--|--|--|
| Equity compensation plans approved by security holders | 745,862 <sup>(1)</sup>   | \$ 15.16   | 916,848 <sup>(2)</sup>   |

(1) Includes shares of our common stock that may be issued pursuant to outstanding options, time-based restricted stock units and performance-based restricted stock units awarded under our Amended and Restated 2005 Long Term Incentive Plan.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

*(2) Includes shares of our common stock that remain available for issuance under our 2004 Restricted Stock Unit Plan and our Amended and Restated 2005 Long Term Incentive Plan.*

### Issuer Purchases of Equity Securities

No shares were repurchased in the quarter ended December 31, 2012 under the current \$75 million share repurchase program approved in November 2011. The approximate dollar value of common shares that may yet be purchased under this program is \$68.6 million. The repurchase program has no expiration date.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following table contains our selected historical consolidated financial data for the five years ended December 31, 2012. The selected historical consolidated financial data for each of the years ended December 31, 2012, 2011, 2010, 2009 and 2008 have been derived from our audited consolidated financial statements. This selected financial data should be read in conjunction with Koppers' Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K as well as Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

|   | <i>Year ended December 31,</i> |             |             |             |             |
|---|--------------------------------|-------------|-------------|-------------|-------------|
|   | <i>2012</i>                    | <i>2011</i> | <i>2010</i> | <i>2009</i> | <i>2008</i> |
| <i>(Dollars in millions, except share and per share amounts)</i>  |                                |             |             |             |             |
| <b>Statement of Income Data:</b>                                  |                                |             |             |             |             |
| Net sales   | \$ 1,555.0                     | \$ 1,466.2  | \$ 1,190.5  | \$ 1,075.2  | \$ 1,299.9  |
| Depreciation and amortization                                     | 28.2                           | 26.9        | 26.6        | 23.2        | 28.5        |
| Operating profit  | 126.6                          | 122.7       | 98.1        | 93.7        | 128.5       |
| Interest expense  | 27.9                           | 27.2        | 27.1        | 36.3        | 42.6        |
| Loss (gain) on extinguishment of debt <sup>(1)</sup>              | 0.0                            | 0.0         | 0.0         | 22.4        | (1.2)       |
| Income from continuing operations                                 | 67.3                           | 57.5        | 44.6        | 21.4        | 47.1        |
| (Loss) income from discontinued operations <sup>(3)(4)</sup>      | (0.1)                          | (19.9)      | 0.1         | 0.3         | 5.7         |
| (Loss) gain on sale of Koppers Arch <sup>(2)</sup>                | 0.0                            | 0.0         | (0.2)       | 0.0         | 0.0         |
| (Loss) gain on sale of Monessen <sup>(3)</sup>                    | 0.0                            | 0.0         | 0.0         | (0.3)       | 85.9        |
| Net income <sup>(4)</sup>   | 67.2                           | 37.6        | 44.5        | 21.4        | 138.7       |
| Net income attributable to Koppers                                | 65.6                           | 36.9        | 44.1        | 18.8        | 138.0       |
| <b>Earnings Per Common Share Data:</b>                            |                                |             |             |             |             |
| Basic continuing operations                                       | \$ 3.18                        | \$ 2.75     | \$ 2.14     | \$ 0.92     | \$ 2.24     |
| Diluted continuing operations                                     | 3.14                           | 2.72        | 2.13        | 0.91        | 2.24        |
| <b>Weighted average common shares outstanding (in thousands):</b> |                                |             |             |             |             |
| Basic   | 20,681                         | 20,599      | 20,543      | 20,446      | 20,651      |
| Diluted   | 20,927                         | 20,833      | 20,676      | 20,561      | 20,767      |
| <b>Balance Sheet Data:</b>  |                                |             |             |             |             |
| Cash and cash equivalents <sup>(5)</sup>                          | \$ 66.7                        | \$ 54.1     | \$ 35.3     | \$ 58.4     | \$ 63.1     |
| Total assets  | 780.0                          | 730.7       | 669.2       | 644.4       | 661.1       |
| Total debt  | 296.1                          | 302.1       | 296.4       | 335.3       | 374.9       |
| <b>Other Data:</b>  |                                |             |             |             |             |
| Capital expenditures: <sup>(6)</sup>                              | \$ 28.9                        | \$ 32.5     | \$ 28.5     | \$ 17.5     | \$ 33.7     |
| Cash dividends declared per common share                          | \$ 0.96                        | \$ 0.88     | \$ 0.88     | \$ 0.88     | \$ 0.88     |

(1) Includes loss (gain) on the extinguishment of Senior Discount Notes and Senior Secured Notes in 2009, a portion of the Senior Secured Notes in 2008 and a portion of the Senior Discount Notes in 2006.

(2) In July 2007, we sold our 51 percent interest in Koppers Arch Investments Pty Limited and its subsidiaries ( Koppers Arch ). Koppers Arch's results of operations have been classified as a discontinued operation for all periods presented.

(3) In October 2008, we sold our 95 percent interest in Koppers Monessen Partners LP ( Monessen ). Monessen's results of operations have been classified as a discontinued operation for all periods presented.

(4) In March 2012, we completed run-off activities at our closed carbon black facility located in Kurnell, Australia ( carbon black facility ). The costs related to this closure totaled \$41.0 million in 2011. The carbon black facility's results of operations have been classified as a discontinued operation for all periods presented.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

*(5) Includes cash of discontinued operations.*

*(6) Excludes capital expenditures of the carbon black facility, a discontinued operation, of \$0.7 million, \$1.4 million, \$0.5 million and \$3.0 million for the years ended December 31, 2011, 2010, 2009 and 2008. Excludes capital expenditures by Monessen, a discontinued operation, of \$0.4 million for the year ended December 31, 2008.*



---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

## Overview

We are a leading integrated global provider of carbon compounds and commercial wood treatment products and services. Our products are used in a variety of niche applications in a diverse range of end-markets, including the aluminum, railroad, specialty chemical, utility, rubber, concrete and steel industries. We serve our customers through a comprehensive global manufacturing and distribution network, with manufacturing facilities located in the United States, Australia, China, the United Kingdom, Denmark and the Netherlands.

We operate two principal businesses: **Carbon Materials & Chemicals (CM&C)** and **Railroad & Utility Products (R&UP)**.

Through our CM&C business, we process coal tar into a variety of products, including carbon pitch, creosote, naphthalene and phthalic anhydride, which are intermediate materials necessary in the production of aluminum, the pressure treatment of wood and the production of carbon black, the production of high-strength concrete, and the production of plasticizers and specialty chemicals, respectively. Through our R&UP business, we believe that we are the largest supplier of railroad crossties to the North American railroads. Our other commercial wood treatment products include utility poles for the electric and telephone utility industries in North America and Australia. We also provide rail joint bar products as well as various services to the railroad industry.

In October 2012 we entered into an agreement with Nippon Steel and Sumikin Chemical and several other entities to develop and construct a fully integrated coal tar based carbon products complex in Pizhou City, Jiangsu Province, China. The complex will include a 300,000 metric ton tar distillation facility that will be majority-owned by Koppers, as well as a carbon black plant and a needle coke plant that will be owned by Nippon Steel and Sumikin Chemical. A significant portion of the products produced at the tar distillation plant will be sold under a long-term supply contract with Nippon Steel and Sumikin Chemical to supply their carbon black and needle coke plants. The project has commenced and construction of the tar distillation plant is expected to be completed in mid-2014.

## Outlook

*Trend Overview*

Our businesses and results of operations are impacted by various competitive and other factors including (i) the impact of global economic conditions on demand for our products; (ii) raw materials pricing and availability, in particular the amount and quality of coal tar available in global markets, which is negatively affected by reductions in steel production; (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 and phthalic anhydride; (iv) competitive conditions in global carbon pitch markets; and (v) changes in foreign exchange rates.

The availability of coal tar is linked to levels of metallurgical coke production. As the global steel industry has reduced production of steel and metallurgical coke, the volumes of coal tar by-product were also reduced. Our ability to obtain coal tar and the price we are able to negotiate has a significant impact on the level of profitability of our business. Many of our sales contracts include provisions that allow for price increases based on increases in the price of raw materials, which has allowed us to generally maintain profit dollars in our core businesses. However, significant increases in raw material costs can result in margin dilution if only the increased cost of the raw material is passed on to the customer. Additionally, in certain regions such as China that have competing markets for coal tar, or in regions where the available supply of our products exceeds demand, we may not be able to recover raw material cost increases in the selling prices for our end products.

The primary product produced by CM&C is carbon pitch, which is sold primarily to the aluminum industry to be used in the production of carbon anodes. 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 and Western Europe have seen significant amounts of smelting capacity idled or closed over the last several years.

In late 2011 and early 2012, reductions in aluminum pricing resulted in additional closures and curtailments in Europe and Australia that have resulted in lower sales volumes of carbon pitch for us in those regions. While we expect to recover some of



**Table of Contents**

these lower volumes from operations in China, margins may be negatively affected as our increased presence in Asia has had a dilutive effect on margins due to market conditions in that region as well as the joint venture ownership structures of our Chinese operations.

Our businesses and results of operations were negatively affected in 2012 by difficult economic conditions in Europe. Certain key end markets experienced significant reductions in demand that have negatively affected the profitability for some of our products produced and sold in Europe, and we expect this to continue through 2013.

Several of our products, particularly carbon black feedstock and phthalic anhydride, 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. However, over the past few years, our coal tar costs have demonstrated a stronger correlation with the price of oil, which has resulted in higher raw material and finished product costs as the price of oil has increased. In response, we have instituted price increases in an attempt to recover the higher coal tar costs from our customers.

The primary end-market for R&UP is the North American railroad industry, which has a large installed base of wood crossties that require periodic replacement. As a result, our volumes for crossties and our operating results for this business have historically been relatively stable. However, our railroad business can be negatively affected by weather conditions that make it difficult for sawmills that provide our raw material to harvest timber from the forests. Additionally, some of our Class I railroad customers, who make up the largest portion of our business, may reduce inventory levels at certain times to manage working capital, which can adversely affect our volumes and profitability during certain periods.

We also sell crossties to commercial customers consisting primarily of short-line railroads, whose buying patterns have historically been influenced by general economic conditions. As a result, during recessionary periods, sales volumes to our commercial customers have typically been reduced, resulting in lower revenues and profitability for our business.

*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 several 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 Years Ended December 31, 2012 and December 31, 2011

*Consolidated Results*

**Net sales** for the years ended December 31, 2012 and 2011 are summarized by segment in the following table:

|                              | <i>Year<br/>Ended<br/>December 31,</i> |            | <i>Net<br/>Change</i> |
|------------------------------|--|------------|-----------------------|
|                              | 2012                                   | 2011       |                       |
| <i>(Dollars in millions)</i> |  |            |                       |
| Carbon Materials & Chemicals | \$ 999.7                               | \$ 943.1   | +6%                   |
| Railroad & Utility Products  | 555.3                                  | 523.1      | +6%                   |
|                              | \$ 1,555.0                             | \$ 1,466.2 | +6%                   |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**Carbon Materials & Chemicals net sales** for the year ended December 31, 2012 increased by \$56.6 million or six percent. Sales volumes for distillates increased sales by six percent over the prior year due to higher sales volumes of carbon black feedstock for Chinese operations combined with higher sales volumes of carbon black feedstock from Australian operations to third parties as a result of the closure of our carbon black plant in 2011. Sales prices for distillates increased sales by two percent due mainly to higher oil prices. Sales prices for pitch increased sales by five percent due to higher raw material costs, and were partially offset by lower sales volumes for pitch of four percent of sales as lower sales volumes for North America, Australia and Europe were partially offset by higher sales volumes from Chinese operations. The lower sales volumes were due mainly to aluminum smelter closures and production cutbacks. Foreign currency translation resulted in a decrease in sales of two percent.

**Railroad & Utility Products net sales** for the year ended December 31, 2012 increased by \$32.2 million or six percent. Sales prices for railroad crossties increased sales by five percent and were partially offset by lower sales volumes for crossties of two percent of sales for the year ended December 31, 2011, with the higher sales prices driven mainly by higher sales volumes of value added products to our Class I railroad customers. Sales volumes and prices for utility poles increased sales by one percent each driven by higher sales volumes in the United States and Australia and higher sales prices in Australia due to product mix.

**Cost of sales** as a percentage of net sales was 85 percent for the year ended December 31, 2012 which was unchanged from the prior year. Overall, cost of sales increased by \$82.3 million when compared to the prior year period due primarily to higher CM&C and R&UP sales volumes.

**Depreciation and amortization** for the year ended December 31, 2012 was \$1.3 million higher when compared to the prior year due partially to a fixed asset impairment charge of \$0.6 million related to future capital requirements in excess of net cash generation expected from an electricity co-generation facility located at one of the Company's wood treatment plants in the United States.

**Selling, general and administrative expenses** for the year ended December 31, 2012 were \$1.3 million higher when compared to the prior year period due primarily to higher compensation-related expenses.

**Interest expense** for the year ended December 31, 2012 was \$0.7 million higher when compared to the prior year period reflecting a mix of changes in average levels of borrowings and interest rates in 2012.

**Income taxes** for the year ended December 31, 2012 were \$5.4 million lower when compared to the prior year period. Our effective income tax rate for the year ended December 31, 2012 was 33.1 percent as compared to the prior year period of 40.2 percent. The decrease in the effective income tax rate is primarily due to lower net tax reserves of \$2.4 million recorded during 2012 as compared to 2011. Income tax expense was also favorably impacted in 2012 by the recognition of tax benefits related to prior years related to foreign tax credits and domestic manufacturing deductions totaling \$1.6 million and the recognition of certain state tax net operating loss carryforwards related to prior tax years of \$1.5 million.

*Segment Results*

**Segment operating profit** for the years ended December 31, 2012 and 2011 is summarized by segment in the following table:

|                              | <i>Year Ended<br/>December 31,</i> |             |                 |
|------------------------------|------------------------------------|-------------|-----------------|
|                              | <i>2012</i>                        | <i>2011</i> | <i>% Change</i> |
| <i>(Dollars in millions)</i> |                                    |             |                 |
| <b>Operating profit:</b>     |                                    |             |                 |
| Carbon Materials & Chemicals | \$ 83.1                            | \$ 89.1     | -7%             |
| Railroad & Utility Products  | 45.1                               | 34.8        | +30%            |
| Corporate                    | (1.6)                              | (1.2)       | -33%            |
|                              | \$ 126.6                           | \$ 122.7    | +3%             |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

|  |      |      |       |
|--|------|------|-------|
| Operating profit as a percentage of net sales: |      |      |       |
| Carbon Materials & Chemicals                   | 8.3% | 9.4% | -1.1% |
| Railroad & Utility Products                    | 8.1% | 6.7% | +1.4% |
|  | 8.1% | 8.4% | -0.3% |

**Table of Contents**

**Carbon Materials & Chemicals operating profit** for the year ended December 31, 2012 decreased by \$6.0 million or seven percent over the prior year. CM&C operating profit as a percent of sales decreased to 8.3 percent from 9.4 percent in the prior year due mainly to lower pitch volumes, lower naphthalene prices and higher raw material costs combined with a \$3.1 million increase in our allowance for doubtful accounts due to a customer collection issue in Europe, \$2.5 million of costs related to a pitch tank leak in Australia, and \$1.9 million of charges related to a plant outage in The Netherlands. The pitch tank leak and plant outage are net of insurance recoveries. These items were partially offset by a refund of \$3.6 million resulting from a supplier audit of material transport weights.

**Railroad & Utility Products operating profit** for the year ended December 31, 2012 increased by \$10.3 million or 30 percent. Operating profit as a percentage of sales increased to 8.1 percent from 6.7 percent in the prior year as higher sales prices for railroad crossties driven by higher volumes of value added products more than offset lower sales volumes for crossties. Operating profit was also positively impacted by higher profitability and margins from our utility pole business.

Results of Operations Comparison of Years Ended December 31, 2011 and December 31, 2010

*Consolidated Results*

**Net sales** for the years ended December 31, 2011 and 2010 are summarized by segment in the following table:

|                              | <i>Year<br/>Ended<br/>December 31,</i> |             | <i>Net<br/>Change</i> |
|------------------------------|--|-------------|-----------------------|
|                              | <i>2011</i>                            | <i>2010</i> |                       |
| <i>(Dollars in millions)</i> |  |             |                       |
| Carbon Materials & Chemicals | \$ 943.1                               | \$ 740.6    | +27%                  |
| Railroad & Utility Products  | 523.1                                  | 449.9       | +16%                  |
|                              | \$ 1,466.2                             | \$ 1,190.5  | +23%                  |

**Carbon Materials & Chemicals net sales** for the year ended December 31, 2011 increased by \$202.5 million or 27 percent over the prior year. Pricing for carbon materials increased sales by four percent over the prior year due to higher raw material costs, and volumes for carbon materials increased sales by eight percent due to higher demand in all geographic regions as global aluminum production increased over the prior year.

Distillate pricing increased sales by three percent due to higher average worldwide oil prices as compared to the prior year. The increase in distillate sales volumes was due primarily to higher creosote sales in North America and higher carbon black feedstock sales in Europe compared to the prior year.

For coal tar chemicals, increases in phthalic anhydride prices in the U.S. of three percent of sales offset a reduction in naphthalene prices of one percent of sales. Sales of other products increased by one percent of sales as compared to the prior year driven primarily by increased sales volumes from Chinese operations.

Foreign currency translation resulted in an increase in sales of six percent.

**Railroad & Utility Products net sales** for the year ended December 31, 2011 increased by \$73.2 million or 16 percent. Sales prices and volumes for railroad crossties increased three percent and six percent, respectively for the year ended December 31, 2011, driven by higher volumes of untreated crossties from the Class I railroad customers and higher volumes and prices for crossties sold to commercial customers. Price increases for treating services increased one percent while volumes decreased two percent as a result of higher volumes of treated ties sold to commercial customers. With respect to other products, higher volumes of six percent related to sales of rail joint bars and related products from the Portec acquisition in December 2010.

**Cost of sales** as a percentage of net sales was 85 percent for the year ended December 31, 2011 as compared to 84 percent for the year ended December 31, 2010. Overall, cost of sales increased by \$238.9 million when compared to the prior year period due primarily to higher CM&C and R&UP sales volumes.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

**Depreciation and amortization** for the year ended December 31, 2011 was \$0.3 million higher when compared to the prior year.

**Selling, general and administrative expenses** for the year ended December 31, 2011 were \$11.9 million higher when compared to the prior year period due primarily to higher compensation-related expenses.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**Interest expense** for the year ended December 31, 2011 was \$0.1 million higher when compared to the prior year period reflecting a small increase in the average level of borrowing in 2011.

**Income taxes** for the year ended December 31, 2011 were \$9.8 million higher when compared to the prior year period due primarily to the increase in pretax income of \$22.7 million as compared to the prior year. Our effective income tax rate for the year ended December 31, 2011 was 40.2 percent as compared to the prior year period of 39.3 percent. The increase in the effective income tax rate is primarily due to a \$3.5 million tax reserve associated with our European restructuring project.

*Segment Results*

**Segment operating profit** for the years ended December 31, 2011 and 2010 is summarized by segment in the following table:

|   | <i>Year Ended<br/>December 31,</i> |             | <i>% Change</i> |
|---|------------------------------------|-------------|-----------------|
|   | <i>2011</i>                        | <i>2010</i> |                 |
| <i>(Dollars in millions)</i>                          |                                    |             |                 |
| <b>Operating profit:</b>                              |                                    |             |                 |
| Carbon Materials & Chemicals                          | \$ 89.1                            | \$ 76.7     | +16%            |
| Railroad & Utility Products                           | 34.8                               | 23.0        | +51%            |
| Corporate   | (1.2)                              | (1.6)       | +25%            |
|   | \$ 122.7                           | \$ 98.1     | +25%            |
| <b>Operating profit as a percentage of net sales:</b> |                                    |             |                 |
| Carbon Materials & Chemicals                          | 9.4%                               | 10.4%       | -1.0%           |
| Railroad & Utility Products                           | 6.7%                               | 5.1%        | +1.6%           |
|   | 8.4%                               | 8.2%        | +0.2%           |

**Carbon Materials & Chemicals operating profit** for the year ended December 31, 2011 increased by \$12.4 million or 16 percent. Operating profit as a percentage of net sales decreased to 9.4 percent from 10.4 percent as higher raw material costs and lower sales prices for naphthalene more than offset higher sales prices for pitch and phthalic anhydride.

**Railroad & Utility Products operating profit** for the year ended December 31, 2011 increased by \$11.8 million or 51 percent. Operating profit as a percentage of net sales increased to 6.7 percent from 5.1 percent in the prior year as a result of higher untreated crosstie volumes combined with higher prices and volumes for commercial crossties, higher volumes of value added products and the acquisition of the rail joint bar business in December 2010.

**Cash Flow**

**Net cash provided by operating activities** was \$77.8 million for the year ended December 31, 2012 as compared to net cash provided by operating activities of \$76.9 million for the year ended December 31, 2011. Net working capital uses for 2012 were \$19.4 million as compared to net working capital uses of \$5.7 million in 2011. The increase in working capital requirements in 2012 was primarily due to increases in inventory totaling \$26.5 million as a result of increased demand for crossties and increased levels of carbon materials to better manage supply chain requirements.

Net cash provided by operating activities was \$76.9 million for the year ended December 31, 2011 as compared to net cash provided by operating activities of \$105.3 million for the year ended December 31, 2010. Net cash flows from operating activities decreased by approximately \$28 million between periods due primarily to increased requirements for working capital. Net working capital uses for 2011 were



## Edgar Filing: Koppers Holdings Inc. - Form 10-K

\$5.7 million which was due primarily to increases in accounts receivable of \$33.2 million partially offset by an increase in accounts payable of \$15.3 million. The increase is due to higher sales and related purchasing activity in 2011.

**Net cash used in investing activities** was \$39.9 million for the year ended December 31, 2012 as compared to net cash used in investing activities of \$44.7 million for the year ended December 31, 2011. Increased acquisition expenditures of \$14.0 million in 2012 were partially offset by the repayment of \$2.2 million from the loan to Tangshan Koppers Kailuan Carbon Chemical Company Limited and lower capital expenditures of \$4.3 million.

---

**Table of Contents**

Net cash used in investing activities was \$44.7 million for the year ended December 31, 2011 as compared to net cash used in investing activities of \$63.4 million for the year ended December 31, 2010. Decreased acquisition expenditures of \$34.9 million were partially offset by a loan to Tangshan Koppers Kailuan Carbon Chemical Company Limited of \$11.7 million.

**Net cash used in financing activities** was \$27.3 million for the year ended December 31, 2012 as compared to net cash used in financing activities of \$13.3 million for the year ended December 31, 2011. The increase in cash used for financing activities was principally due to net treasury stock repurchases of \$8.1 million and net repayments of the revolving credit facility of \$6.4 million as compared to net borrowings of debt totaling \$5.4 million for the year ended December 31, 2011.

Net cash used in financing activities was \$13.3 million for the year ended December 31, 2011 as compared to net cash used in financing activities of \$64.3 million for the year ended December 31, 2010. Net repayments of debt totaled \$40.0 million in the year ended December 31, 2010 as compared to net borrowings of debt totaling \$5.4 million for the year ended December 31, 2011.

**Dividends paid** were \$19.5 million for the year ended December 31, 2012 as compared to dividends paid of \$18.2 million for the year ended December 31, 2011. Dividends reflect an annual dividend rate of 96 cents per common share in 2012 as compared to an annual dividend rate of 88 cents per common share in 2011.

Liquidity and Capital Resources

*Restrictions on Dividends to Koppers Holdings*

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 us 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 our 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 (which we refer to as the basket ) at such point in time.

The basket is governed by a formula based on the sum of a beginning amount, plus or minus a percentage of Koppers Inc.'s consolidated net income (as defined in the indenture), plus the net proceeds of Koppers Inc.'s qualified stock issuance or conversions of debt to qualified stock, plus the net proceeds from the sale of or a reduction in an investment (as defined in the indenture) or the value of the assets of an unrestricted subsidiary which is designated a restricted subsidiary. At December 31, 2012 the basket totaled \$201.8 million. Notwithstanding such restrictions, the indenture governing Koppers Inc.'s Senior Notes permits an additional aggregate amount of \$20.0 million each fiscal year to finance dividends on the capital stock of Koppers Holdings, whether or not there is any basket availability, provided that at the time of such payment, no default in the indenture has occurred or would result from financing the dividends.

In addition, certain required coverage ratios in Koppers Inc.'s revolving credit facility may restrict the ability of Koppers Inc. to pay dividends. See Debt Covenants.

*Liquidity*

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to \$300.0 million at variable interest 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 December 31, 2012, we had \$290.0 million of unused revolving credit availability for working capital purposes after restrictions by various debt covenants and certain letter of credit commitments. As of December 31, 2012, \$10.0 million of commitments were utilized by outstanding letters of credit.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

The following table summarizes our estimated liquidity as of December 31, 2012 (*dollars in millions*):

|  |              |
|--|--------------|
| Cash and cash equivalents <sup>(1)</sup>         | \$ 66.7      |
| Amount available under revolving credit facility | 290.0        |
| Amount available under other credit facilities   | 9.0          |
| <br>Total estimated liquidity                    | <br>\$ 365.7 |

(1) Cash includes approximately \$62 million held by foreign subsidiaries, which if repatriated to the United States, would incur an estimated cash tax cost of approximately \$20 million.

Our estimated liquidity was \$344.7 million at December 31, 2011. The increase in estimated liquidity from that date is due primarily to an increase in cash and an increase in the availability under the revolving credit facility due to lower borrowings at the end of the year.

In June 2012, we filed a registration statement on Form S-3 with the Securities and Exchange Commission which gives us the opportunity to offer common stock, debt securities, preferred stock, depositary shares, warrants and units (or a combination of these securities) from time to time in one or more offerings. In addition, Koppers Inc. may sell debt securities from time to time under the registration statement. This registration statement expires in June 2015.

Our need for cash in the next twelve months relates primarily to contractual obligations which include debt service, purchase commitments and operating leases, as well as working capital, capital maintenance programs and mandatory and voluntary defined benefit plan funding. We may also use cash to pursue potential strategic acquisitions. Capital expenditures in 2013, excluding acquisitions, are expected to total approximately \$38 million. In October 2012, a subsidiary of the Company signed an agreement to construct a coal tar distillation facility in China. Construction is expected to commence in early 2013 and be completed by mid-2014. The Company's expected future capital requirement commitment for the majority-owned facility is approximately \$50 million and will be financed by available cash and incremental financing. A significant portion of the capital requirements will be provided over the next 18 months.

*Schedule of Certain Contractual Obligations*

The following table details our projected payments for our significant contractual obligations as of December 31, 2012. The table is based upon available information and certain assumptions we believe to be reasonable.

| <i>(in millions)</i>                   | <i>Total</i>   | <i>Payments Due by Period</i> |                  |                  |                    |
|--|----------------|-------------------------------|------------------|------------------|--------------------|
|  |                | <i>2013</i>                   | <i>2014-2015</i> | <i>2016-2017</i> | <i>Later years</i> |
| Long-term debt (including accretion)   | \$ 300.0       | \$ 0.0                        | \$ 0.0           | \$ 0.0           | \$ 300.0           |
| Interest on debt                       | 165.4          | 23.6                          | 47.3             | 47.3             | 47.2               |
| Operating leases                       | 99.8           | 31.8                          | 25.1             | 12.9             | 30.0               |
| Purchase commitments <sup>(1)</sup>    | 1,528.0        | 370.1                         | 537.8            | 345.2            | 274.9              |
| <br>Total contractual cash obligations | <br>\$ 2,093.2 | <br>\$ 425.5                  | <br>\$ 610.2     | <br>\$ 405.4     | <br>\$ 652.1       |

(1)

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

*Consists primarily of raw materials purchase contracts. These are typically not fixed price arrangements; the prices are based on the prevailing market prices.*

*As a result, we generally expect to be able to hedge the purchases with sales at those future prices.*

Pension and other employee benefit plan funding obligations (for defined benefit plans) are not included in the table above. We expect defined benefit plan contributions to total approximately \$24 million in 2013. Estimated funding obligations are determined by asset performance, workforce and retiree demographics, tax and employment laws and other actuarial assumptions which may change the annual funding obligations in addition to decisions to fund in excess of statutorily required amounts. The funded status of our defined benefit plans is disclosed in Item 8. Financial Statements and Supplementary Data Note 15.

### *Schedule of Certain Other Commercial Commitments*

The following table details our projected payments for other significant commercial commitments as of December 31, 2012. The table is based upon available information and certain assumptions we believe to be reasonable.

| <i>(in millions)</i>                      | <i>Total</i>    | <i>2013</i>    | <i>2014-2015</i> | <i>Payments Due by Period</i> |                    |
|---|-----------------|----------------|------------------|-------------------------------|--------------------|
|   |                 |                |                  | <i>2016-2017</i>              | <i>Later years</i> |
| Lines of credit (unused)                  | \$ 299.0        | \$ 9.0         | \$ 290.0         | \$ 0.0                        | \$ 0.0             |
| Standby letters of credit                 | 10.8            | 10.8           | 0.0              | 0.0                           | 0.0                |
| <b>Total other commercial commitments</b> | <b>\$ 309.8</b> | <b>\$ 19.8</b> | <b>\$ 290.0</b>  | <b>\$ 0.0</b>                 | <b>\$ 0.0</b>      |

---

## **Table of Contents**

### *Debt Covenants*

The covenants that affect availability of the revolving credit facility and which may restrict the ability of Koppers Inc. to pay dividends include the following financial ratios:

- i The fixed charge coverage ratio, calculated as of the end of each fiscal quarter for the four fiscal quarters then ended, is not permitted to be less than 1.10. The fixed charge coverage ratio at December 31, 2012 was 2.6.
- i The leverage ratio, calculated as of the end of each fiscal quarter for the four fiscal quarters then ended, is not permitted to exceed 4.50. The leverage ratio at December 31, 2012 was 1.73.

We are currently in compliance with all covenants in the credit agreement governing the revolving credit facility.

At December 31, 2012, Koppers Inc. had \$300.0 million principal value outstanding of Senior Notes. The Senior Notes include customary covenants that restrict, among other things, our ability to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of the assets or enter into various transactions with affiliates. We are currently in compliance with all covenants in the Senior Notes indenture.

### *Other Matters*

#### *Foreign Operations and Foreign Currency Transactions*

We are subject to foreign currency translation fluctuations due to our foreign operations. For the years ended December 31, 2012, 2011 and 2010, exchange rate fluctuations resulted in an increase (decrease) to comprehensive income of \$5.8 million, \$(2.5) million and \$11.5 million, respectively. Foreign currency transaction gains and losses result from transactions denominated in a currency which is different from the currency used by the entity to prepare its financial statements. Foreign currency transaction losses were \$1.7 million, \$0.5 million and \$2.3 million for the years ended December 31, 2012, 2011, and 2010, respectively.

#### *Recently Issued Accounting Guidance*

There is no recently issued accounting guidance that is expected to have a material impact on our financial results.

#### *Critical Accounting Policies*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to use judgment in making estimates and assumptions that affect the reported amounts of revenues and expenses, assets and liabilities, and the disclosure of contingent liabilities. The following accounting policies are based on, among other things, judgments and assumptions made by management that include inherent risks and uncertainties. Our management's estimates are based on the relevant information available at the end of each period.

**Revenue Recognition.** We recognize revenue from product sales at the time of shipment or when title passes to the customer. We recognize revenue related to the procurement of certain untreated railroad cross-ties upon transfer of title, which occurs upon delivery to our plant and acceptance by the customer. Service revenue, consisting primarily of wood treating services, is recognized at the time the service is provided. Our recognition of revenue with respect to untreated cross-ties meets all the recognition criteria of the Securities and Exchange Commission's Staff Accounting Bulletin Topic 13A3, including transfer of title and risk of ownership, the existence of fixed purchase commitments and delivery schedules established by the customer and the completion of all performance obligations by us.

**Accounts Receivable.** We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. In circumstances where we become aware of a specific customer's inability to meet its financial obligations, a specific reserve for bad debts is recorded against amounts due. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. During 2012, we recorded an allowance for doubtful accounts totaling \$3.1 million related to the bankruptcy of a European customer.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

***Inventories.*** In the United States, CM&C and R&UP inventories are valued at the lower of cost, utilizing the last-in, first-out ( LIFO ) basis, or market. Inventories outside the United States are valued at the lower of cost, utilizing the first-in, first-out

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

basis ( FIFO ), or market. Market represents replacement cost for raw materials and net realizable value for work in process and finished goods. LIFO inventories constituted approximately 62 percent of the FIFO inventory value at December 31, 2012 and 2011. In 2012 and 2011, we recorded inventory writedowns of \$0.4 million and \$3.3 million, respectively, related to the decision to cease manufacturing operations at our carbon black facility in Australia.

**Long-Lived Assets.** Our management periodically evaluates the net realizable value of long-lived assets, including property, plant and equipment, based on a number of factors including operating results, projected future cash flows and business plans. We record long-lived assets at the lower of cost or fair value, with fair value based on assumptions concerning the amount and timing of estimated future cash flows. Since judgment is involved in determining the fair value of fixed assets, there is a risk that the carrying value of our long-lived assets may be overstated. During 2012, we recorded a fixed asset impairment charge of \$0.6 million related to future capital requirements in excess of net cash generation expected from an electricity co-generation facility located at one of the Company's wood treatment plants in the United States. In 2011 we recorded a fixed asset impairment charge of \$20.2 million related to the decision to cease manufacturing operations at our carbon black facility in Australia.

**Goodwill.** Goodwill is not amortized but is assessed for impairment at least on an annual basis. In making this assessment, management relies on various factors, including operating results, estimated future cash flows, and business plans. There are inherent uncertainties related to these factors and in our management's judgment in applying them to the analysis of goodwill impairment. Because management's judgment is involved in performing goodwill impairment analyses, there is risk that the carrying value of goodwill is overstated.

Goodwill valuations are performed using projected operating results of the relevant reporting units. We have three reporting units for purposes of goodwill evaluation. These units consist of our Carbon Materials & Chemicals operating segment, Railroad Products & Services and Koppers Wood Products. Railroad Products & Services and Koppers Wood Products are one level below our Railroad & Utility Products operating segment. The Railroad Products & Services reporting unit primarily serves the rail industry in the United States and the Koppers Wood Products primarily serves the utility and residential markets in Australia.

Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods. Additionally, disruptions to our business such as prolonged recessionary periods or unexpected significant declines in operating results of the relevant reporting units could result in charges for goodwill and other asset impairments in future periods.

**Deferred Tax Assets.** At December 31, 2012 our balance sheet included \$85.3 million of deferred tax assets, net of an \$17.4 million valuation allowance. We have determined that this valuation allowance is required for our deferred tax assets based on future earnings projections. In order to fully realize our deferred tax assets in relation to our temporary differences and exclusive to any net operating losses, we will have to generate approximately \$255 million of taxable income. The realization of these deferred tax assets is not subject to any expiration and is dependent upon the reversal of the underlying temporary differences. In order to fully realize our deferred tax assets (net of valuation allowances) in relation to our state net operating losses, we will have to generate approximately \$500 million of taxable income before any applicable adjustments and apportionment fractions per state laws between 2013 and 2026. To the extent that we encounter unexpected difficulties in market conditions, adverse changes in regulations affecting our businesses and operations, adverse outcomes in legal and environmental matters, or any other unfavorable conditions, the projections for future taxable income may be overstated and we may be required to record an increase in the valuation allowance related to these deferred tax assets which could have a material adverse effect on income in the future. In 2012, we recorded a deferred tax asset and offsetting valuation allowance against that deferred tax asset of \$8.8 million for foreign tax credits earned in prior tax years. In 2012, we recorded a reversal of valuation allowances totaling \$1.5 million relating to the recognition of certain state tax net operating loss carryforwards related to prior tax years. Item 8. Financial Statements and Supplementary Data Note 7 includes information on deferred tax activity during the past two years.

**Accrued Insurance.** We are insured for property, casualty and workers' compensation insurance up to various stop loss amounts after meeting required retention levels. Losses are accrued based upon estimates of the liability for the related retentions for claims incurred using certain actuarial assumptions followed in the insurance industry and based on our experience. In the event we incur a significant number of losses beyond the coverage retention limits, additional expense beyond the actuarial projections would be required. Item 8. Financial Statements and Supplementary Data Note 2 includes information on expense recognized during the past two years.

**Asset Retirement Obligations.** We measure asset retirement obligations based upon the applicable accounting guidance, using certain assumptions including estimates regarding the recovery of residues in storage tanks. In the event that operational





---

## Table of Contents

or regulatory issues vary from our estimates, we could incur additional significant charges to income and increases in cash expenditures related to the disposal of those residues. Certain conditional asset retirement obligations related to facilities have not been recorded in the consolidated financial statements due to uncertainties surrounding the ultimate settlement date and estimate of fair value related to a legal obligation to perform an asset retirement activity. At the date a reasonable estimate of the ultimate settlement can be made, we will record an asset retirement obligation and such amounts may be material to the consolidated financial statements in the period in which they are recorded. In 2011, we recorded asset retirement obligations of \$6.2 million related to the decision to cease manufacturing operations at our carbon black facility in Australia. Item 8. Financial Statements and Supplementary Data Note 2 includes information on expense recognized during the past two years.

**Pension and Postretirement Benefits.** Accounting for pension and other postretirement benefit obligations involves numerous assumptions, the most significant of which relate to the following:

- i the discount rate for measuring the present value of future plan obligations;
- i the expected long-term return on plan assets;
- i the rate of future increases in compensation levels; and
- i health care cost projections.

We develop our demographics and utilize the work of third-party actuaries to assist in the measurement of these obligations. We have selected different discount rates for our pension plans and our other post retirement benefit plans due to the different projected benefit payment patterns. In determining the assumed discount rates for 2012, we use our third party actuary's discount rate model. This model calculates an equivalent single discount rate for the projected benefit plan cash flows using a hypothetical bond portfolio to match expected cash flows under our benefit plans. The bonds used are rated AA or higher by a recognized rating agency and only non-callable bonds are included with the exception of those with a make-whole call feature. The actuary limited the selection to those bonds with a minimum of 100,000 outstanding issues. Outlier bonds whose yields exceeded two standard deviations from the yield curve derived from similar quality bonds were excluded.

At December 31, 2011, the discount rate was determined based on all future expected benefit payments for the qualified plan discounted using a spot rate yield curve. The appropriate equivalent discount rate was then calculated from the resulting discount pension benefit cash flows. The yield curve was developed directly from the corporate bond market data using only bonds rated AA by a nationally recognized ratings service.

Of the assumptions used to measure the year-end obligations and estimated annual net periodic benefit cost, the discount rate has the most significant effect on the periodic benefit cost reported for the plans. Decreasing the discount rates of 4.33 percent for our pension plans and 4.37 percent for our other postretirement benefit plans by 0.25 would increase pension obligations and other postretirement benefit plan obligations by \$8.4 million and \$0.3 million, respectively, and would increase defined benefit pension expense and other postretirement benefit plan expense by \$0.6 million and \$0.0 million, respectively.

The asset rate of return assumption considers the asset mix of the plans (currently targeted at approximately 60 percent equity securities and 40 percent fixed income securities for the funded pension plans), past performance and other factors, included expected re-allocations of asset mix occurring within a reasonable period of time. Our asset rate of return assumption is 7.25 percent for 2013 defined benefit pension expense. Decreasing the 7.25 percent asset rate of return assumption by 0.25 would increase our defined benefit pension expense by \$0.4 million.

Compensation change assumptions are based on historical experience, anticipated future management actions and demographics of the benefit plans.

Health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends.

Item 8. Financial Statements and Supplementary Data Note 15 includes detailed information about the assumptions used to calculate the components of our annual defined benefit pension and other postretirement plan expense, as well as the obligations and accumulated other comprehensive loss reported on the year-end balance sheets.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

***Litigation and Contingencies.*** We record liabilities related to legal matters when an adverse outcome is probable and reasonably estimable. To the extent we anticipate favorable outcomes to these matters which ultimately result in adverse outcomes, we could incur material adverse impacts on earnings and cash flows. Because such matters require significant

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

judgments on the part of management, the recorded liabilities could be lower than what is ultimately required. Item 8. Financial Statements and Supplementary Data Note 18 includes information about litigation and other contingencies.

**Environmental Liabilities.** We 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. We expect to incur substantial costs for ongoing compliance with such laws and regulations. We may also incur costs as a result of 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. We accrue for environmental liabilities when a determination can be made that they are probable and reasonably estimable. In 2011 we recorded environmental reserves of \$6.7 million related to the decision to cease manufacturing operations at our carbon black facility in Australia. Item 8. Financial Statements and Supplementary Data Note 18 includes information about environmental liabilities.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Like other global companies, we are exposed to market risks relating to fluctuations in interest rates and foreign currency exchange rates. The objective of our financial risk management is to minimize the negative impact of interest rate and foreign exchange rate fluctuations on our earnings, cash flows and equity.

To manage the interest rate risks, we use a combination of fixed and variable rate debt. This reduces the impact of short-term fluctuations in interest rates. To manage foreign currency exchange rate risks, we enter into foreign currency debt instruments that are held by our foreign subsidiaries. This reduces the impact of fluctuating currencies on net income and equity. We also use forward exchange contracts to hedge firm commitments up to twelve months and all such contracts are marked to market with the recognition of a gain or loss at each reporting period.

The following analyses present the sensitivity of the market value, earnings and cash flows of our financial instruments and foreign operations to hypothetical changes in interest and exchange rates as if these changes occurred at December 31, 2012 and 2011. The range of changes chosen for these analyses reflects our view of changes which are reasonably possible over a one-year period. Market values are the present values of projected future cash flows based on the interest rate and exchange rate assumptions. These forward-looking statements are selective in nature and only address the potential impacts from financial instruments and foreign operations. They do not include other potential effects that could impact our business as a result of these changes.

**Interest Rate and Debt Sensitivity Analysis.** Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. We have fixed and variable rate debt and the ability to incur variable rate debt under the Koppers Inc. credit agreement.

At December 31, 2012 we had \$296.1 million of fixed rate debt and no variable rate debt and at December 31, 2011, we had \$295.7 million of fixed rate debt and \$6.4 million of variable rate debt. Our ratio of variable rate debt to fixed rate debt at December 31, 2011 was approximately two percent. For fixed rate debt, interest rate changes affect the fair market value but do not impact earnings or cash flows. For variable rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant.

Holding other variables constant (such as debt levels and foreign exchange rates), a one percentage point decrease in interest rates at December 31, 2012 and 2011 would have increased the unrealized fair market value of the fixed rate debt by approximately \$18.4 million and \$19.5 million, respectively. The earnings and cash flows for the year ending December 31, 2011, assuming a one percentage point increase in interest rates would have decreased approximately \$0.1 million, holding other variables constant for variable rate debt.

**Exchange Rate Sensitivity Analysis.** Our exchange rate exposures result primarily from our investment and ongoing operations in Australia, Denmark, the Netherlands, China and the United Kingdom. Holding other variables constant, if there were a ten percent reduction in all relevant exchange rates, the effect on our earnings, based on actual earnings from foreign operations for the years ended December 31, 2012 and 2011, would be reductions of approximately \$3.3 million and \$0.1 million, respectively.



**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Koppers Holdings Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|  | <i>Page</i> |
|--|-------------|
| <u>Management's Report on Internal Control Over Financial Reporting</u>                                    | 39          |
| <u>Report of Independent Registered Public Accounting Firm</u>   | 40          |
| <u>Report of Independent Registered Public Accounting Firm</u>   | 41          |
| <u>Consolidated Statement of Income for the years ended December 31, 2012, 2011 and 2010</u>               | 42          |
| <u>Consolidated Statement of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010</u> | 42          |
| <u>Consolidated Balance Sheet as of December 31, 2012 and 2011</u>   | 43          |
| <u>Consolidated Statement of Cash Flows for the years ended December 31, 2012, 2011 and 2010</u>           | 44          |
| <u>Consolidated Statement of Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010</u> | 45          |
| <u>Notes to Consolidated Financial Statements</u>  | 46          |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Koppers Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of Koppers Holdings Inc.'s internal control over financial reporting as of December 31, 2012. In making this assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Management concluded that based on its assessment, Koppers Holdings Inc.'s internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of Koppers Holdings Inc.'s internal control over financial reporting as of December 31, 2012, has been audited by Ernst & Young LLP, the independent registered public accounting firm that also audited the consolidated financial statements included in this annual report, as stated in their attestation report which appears on page 41.

February 25, 2013

/s/ WALTER W. TURNER

Walter W. Turner

President and Chief Executive Officer

/s/ LEROY M. BALL

Leroy M. Ball

Vice President and Chief Financial Officer

**Table of Contents**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Koppers Holdings Inc.:

We have audited the accompanying consolidated balance sheets of Koppers Holdings Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Koppers Holdings Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Koppers Holdings Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, Pennsylvania

February 25, 2013

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Koppers Holdings Inc.:

We have audited Koppers Holdings Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Koppers Holdings Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Koppers Holdings Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Koppers Holdings Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012 of Koppers Holdings Inc. and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, Pennsylvania

February 25, 2013



**Table of Contents**

## KOPPERS HOLDINGS INC.

## CONSOLIDATED STATEMENT OF INCOME

|   | <i>Year Ended December 31,</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <i>2012</i>                    | <i>2011</i> | <i>2010</i> |
| <i>(Dollars in millions, except share amounts)</i>  |                                |             |             |
| Net sales   | \$ 1,555.0                     | \$ 1,466.2  | \$ 1,190.5  |
| Cost of sales (excluding items below)   | 1,324.6                        | 1,242.3     | 1,003.4     |
| Depreciation and amortization   | 28.2                           | 26.9        | 26.6        |
| Selling, general and administrative expenses  | 75.6                           | 74.3        | 62.4        |
| Operating profit  | 126.6                          | 122.7       | 98.1        |
| Other income  | 1.9                            | 0.7         | 2.5         |
| Interest expense  | 27.9                           | 27.2        | 27.1        |
| Income before income taxes  | 100.6                          | 96.2        | 73.5        |
| Income taxes  | 33.3                           | 38.7        | 28.9        |
| Income from continuing operations   | 67.3                           | 57.5        | 44.6        |
| (Loss) income from discontinued operations, net of tax benefit (expense) of \$0.2, \$23.8 and \$(0.2) | (0.1)                          | (19.9)      | 0.1         |
| Loss on sale of Koppers Arch, net of tax benefit of \$0.1   | 0.0                            | 0.0         | (0.2)       |
| Net income  | 67.2                           | 37.6        | 44.5        |
| Net income attributable to noncontrolling interests   | 1.6                            | 0.7         | 0.4         |
| Net income attributable to Koppers  | \$ 65.6                        | \$ 36.9     | \$ 44.1     |
| Earnings (loss) per common share:   |                                |             |             |
| Basic   |                                |             |             |
| Continuing operations   | \$ 3.18                        | \$ 2.75     | \$ 2.14     |
| Discontinued operations   | (0.01)                         | (0.96)      | 0.00        |
| Earnings per basic common share   | \$ 3.17                        | \$ 1.79     | \$ 2.14     |
| Diluted   |                                |             |             |
| Continuing operations   | \$ 3.14                        | \$ 2.72     | \$ 2.13     |
| Discontinued operations   | (0.01)                         | (0.95)      | 0.00        |
| Earnings per diluted common share   | \$ 3.13                        | \$ 1.77     | \$ 2.13     |
| Weighted average common shares outstanding <i>(in thousands)</i> :                                    |                                |             |             |
| Basic   | 20,681                         | 20,599      | 20,543      |
| Diluted   | 20,927                         | 20,833      | 20,676      |
| Dividends declared per common share   | \$ 0.96                        | \$ 0.88     | \$ 0.88     |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|                              | <i>Year Ended December 31,</i> |             |             |
|------------------------------|--------------------------------|-------------|-------------|
|                              | <i>2012</i>                    | <i>2011</i> | <i>2010</i> |
| <i>(Dollars in millions)</i> |                                |             |             |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

|   |                |                |                |
|---|----------------|----------------|----------------|
| Net income  | \$ 67.2        | \$ 37.6        | \$ 44.5        |
| Changes in other comprehensive income (loss):                                 |                |                |                |
| Currency translation adjustment   | 5.8            | (2.5)          | 11.5           |
| Unrecognized pension transition asset, net of tax of \$0.1, \$0.1 and \$0.1   | (0.3)          | (0.2)          | (0.2)          |
| Unrecognized pension prior service cost, net of tax of \$0.0, \$0.0 and \$0.1 | 0.0            | 0.1            | 0.2            |
| Unrecognized pension net gain (loss), net of tax of \$(2.3), \$9.2 and \$0.6  | 2.8            | (14.9)         | (0.7)          |
| <b>Total comprehensive income</b>   | <b>75.5</b>    | <b>20.1</b>    | <b>55.3</b>    |
| Comprehensive income attributable to noncontrolling interests                 | 1.8            | 1.2            | 0.7            |
| <b>Comprehensive income attributable to Koppers</b>                           | <b>\$ 73.7</b> | <b>\$ 18.9</b> | <b>\$ 54.6</b> |

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

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

KOPPERS HOLDINGS INC.

CONSOLIDATED BALANCE SHEET

|   | <i>December 31,</i> |                 |
|---|---------------------|-----------------|
|   | <i>2012</i>         | <i>2011</i>     |
| <i>(Dollars in millions, except share amounts)</i>  |                     |                 |
| <b>Assets</b>   |                     |                 |
| Cash and cash equivalents   | \$ 66.7             | \$ 54.1         |
| Accounts receivable, net of allowance of \$3.7 and \$0.3  | 162.7               | 160.9           |
| Income tax receivable   | 1.6                 | 10.6            |
| Inventories, net  | 195.8               | 159.0           |
| Deferred tax assets   | 15.1                | 9.3             |
| Loan to related party   | 9.5                 | 11.7            |
| Other current assets  | 29.8                | 21.8            |
| <b>Total current assets</b>   | <b>481.2</b>        | <b>427.4</b>    |
| Equity in non-consolidated investments  | 5.8                 | 4.9             |
| Property, plant and equipment, net  | 161.1               | 155.6           |
| Goodwill  | 75.6                | 72.1            |
| Deferred tax assets   | 27.2                | 44.3            |
| Other assets  | 29.1                | 26.4            |
| <b>Total assets</b>   | <b>\$ 780.0</b>     | <b>\$ 730.7</b> |
| <b>Liabilities</b>  |                     |                 |
| Accounts payable  | \$ 103.5            | \$ 102.1        |
| Accrued liabilities   | 72.1                | 63.1            |
| Dividends payable   | 5.6                 | 5.2             |
| <b>Total current liabilities</b>  | <b>181.2</b>        | <b>170.4</b>    |
| Long-term debt  | 296.1               | 302.1           |
| Accrued postretirement benefits   | 89.9                | 104.1           |
| Other long-term liabilities   | 44.7                | 46.9            |
| <b>Total liabilities</b>  | <b>611.9</b>        | <b>623.5</b>    |
| <b>Commitments and contingent liabilities (Note 18)</b>   |                     |                 |
| <b>Equity</b>   |                     |                 |
| 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; 21,585,129 and 21,309,210 shares issued | 0.2                 | 0.2             |
| Additional paid-in capital  | 153.3               | 142.9           |
| Retained earnings   | 52.0                | 6.7             |
| Accumulated other comprehensive loss  | (22.0)              | (30.2)          |
| Treasury stock, at cost; 951,026 and 706,161 shares   | (32.9)              | (24.8)          |
| <b>Total Koppers shareholders' equity</b>   | <b>150.6</b>        | <b>94.8</b>     |
| Noncontrolling interests  | 17.5                | 12.4            |

Edgar Filing: Koppers Holdings Inc. - Form 10-K

|                              |          |          |
|------------------------------|----------|----------|
| Total equity                 | 168.1    | 107.2    |
| Total liabilities and equity | \$ 780.0 | \$ 730.7 |

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

**Table of Contents**

KOPPERS HOLDINGS INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

|   | <i>Year Ended December 31,</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <i>2012</i>                    | <i>2011</i> | <i>2010</i> |
| <i>(Dollars in millions)</i>  |                                |             |             |
| Cash provided by (used in) operating activities                     |                                |             |             |
| Net income  | \$ 67.2                        | \$ 37.6     | \$ 44.5     |
| Adjustments to reconcile net cash provided by operating activities: |                                |             |             |
| Depreciation and amortization                                       | 28.2                           | 48.8        | 28.1        |
| Loss (gain) on sale of assets                                       | 0.1                            | (0.2)       | (1.0)       |
| Deferred income taxes   | 8.0                            | (11.3)      | 5.0         |
| Non-cash interest expense   | 1.7                            | 1.6         | 1.7         |
| Equity income of affiliated companies                               | (0.8)                          | (0.2)       | 0.0         |
| Change in other liabilities   | (13.0)                         | 4.0         | (2.5)       |
| Stock-based compensation  | 6.9                            | 5.3         | 3.3         |
| Other   | (1.1)                          | (3.0)       | 0.8         |
| (Increase) decrease in working capital:                             |                                |             |             |
| Accounts receivable   | (0.2)                          | (33.2)      | (19.1)      |
| Inventories   | (26.5)                         | 5.1         | 8.2         |
| Accounts payable  | (0.1)                          | 15.3        | 9.7         |
| Accrued liabilities and other working capital                       | 7.4                            | 7.1         | 26.6        |
| Net cash provided by operating activities                           | 77.8                           | 76.9        | 105.3       |
| Cash provided by (used in) investing activities                     |                                |             |             |
| Capital expenditures  | (28.9)                         | (33.2)      | (29.9)      |
| Acquisitions, net of cash acquired                                  | (14.0)                         | (0.6)       | (35.5)      |
| Net cash proceeds (payments) from loan to related party             | 2.2                            | (11.7)      | 0.0         |
| Net cash proceeds from divestitures and asset sales                 | 0.8                            | 0.8         | 2.0         |
| Net cash used in investing activities                               | (39.9)                         | (44.7)      | (63.4)      |
| Cash provided by (used in) financing activities                     |                                |             |             |
| Borrowings of revolving credit                                      | 259.4                          | 218.0       | 152.1       |
| Repayments of revolving credit                                      | (265.8)                        | (211.6)     | (192.1)     |
| Repayments on long-term debt  | 0.0                            | (1.0)       | (0.2)       |
| Issuances of Common Stock   | 1.5                            | 0.3         | 0.1         |
| Repurchases of Common Stock   | (8.1)                          | (0.3)       | (0.9)       |
| Proceeds from issuance of noncontrolling interest                   | 3.7                            | 0.0         | 0.0         |
| Excess tax benefit from employee stock plans                        | 1.6                            | 0.0         | 0.2         |
| Payment of deferred financing costs                                 | (0.1)                          | (0.5)       | (0.4)       |
| Dividends paid  | (19.5)                         | (18.2)      | (23.1)      |
| Net cash used in financing activities                               | (27.3)                         | (13.3)      | (64.3)      |
| Effect of exchange rates on cash                                    | 2.0                            | (0.1)       | (0.7)       |
| Net increase (decrease) in cash and cash equivalents                | 12.6                           | 18.8        | (23.1)      |
| Cash and cash equivalents at beginning of year                      | 54.1                           | 35.3        | 58.4        |
| Cash and cash equivalents at end of year                            | \$ 66.7                        | \$ 54.1     | \$ 35.3     |
| Supplemental disclosure of cash flows information:                  |                                |             |             |
| Cash paid (refunded) during the year for:                           |                                |             |             |
| Interest  | \$ 26.0                        | \$ 25.8     | \$ 25.5     |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

|   |      |      |       |
|---|------|------|-------|
| Income taxes                                | 13.6 | 25.7 | (3.9) |
| Noncash investing and financing activities: |      |      |       |
| Capital leases                              | 0.0  | 0.0  | 0.1   |

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

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

KOPPERS HOLDINGS INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

|   | <i>Year Ended December 31,</i> |        |        |
|---|--------------------------------|--------|--------|
|   | 2012                           | 2011   | 2010   |
| <i>(Dollars in millions)</i>                                  |                                |        |        |
| <b>Senior Convertible Preferred Stock</b>                     |                                |        |        |
| Balance at beginning and end of year                          | \$ 0.0                         | \$ 0.0 | \$ 0.0 |
| <b>Common Stock</b>   |                                |        |        |
| Balance at beginning and end of year                          | 0.2                            | 0.2    | 0.2    |
| <b>Additional paid-in capital</b>                             |                                |        |        |
| Balance at beginning of year                                  | 142.9                          | 137.0  | 127.2  |
| Employee stock plans  | 10.4                           | 5.9    | 9.8    |
| Balance at end of year  | 153.3                          | 142.9  | 137.0  |
| <b>Retained earnings (deficit)</b>                            |                                |        |        |
| Balance at beginning of year                                  | 6.7                            | (11.7) | (37.3) |
| Net income attributable to Koppers                            | 65.6                           | 36.9   | 44.1   |
| Common Stock dividends  | (20.3)                         | (18.5) | (18.5) |
| Balance at end of year  | 52.0                           | 6.7    | (11.7) |
| <b>Accumulated other comprehensive loss</b>                   |                                |        |        |
| Currency translation adjustment:                              |                                |        |        |
| Balance at beginning of year                                  | 28.8                           | 31.7   | 20.6   |
| Change in currency translation adjustment                     | 5.7                            | (2.9)  | 11.1   |
| Balance at end of year  | 34.5                           | 28.8   | 31.7   |
| Unrecognized pension transition asset:                        |                                |        |        |
| Balance at beginning of year                                  | 0.3                            | 0.5    | 0.7    |
| Change in unrecognized pension asset, net of tax              | (0.3)                          | (0.2)  | (0.2)  |
| Balance at end of year  | 0.0                            | 0.3    | 0.5    |
| Unrecognized pension prior service cost:                      |                                |        |        |
| Balance at beginning of year                                  | (0.2)                          | (0.3)  | (0.5)  |
| Change in unrecognized pension prior service cost, net of tax | 0.0                            | 0.1    | 0.2    |
| Balance at end of year  | (0.2)                          | (0.2)  | (0.3)  |
| Unrecognized pension net loss:                                |                                |        |        |
| Balance at beginning of year                                  | (59.1)                         | (44.2) | (43.5) |
| Change in unrecognized pension net loss, net of tax           | 2.8                            | (14.9) | (0.7)  |
| Balance at end of year  | (56.3)                         | (59.1) | (44.2) |
| Total balance at end of year                                  | (22.0)                         | (30.2) | (12.3) |
| <b>Treasury stock</b>   |                                |        |        |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

|   |                 |                 |                |
|---|-----------------|-----------------|----------------|
| Balance at beginning of year                            | (24.8)          | (24.5)          | (23.6)         |
| Purchases   | (8.1)           | (0.3)           | (0.9)          |
| <b>Balance at end of year</b>                           | <b>(32.9)</b>   | <b>(24.8)</b>   | <b>(24.5)</b>  |
| <b>Total Koppers shareholders' equity - end of year</b> | <b>150.6</b>    | <b>94.8</b>     | <b>88.7</b>    |
| <b>Noncontrolling interests</b>                         |                 |                 |                |
| Balance at beginning of year                            | 12.4            | 11.2            | 11.0           |
| Net income attributable to noncontrolling interests     | 1.6             | 0.7             | 0.4            |
| Dividends to noncontrolling interests                   | 0.0             | 0.0             | (0.6)          |
| Investment in noncontrolling interests                  | 3.3             | 0.0             | (0.6)          |
| Currency translation adjustment                         | 0.2             | 0.5             | 0.4            |
| <b>Balance at end of year</b>                           | <b>17.5</b>     | <b>12.4</b>     | <b>11.2</b>    |
| <b>Total equity - end of year</b>                       | <b>\$ 168.1</b> | <b>\$ 107.2</b> | <b>\$ 99.9</b> |

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



---

**Table of Contents**

KOPPERS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

*Parent company of Koppers Inc.* In these financial statements, unless otherwise indicated or the context requires otherwise, when the terms Koppers, the Company, we, our or us, are used, they mean Koppers Holdings Inc. ( Koppers Holdings ) and its subsidiaries on a consolidated basis. The use of these terms is not intended to imply that Koppers Holdings and Koppers Inc. are not separate and distinct legal entities from each other and from their respective subsidiaries. Koppers Holdings has no direct operations and no significant assets other than the stock of Koppers Inc. It depends on the dividends from the earnings of Koppers Inc. and its subsidiaries to generate the funds necessary to meet its financial obligations. The terms of Koppers Inc.'s revolving credit facility prohibit Koppers Inc. from paying dividends and otherwise transferring assets except for certain limited dividends. Further, the terms of the indenture governing Koppers Inc.'s Senior Notes significantly restrict Koppers Inc. from paying dividends and otherwise transferring assets to Koppers Holdings.

*Business description* The Company is a global integrated producer of carbon compounds and treated and untreated wood products and services for use in a variety of markets including the aluminum, railroad, specialty chemical, utility, concrete and steel industries. The Company's business is operated through two business segments, Carbon Materials & Chemicals and Railroad & Utility Products.

The Company's Carbon Materials & Chemicals segment is primarily a manufacturer of carbon pitch, naphthalene, phthalic anhydride, creosote and carbon black feedstock. Carbon pitch is a critical raw material used in the production of aluminum and for the production of steel in electric arc furnaces. Naphthalene is used for the production of phthalic anhydride and as a surfactant in the production of concrete. Phthalic anhydride is used in the production of plasticizers, polyester resins and alkyd paints. Creosote is used in the treatment of wood and carbon black feedstock is used in the production of carbon black.

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

2. Summary of Significant Accounting Policies

*Basis of presentation* The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries for which the Company is deemed to exercise control over its operations. All significant intercompany transactions have been eliminated in consolidation. The Company's investments in 20 percent to 50 percent-owned companies in which it has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting. Accordingly, the Company's share of the earnings of these companies is included in the accompanying consolidated statement of income.

*Use of estimates* Accounting principles generally accepted in the U.S. require management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies on the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from these estimates.

*Foreign currency translation* For consolidated entities outside of the U.S. that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period, and asset and liabilities are translated at end-of-period exchange rates. Cumulative translation adjustments are included as a separate component of accumulated other comprehensive loss in shareholders' equity. Amounts credited (charged) to cumulative translation adjustments for intercompany loans totaled \$1.8 million in 2012, \$(0.5) million in 2011 and \$7.2 million in 2010.

Foreign currency transaction gains and losses result from transactions denominated in a currency which is different than the currency used by the entity to prepare its financial statements. Foreign currency transaction losses were \$1.7 million, \$0.5 million and \$2.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**Revenue recognition** The Company recognizes revenue when the risks and rewards of ownership and title to the product have transferred to the customer. Revenue recognition generally occurs at the point of shipment; however in certain circumstances as shipping terms dictate, revenue is recognized at the point of destination. Shipping and handling costs are included as a component of cost of sales.

The Company recognizes revenue related to the procurement of certain untreated railroad crossties upon transfer of title to the customer, which occurs upon delivery to the Company's plant and acceptance by the customer. Service revenue, consisting primarily of wood treating services, is recognized at the time the service is provided. Payment on sales of untreated railroad crossties and wood treating services are generally due within 30 days of the invoice date. The Company's recognition of revenue with respect to untreated crossties meets all the recognition criteria of Securities and Exchange Commission Staff Accounting Bulletin Topic 13.A.3., including transfer of title and risk of ownership, the existence of fixed purchase commitments and delivery schedules established by the customer, and the completion of all performance obligations by the Company. Revenue recognized for untreated crosstie sales for the years ended December 31, 2012, 2011 and 2010 amounted to \$109.0 million, \$116.5 million and \$106.4 million, respectively.

**Research & development** Research and development costs are expensed as incurred and are included in selling, general and administrative expenses. These costs totaled \$2.3 million in 2012, \$1.9 million in 2011 and \$2.1 million in 2010.

**Cash and cash equivalents** Cash and cash equivalents include cash on hand and on deposit and investments in highly liquid investments with an original maturity of 90 days or less.

**Accounts receivable** The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. In circumstances where the Company becomes aware of a specific customer's inability to meet its financial obligations to Koppers, a specific reserve for bad debts is recorded against amounts due. If the financial condition of the Company's customers were to deteriorate, resulting in an inability to make payments, additional allowances may be required.

**Inventories** Inventories are carried at lower of cost or market on a worldwide basis. In the U.S., inventory cost (excluding miscellaneous types of inventory) is determined primarily utilizing the last-in, first-out (LIFO) basis. Inventory cost outside the U.S. is determined utilizing the first-in, first-out (FIFO) basis. Market represents replacement cost for raw materials and net realizable value for work in process and finished goods. LIFO inventories constituted approximately 62 percent and 59 percent of the FIFO inventory value at December 31, 2012 and 2011, respectively.

**Property, plant & equipment** Property, plant and equipment are recorded at purchased cost and include improvements which significantly increase capacities or extend useful lives of existing plant and equipment. Depreciation expense is calculated by applying the straight-line method over estimated useful lives. Estimated useful lives for buildings generally range from 10 to 20 years and depreciable lives for machinery and equipment generally range from 3 to 10 years. Net gains and losses related to asset disposals are recognized in earnings in the period in which the disposal occurs. Routine repairs, replacements and maintenance are expensed as incurred.

The Company periodically evaluates whether current facts and circumstances indicate that the carrying value of its depreciable long-lived assets may not be recoverable. If an asset, or logical grouping of assets, is determined to be impaired, the asset is written down to its fair value using discounted future cash flows and, if available, quoted market prices.

**Goodwill & other intangible assets** Goodwill and other purchased intangible assets are included in the identifiable assets of the business segment to which they have been assigned. The Company performs impairment tests annually for goodwill, and more often as circumstances require. When it is determined that impairment has occurred, an appropriate charge to earnings is recorded. The Company performed its annual impairment test in the fourth quarters of 2012 and 2011 and determined that the estimated fair values substantially exceeded the carrying values of all the reporting units and accordingly, there was no impairment of goodwill.

Identifiable intangible assets, other than goodwill, are recorded at cost. Identifiable intangible assets that do not have indefinite lives are amortized on a straight-line basis over their estimated useful lives.

**Deferred income taxes** Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in earnings in the period the new laws are enacted. A



**Table of Contents**

valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. Deferred tax liabilities have not been recognized for the undistributed earnings of certain foreign subsidiaries because management intends to permanently reinvest such earnings in foreign operations.

*Self-insured liabilities* The Company is self-insured for property, casualty and workers' compensation exposures up to various stop-loss coverage amounts. Losses are accrued based upon the Company's estimates of the liability for the related deductibles of claims incurred. Such estimates utilize actuarial methods based on various assumptions, which include but are not limited to, the Company's historical loss experience and projected loss development factors. In 2012 and 2011, reversals of self-insured liabilities occurred as a result of favorable loss trends related to self-insured claims.

|   | 2012   | 2011   |
|---|--------|--------|
| <i>(Dollars in millions)</i>                  |        |        |
| Self-insured liabilities at beginning of year | \$ 7.4 | \$ 7.9 |
| Expense                                       | 2.4    | 2.1    |
| Reversal of self-insured liabilities          | (1.0)  | (1.0)  |
| Cash expenditures                             | (1.2)  | (1.6)  |
| Self-insured liabilities at end of year       | \$ 7.6 | \$ 7.4 |

*Derivative financial instruments* The Company uses forward exchange contracts to hedge exposure to currency exchange rate changes on transactions and other commitments denominated in a foreign currency. Contracts are generally written on a short-term basis and are not held for trading or speculative purposes. The Company recognizes the fair value of the forward contracts as an asset or liability at each reporting date. Because the Company has not elected to designate the forward exchange contracts for hedge accounting treatment, changes in the fair value of the forward exchange contracts are recognized immediately in earnings.

*Asset retirement obligations* Asset retirement obligations are initially recorded at fair value and are capitalized as part of the cost of the related long-lived asset when sufficient information is available to estimate fair value. The capitalized costs are subsequently charged to depreciation expense over the estimated useful life of the related long-lived asset. The fair value of the obligation is determined by calculating the discounted value of expected future cash flows and accretion expense is recorded each month to ultimately increase this obligation to full value.

The Company recognizes asset retirement obligations for the removal and disposal of residues; dismantling of certain tanks required by governmental authorities; cleaning and dismantling costs for owned rail cars; cleaning costs for leased rail cars and barges; and site demolition.

The following table describes changes to the Company's asset retirement obligation liabilities at December 31, 2012 and 2011:

|  | 2012    | 2011    |
|--|---------|---------|
| <i>(Dollars in millions)</i>                     |         |         |
| Asset retirement obligation at beginning of year | \$ 21.3 | \$ 17.0 |
| Accretion expense                                | 1.1     | 1.1     |
| Revision in estimated cash flows                 | 1.8     | 6.3     |
| Cash expenditures                                | (3.0)   | (3.1)   |
| Currency translation                             | 0.3     | 0.0     |
| Asset retirement obligation at end of year       | \$ 21.5 | \$ 21.3 |

In 2011, the Company incurred \$6.2 million of expense related to the closure of its carbon black facility in Kurnell, Australia.

*Litigation & contingencies* Amounts associated with litigation and contingencies are accrued when management, after taking into consideration the facts and circumstances of each matter including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Legal costs for litigation are expensed as incurred.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

*Other current assets* Included in other current assets are prepaid expenses totaling \$7.4 million and \$9.9 million at December 31, 2012 and December 31, 2011, respectively.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

*Environmental liabilities* The Company accrues for remediation costs and penalties when the responsibility to remediate is probable and the amount of related cost is reasonably estimable. If only a range of potential liability can be estimated and no amount within the range is more probable than another, the accrual is recorded at the low end of that range. Remediation liabilities are discounted if the amount and timing of the cash disbursements are readily determinable.

*Deferred revenue from extended product warranty liabilities* The Company defers revenues associated with extended product warranty liabilities based on historical loss experience and sales of extended warranties on certain products. The following table describes changes to the Company's deferred revenue at December 31, 2012 and 2011:

|                                       | 2012   | 2011   |
|---------------------------------------|--------|--------|
| <i>(Dollars in millions)</i>          |        |        |
| Deferred revenue at beginning of year | \$ 4.8 | \$ 5.7 |
| Revenue earned                        | (0.9)  | (0.9)  |
| Deferred revenue at end of year       | \$ 3.9 | \$ 4.8 |

*Stock-based compensation* The Company records compensation cost over the vesting period for share-based payments to employees at an amount equivalent to the grant date fair value of the stock award. No compensation cost is recognized for any stock awards that are forfeited in the event the recipient fails to meet the vesting requirements.

### 3. Business Acquisitions

*Western Poles* On November 19, 2012, the Company acquired the pole distribution business ( Western Poles ) of Ridolfo Forestry Products Pty Limited for cash of \$13.8 million and expected future payments totaling \$4.9 million (on a discounted basis) to be paid over a period of 36 months assuming certain sales contracts remain in effect. The Western Poles business mainly serves utility customers in Western Australia and complements our existing wood treatment business in Australia. The preliminary allocation of purchase price to acquired assets consisted of inventory totaling \$8.0 million, plant and equipment totaling \$1.0 million, intangible assets consisting primarily of customer relationships totaling \$8.5 million, non-compete agreements totaling \$0.4 million deferred tax liabilities of \$1.7 million and Australian nondeductible goodwill of \$2.6 million. The goodwill is allocated to the Railroad & Utility Products segment and the customer contracts will be amortized over a period of 15 years and the non-compete agreement will be amortized over a period of 12 years.

*Other acquisitions* In 2010, the Company completed three acquisitions. On March 1, 2010, the Company acquired 100 percent of the outstanding shares of privately-owned Cindu Chemicals B.V. ( Cindu ), a Dutch company which operates a 140,000 metric ton coal tar distillation plant in Uithoorn, Netherlands. The acquisition was funded with cash on hand and the acquisition price was \$21.6 million. Cindu was subsequently renamed Koppers Netherlands B.V. ( Koppers Netherlands ).

On October 31, 2010, the Company acquired the midwestern United States refined tar business of Stella Jones Inc. for cash of \$6.1 million. Finally, on December 22, 2010, the Company acquired the rail joint bar business of Portec Rail Products, Inc. located in Huntington, West Virginia. The purchase price was cash of \$10.7 million.

*Pro-forma information* The consolidated pro forma results of operations if the acquisition had been completed as of the beginning of the year in 2012 would have been pro forma revenue of \$1,581.7 million and operating profit of \$130.1 million for the year ended December 31, 2012. The consolidated pro forma results of operations if the acquisition had been completed as of the beginning of the year in 2011 would have been pro forma revenue of \$1,480.3 million and operating profit of \$123.7 million for the year ended December 31, 2011. The consolidated pro forma results of operations if the acquisitions had been completed as of the beginning of the year in 2010 would have been pro forma revenue of \$1,234.7 million and operating profit of \$99.9 million for the year ended December 31, 2010.

### 4. Discontinued Operations

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

In December 2011, the Company ceased manufacturing operations at its carbon black facility located in Kurnell, Australia. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The costs related to this closure totaled \$41.0 million in the fourth quarter of 2011. The Company estimates that total future closure costs related to this facility will be approximately \$0.8 million. The closure is expected to be completed by 2014. The results of operations of the carbon black facility have been reclassified to discontinued operations for all periods presented as run-off activities were completed in

**Table of Contents**

the first quarter of 2012. The facility is part of the Carbon Materials & Chemicals segment. Net sales from this discontinued operation totaled \$5.6 million, \$72.7 million and \$55.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. Operating (loss) profit from this discontinued operation totaled \$(0.3) million, \$(43.7) million and \$0.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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

|                              | <i>Severance<br/>and<br/>employee<br/>benefits</i> | <i>Environmental<br/>remediation</i> | <i>Asset<br/>impairment</i> | <i>Inventory<br/>writedowns</i> | <i>Site<br/>demolition</i> | <i>Other</i> | <i>Total</i> |
|------------------------------|--|--------------------------------------|-----------------------------|---------------------------------|----------------------------|--------------|--------------|
| <i>(Dollars in millions)</i> |  |                                      |                             |                                 |                            |              |              |
| Reserve at January 1, 2011   | \$ 0.0   | \$ 0.0                               | \$ 0.0                      | \$ 0.0                          | \$ 0.0                     | \$ 0.0       | \$ 0.0       |
| Charges                      | 3.4  | 6.7                                  | 20.2                        | 3.3                             | 6.2                        | 1.2          | 41.0         |
| Costs charged against assets | 0.0  | 0.0                                  | (20.2)                      | (3.3)                           | 0.0                        | 0.0          | (23.5)       |
| Cash paid                    | (1.6)  | 0.0                                  | 0.0                         | 0.0                             | 0.0                        | 0.0          | (1.6)        |
| <br>                         |  |                                      |                             |                                 |                            |              |              |
| Reserve at December 31, 2011 | \$ 1.8   | \$ 6.7                               | \$ 0.0                      | \$ 0.0                          | \$ 6.2                     | \$ 1.2       | \$ 15.9      |
| Charges                      | 0.1  | 0.0                                  | 0.0                         | 0.4                             | 0.0                        | 0.0          | 0.5          |
| Costs charged against assets | 0.0  | 0.0                                  | 0.0                         | (0.4)                           | 0.0                        | 0.0          | (0.4)        |
| Reversal of accrued charges  | 0.0  | 0.0                                  | 0.0                         | 0.0                             | 0.0                        | (0.6)        | (0.6)        |
| Cash paid                    | (1.7)  | (0.1)                                | 0.0                         | 0.0                             | (0.4)                      | (0.5)        | (2.7)        |
| Currency translation         | 0.0  | 0.1                                  | 0.0                         | 0.0                             | 0.1                        | 0.0          | 0.2          |
| <br>                         |  |                                      |                             |                                 |                            |              |              |
| Reserve at December 31, 2012 | \$ 0.2   | \$ 6.7                               | \$ 0.0                      | \$ 0.0                          | \$ 5.9                     | \$ 0.1       | \$ 12.9      |

## 5. Earnings and Dividends 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 nonvested 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 and performance restricted stock units that have not met vesting criteria are 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>Year Ended December 31,</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <i>2012</i>                    | <i>2011</i> | <i>2010</i> |
| <i>(Dollars in millions, except share amounts, in thousands, and per share amounts)</i> |                                |             |             |
| Net income attributable to Koppers  | \$ 65.6                        | \$ 36.9     | \$ 44.1     |
| Less: discontinued operations   | (0.1)                          | (19.9)      | (0.1)       |
| <br>  |                                |             |             |
| Income from continuing operations attributable to Koppers                               | \$ 65.7                        | \$ 56.8     | \$ 44.2     |
| <br>  |                                |             |             |
| Weighted average common shares outstanding:   |                                |             |             |
| Basic   | 20,681                         | 20,599      | 20,543      |
| Effect of dilutive securities   | 246                            | 234         | 133         |
| <br>  |                                |             |             |
| Diluted   | 20,927                         | 20,833      | 20,676      |
| <br>  |                                |             |             |
| Earnings per common share continuing operations:  |                                |             |             |
| Basic earnings per common share   | \$ 3.18                        | \$ 2.75     | \$ 2.14     |
| Diluted earnings per common share   | 3.14                           | 2.72        | 2.13        |



## Edgar Filing: Koppers Holdings Inc. - Form 10-K

### Other data:

|  |     |     |     |
|--|-----|-----|-----|
| Antidilutive securities excluded from computation of diluted earnings per common share | 194 | 106 | 154 |
|--|-----|-----|-----|

On February 6, 2013, the board of directors declared a quarterly dividend of 25 cents per common share, payable on April 8, 2013 to shareholders of record as of February 19, 2013.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**6. Stock-based Compensation**

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

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

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

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

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

The following table shows a summary of the performance stock units as of December 31, 2012:

| <i>Performance Period</i> | <i>Minimum Shares</i> | <i>Target Shares</i> | <i>Maximum Shares</i> |
|---------------------------|-----------------------|----------------------|-----------------------|
| 2011 - 2012               | 0                     | 84,342               | 126,513               |
| 2012 - 2014               | 0                     | 100,031              | 150,047               |

The following table shows a summary of the status and activity of non-vested stock awards for the year ended December 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                           | 67,012                        | 104,598                        | 171,610                  | \$ 38.35   |
| Credited from dividends           | 3,779                         | 7,072                          | 10,851                   | \$ 35.67   |
| Performance stock unit adjustment | 0                             | (40,112)                       | (40,112)                 | \$ 10.68   |
| Vested                            | (85,187)                      | (87,013)                       | (172,200)                | \$ 18.69   |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

|                                 |         |          |          |    |       |
|---------------------------------|---------|----------|----------|----|-------|
| Forfeited                       | (6,171) | (13,583) | (19,754) | \$ | 36.00 |
| Non-vested at December 31, 2012 | 136,098 | 268,677  | 404,775  | \$ | 36.11 |

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

**Table of Contents**

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 year ended December 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                        | (103,719)      | \$ 15.69  |   |  |
| Expired                          | (2,413)        | \$ 39.99  |   |  |
| Forfeited                        | (11,420)       | \$ 36.00  |   |  |
| Outstanding at December 31, 2012 | 331,799        | \$ 34.07  | 7.10  | \$ 1.5   |
| Exercisable at December 31, 2012 | 116,849        | \$ 30.27  | 4.87  | \$ 0.9   |

Total stock-based compensation expense recognized for the three years ended December 31, 2012 is as follows:

|  | <i>Year Ended December 31,</i> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <i>2012</i>                    | <i>2011</i> | <i>2010</i> |
| <i>(Dollars in millions)</i>                   |                                |             |             |
| Stock-based compensation expense recognized:   |                                |             |             |
| Selling, general and administrative expenses   | \$ 6.9                         | \$ 5.3      | \$ 3.3      |
| Less related income tax benefit                | 2.8                            | 2.0         | 1.3         |
| Decrease in net income attributable to Koppers | \$ 4.1                         | \$ 3.3      | \$ 2.0      |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

As of December 31, 2012 total future compensation expense related to non-vested stock-based compensation arrangements totaled \$8.2 million and the weighted-average period over which this expense is expected to be recognized is approximately 21 months.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## 7. Income Taxes

*Income Tax Provision*

Components of the Company's income tax provision from continuing operations are as follows:

|   | <i>Years Ended December 31,</i> |                |                |
|---|---------------------------------|----------------|----------------|
|   | 2012                            | 2011           | 2010           |
| <i>(Dollars in millions)</i>                  |                                 |                |                |
| Current:                                      |                                 |                |                |
| Federal                                       | \$ 15.7                         | \$ 24.7        | \$ 10.0        |
| State   | 1.3                             | 1.1            | 0.4            |
| Foreign                                       | 8.6                             | 21.5           | 13.3           |
| <b>Total current tax provision</b>            | <b>25.6</b>                     | <b>47.3</b>    | <b>23.7</b>    |
| Deferred:                                     |                                 |                |                |
| Federal                                       | 4.9                             | (6.7)          | 4.1            |
| State   | (1.2)                           | 0.1            | 0.3            |
| Foreign                                       | 4.0                             | (2.0)          | 0.8            |
| <b>Total deferred tax provision (benefit)</b> | <b>7.7</b>                      | <b>(8.6)</b>   | <b>5.2</b>     |
| <b>Total income tax provision</b>             | <b>\$ 33.3</b>                  | <b>\$ 38.7</b> | <b>\$ 28.9</b> |

Income before income taxes for 2012, 2011 and 2010 included \$42.6 million, \$51.8 million and \$51.0, respectively, from foreign operations.

The provision for income taxes is reconciled with the federal statutory rate as follows:

|  | <i>Years Ended December 31,</i> |              |              |
|--|---------------------------------|--------------|--------------|
|  | 2012                            | 2011         | 2010         |
| Federal income tax rate                        | 35.0%                           | 35.0%        | 35.0%        |
| State income taxes, net of federal tax benefit | (0.5)                           | 0.7          | 0.7          |
| Foreign earnings taxed at different rates      | 0.5                             | 1.4          | 2.4          |
| Domestic production activities deduction       | (2.7)                           | (1.3)        | (0.7)        |
| Non-deductible fines and penalties             | 0.0                             | 0.2          | 0.0          |
| Deferred tax adjustments                       | (0.3)                           | 0.1          | 0.0          |
| Change in tax contingency reserves             | 1.2                             | 3.8          | 0.2          |
| Foreign tax credits                            | (0.6)                           | 0.0          | 0.0          |
| Other  | 0.5                             | 0.3          | 1.7          |
|  | <b>33.1%</b>                    | <b>40.2%</b> | <b>39.3%</b> |

The Company has not provided any U.S. tax on undistributed earnings of foreign subsidiaries or joint ventures that are reinvested indefinitely. At December 31, 2012 consolidated retained earnings of the Company included approximately \$113 million of undistributed earnings, which are permanently invested, from these foreign entities. It is not practical at this time, however, to estimate the amount of taxes that may be payable on the distribution of these earnings.

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

### *Taxes Excluded from Net Income Attributable to Koppers*

The amount of income tax provision (benefit) included in comprehensive income but excluded from net income attributable to Koppers relating to adjustments to reflect the unfunded status of employee post-retirement benefit plans is \$2.2 million, \$(9.3) million and \$(0.8) million for the years ended December 31, 2012, 2011 and 2010, respectively.

The amount of income tax benefit included in shareholders' equity but excluded from net income attributable to Koppers relating to the expense for restricted stock and employee stock options recognized differently for financial and tax reporting purposes was \$1.6 million for the year ended December 31, 2012 and \$0.2 million for the year ended December 31, 2010.

**Table of Contents***Deferred Tax Assets and Liabilities*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follows:

|   | <i>December 31,</i> |                |
|---|---------------------|----------------|
|   | <i>2012</i>         | <i>2011</i>    |
| <i>(Dollars in millions)</i>                                      |                     |                |
| <b>Deferred tax assets:</b>                                       |                     |                |
| Pension and other postretirement benefits obligations             | \$ 33.2             | \$ 38.7        |
| Reserves, including insurance, environmental and deferred revenue | 24.7                | 29.8           |
| Accrued employee compensation                                     | 11.8                | 10.7           |
| Tax credits   | 9.7                 | 0.4            |
| Net operating loss benefit  | 9.4                 | 11.2           |
| Asset retirement obligations                                      | 5.1                 | 5.1            |
| Book/tax inventory accounting differences                         | 2.6                 | 1.6            |
| Capital loss benefit  | 1.5                 | 1.5            |
| Other   | 4.7                 | 2.6            |
| Valuation allowance   | (17.4)              | (10.2)         |
| <b>Total deferred tax assets</b>                                  | <b>85.3</b>         | <b>91.4</b>    |
| <b>Deferred tax liabilities:</b>                                  |                     |                |
| Tax over book depreciation and amortization                       | 33.2                | 27.6           |
| Unremitted earnings of foreign subsidiaries                       | 5.9                 | 6.1            |
| Tax/book inventory accounting differences                         | 1.1                 | 1.7            |
| Other   | 5.9                 | 5.5            |
| <b>Total deferred tax liabilities</b>                             | <b>46.1</b>         | <b>40.9</b>    |
| <b>Net deferred tax assets</b>                                    | <b>\$ 39.2</b>      | <b>\$ 50.5</b> |

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2012, the Company has recorded a valuation allowance of \$7.1 million for certain state net operating loss carryforwards anticipated to produce no tax benefit. The Company has recorded a valuation allowance of \$8.8 million for certain foreign tax credits in the United States expected to produce no benefit. These foreign tax credits will begin to expire in 2018. Additionally, the Company has recorded a valuation allowance of \$1.5 million for certain capital loss carryforwards in Australia expected to produce no benefit. The Company has tax-effected state net operating losses of \$9.2 million, which will expire from 2014 to 2030 and tax-effected foreign net operating losses of \$0.2 million, a portion of which expires in 2019.

For the year ended on December 31, 2012, the Company recorded a net valuation allowance release of \$1.5 million on the basis of management's determination that sufficient positive evidence exists to support that certain state net operating losses are more likely than not to be realized.

*Uncertain Tax Positions*

The Company or one of its subsidiaries files income tax returns in 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 2006.



**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

As of December 31, 2012 and 2011, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately \$5.5 million and \$7.1 million, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|  | <i>December 31,</i> |               |               |
|--|---------------------|---------------|---------------|
|  | <i>2012</i>         | <i>2011</i>   | <i>2010</i>   |
| <i>(Dollars in millions)</i>   |                     |               |               |
| Balance at beginning of year   | \$ 9.9              | \$ 6.5        | \$ 4.0        |
| Additions based on tax provisions related to the current year              | 0.5                 | 4.0           | 0.4           |
| Additions for tax provisions of prior years                                | 1.3                 | 0.0           | 2.6           |
| Reductions of tax provisions of prior years                                | (0.5)               | 0.0           | 0.0           |
| Reductions as a result of payments and settlements                         | (2.8)               | 0.0           | 0.0           |
| Reductions as a result of a lapse of the applicable statute of limitations | (0.7)               | (0.6)         | (0.5)         |
| <b>Balance at end of year</b>  | <b>\$ 7.7</b>       | <b>\$ 9.9</b> | <b>\$ 6.5</b> |

The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. For each year ended December 31, 2012, 2011 and 2010, the Company recognized \$0.3 million, \$0.2 million and \$0.2 million, respectively, in interest and penalties. As of December 31, 2012 and 2011, the Company had accrued approximately \$1.3 million and \$0.9 million for interest and penalties, respectively.

#### 8. Segment Information

The Company has two reportable segments: Carbon Materials & Chemicals and Railroad & Utility Products. The Company's reportable segments are business units that offer different products. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes. The business units have been aggregated into two reportable segments since management believes the long-term financial performance of these business units is affected by similar economic conditions.

The Company's Carbon Materials & Chemicals segment is primarily a manufacturer of carbon pitch, naphthalene, phthalic anhydride, creosote and carbon black feedstock. Carbon pitch is a critical raw material used in the production of aluminum and for the production of steel in electric arc furnaces. Naphthalene is used for the production of phthalic anhydride and as a surfactant in the production of concrete. Phthalic anhydride is used in the production of plasticizers, polyester resins and alkyd paints. Creosote is used in the treatment of wood and carbon black feedstock is used in the production of carbon black.

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

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

**Table of Contents***Results of Segment Operations*

|   | <i>Year Ended December 31,</i> |                   |                   |
|---|--------------------------------|-------------------|-------------------|
|   | <i>2012</i>                    | <i>2011</i>       | <i>2010</i>       |
| <i>(Dollars in millions)</i>                          |                                |                   |                   |
| <b>Revenues from external customers:</b>              |                                |                   |                   |
| Carbon Materials & Chemicals                          | \$ 999.7                       | \$ 943.1          | \$ 740.6          |
| Railroad & Utility Products                           | 555.3                          | 523.1             | 449.9             |
| <b>Total</b>  | <b>\$ 1,555.0</b>              | <b>\$ 1,466.2</b> | <b>\$ 1,190.5</b> |
| <b>Intersegment revenues:</b>                         |                                |                   |                   |
| Carbon Materials & Chemicals                          | \$ 106.5                       | \$ 95.2           | \$ 97.2           |
| <b>Depreciation &amp; amortization:</b>               |                                |                   |                   |
| Carbon Materials & Chemicals                          | \$ 16.9                        | \$ 17.4           | \$ 17.2           |
| Railroad & Utility Products                           | 11.3                           | 9.5               | 9.4               |
| <b>Total</b>  | <b>\$ 28.2</b>                 | <b>\$ 26.9</b>    | <b>\$ 26.6</b>    |
| <b>Operating profit:</b>                              |                                |                   |                   |
| Carbon Materials & Chemicals                          | \$ 83.1                        | \$ 89.1           | \$ 76.7           |
| Railroad & Utility Products                           | 45.1                           | 34.8              | 23.0              |
| Corporate <sup>(a)</sup>                              | (1.6)                          | (1.2)             | (1.6)             |
| <b>Total</b>  | <b>\$ 126.6</b>                | <b>\$ 122.7</b>   | <b>\$ 98.1</b>    |
| <b>Capital expenditures (including acquisitions):</b> |                                |                   |                   |
| Carbon Materials & Chemicals                          | \$ 17.3                        | \$ 23.0           | \$ 44.9           |
| Railroad & Utility Products                           | 25.0                           | 10.2              | 20.2              |
| Corporate   | 0.6                            | 0.6               | 0.3               |
| <b>Total</b>  | <b>\$ 42.9</b>                 | <b>\$ 33.8</b>    | <b>\$ 65.4</b>    |

*(a) Operating loss for Corporate includes general and administrative costs for Koppers Holdings Inc, the parent company of Koppers Inc. Assets and Goodwill by Segment*

|                              | <i>December 31,</i> |              |
|------------------------------|---------------------|--------------|
|                              | <i>2012</i>         | <i>2011</i>  |
| <i>(Dollars in millions)</i> |                     |              |
| <b>Assets:</b>               |                     |              |
| Carbon Materials & Chemicals | \$ 516.3            | \$ 495.2     |
| Railroad & Utility Products  | 205.0               | 164.6        |
| <b>Segment assets</b>        | <b>721.3</b>        | <b>659.8</b> |
| Cash & cash equivalents      | 4.8                 | 0.2          |
| Income tax receivable        | 1.6                 | 10.6         |
| Deferred taxes               | 35.5                | 41.8         |

Edgar Filing: Koppers Holdings Inc. - Form 10-K

|                              |                 |                 |
|------------------------------|-----------------|-----------------|
| Deferred financing costs     | 7.2             | 8.2             |
| Deferred charges             | 2.6             | 3.5             |
| Other                        | 7.0             | 6.6             |
| <b>Total</b>                 | <b>\$ 780.0</b> | <b>\$ 730.7</b> |
| Goodwill:                    |                 |                 |
| Carbon Materials & Chemicals | \$ 70.2         | \$ 69.4         |
| Railroad & Utility Products  | 5.4             | 2.7             |
| <b>Total</b>                 | <b>\$ 75.6</b>  | <b>\$ 72.1</b>  |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

*Revenues and Long-lived Assets by Geographic Area*

| <i>(Dollars in millions)</i> | <i>Year</i> | <i>Revenue</i> | <i>Long-lived<br/>assets</i> |
|------------------------------|-------------|----------------|------------------------------|
| United States                | 2012        | \$ 827.6       | \$ 162.9                     |
|                              | 2011        | 787.5          | 161.6                        |
|                              | 2010        | 672.5          | 157.1                        |
| Australasia                  | 2012        | 318.9          | 72.4                         |
|                              | 2011        | 276.6          | 58.7                         |
|                              | 2010        | 221.9          | 79.8                         |
| Europe                       | 2012        | 247.8          | 36.3                         |
|                              | 2011        | 248.0          | 35.7                         |
|                              | 2010        | 194.0          | 35.8                         |
| Other countries              | 2012        | 160.7          | 0.0                          |
|                              | 2011        | 154.1          | 0.0                          |
|                              | 2010        | 102.1          | 0.0                          |
| Total                        | 2012        | \$ 1,555.0     | \$ 271.6                     |
|                              | 2011        | \$ 1,466.2     | \$ 256.0                     |
|                              | 2010        | \$ 1,190.5     | \$ 272.7                     |

Revenues by geographic area in the above table are attributed by the destination country of the sale. Revenues from non-U.S. countries totaled \$727.4 million in 2012, \$681.1 million in 2011 and \$573.0 million in 2010.

*Segment Revenues for Significant Product Lines*

| <i>(Dollars in millions)</i>        | <i>Year Ended December 31,</i> |             |             |
|-------------------------------------|--------------------------------|-------------|-------------|
|                                     | <i>2012</i>                    | <i>2011</i> | <i>2010</i> |
| Carbon Materials & Chemicals:       |                                |             |             |
| Carbon pitch                        | \$ 442.4                       | \$ 431.1    | \$ 325.6    |
| Creosote and carbon black feedstock | 233.8                          | 162.0       | 104.4       |
| Phthalic anhydride                  | 120.0                          | 112.4       | 93.9        |
| Naphthalene                         | 60.3                           | 72.3        | 68.0        |
| Other products                      | 143.2                          | 165.3       | 148.7       |
|                                     | 999.7                          | 943.1       | 740.6       |
| Railroad & Utility Products:        |                                |             |             |
| Railroad crossties                  | 341.1                          | 324.9       | 282.5       |
| Utility poles                       | 101.3                          | 84.2        | 73.3        |
| Creosote                            | 57.0                           | 52.7        | 57.9        |
| Rail joint bars                     | 25.6                           | 24.7        | 0.1         |
| Other products                      | 30.3                           | 36.6        | 36.1        |
|                                     | 555.3                          | 523.1       | 449.9       |
| Total                               | \$ 1,555.0                     | \$ 1,466.2  | \$ 1,190.05 |



**Table of Contents**

## 9. Inventories

Inventories as of December 31, 2012 and 2011 were as follows:

|                              | <i>December 31,</i> |             |
|------------------------------|---------------------|-------------|
|                              | <i>2012</i>         | <i>2011</i> |
| <i>(Dollars in millions)</i> |                     |             |
| Raw materials                | \$ 118.2            | \$ 91.5     |
| Work in process              | 20.0                | 20.1        |
| Finished goods               | 109.7               | 95.1        |
|                              | 247.9               | 206.7       |
| Less revaluation to LIFO     | 52.1                | 47.7        |
| Net                          | \$ 195.8            | \$ 159.0    |

For the year ended December 31, 2011, liquidations of LIFO inventories increased operating profit by \$0.3 million.

## 10. Equity Investments

The Company holds two investments in unconsolidated companies. KSA Limited Partnership is a 50 percent owned concrete crosstie operation located in Portsmouth, Ohio. Tangshan Koppers Kailuan Carbon Chemical Company Limited ( TKK ) is a 30-percent owned tar distillation facility in the Hebei Province of China. No dividends were paid for the three years ended December 31, 2012. Equity in earnings for the three years ended December 31, 2012 were as follows:

|                              | <i>Equity income</i> |
|------------------------------|----------------------|
| <i>(Dollars in millions)</i> |                      |
| 2012                         | \$ 0.8               |
| 2011                         | 0.2                  |
| 2010                         | 0.0                  |

## 11. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2012 and 2011 were as follows:

|                               | <i>December 31,</i> |             |
|-------------------------------|---------------------|-------------|
|                               | <i>2012</i>         | <i>2011</i> |
| <i>(Dollars in millions)</i>  |                     |             |
| Land                          | \$ 7.0              | \$ 6.6      |
| Buildings                     | 36.4                | 34.7        |
| Machinery and equipment       | 616.6               | 593.5       |
|                               | 660.0               | 634.8       |
| Less accumulated depreciation | 498.9               | 479.2       |
| Net                           | \$ 161.1            | \$ 155.6    |

Depreciation expense for the years ended December 31, 2012, 2011 and 2010 amounted to \$25.2 million, \$46.0 million and \$25.6, respectively. Included in depreciation expense for 2012, 2011 and 2010 were impairment charges totaling \$0.6 million, \$20.2 million and \$1.8 million, respectively. The charge in 2012 related to a Railroad and Utility Products segment's electricity co-generation plant in the United States. The

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

charge in 2011 related to the Carbon Material & Chemicals segment's carbon black facility in Australia and the charge in 2010 related to a Railroad and Utility Products segment's wood treating plant in the United States.

In February 2012, approximately 400 tons of liquid carbon pitch leaked from a storage tank at the Company's terminal facility in Portland, Victoria, Australia. All of the coal tar pitch was contained within the tank farm area and was recovered. Costs directly associated with the leak were \$2.5 million for the year ended December 31, 2012, net of estimated insurance recoveries totaling \$3.2 million which is recorded in other current assets. Expenses associated with the incident include inventory losses, emergency response expenses, incremental logistics expenses, and material clean-up and removal expenses.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## 12. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each business segment for the years ended December 31, 2012 and December 31, 2011 was as follows:

| <i>(Dollars in millions)</i> | <i>Carbon Materials &amp; Chemicals</i> |       | <i>Railroad &amp; Utility Products</i> |       | <i>Total</i> |
|------------------------------|---|-------|--|-------|--------------|
|                              |   |       |  |       |              |
| Balance at December 31, 2010 | \$                                      | 69.6  | \$                                     | 2.5   | \$ 72.1      |
| Acquisitions                 |   | 0.1   |  | 0.3   | 0.4          |
| Currency translation         |   | (0.3) |  | (0.1) | (0.4)        |
| Balance at December 31, 2011 |   | 69.4  |  | 2.7   | 72.1         |
| Acquisitions                 |   | 0.0   |  | 2.6   | 2.6          |
| Currency translation         |   | 0.8   |  | 0.1   | 0.9          |
| Balance at December 31, 2012 | \$                                      | 70.2  | \$                                     | 5.4   | \$ 75.6      |

The Company's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and are summarized below:

| <i>(Dollars in millions)</i> | 2012            |                     |            | December 31, 2011 |                     |            |
|------------------------------|-----------------|---------------------|------------|-------------------|---------------------|------------|
|                              | <i>Gross</i>    |                     | <i>Net</i> | <i>Gross</i>      |                     | <i>Net</i> |
|                              | <i>Carrying</i> | <i>Accumulated</i>  |            | <i>Carrying</i>   | <i>Accumulated</i>  |            |
|                              | <i>Amount</i>   | <i>Amortization</i> |            | <i>Amount</i>     | <i>Amortization</i> |            |
| Customer contracts           | \$ 20.9         | \$ 8.1              | \$ 12.8    | \$ 12.3           | \$ 6.8              | \$ 5.5     |
| Supply contracts             | 2.8             | 0.8                 | 2.0        | 2.7               | 0.5                 | 2.2        |
| Non-compete agreements       | 1.7             | 1.2                 | 0.5        | 1.2               | 1.2                 | 0.0        |
| Favorable lease agreements   | 0.8             | 0.8                 | 0.0        | 0.8               | 0.5                 | 0.3        |
| Total                        | \$ 26.2         | \$ 10.9             | \$ 15.3    | \$ 17.0           | \$ 9.0              | \$ 8.0     |

In 2012, the gross carrying value of identifiable intangible assets increased by \$8.9 million due to acquisitions and by \$0.3 million due to foreign currency translation. In 2011, the gross carrying value of identifiable intangible assets decreased by \$0.8 million due to the finalization of purchase price adjustments from prior year acquisitions and by \$0.2 million due to foreign currency translation. The customer contracts have estimated useful lives of 10 to 15 years, the supply contracts have estimated useful lives of 10 years, the non-compete agreements have estimated useful lives of 3 to 12 years and the favorable lease agreements have estimated useful lives of 3 years. Total amortization expense related to these identifiable intangible assets was \$1.9 million, \$1.5 million and \$1.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. Estimated amortization expense for the next five years is summarized below:



Edgar Filing: Koppers Holdings Inc. - Form 10-K

|                              | <i>Estimated<br/>annual<br/>amortization</i> |
|------------------------------|--|
| <i>(Dollars in millions)</i> |  |
| 2013                         | \$ 1.9                                       |
| 2014                         | 1.8  |
| 2015                         | 1.8  |
| 2016                         | 1.4  |
| 2017                         | 1.2  |

**Table of Contents**

## 13. Debt

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

|   | Weighted<br>Average<br>Interest Rate | Maturity | December 31,    |                 |
|---|--------------------------------------|----------|-----------------|-----------------|
|   |                                      |          | 2012            | 2011            |
| <i>(Dollars in millions, except interest rates)</i>           |                                      |          |                 |                 |
| Revolving Credit Facility                                     | 0.00%                                | 2015     | \$ 0.0          | \$ 6.4          |
| Senior Notes  | 7 <sup>7</sup> / <sub>8</sub> %      | 2019     | 296.1           | 295.7           |
| <b>Total debt</b>   |                                      |          | <b>296.1</b>    | <b>302.1</b>    |
| Less short-term debt and current maturities of long-term debt |                                      |          | 0.0             | 0.0             |
| <b>Long-term debt (excluding current portion)</b>             |                                      |          | <b>\$ 296.1</b> | <b>\$ 302.1</b> |

*Revolving Credit Facility*

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to \$300.0 million at variable rates. Borrowings under the revolving credit facility are secured by a first priority lien on substantially all of the assets of Koppers Inc. and its material domestic subsidiaries. The revolving credit facility contains certain covenants for Koppers Inc. and its restricted subsidiaries that limit capital expenditures, additional indebtedness, liens, dividends, investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. and its restricted subsidiaries to meet certain financial ratios. Commitment fees totaled \$1.0 million in 2012, \$1.1 million in 2011 and \$1.3 million in 2010 and are charged to interest expense.

As of December 31, 2012, the Company had \$290.0 million of unused revolving credit availability for working capital purposes after restrictions from certain letter of credit commitments and other covenants. As of December 31, 2012, \$10.0 million of commitments were utilized by outstanding letters of credit.

*Senior Notes*

The Koppers Inc. 7<sup>7</sup>/<sub>8</sub> 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<sup>1</sup>/<sub>8</sub> percent per annum. The Senior Notes are unsecured senior obligations that are fully and unconditionally guaranteed by Koppers Holdings and certain of Koppers Inc.'s wholly-owned domestic subsidiaries. The Senior Notes are structurally subordinated to indebtedness under the revolving credit facility.

Interest on the Senior Notes is payable semiannually on December 1 and June 1 each year. On or after December 1, 2014, the Company is entitled to redeem all or a portion of the Senior Notes at a redemption price of 103.938 percent of principal value, declining annually in ratable amounts until the redemption price is equivalent to the principal value on December 1, 2017.

The indenture governing the Senior Notes includes customary covenants that restrict, among other things, the ability of Koppers Inc. and its restricted subsidiaries to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of the assets of Koppers Inc. or its subsidiaries or enter into various transactions with affiliates.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

*Debt Maturities and Deferred Financing Costs*

At December 31, 2012 the aggregate debt maturities for the next five years are as follows:

*(Dollars in millions)*

|                                  |                 |
|----------------------------------|-----------------|
| 2013                             | \$ 0.0          |
| 2014                             | 0.0             |
| 2015                             | 0.0             |
| 2016                             | 0.0             |
| 2017                             | 0.0             |
| Thereafter                       | 300.0           |
| <b>Total maturities</b>          | <b>300.0</b>    |
| Future accretion on Senior Notes | (3.9)           |
| <b>Total debt</b>                | <b>\$ 296.1</b> |

Unamortized deferred financing costs (net of accumulated amortization of \$4.6 million and \$3.4 million at December 31, 2012 and 2011, respectively) were \$7.2 million and \$8.3 million at December 31, 2012 and 2011, respectively, and are included in other assets.

## 14. Leases

Future minimum commitments for operating leases having non-cancelable lease terms in excess of one year are as follows:

*(Dollars in millions)*

|              |                |
|--------------|----------------|
| 2013         | \$ 31.8        |
| 2014         | 15.2           |
| 2015         | 9.9            |
| 2016         | 7.6            |
| 2017         | 5.3            |
| Thereafter   | 30.0           |
| <b>Total</b> | <b>\$ 99.8</b> |

Operating lease expense for 2012, 2011 and 2010 was \$44.3 million, \$43.8 million and \$42.5 million, respectively.

## 15. Pensions and Post-retirement Benefit Plans

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

All qualified defined benefit pension plans for salaried employees have been closed to new participants and a number of plans, including most plans for hourly employees, have been frozen or are scheduled to be frozen in the next two years. Accordingly, these pension plans no longer

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

accrue additional years of service or recognize future increases in compensation for benefit purposes. In addition, a number of pension plans are subject to a soft freeze which precludes new employees from entering the defined benefit pension plans.

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

**Table of Contents**

Expense related to defined contribution plans totaled \$4.7 million, \$4.8 million and \$4.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. Expense related to contributions to multi-employer pension plans totaled \$0.4 million, \$0.7 million and \$0.7 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Net periodic pension costs for 2012, 2011 and 2010 were as follows:

|   | <i>Pension Benefits</i> |               |                | <i>December 31,<br/>Other Benefits</i> |               |               |
|---|-------------------------|---------------|----------------|--|---------------|---------------|
|   | <i>2012</i>             | <i>2011</i>   | <i>2010</i>    | <i>2012</i>                            | <i>2011</i>   | <i>2010</i>   |
| <i>(Dollars in millions)</i>                    |                         |               |                |  |               |               |
| <b>Components of net periodic benefit cost:</b> |                         |               |                |  |               |               |
| Service cost                                    | \$ 3.5                  | \$ 3.3        | \$ 3.1         | \$ 0.1                                 | \$ 0.2        | \$ 0.2        |
| Interest cost                                   | 10.7                    | 11.1          | 11.4           | 0.5                                    | 0.6           | 0.7           |
| Expected return on plan assets                  | (10.7)                  | (11.0)        | (9.9)          | 0.0                                    | 0.0           | 0.0           |
| Amortization of prior service cost              | 0.1                     | 0.1           | 0.2            | 0.0                                    | (0.1)         | (0.1)         |
| Amortization of net loss                        | 8.1                     | 6.3           | 5.2            | 0.0                                    | 0.0           | 0.0           |
| Amortization of transition asset                | (0.3)                   | (0.3)         | (0.3)          | 0.0                                    | 0.0           | 0.0           |
| Settlements and curtailments                    | 0.3                     | 0.2           | 0.5            | 0.0                                    | 0.0           | 0.0           |
| <b>Net periodic benefit cost</b>                | <b>\$ 11.7</b>          | <b>\$ 9.7</b> | <b>\$ 10.2</b> | <b>\$ 0.6</b>                          | <b>\$ 0.7</b> | <b>\$ 0.8</b> |

Net periodic pension cost that is expected to be recognized from the amortization of prior service cost and net loss is estimated to total \$0.1 million and \$7.7 million, respectively, for all plans in 2013.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

The change in the funded status of the pension and postretirement plans as of December 31, 2012 and December 31, 2011 is as follows:

|  | <i>Pension Benefits</i> |             | <i>December 31,<br/>Other Benefits</i> |             |
|--|-------------------------|-------------|--|-------------|
|  | <i>2012</i>             | <i>2011</i> | <i>2012</i>                            | <i>2011</i> |
| <i>(Dollars in millions)</i>   |                         |             |  |             |
| Change in benefit obligation:  |                         |             |  |             |
| Benefit obligation at beginning of year                                      | \$ 239.5                | \$ 215.9    | \$ 12.5                                | \$ 12.8     |
| Service cost   | 3.5                     | 3.3         | 0.1                                    | 0.1         |
| Interest cost  | 10.7                    | 11.2        | 0.5                                    | 0.6         |
| Plan participants' contributions   | 0.2                     | 0.2         | 0.0                                    | 0.0         |
| Actuarial losses (gains)   | 10.3                    | 20.2        | (1.8)                                  | (0.5)       |
| Settlements  | (1.4)                   | (0.8)       | 0.0                                    | 0.0         |
| Currency translation   | 2.4                     | (0.3)       | 0.0                                    | 0.0         |
| Benefits paid  | (10.0)                  | (10.2)      | (0.1)                                  | (0.5)       |
| Benefit obligation at end of year  | 255.2                   | 239.5       | 11.2                                   | 12.5        |
| Change in plan assets:   |                         |             |  |             |
| Fair value of plan assets at beginning of year                               | 146.6                   | 141.6       | 0.0                                    | 0.0         |
| Actual return on plan assets   | 15.7                    | 0.1         | 0.0                                    | 0.0         |
| Employer contribution  | 22.4                    | 15.9        | 0.1                                    | 0.5         |
| Plan participants' contributions   | 0.2                     | 0.2         | 0.0                                    | 0.0         |
| Settlements  | (1.4)                   | (0.8)       | 0.0                                    | 0.0         |
| Currency translation   | 2.1                     | (0.2)       | 0.0                                    | 0.0         |
| Benefits paid  | (10.0)                  | (10.2)      | (0.1)                                  | (0.5)       |
| Fair value of plan assets at end of year                                     | 175.6                   | 146.6       | 0.0                                    | 0.0         |
| Funded status of the plan  | \$ (79.6)               | \$ (92.9)   | \$ (11.2)                              | \$ (12.5)   |
| Amounts recognized in the balance sheet consist of:                          |                         |             |  |             |
| Noncurrent assets  | \$ 0.2                  | \$ 0.3      | \$ 0.0                                 | \$ 0.0      |
| Current liabilities  | 0.4                     | 0.7         | 0.7                                    | 1.0         |
| Noncurrent liabilities   | 79.4                    | 92.5        | 10.5                                   | 11.5        |
| Pension plans with benefit obligations in excess of plan assets:             |                         |             |  |             |
| Benefit obligation   | \$ 247.5                | \$ 231.5    |  |             |
| Fair value of plan assets  | 167.6                   | 138.3       |  |             |
| Pension plans with accumulated benefit obligations in excess of plan assets: |                         |             |  |             |
| Accumulated benefit obligation   | \$ 229.0                | \$ 224.1    |  |             |
| Fair value of plan assets  | 167.6                   | 138.3       |  |             |

The measurement date for all pension and postretirement assets and obligations is December 31 for each respective year.

The accumulated benefit obligation for all defined benefit pension plans as of December 31, 2012 and 2011 was \$235.9 million and \$231.5 million, respectively.

*Expected Contributions for the 2013 Fiscal Year*

The expected contributions by the Company for 2013 are estimated to be \$22.7 million for pension plans and \$0.8 million for other benefit plans.



**Table of Contents***Projected Benefit Payments*

Benefit payments for pension benefits, which are primarily funded by the pension plan assets, and other benefits, which are funded by general corporate assets and reflecting future expected service as appropriate, are expected to be paid as follows:

| <i>(Dollars in millions)</i> | <i>Pension Benefits</i> | <i>Other Benefits</i> |
|------------------------------|-------------------------|-----------------------|
| 2013                         | \$ 11.3                 | \$ 0.8                |
| 2014                         | 11.4                    | 0.8                   |
| 2015                         | 11.8                    | 0.8                   |
| 2016                         | 13.0                    | 0.8                   |
| 2017                         | 13.5                    | 0.8                   |
| 2018 - 2022                  | 74.0                    | 4.1                   |

*Weighted-Average Assumptions as of December 31*

|                                | <i>Pension Benefits</i> |             | <i>December 31,<br/>Other Benefits</i> |             |
|--------------------------------|-------------------------|-------------|--|-------------|
|                                | <i>2012</i>             | <i>2011</i> | <i>2012</i>                            | <i>2011</i> |
| Discount rate                  | 4.33%                   | 4.55%       | 4.37%                                  | 4.37%       |
| Expected return on plan assets | 7.25                    | 7.68        |  |             |
| Rate of compensation increase  | 3.10                    | 3.09        |  |             |
| Initial medical trend rate     |                         |             | 7.35                                   | 7.80        |

*Basis for the Selection of the Long-Term Rate of Return on Assets*

The long-term rate of return on assets assumption was determined by using the plan's asset allocation as described in the plan's investment policy and modeling a distribution of compound average returns over a 20-year time horizon. The model uses asset class return, variance, and correlation assumptions to produce the expected return. The return assumptions used forward looking gross returns influenced by the current bond yields, corporate bond spreads and equity risk premiums based on current market conditions.

In general, the long-term rate of return is the sum of the portion of total assets in each asset class multiplied by the expected return for that class, adjusted for expected expenses to be paid from the assets. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

*Investment Strategy*

The weighted average asset allocation for the Company's pension plans at December 31 by asset category is as follows:

|                   | <i>December 31,</i> |             |
|-------------------|---------------------|-------------|
|                   | <i>2012</i>         | <i>2011</i> |
| Equity securities | 61%                 | 64%         |
| Debt securities   | 35                  | 30          |
| Other             | 4                   | 6           |
|                   | 100%                | 100%        |

The Company's investment strategy for its pension plans is to maintain an adequate level of diversification, to reduce interest rate and market risk and to provide adequate liquidity to meet immediate and future benefit payment requirements. The Company's overall investment strategy is to achieve a mix of growth seeking assets, principally U.S. and international public company equity securities and income generating assets, principally debt securities, real estate and cash. Currently, the





**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

Company targets an allocation of 60 percent to 70 percent growth seeking assets and 30 percent to 40 percent income generating assets on an overall basis. The Company utilizes investment managers to assist in identifying and monitoring investments that meet these allocation criteria. With respect to the largest pension plan, the Company has implemented a strategy of reallocating pension assets from growth seeking assets to income generating assets as certain funded status levels are reached.

The investment valuation policy of the Company is to value investments at fair value. Most of the assets are invested in pooled or commingled investment vehicles. The Company's interest in these investment vehicles is expressed as a unit of account with a value per unit that is the result of the accumulated values of the underlying investments. Equity securities held within these investment vehicles are typically priced on a daily basis using the closing market price from the exchange the security is traded. Debt securities held within these investment vehicles are typically priced on a daily basis by independent pricing services. The fair value of real estate investments are either priced through a listing on an exchange or are subject to periodic appraisals.

The pension assets are all substantially held in pooled or commingled investment vehicles. The following table sets forth by level, the Company's pension plan assets at fair value, within the fair value hierarchy, as of December 31, 2012 and December 31, 2011:

|                                   | <i>As of December 31, 2012</i>   |   |   |              |
|-----------------------------------|--|---|---|--------------|
|                                   | <i>Quoted prices<br/>in<br/>active<br/>markets<br/>for<br/>identical assets<br/><br/>(Level<br/>1)</i> | <i>Significant<br/>observable<br/>inputs<br/><br/>(Level 2)</i> | <i>Significant<br/>unobservable<br/>inputs<br/><br/>(Level 3)</i> | <i>Total</i> |
| <i>(Dollars in millions)</i>      |  |   |   |              |
| U.S. equity securities            | \$ 0.0   | \$ 80.0   | \$ 0.0  | \$80.0       |
| International equity securities   | 0.0  | 27.2  | 0.0   | 27.2         |
| U.S. debt securities              | 0.0  | 36.4  | 0.0   | 36.4         |
| International debt securities     | 0.0  | 24.5  | 0.0   | 24.5         |
| Real estate and other investments | 0.0  | 1.7   | 0.0   | 1.7          |
| Cash and cash equivalents         | 0.0  | 5.8   | 0.0   | 5.8          |
|                                   | \$ 0.0   | \$ 175.6  | \$ 0.0  | \$175.6      |

|                                   | <i>As of December 31, 2011</i>   |   |   |              |
|-----------------------------------|--|---|---|--------------|
|                                   | <i>Quoted prices<br/>in<br/>active<br/>markets<br/>for<br/>identical assets<br/><br/>(Level<br/>1)</i> | <i>Significant<br/>observable<br/>inputs<br/><br/>(Level 2)</i> | <i>Significant<br/>unobservable<br/>inputs<br/><br/>(Level 3)</i> | <i>Total</i> |
| <i>(Dollars in millions)</i>      |  |   |   |              |
| U.S. equity securities            | \$ 0.0   | \$ 71.8   | \$ 0.0  | \$ 71.8      |
| International equity securities   | 0.0  | 22.6  | 0.0   | 22.6         |
| U.S. debt securities              | 0.0  | 22.0  | 0.0   | 22.0         |
| International debt securities     | 0.0  | 22.4  | 0.0   | 22.4         |
| Real estate and other investments | 0.0  | 1.6   | 0.0   | 1.6          |
| Cash and cash equivalents         | 0.0  | 6.2   | 0.0   | 6.2          |

|        |          |        |          |
|--------|----------|--------|----------|
| \$ 0.0 | \$ 146.6 | \$ 0.0 | \$ 146.6 |
|--------|----------|--------|----------|

**Table of Contents***Health Care Cost Trend Rates*

The 2012 initial health care cost trend rate is assumed to be 7.35 percent and is assumed to decrease gradually to 4.5 percent in 2027 and remain at that level thereafter. The assumed health care cost trend rate has a significant effect on the amounts reported for other postretirement benefit liability. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

| <i>(Dollars in millions)</i>                                     | <i>1% Increase</i> | <i>1% Decrease</i> |
|--|--------------------|--------------------|
| Increase (decrease) from change in health care cost trend rates: |                    |                    |
| Postretirement benefit expense                                   | \$ 0.0             | \$ 0.0             |
| Postretirement benefit liability                                 | 0.3                | (0.2)              |

*Incentive Plan*

The Company has short-term management incentive plans that pay cash bonuses if certain Company performance and individual goals are met. The charge to operating expense for these plans was \$5.2 million in 2012, \$5.6 million in 2011 and \$5.0 million in 2010.

## 16. Common Stock and Senior Convertible Preferred Stock

Changes in senior convertible preferred stock, common stock and treasury stock for the three years ended December 31, 2012 are as follows:

| <i>(Shares in thousands)</i>               | <i>Year Ended December 31,</i> |               |               |
|--|--------------------------------|---------------|---------------|
|  | <i>2012</i>                    | <i>2011</i>   | <i>2010</i>   |
| <b>Senior Convertible Preferred Stock:</b> |                                |               |               |
| Balance at beginning and end of year       | 0                              | 0             | 0             |
| <b>Common Stock:</b>                       |                                |               |               |
| Balance at beginning of year               | 21,309                         | 21,278        | 21,124        |
| Issued for employee stock plans            | 276                            | 31            | 154           |
| <b>Balance at end of year</b>              | <b>21,585</b>                  | <b>21,309</b> | <b>21,278</b> |
| <b>Treasury Stock:</b>                     |                                |               |               |
| Balance at beginning of year               | (706)                          | (700)         | (669)         |
| Shares repurchased                         | (245)                          | (6)           | (31)          |
| <b>Balance at end of year</b>              | <b>(951)</b>                   | <b>(706)</b>  | <b>(700)</b>  |

## 17. Fair Value of Financial Instruments

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

| <i>(Dollars in millions)</i>                | <i>December 31, 2012</i> |                       | <i>December 31, 2011</i> |                       |
|---|--------------------------|-----------------------|--------------------------|-----------------------|
|   | <i>Fair Value</i>        | <i>Carrying Value</i> | <i>Fair Value</i>        | <i>Carrying Value</i> |
| <b>Financial assets:</b>                    |                          |                       |                          |                       |
| Cash and cash equivalents                   | \$ 66.7                  | \$ 66.7               | \$ 54.1                  | \$ 54.1               |
| Investments and other assets <sup>(a)</sup> | 1.4                      | 1.4                   | 1.3                      | 1.3                   |
| <b>Financial liabilities:</b>               |                          |                       |                          |                       |
| Long-term debt (including current portion)  | \$ 331.1                 | \$ 296.1              | \$ 324.4                 | \$ 302.1              |

*(a) Excludes equity method investments.*

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

*Cash* 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 life insurance policies. The cash surrender value asset is classified as Level 2 in the valuation hierarchy and is measured from values received from the insuring entity.

*Long-term 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 for 2011 approximate carrying value due to the variable rate nature of these instruments.

## 18. Commitments and Contingent Liabilities

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

*Legal Proceedings*

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

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

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

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

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

The case was removed to the United States District Court for the Northern District of Florida in December 2010. Koppers Holdings Inc. filed a motion to dismiss alleging that the Court lacks personal jurisdiction over it. The Court has not yet ruled on Koppers Holdings Inc.'s motion to dismiss. Discovery and all prior deadlines were stayed for nine months until January 2013 while the parties explored settlement possibilities. The stay was recently lifted and plaintiffs have indicated that they will file another amended complaint which further expands the boundaries of the

class affected area, introduces arsenic and

---

## **Table of Contents**

hexavalent chromium as additional contaminants of concern, adds multiple new defendants and injects additional causes of action into the case. The Court has not yet scheduled a class certification hearing or trial.

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

**Other Matters.** In July 2012, Koppers Netherlands B.V.'s (Koppers Netherlands) coal tar distillation plant suffered a series of electrical disruptions which significantly affected plant operations and prevented the resumption of plant operations for a period of approximately three weeks. As a result of the suspension of operations, the coal tar distillation plant was unable to provide steam and other services to an adjacent unaffiliated plant. This unaffiliated plant and Koppers Netherlands' plant share certain services and plant infrastructure under a cost sharing agreement. In September 2012, Koppers Netherlands received a business interruption claim from the owner of the unaffiliated plant that included a claim for lost profits of approximately \$1.7 million. Koppers Netherlands has not received detailed information used by the unaffiliated plant to determine this alleged loss, and, as a result, Koppers Netherlands is unable to determine the validity of the actual loss incurred. The Company has not provided a reserve for the claimed lost profits because, at this time, it cannot reasonably determine the probability of such loss, and the amount of such loss, if any, cannot be reasonably estimated. The Company does not currently believe that resolution of this matter will involve a loss contingency that would be material to the financial statements.

In October 2012, the Company received a claim from a customer alleging that a carbon product sold by the Company was inadequate for its intended use. The customer requested a refund of the purchase price, recovery of transport costs and reimbursement of operational losses associated with the use of the product. The Company reached an agreement in principle to resolve this issue with the customer in the first quarter of 2013 for an amount not material to the financial statements.

### *Environmental and Other Litigation Matters*

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

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

The Indemnity provides different mechanisms, subject to certain limitations, by which Beazer East is obligated to indemnify Koppers Inc. with regard to certain environmental, product and other liabilities and imposes certain conditions on Koppers Inc. before receiving such indemnification, including, in some cases, certain limitations regarding the time period as to which claims for indemnification can be brought. In July 2004, Koppers Inc. and Beazer East agreed to amend the environmental indemnification provisions of the December 29, 1988 asset purchase agreement to extend the indemnification period for pre-



---

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

closing environmental liabilities through July 2019. As consideration for the amendment, Koppers Inc. paid Beazer East a total of \$7.0 million and agreed to share toxic tort litigation defense costs arising from any sites acquired from Beazer East. The July 2004 amendment did not change the provisions of the Indemnity with respect to indemnification for non-environmental claims, such as product liability claims, which claims may continue to be asserted after July 2019.

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

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

To date, the parties that retained, assumed and/or agreed to indemnify the Company against the liabilities referred to above, including Beazer East, have performed their obligations in all material respects. The Company believes that, for the last three years ended December 31, 2012, amounts paid by Beazer East as a result of its environmental remediation obligations under the Indemnity have averaged in total approximately \$16 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 operates a coal tar pitch terminal near the site. Koppers Inc. has responded to an Environmental Protection Agency ( EPA ) information request and has executed a PRP agreement which outlines the process to develop an allocation of past and future costs among more than 80 parties to the site. Koppers Inc. believes it is a *de minimus* contributor at the site. Additionally, a separate natural resources damages assessment ( NRDA ) is being conducted by a local trustee group. The NRDA is intended to identify further information necessary to estimate liabilities for remediation based settlements of national resource damages ( NRD ) claims. Koppers Inc. may also incur liabilities under the NRD process and has entered into a separate process to develop an allocation of NRD cost.

On March 30, 2012, a draft Feasibility Study ( FS ) was submitted to EPA by the Lower Willamette Group ( LWG ), a group of certain PRPs which has been conducting the investigation of the site. The draft FS identifies ten possible remedial alternatives which range in cost from approximately \$170 million to \$1.8 billion. The FS does not determine who is responsible for



**Table of Contents**

remediation costs or select remedies. The FS is under review by the EPA which will issue a final decision on the nature and extent of the final remediation. Responsibility for implementing and funding that work will be decided in the separate allocation process.

In September 2009, Koppers Inc. received a general notice letter notifying it that it may be a PRP at the Newark Bay CERCLA site. In January 2010, Koppers Inc. submitted a response to the general notice letter asserting that Koppers Inc. is a *de minimus* party at this site.

Other than the estimated costs of participating in the PRP group at the Portland Harbor and Newark Bay CERCLA sites totaling \$0.5 million at December 31, 2012, the Company has not provided a reserve for these matters because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resources damages or how those costs will be allocated among the PRPs. Accordingly, the Company believes that it cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. An unfavorable resolution of these matters may have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

**Australian Environmental Matters.** Soil and groundwater contamination has been detected at certain of the Company's Australian facilities. At the Company's tar distillation facility in Newcastle, New South Wales, Australia, soil contamination from an abandoned underground coal tar pipeline and other groundwater contamination have been detected at a property adjacent to the facility. In 2011, the Company and the owner of the adjacent property reached an agreement in which the Company will contribute \$1.6 million and the owner of the adjacent property will contribute \$7.5 million toward remediation of the property. The agreement provides that the Company will assume responsibility for the management of the remediation effort and will indemnify the current owner for any remediation costs in excess of its agreed contribution. At the completion of the remediation, the agreement provides that the property will be transferred to the Company. The remediation project commenced in 2011 and the Company has reserved its expected remaining remediation costs of \$5.0 million and has recorded a receivable, net of cash collections, from the owner of the adjacent property of \$3.1 million as of December 31, 2012.

In December 2011, the Company ceased manufacturing operations at its Continental Carbon facility located in Kurnell, Australia. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The Company has accrued its expected cost of site remediation resulting from the closure of \$6.7 million as of December 31, 2012.

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

**Environmental Reserves Rollforward.** The following table reflects changes in the accrued liability for environmental matters, of which \$8.5 million and \$8.1 million are classified as current liabilities at December 31, 2012 and 2011, respectively:

|  | <i>Year Ended December 31,</i> |             |
|--|--------------------------------|-------------|
|  | <i>2012</i>                    | <i>2011</i> |
| <i>(Dollars in millions)</i>                       |                                |             |
| Balance at beginning of year                       | \$ 17.7                        | \$ 6.6      |
| Expense  | 1.0                            | 8.0         |
| Reversal of reserves                               | (0.4)                          | (1.6)       |
| Cash expenditures                                  | (4.6)                          | (2.4)       |
| Assumed remediation liability in exchange for cash | 0.0                            | 7.5         |
| Currency translation                               | 0.4                            | (0.4)       |
| Balance at end of year                             | \$14.1                         | \$17.7      |

Cash expenditures in 2012 and expenses in 2011 primarily related to Australian environmental matters.

#### 19. Related Party Transactions

In November 2011, the Company loaned \$11.7 million to TKK, a 30-percent owned company in China. During 2012, TKK made repayments totaling \$2.2 million; accordingly the amount of the loan is \$9.5 million as of December 31, 2012. The loan is repayable in November 2013.



**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## 20. Selected Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2012 and 2011:

|  | <i>Year Ended December 31, 2012</i> |                               |                               |                               | <i>Fiscal<br/>Year</i> |
|--|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------------|
|  | <i>1<sup>st</sup> Quarter</i>       | <i>2<sup>nd</sup> Quarter</i> | <i>3<sup>rd</sup> Quarter</i> | <i>4<sup>th</sup> Quarter</i> |                        |
| <i>(Dollars in millions, except per share amounts)</i>                                       |                                     |                               |                               |                               |                        |
| Statement of operations data:  |                                     |                               |                               |                               |                        |
| Net sales  | \$ 380.9                            | \$ 411.3                      | \$ 387.9                      | \$ 374.9                      | \$ 1,555.0             |
| Operating profit   | 29.2                                | 40.7                          | 30.8                          | 25.9                          | 126.6                  |
| Income from continuing operations  | 15.8                                | 21.1                          | 16.2                          | 14.2                          | 67.3                   |
| Net income   | 15.9                                | 20.9                          | 16.2                          | 14.2                          | 67.2                   |
| Net income attributable to Koppers   | 15.6                                | 20.4                          | 16.0                          | 13.6                          | 65.6                   |
| Common stock data:   |                                     |                               |                               |                               |                        |
| Earnings (loss) per common share attributable to Koppers common shareholders: <sup>(b)</sup> |                                     |                               |                               |                               |                        |
| Basic  |                                     |                               |                               |                               |                        |
| Continuing operations  | \$ 0.74                             | \$ 1.00                       | \$ 0.77                       | \$ 0.66                       | \$ 3.18                |
| Discontinued operations <sup>(a)</sup>   | 0.01                                | (0.01)                        | 0.00                          | 0.00                          | (0.01)                 |
| Earnings per basic common share  | \$ 0.75                             | \$ 0.99                       | \$ 0.77                       | \$ 0.66                       | \$ 3.17                |
| Diluted  |                                     |                               |                               |                               |                        |
| Continuing operations  | \$ 0.74                             | \$ 0.99                       | \$ 0.77                       | \$ 0.65                       | \$ 3.14                |
| Discontinued operations <sup>(a)</sup>   | 0.01                                | (0.01)                        | 0.00                          | 0.00                          | (0.01)                 |
| Earnings per diluted common share  | \$ 0.75                             | \$ 0.98                       | \$ 0.77                       | \$ 0.65                       | \$ 3.13                |
| Dividends declared per common share  | \$ 0.24                             | \$ 0.24                       | \$ 0.24                       | \$ 0.24                       | \$ 0.96                |
| Price range of common stock:   |                                     |                               |                               |                               |                        |
| High   | \$ 40.61                            | \$ 40.37                      | \$ 37.82                      | \$ 38.83                      | \$ 40.61               |
| Low  | 32.15                               | 31.17                         | 29.30                         | 30.99                         | 29.30                  |

|  | <i>Year Ended December 31, 2011</i> |                               |                               |                               | <i>Fiscal<br/>Year</i> |
|--|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------------|
|  | <i>1<sup>st</sup> Quarter</i>       | <i>2<sup>nd</sup> Quarter</i> | <i>3<sup>rd</sup> Quarter</i> | <i>4<sup>th</sup> Quarter</i> |                        |
| <i>(Dollars in millions, except per share amounts)</i>                                       |                                     |                               |                               |                               |                        |
| Statement of operations data:  |                                     |                               |                               |                               |                        |
| Net sales  | \$ 341.5                            | \$ 374.5                      | \$ 381.2                      | \$ 369.0                      | \$ 1,466.2             |
| Operating profit   | 21.3                                | 38.3                          | 40.1                          | 23.0                          | 122.7                  |
| Income from continuing operations  | 9.2                                 | 20.4                          | 22.5                          | 5.4                           | 57.5                   |
| Net income (loss) <sup>(a)</sup>   | 9.0                                 | 19.9                          | 22.7                          | (14.0)                        | 37.6                   |
| Net income (loss) attributable to Koppers <sup>(a)</sup>                                     | 8.9                                 | 19.8                          | 22.4                          | (14.2)                        | 36.9                   |
| Common stock data:   |                                     |                               |                               |                               |                        |
| Earnings (loss) per common share attributable to Koppers common shareholders: <sup>(b)</sup> |                                     |                               |                               |                               |                        |
| Basic  |                                     |                               |                               |                               |                        |
| Continuing operations  | \$ 0.44                             | \$ 0.99                       | \$ 1.07                       | \$ 0.25                       | \$ 2.75                |
| Discontinued operations <sup>(a)</sup>   | (0.01)                              | (0.03)                        | 0.01                          | (0.94)                        | (0.96)                 |
| Earnings per basic common share  | \$ 0.43                             | \$ 0.96                       | \$ 1.08                       | \$ (0.69)                     | \$ 1.79                |
| Diluted  |                                     |                               |                               |                               |                        |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

|  |                |                |                |                  |                |
|--|----------------|----------------|----------------|------------------|----------------|
| Continuing operations                    | \$ 0.44        | \$ 0.99        | \$ 1.07        | \$ 0.24          | \$ 2.72        |
| Discontinued operations <sup>(a)</sup>   | (0.01)         | (0.03)         | 0.01           | (0.93)           | (0.95)         |
| <b>Earnings per diluted common share</b> | <b>\$ 0.43</b> | <b>\$ 0.96</b> | <b>\$ 1.08</b> | <b>\$ (0.69)</b> | <b>\$ 1.77</b> |
| Dividends declared per common share      | \$ 0.22        | \$ 0.22        | \$ 0.22        | \$ 0.22          | \$ 0.88        |
| Price range of common stock:             |                |                |                |                  |                |
| High                                     | \$ 42.88       | \$ 46.14       | \$ 39.23       | \$ 36.53         | \$ 46.14       |
| Low                                      | 34.76          | 34.63          | 23.59          | 24.75            | 23.59          |

*(a) In the fourth quarter of 2011, the Company ceased manufacturing operations at its carbon black facility located in Kurnell, Australia. The costs related to this closure totaled \$41.0 million in the fourth quarter of 2011. The results of operations of the carbon black facility have been reclassified to discontinued operations for all periods presented as run-off activities were completed in the first quarter of 2012.*

*(b) The cumulative sum of quarterly basic and diluted net income per share amounts may not equal total basic and diluted net income per share amounts for the year due to differences in weighted average and equivalent shares outstanding for each of the periods presented.*

**Table of Contents**

## 22. 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 World-Wide Ventures Corporation, Koppers Delaware, Inc., Koppers Concrete Products, Inc., Concrete Partners, Inc., and Koppers Asia LLC.

Separate condensed consolidating financial statement information for Koppers Holdings Inc. (the parent), Koppers Inc., domestic guarantor subsidiaries and non-guarantor subsidiaries as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 is as follows. Certain amounts have been reclassified in the Condensed Consolidated Statements of Comprehensive Income for the years ended December 31, 2011 and 2010 to reflect affiliated dividends and affiliated interest income.

## Condensed Consolidating Statement of Comprehensive Income

For the Year Ended December 31, 2012

|   | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |         |              |                                       |                               |                              |              |
| Net sales   | \$ 0.0  | \$ 893.2     | \$ 97.5                               | \$ 638.4                      | \$ (74.1)                    | \$ 1,555.0   |
| Cost of sales including depreciation and amortization | 0.0     | 786.6        | 78.0                                  | 562.0                         | (73.8)                       | 1,352.8      |
| Selling, general and administrative                   | 1.6     | 45.1         | 2.1                                   | 26.8                          | 0.0                          | 75.6         |
| Operating profit (loss)                               | (1.6)   | 61.5         | 17.4                                  | 49.6                          | (0.3)                        | 126.6        |
| Other income (expense)                                | 66.6    | 0.2          | 6.0                                   | 0.7                           | (71.6)                       | 1.9          |
| Interest expense (income)                             | 0.0     | 27.2         | (5.1)                                 | 5.8                           | 0.0                          | 27.9         |
| Income taxes  | (0.6)   | 8.7          | 12.5                                  | 12.7                          | 0.0                          | 33.3         |
| Income from continuing operations                     | 65.6    | 25.8         | 16.0                                  | 31.8                          | (71.9)                       | 67.3         |
| Discontinued operations                               | 0.0     | 0.0          | 0.0                                   | (0.1)                         | 0.0                          | (0.1)        |
| Noncontrolling interests                              | 0.0     | 0.0          | 0.0                                   | 1.6                           | 0.0                          | 1.6          |
| Net income attributable to Koppers                    | \$ 65.6 | \$ 25.8      | \$ 16.0                               | \$ 30.1                       | \$ (71.9)                    | \$ 65.6      |
| Comprehensive income attributable to Koppers          | \$ 73.7 | \$ 29.8      | \$ 17.8                               | \$ 32.4                       | \$ (80.0)                    | \$ 73.7      |

## Condensed Consolidating Statement of Comprehensive Income

For the Year Ended December 31, 2011

|   | Parent | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---|--------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                          |        |              |                                       |                               |                              |              |
| Net sales   | \$ 0.0 | \$ 854.1     | \$ 72.6                               | \$ 585.2                      | \$ (45.7)                    | \$ 1,466.2   |
| Cost of sales including depreciation and amortization | 0.0    | 762.9        | 55.0                                  | 497.0                         | (45.7)                       | 1,269.2      |
| Selling, general and administrative                   | 1.2    | 41.6         | 1.8                                   | 29.7                          | 0.0                          | 74.3         |
| Operating profit (loss)                               | (1.2)  | 49.6         | 15.8                                  | 58.5                          | 0.0                          | 122.7        |
| Other income (expense)                                | 37.7   | 0.1          | 8.1                                   | 0.5                           | (45.7)                       | 0.7          |

Edgar Filing: Koppers Holdings Inc. - Form 10-K

|  |         |         |         |          |           |         |
|--|---------|---------|---------|----------|-----------|---------|
| Interest expense (income)                    | 0.0     | 27.3    | (5.4)   | 5.3      | 0.0       | 27.2    |
| Income taxes                                 | (0.4)   | 7.7     | 0.8     | 30.6     | 0.0       | 38.7    |
| Income from continuing operations            | 36.9    | 14.7    | 28.5    | 23.1     | (45.7)    | 57.5    |
| Discontinued operations                      | 0.0     | 0.0     | 0.0     | (19.9)   | 0.0       | (19.9)  |
| Noncontrolling interests                     | 0.0     | 0.0     | 0.0     | 0.7      | 0.0       | 0.7     |
| Net income attributable to Koppers           | \$ 36.9 | \$ 14.7 | \$ 28.5 | \$ 2.5   | \$ (45.7) | \$ 36.9 |
| Comprehensive income attributable to Koppers | \$ 18.9 | \$ 1.1  | \$ 28.0 | \$ (1.4) | \$ (27.7) | \$ 18.9 |



**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## Condensed Consolidating Statement of Comprehensive Income

For the Year Ended December 31, 2010

| <i>(Dollars in millions)</i>                          | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|---|---------------|---------------------|--|---------------------------------------|--------------------------------------|---------------------|
| Net sales   | \$ 0.0        | \$ 721.2            | \$ 45.8  | \$ 462.3                              | \$ (38.8)                            | \$ 1,190.5          |
| Cost of sales including depreciation and amortization | 0.0           | 657.7               | 32.5   | 378.8                                 | (39.0)                               | 1,030.0             |
| Selling, general and administrative                   | 1.6           | 32.2                | 3.3  | 25.3                                  | 0.0                                  | 62.4                |
| Operating profit (loss)                               | (1.6)         | 31.3                | 10.0   | 58.2                                  | 0.2                                  | 98.1                |
| Other income (expense)                                | 45.0          | 0.0                 | 8.0  | 2.9                                   | (53.4)                               | 2.5                 |
| Interest expense (income)                             | (0.2)         | 27.7                | (5.0)  | 4.6                                   | 0.0                                  | 27.1                |
| Income taxes  | (0.5)         | 1.5                 | 12.2   | 15.7                                  | 0.0                                  | 28.9                |
| Income from continuing operations                     | 44.1          | 2.1                 | 10.8   | 40.8                                  | (53.2)                               | 44.6                |
| Discontinued operations                               | 0.0           | 0.0                 | (0.2)  | 0.1                                   | 0.0                                  | (0.1)               |
| Noncontrolling interests                              | 0.0           | 0.0                 | 0.0  | 0.4                                   | 0.0                                  | 0.4                 |
| Net income attributable to Koppers                    | \$ 44.1       | \$ 2.1              | \$ 10.6  | \$ 40.5                               | \$ (53.2)                            | \$ 44.1             |
| Comprehensive income attributable to Koppers          | \$ 54.6       | \$ 1.8              | \$ 18.9  | \$ 43.0                               | \$ (63.7)                            | \$ 54.6             |

## Condensed Consolidating Balance Sheet

December 31, 2012

| <i>(Dollars in millions)</i>       | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|------------------------------------|---------------|---------------------|--|---------------------------------------|--------------------------------------|---------------------|
| <b>ASSETS</b>                      |               |                     |  |                                       |                                      |                     |
| Cash and cash equivalents          | \$ 0.0        | \$ 4.8              | \$ 0.0   | \$ 61.9                               | \$ 0.0                               | \$ 66.7             |
| Receivables, net                   | 6.9           | 91.5                | 324.9  | 86.8                                  | (345.8)                              | 164.3               |
| Inventories, net                   | 0.0           | 102.2               | 0.0  | 93.9                                  | (0.3)                                | 195.8               |
| Deferred tax assets                | 0.0           | 16.4                | (1.5)  | 0.2                                   | 0.0                                  | 15.1                |
| Other current assets               | 0.0           | 6.4                 | 2.8  | 30.1                                  | 0.0                                  | 39.3                |
| Total current assets               | 6.9           | 221.3               | 326.2  | 272.9                                 | (346.1)                              | 481.2               |
| Equity investments                 | 148.7         | 77.1                | 27.3   | 3.8                                   | (251.1)                              | 5.8                 |
| Property, plant and equipment, net | 0.0           | 105.7               | 0.0  | 55.4                                  | 0.0                                  | 161.1               |
| Goodwill                           | 0.0           | 39.8                | 0.0  | 35.8                                  | 0.0                                  | 75.6                |
| Deferred tax assets                | 0.0           | 33.5                | (12.4)   | 6.1                                   | 0.0                                  | 27.2                |
| Other noncurrent assets            | 0.0           | 15.8                | 126.7  | 52.5                                  | (165.9)                              | 29.1                |
| Total assets                       | \$ 155.6      | \$ 493.2            | \$ 467.8                                       | \$ 426.5                              | \$ (763.1)                           | \$ 780.0            |

Edgar Filing: Koppers Holdings Inc. - Form 10-K

| LIABILITIES AND EQUITY              |                 |                 |                 |                 |                   |                 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------|
| Accounts payable                    | \$ 0.1          | \$ 371.7        | \$ 17.0         | \$ 60.6         | \$ (345.9)        | \$ 103.5        |
| Accrued liabilities                 | 4.9             | 15.9            | 12.2            | 44.7            | 0.0               | 77.7            |
| <b>Total current liabilities</b>    | <b>5.0</b>      | <b>387.6</b>    | <b>29.2</b>     | <b>105.3</b>    | <b>(345.9)</b>    | <b>181.2</b>    |
| Long-term debt                      | 0.0             | 397.6           | 0.0             | 64.4            | (165.9)           | 296.1           |
| Other long-term liabilities         | 0.0             | 101.2           | 2.4             | 31.0            | 0.0               | 134.6           |
| <b>Total liabilities</b>            | <b>5.0</b>      | <b>886.4</b>    | <b>31.6</b>     | <b>200.7</b>    | <b>(511.8)</b>    | <b>611.9</b>    |
| Koppers shareholders' equity        | 150.6           | (393.2)         | 436.2           | 208.3           | (251.3)           | 150.6           |
| Noncontrolling interests            | 0.0             | 0.0             | 0.0             | 17.5            | 0.0               | 17.5            |
| <b>Total liabilities and equity</b> | <b>\$ 155.6</b> | <b>\$ 493.2</b> | <b>\$ 467.8</b> | <b>\$ 426.5</b> | <b>\$ (763.1)</b> | <b>\$ 780.0</b> |

**Table of Contents**

## Condensed Consolidating Balance Sheet

December 31, 2011

|                                     | Parent         | Koppers Inc.    | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated    |
|-------------------------------------|----------------|-----------------|---------------------------------------|-------------------------------|------------------------------|-----------------|
| <i>(Dollars in millions)</i>        |                |                 |                                       |                               |                              |                 |
| <b>ASSETS</b>                       |                |                 |                                       |                               |                              |                 |
| Cash and cash equivalents           | \$ 0.0         | \$ 0.0          | \$ 0.0                                | \$ 54.1                       | \$ 0.0                       | \$ 54.1         |
| Receivables, net                    | 5.5            | 112.6           | 284.0                                 | 79.2                          | (309.8)                      | 171.5           |
| Inventories, net                    | 0.0            | 74.8            | 0.0                                   | 84.2                          | 0.0                          | 159.0           |
| Deferred tax assets                 | 0.0            | 10.7            | (1.5)                                 | 0.1                           | 0.0                          | 9.3             |
| Other current assets                | 0.0            | 6.8             | 0.3                                   | 26.4                          | 0.0                          | 33.5            |
| <b>Total current assets</b>         | <b>5.5</b>     | <b>204.9</b>    | <b>282.8</b>                          | <b>244.0</b>                  | <b>(309.8)</b>               | <b>427.4</b>    |
| Equity investments                  | 93.9           | 77.1            | 26.3                                  | 3.9                           | (196.3)                      | 4.9             |
| Property, plant and equipment, net  | 0.0            | 102.0           | 0.0                                   | 53.6                          | 0.0                          | 155.6           |
| Goodwill                            | 0.0            | 39.8            | 0.0                                   | 32.3                          | 0.0                          | 72.1            |
| Deferred tax assets                 | 0.0            | 43.7            | (10.5)                                | 11.1                          | 0.0                          | 44.3            |
| Other noncurrent assets             | 0.0            | 18.4            | 131.3                                 | 44.4                          | (167.7)                      | 26.4            |
| <b>Total assets</b>                 | <b>\$ 99.4</b> | <b>\$ 485.9</b> | <b>\$ 429.9</b>                       | <b>\$ 389.3</b>               | <b>\$ (673.8)</b>            | <b>\$ 730.7</b> |
| <b>LIABILITIES AND EQUITY</b>       |                |                 |                                       |                               |                              |                 |
| Accounts payable                    | \$ 0.1         | \$ 344.5        | \$ 9.8                                | \$ 57.5                       | \$ (309.8)                   | \$ 102.1        |
| Accrued liabilities                 | 4.5            | 27.2            | (0.8)                                 | 37.4                          | 0.0                          | 68.3            |
| <b>Total current liabilities</b>    | <b>4.6</b>     | <b>371.7</b>    | <b>9.0</b>                            | <b>94.9</b>                   | <b>(309.8)</b>               | <b>170.4</b>    |
| Long-term debt                      | 0.0            | 400.8           | 0.0                                   | 69.0                          | (167.7)                      | 302.1           |
| Other long-term liabilities         | 0.0            | 116.5           | 2.5                                   | 32.0                          | 0.0                          | 151.0           |
| <b>Total liabilities</b>            | <b>4.6</b>     | <b>889.0</b>    | <b>11.5</b>                           | <b>195.9</b>                  | <b>(477.5)</b>               | <b>623.5</b>    |
| Koppers shareholders' equity        | 94.8           | (403.1)         | 418.4                                 | 181.0                         | (196.3)                      | 94.8            |
| Noncontrolling interests            | 0.0            | 0.0             | 0.0                                   | 12.4                          | 0.0                          | 12.4            |
| <b>Total liabilities and equity</b> | <b>\$ 99.4</b> | <b>\$ 485.9</b> | <b>\$ 429.9</b>                       | <b>\$ 389.3</b>               | <b>\$ (673.8)</b>            | <b>\$ 730.7</b> |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2012

|  | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                                   |         |              |                                       |                               |                              |              |
| Cash provided by (used in) operating activities                | \$ 26.0 | \$ 50.5      | \$ 0.0                                | \$ 21.1                       | \$ (19.8)                    | \$ 77.8      |
| Cash provided by (used in) investing activities:               |         |              |                                       |                               |                              |              |
| Capital expenditures and acquisitions                          | 0.0     | (21.3)       | 0.0                                   | (21.6)                        | 0.0                          | (42.9)       |
| Loan to related party  | 0.0     | 0.0          | 0.0                                   | 2.2                           | 0.0                          | 2.2          |
| Net cash proceeds (payments) from divestitures and asset sales | 0.0     | 0.4          | 0.0                                   | 0.4                           | 0.0                          | 0.8          |
| Net cash used in investing activities                          | 0.0     | (20.9)       | 0.0                                   | (19.0)                        | 0.0                          | (39.9)       |
| Cash provided by (used in) financing activities:               |         |              |                                       |                               |                              |              |
| Repayments of long-term debt                                   | 0.0     | (6.4)        | 0.0                                   | 0.0                           | 0.0                          | (6.4)        |
| Deferred financing costs                                       | 0.0     | (0.1)        | 0.0                                   | 0.0                           | 0.0                          | (0.1)        |
| Dividends paid   | (19.5)  | (19.8)       | 0.0                                   | 0.0                           | 19.8                         | (19.5)       |
| Stock repurchased  | (6.5)   | (0.1)        | 0.0                                   | 0.0                           | 0.0                          | (6.6)        |
| Other financing receipts                                       | 0.0     | 1.6          | 0.0                                   | 3.7                           | 0.0                          | 5.3          |
| Net cash provided by (used in) financing activities            | (26.0)  | (24.8)       | 0.0                                   | 3.7                           | 19.8                         | (27.3)       |
| Effect of exchange rates on cash                               | 0.0     | 0.0          | 0.0                                   | 2.0                           | 0.0                          | 2.0          |
| Net increase in cash and cash equivalents                      | 0.0     | 4.8          | 0.0                                   | 7.8                           | 0.0                          | 12.6         |
| Cash and cash equivalents at beginning of year                 | 0.0     | \$ 0.0       | 0.0                                   | \$ 54.1                       | 0.0                          | \$ 54.1      |
| Cash and cash equivalents at end of period                     | 0.0     | \$ 4.8       | 0.0                                   | \$ 61.9                       | 0.0                          | \$ 66.7      |

## Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2011

|   | Parent  | Koppers Inc. | Domestic<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---|---------|--------------|---------------------------------------|-------------------------------|------------------------------|--------------|
| <i>(Dollars in millions)</i>                        |         |              |                                       |                               |                              |              |
| Cash provided by (used in) operating activities     | \$ 18.1 | \$ 9.5       | \$ 0.0                                | \$ 49.3                       | \$ 0.0                       | \$ 76.9      |
| Cash provided by (used in) investing activities:    |         |              |                                       |                               |                              |              |
| Capital expenditures and acquisitions               | 0.0     | (24.5)       | 0.0                                   | (9.3)                         | 0.0                          | (33.8)       |
| Loan to related party                               | 0.0     | 0.0          | 0.0                                   | (11.7)                        | 0.0                          | (11.7)       |
| Net cash proceeds from divestitures and asset sales | 0.0     | 0.7          | 0.0                                   | 0.1                           | 0.0                          | 0.8          |
| Net cash used in investing activities               | 0.0     | (23.8)       | 0.0                                   | (20.9)                        | 0.0                          | (44.7)       |
| Cash provided by (used in) financing activities:    |         |              |                                       |                               |                              |              |
| Borrowings (repayments) of long-term debt           | 0.0     | 6.3          | 0.0                                   | (0.9)                         | 0.0                          | 5.4          |

Edgar Filing: Koppers Holdings Inc. - Form 10-K

|  |        |        |     |         |     |         |
|--|--------|--------|-----|---------|-----|---------|
| Deferred financing costs                             | 0.0    | (0.5)  | 0.0 | 0.0     | 0.0 | (0.5)   |
| Dividends paid                                       | (18.1) | 0.0    | 0.0 | (0.1)   | 0.0 | (18.2)  |
| Net cash provided by (used in) financing activities  | (18.1) | 5.8    | 0.0 | (1.0)   | 0.0 | (13.3)  |
| Effect of exchange rates on cash                     | 0.0    | 0.1    | 0.0 | (0.2)   | 0.0 | (0.1)   |
| Net increase (decrease) in cash and cash equivalents | 0.0    | (8.4)  | 0.0 | 27.2    | 0.0 | 18.8    |
| Cash and cash equivalents at beginning of year       | 0.0    | 8.4    | 0.0 | 26.9    | 0.0 | 35.3    |
| Cash and cash equivalents at end of period           | 0.0    | \$ 0.0 | 0.0 | \$ 54.1 | 0.0 | \$ 54.1 |

**Table of Contents**

## Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2010

|   | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|---|---------------|---------------------|--|---------------------------------------|--------------------------------------|---------------------|
| <i>(Dollars in millions)</i>                        |               |                     |  |                                       |                                      |                     |
| Cash provided by (used in) operating activities     | \$ 18.7       | \$ 75.2             | \$ 0.0   | \$ 15.9                               | \$ (4.5)                             | \$ 105.3            |
| Cash provided by (used in) investing activities:    |               |                     |  |                                       |                                      |                     |
| Capital expenditures and acquisitions               | 0.0           | (35.0)              | 0.0  | (30.4)                                | 0.0                                  | (65.4)              |
| Net cash proceeds from divestitures and asset sales | 0.0           | 0.2                 | 0.0  | 1.8                                   | 0.0                                  | 2.0                 |
| Net cash used in investing activities               | 0.0           | (34.8)              | 0.0  | (28.6)                                | 0.0                                  | (63.4)              |
| Cash provided by (used in) financing activities:    |               |                     |  |                                       |                                      |                     |
| Repayments of long-term debt                        | 0.0           | (40.2)              | 0.0  | 0.0                                   | 0.0                                  | (40.2)              |
| Deferred financing costs                            | 0.0           | (0.4)               | 0.0  | 0.0                                   | 0.0                                  | (0.4)               |
| Dividends paid                                      | (18.1)        | (4.5)               | 0.0  | (5.0)                                 | 4.5                                  | (23.1)              |
| Stock issued (repurchased)                          | (0.8)         | 0.2                 | 0.0  | 0.0                                   | 0.0                                  | (0.6)               |
| Net cash provided by (used in) financing activities | (18.9)        | (44.9)              | 0.0  | (5.0)                                 | 4.5                                  | (64.3)              |
| Effect of exchange rates on cash                    | 0.0           | 0.0                 | 0.0  | (0.7)                                 | 0.0                                  | (0.7)               |
| Net decrease in cash and cash equivalents           | (0.2)         | (4.5)               | 0.0  | (18.4)                                | 0.0                                  | (23.1)              |
| Cash and cash equivalents at beginning of year      | 0.2           | 12.9                | 0.0  | 45.3                                  | 0.0                                  | 58.4                |
| Cash and cash equivalents at end of period          | 0.0           | \$ 8.4              | 0.0  | \$ 26.9                               | 0.0                                  | \$ 35.3             |

## 23. Subsidiary Guarantor Information for Shelf Registration

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

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

Separate condensed consolidating financial statement information for the parent, Koppers Inc., domestic guarantor subsidiaries, foreign guarantor subsidiaries and non-guarantor subsidiaries as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 is as follows. Certain amounts have been reclassified in the Condensed Consolidated Statements of Comprehensive Income for the years ended December 31, 2011 and 2010 to reflect affiliated dividends and affiliated interest income.

## Condensed Consolidating Statement of Comprehensive Income

For the Year Ended December 31, 2012

| <i>(Dollars in millions)</i>                          | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Foreign<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|---|---------------|---------------------|--|---|---------------------------------------|--------------------------------------|---------------------|
| Net sales   | \$ 0.0        | \$ 893.2            | \$ 97.5  | \$ 480.0                                      | \$ 158.6                              | \$ (74.3)                            | \$ 1,555.0          |
| Cost of sales including depreciation and amortization | 0.0           | 786.6               | 78.0   | 414.6   | 147.6                                 | (74.0)                               | 1,352.8             |
| Selling, general and administrative                   | 1.6           | 45.1                | 2.1  | 23.4  | 3.4                                   | 0.0                                  | 75.6                |
| Operating profit (loss)                               | (1.6)         | 61.5                | 17.4   | 42.0  | 7.6                                   | (0.3)                                | 126.6               |
| Other income (expense)                                | 66.6          | 0.2                 | 6.0  | 0.0   | 0.7                                   | (71.6)                               | 1.9                 |
| Interest expense (income)                             | 0.0           | 27.2                | (5.1)  | 3.9   | 1.9                                   | 0.0                                  | 27.9                |
| Income taxes  | (0.6)         | 8.7                 | 12.5   | 10.5  | 2.2                                   | 0.0                                  | 33.3                |
| Income from continuing operations                     | 65.6          | 25.8                | 16.0   | 27.6  | 4.2                                   | (71.9)                               | 67.3                |
| Discontinued operations                               | 0.0           | 0.0                 | 0.0  | (0.1)   | 0.0                                   | 0.0                                  | (0.1)               |
| Noncontrolling interests                              | 0.0           | 0.0                 | 0.0  | 0.0   | 1.6                                   | 0.0                                  | 1.6                 |
| Net income attributable to Koppers                    | \$ 65.6       | \$ 25.8             | \$ 16.0  | \$ 27.5                                       | \$ 2.6                                | \$ (71.9)                            | \$ 65.6             |
| Comprehensive income attributable to Koppers          | \$ 73.7       | \$ 29.8             | \$ 17.8  | \$ 30.2                                       | \$ 2.8                                | \$ (80.6)                            | \$ 73.7             |

## Condensed Consolidating Statement of Comprehensive Income

For the Year Ended December 31, 2011

| <i>(Dollars in millions)</i>                          | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Foreign<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|---|---------------|---------------------|--|---|---------------------------------------|--------------------------------------|---------------------|
| Net sales   | \$ 0.0        | \$ 854.1            | \$ 72.6  | \$ 443.6                                      | \$ 147.0                              | \$ (51.1)                            | \$ 1,466.2          |
| Cost of sales including depreciation and amortization | 0.0           | 762.9               | 55.0   | 364.2   | 138.2                                 | (51.1)                               | 1,269.2             |
| Selling, general and administrative                   | 1.2           | 41.6                | 1.8  | 26.2  | 3.5                                   | 0.0                                  | 74.3                |
| Operating profit (loss)                               | (1.2)         | 49.6                | 15.8   | 53.2  | 5.3                                   | 0.0                                  | 122.7               |
| Other income (expense)                                | 37.7          | 0.1                 | 8.1  | 0.0   | 0.5                                   | (45.7)                               | 0.7                 |
| Interest expense (income)                             | 0.0           | 27.3                | (5.4)  | 4.7   | 0.6                                   | 0.0                                  | 27.2                |
| Income taxes  | (0.4)         | 7.7                 | 0.8  | 28.7  | 1.9                                   | 0.0                                  | 38.7                |

## Edgar Filing: Koppers Holdings Inc. - Form 10-K

|   |                |                |                |                 |               |                  |                |
|---|----------------|----------------|----------------|-----------------|---------------|------------------|----------------|
| Income from continuing operations                   | 36.9           | 14.7           | 28.5           | 19.8            | 3.3           | (45.7)           | 57.5           |
| Discontinued operations                             | 0.0            | 0.0            | 0.0            | (19.9)          | 0.0           | 0.0              | (19.9)         |
| Noncontrolling interests                            | 0.0            | 0.0            | 0.0            | 0.0             | 0.7           | 0.0              | 0.7            |
| <b>Net income attributable to Koppers</b>           | <b>\$ 36.9</b> | <b>\$ 14.7</b> | <b>\$ 28.5</b> | <b>\$ (0.1)</b> | <b>\$ 2.6</b> | <b>\$ (45.7)</b> | <b>\$ 36.9</b> |
| <b>Comprehensive income attributable to Koppers</b> | <b>\$ 18.9</b> | <b>\$ 1.1</b>  | <b>\$ 28.0</b> | <b>\$ (5.1)</b> | <b>\$ 3.5</b> | <b>\$ (27.5)</b> | <b>\$ 18.9</b> |



**Table of Contents**

## Condensed Consolidating Statement of Comprehensive Income

For the Year Ended December 31, 2010

|  | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Foreign<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|--|---------------|---------------------|--|---|---------------------------------------|--------------------------------------|---------------------|
| <i>(Dollars in millions)</i>                             |               |                     |  |   |                                       |                                      |                     |
| Net sales  | \$ 0.0        | \$ 721.2            | \$ 45.8  | \$ 358.5                                      | \$ 105.9                              | \$ (40.9)                            | \$ 1,190.5          |
| Cost of sales including depreciation and<br>amortization | 0.0           | 657.7               | 32.5   | 285.5   | 95.4                                  | (41.1)                               | 1,030.0             |
| Selling, general and administrative                      | 1.6           | 32.2                | 3.3  | 21.4  | 3.9                                   | 0.0                                  | 62.4                |
| Operating profit (loss)                                  | (1.6)         | 31.3                | 10.0   | 51.6  | 6.6                                   | 0.2                                  | 98.1                |
| Other income (expense)                                   | 45.0          | 0.0                 | 8.0  | 1.8   | 1.1                                   | (53.4)                               | 2.5                 |
| Interest expense (income)                                | (0.2)         | 27.7                | (5.0)  | 4.3   | 0.3                                   | 0.0                                  | 27.1                |
| Income taxes   | (0.5)         | 1.5                 | 12.2   | 13.3  | 2.4                                   | 0.0                                  | 28.9                |
| Income from continuing operations                        | 44.1          | 2.1                 | 10.8   | 35.8  | 5.0                                   | (53.2)                               | 44.6                |
| Discontinued operations                                  | 0.0           | 0.0                 | (0.2)  | 0.1   | 0.0                                   | 0.0                                  | (0.1)               |
| Noncontrolling interests                                 | 0.0           | 0.0                 | 0.0  | 0.0   | 0.4                                   | 0.0                                  | 0.4                 |
| Net income attributable to Koppers                       | \$ 44.1       | \$ 2.1              | \$ 10.6  | \$ 35.9                                       | \$ 4.6                                | \$ (53.2)                            | \$ 44.1             |
| Comprehensive income attributable to Koppers             | \$ 54.6       | \$ 1.8              | \$ 18.9  | \$ 40.3                                       | \$ 5.1                                | \$ (66.1)                            | \$ 54.6             |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## Condensed Consolidating Balance Sheet

December 31, 2012

|                                     | Parent          | Koppers Inc.    | Domestic<br>Guarantor<br>Subsidiaries | Foreign<br>Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated    |
|-------------------------------------|-----------------|-----------------|---------------------------------------|--------------------------------------|-------------------------------|------------------------------|-----------------|
| <i>(Dollars in millions)</i>        |                 |                 |                                       |                                      |                               |                              |                 |
| <b>ASSETS</b>                       |                 |                 |                                       |                                      |                               |                              |                 |
| Cash and cash equivalents           | \$ 0.0          | \$ 4.8          | \$ 0.0                                | \$ 40.7                              | \$ 21.2                       | \$ 0.0                       | \$ 66.7         |
| Receivables, net                    | 6.9             | 91.5            | 324.9                                 | 65.9                                 | 21.2                          | (346.1)                      | 164.3           |
| Inventories, net                    | 0.0             | 102.2           | 0.0                                   | 86.7                                 | 7.2                           | (0.3)                        | 195.8           |
| Deferred tax assets                 | 0.0             | 16.4            | (1.5)                                 | 0.0                                  | 0.2                           | 0.0                          | 15.1            |
| Other current assets                | 0.0             | 6.4             | 2.8                                   | 17.6                                 | 12.5                          | 0.0                          | 39.3            |
| <b>Total current assets</b>         | <b>6.9</b>      | <b>221.3</b>    | <b>326.2</b>                          | <b>210.9</b>                         | <b>62.3</b>                   | <b>(346.4)</b>               | <b>481.2</b>    |
| Equity investments                  | 148.7           | 77.1            | 27.3                                  | 30.2                                 | 3.8                           | (281.3)                      | 5.8             |
| Property, plant and equipment, net  | 0.0             | 105.7           | 0.0                                   | 40.7                                 | 14.7                          | 0.0                          | 161.1           |
| Goodwill                            | 0.0             | 39.8            | 0.0                                   | 34.4                                 | 1.4                           | 0.0                          | 75.6            |
| Deferred tax assets                 | 0.0             | 33.5            | (12.4)                                | 7.6                                  | (1.5)                         | 0.0                          | 27.2            |
| Other noncurrent assets             | 0.0             | 15.8            | 126.7                                 | 12.1                                 | 40.3                          | (165.8)                      | 29.1            |
| <b>Total assets</b>                 | <b>\$ 155.6</b> | <b>\$ 493.2</b> | <b>\$ 467.8</b>                       | <b>\$ 335.9</b>                      | <b>\$ 121.0</b>               | <b>\$ (793.5)</b>            | <b>\$ 780.0</b> |
| <b>LIABILITIES AND EQUITY</b>       |                 |                 |                                       |                                      |                               |                              |                 |
| Accounts payable                    | \$ 0.1          | \$ 371.7        | \$ 17.0                               | \$ 42.2                              | \$ 18.6                       | \$ (346.1)                   | \$ 103.5        |
| Accrued liabilities                 | 4.9             | 15.9            | 12.2                                  | 35.7                                 | 9.0                           | 0.0                          | 77.7            |
| <b>Total current liabilities</b>    | <b>5.0</b>      | <b>387.6</b>    | <b>29.2</b>                           | <b>77.9</b>                          | <b>27.6</b>                   | <b>(346.1)</b>               | <b>181.2</b>    |
| Long-term debt                      | 0.0             | 397.6           | 0.0                                   | 64.4                                 | 0.0                           | (165.9)                      | 296.1           |
| Other long-term liabilities         | 0.0             | 101.2           | 2.4                                   | 24.5                                 | 6.5                           | 0.0                          | 134.6           |
| <b>Total liabilities</b>            | <b>5.0</b>      | <b>886.4</b>    | <b>31.6</b>                           | <b>166.8</b>                         | <b>34.1</b>                   | <b>(512.0)</b>               | <b>611.9</b>    |
| Koppers shareholders' equity        | 150.6           | (393.2)         | 436.2                                 | 169.1                                | 69.4                          | (281.5)                      | 150.6           |
| Noncontrolling interests            | 0.0             | 0.0             | 0.0                                   | 0.0                                  | 17.5                          | 0.0                          | 17.5            |
| <b>Total liabilities and equity</b> | <b>\$ 155.6</b> | <b>\$ 493.2</b> | <b>\$ 467.8</b>                       | <b>\$ 335.9</b>                      | <b>\$ 121.0</b>               | <b>\$ (793.5)</b>            | <b>\$ 780.0</b> |

**Table of Contents**

## Condensed Consolidating Balance Sheet

December 31, 2011

|                                     | <i>Parent</i>  | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Foreign<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|-------------------------------------|----------------|---------------------|--|---|---------------------------------------|--------------------------------------|---------------------|
| <i>(Dollars in millions)</i>        |                |                     |  |   |                                       |                                      |                     |
| <b>ASSETS</b>                       |                |                     |  |   |                                       |                                      |                     |
| Cash and cash equivalents           | \$ 0.0         | \$ 0.0              | \$ 0.0   | \$ 45.1                                       | \$ 9.0                                | \$ 0.0                               | \$ 54.1             |
| Receivables, net                    | 5.5            | 112.6               | 284.0  | 65.5  | 13.7                                  | (309.8)                              | 171.5               |
| Inventories, net                    | 0.0            | 74.8                | 0.0  | 77.2  | 7.0                                   | 0.0                                  | 159.0               |
| Deferred tax assets                 | 0.0            | 10.7                | (1.5)  | 0.0   | 0.1                                   | 0.0                                  | 9.3                 |
| Other current assets                | 0.0            | 6.8                 | 0.3  | 12.0  | 14.4                                  | 0.0                                  | 33.5                |
| <b>Total current assets</b>         | <b>5.5</b>     | <b>204.9</b>        | <b>282.8</b>                                   | <b>199.8</b>                                  | <b>44.2</b>                           | <b>(309.8)</b>                       | <b>427.4</b>        |
| Equity investments                  | 93.9           | 77.1                | 26.3   | 19.3  | 3.9                                   | (215.6)                              | 4.9                 |
| Property, plant and equipment, net  | 0.0            | 102.0               | 0.0  | 37.8  | 15.8                                  | 0.0                                  | 155.6               |
| Goodwill                            | 0.0            | 39.8                | 0.0  | 31.0  | 1.3                                   | 0.0                                  | 72.1                |
| Deferred tax assets                 | 0.0            | 43.7                | (10.5)   | 12.7  | (1.6)                                 | 0.0                                  | 44.3                |
| Other noncurrent assets             | 0.0            | 18.4                | 131.3  | 6.7   | 37.7                                  | (167.7)                              | 26.4                |
| <b>Total assets</b>                 | <b>\$ 99.4</b> | <b>\$ 485.9</b>     | <b>\$ 429.9</b>                                | <b>\$ 307.3</b>                               | <b>\$ 101.3</b>                       | <b>\$ (693.1)</b>                    | <b>\$ 730.7</b>     |
| <b>LIABILITIES AND EQUITY</b>       |                |                     |  |   |                                       |                                      |                     |
| Accounts payable                    | \$ 0.1         | \$ 344.5            | \$ 9.8   | \$ 44.4                                       | \$ 13.2                               | \$ (309.9)                           | \$ 102.1            |
| Accrued liabilities                 | 4.5            | 27.2                | (0.8)  | 30.5  | 6.9                                   | 0.0                                  | 68.3                |
| <b>Total current liabilities</b>    | <b>4.6</b>     | <b>371.7</b>        | <b>9.0</b>                                     | <b>74.9</b>                                   | <b>20.1</b>                           | <b>(309.9)</b>                       | <b>170.4</b>        |
| Long-term debt                      | 0.0            | 400.8               | 0.0  | 62.7  | 6.3                                   | (167.7)                              | 302.1               |
| Other long-term liabilities         | 0.0            | 116.5               | 2.5  | 25.8  | 6.1                                   | 0.1                                  | 151.0               |
| <b>Total liabilities</b>            | <b>4.6</b>     | <b>889.0</b>        | <b>11.5</b>                                    | <b>163.4</b>                                  | <b>32.5</b>                           | <b>(477.5)</b>                       | <b>623.5</b>        |
| Koppers shareholders' equity        | 94.8           | (403.1)             | 418.4  | 143.9   | 56.4                                  | (215.6)                              | 94.8                |
| Noncontrolling interests            | 0.0            | 0.0                 | 0.0  | 0.0   | 12.4                                  | 0.0                                  | 12.4                |
| <b>Total liabilities and equity</b> | <b>\$ 99.4</b> | <b>\$ 485.9</b>     | <b>\$ 429.9</b>                                | <b>\$ 307.3</b>                               | <b>\$ 101.3</b>                       | <b>\$ (693.1)</b>                    | <b>\$ 730.7</b>     |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2012

|  | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Foreign<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|--|---------------|---------------------|--|---|---------------------------------------|--------------------------------------|---------------------|
| <i>(Dollars in millions)</i>                         |               |                     |  |   |                                       |                                      |                     |
| Cash provided by (used in) operating activities      | \$ 26.0       | \$ 50.5             | \$ 0.0   | \$ 14.2                                       | \$ 6.9                                | \$ (19.8)                            | \$ 77.8             |
| Cash provided by (used in) investing activities:     |               |                     |  |   |                                       |                                      |                     |
| Capital expenditures and acquisitions                | 0.0           | (21.3)              | 0.0  | (21.1)  | (0.5)                                 | 0.0                                  | (42.9)              |
| Loan to related party                                | 0.0           | 0.0                 | 0.0  | 0.0   | 2.2                                   | 0.0                                  | 2.2                 |
| Net cash proceeds from divestitures and asset sales  | 0.0           | 0.4                 | 0.0  | 0.4   | 0.0                                   | 0.0                                  | 0.8                 |
| Net cash provided by (used in) investing activities  | 0.0           | (20.9)              | 0.0  | (20.7)  | 1.7                                   | 0.0                                  | (39.9)              |
| Cash provided by (used in) financing activities:     |               |                     |  |   |                                       |                                      |                     |
| Repayments of long-term debt                         | 0.0           | (6.4)               | 0.0  | 0.0   | 0.0                                   | 0.0                                  | (6.4)               |
| Deferred financing costs                             | 0.0           | (0.1)               | 0.0  | 0.0   | 0.0                                   | 0.0                                  | (0.1)               |
| Dividends paid                                       | (19.5)        | (19.8)              | 0.0  | 0.0   | 0.0                                   | 19.8                                 | (19.5)              |
| Stock repurchased                                    | (6.5)         | (0.1)               | 0.0  | 0.0   | 0.0                                   | 0.0                                  | (6.6)               |
| Other financing receipts                             | 0.0           | 1.6                 | 0.0  | 0.0   | 3.7                                   | 0.0                                  | 5.3                 |
| Net cash provided by (used in) financing activities  | (26.0)        | (24.8)              | 0.0  | 0.0   | 3.7                                   | 19.8                                 | (27.3)              |
| Effect of exchange rates on cash                     | 0.0           | 0.0                 | 0.0  | 2.1   | (0.1)                                 | 0.0                                  | 2.0                 |
| Net increase (decrease) in cash and cash equivalents | 0.0           | 4.8                 | 0.0  | (4.4)   | 12.2                                  | 0.0                                  | 12.6                |
| Cash and cash equivalents at beginning of year       | 0.0           | 0.0                 | 0.0  | 45.1  | 9.0                                   | 0.0                                  | 54.1                |
| Cash and cash equivalents at end of period           | \$ 0.0        | \$ 4.8              | \$ 0.0   | \$ 40.7                                       | \$ 21.2                               | \$ 0.0                               | \$ 66.7             |

## Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2011

|   | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Foreign<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|---|---------------|---------------------|--|---|---------------------------------------|--------------------------------------|---------------------|
| <i>(Dollars in millions)</i>                    |               |                     |  |   |                                       |                                      |                     |
| Cash provided by (used in) operating activities | \$ 18.1       | \$ 9.5              | \$ 0.0   | \$ 37.9                                       | \$ 11.4                               | \$ 0.0                               | \$ 76.9             |

Edgar Filing: Koppers Holdings Inc. - Form 10-K

Cash provided by (used in) investing activities:

|   |     |        |     |       |        |     |        |
|---|-----|--------|-----|-------|--------|-----|--------|
| Capital expenditures and acquisitions               | 0.0 | (24.5) | 0.0 | (8.6) | (0.7)  | 0.0 | (33.8) |
| Loan to related party                               | 0.0 | 0.0    | 0.0 | 0.0   | (11.7) | 0.0 | (11.7) |
| Net cash proceeds from divestitures and asset sales | 0.0 | 0.7    | 0.0 | 0.1   | 0.0    | 0.0 | 0.8    |

Net cash used in investing activities 0.0 (23.8) 0.0 (8.5) (12.4) 0.0 (44.7)

Cash provided by (used in) financing activities:

|   |        |       |     |       |       |     |        |
|---|--------|-------|-----|-------|-------|-----|--------|
| Borrowings (repayments) of long-term debt | 0.0    | 6.3   | 0.0 | (0.9) | 0.0   | 0.0 | 5.4    |
| Deferred financing costs                  | 0.0    | (0.5) | 0.0 | 0.0   | 0.0   | 0.0 | (0.5)  |
| Dividends paid                            | (18.1) | 0.0   | 0.0 | 0.0   | (0.1) | 0.0 | (18.2) |

Net cash provided by (used in) financing activities (18.1) 5.8 0.0 (0.9) (0.1) 0.0 (13.3)

Effect of exchange rates on cash 0.0 0.1 0.0 (0.4) 0.2 0.0 (0.1)

Net increase (decrease) in cash and cash equivalents 0.0 (8.4) 0.0 28.1 (0.9) 0.0 18.8

Cash and cash equivalents at beginning of year 0.0 8.4 0.0 17.0 9.9 0.0 35.3

Cash and cash equivalents at end of period \$ 0.0 \$ 0.0 \$ 0.0 \$ 45.1 \$ 9.0 \$ 0.0 \$ 54.1

**Table of Contents**

## Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2010

|  | <i>Parent</i> | <i>Koppers Inc.</i> | <i>Domestic<br/>Guarantor<br/>Subsidiaries</i> | <i>Foreign<br/>Guarantor<br/>Subsidiaries</i> | <i>Non-Guarantor<br/>Subsidiaries</i> | <i>Consolidating<br/>Adjustments</i> | <i>Consolidated</i> |
|--|---------------|---------------------|--|---|---------------------------------------|--------------------------------------|---------------------|
| <i>(Dollars in millions)</i>                         |               |                     |  |   |                                       |                                      |                     |
| Cash provided by (used in) operating activities      | \$ 18.7       | \$ 75.2             | \$ 0.0   | \$ 9.1  | \$ 6.8                                | \$ (4.5)                             | \$ 105.3            |
| Cash provided by (used in) investing activities:     |               |                     |  |   |                                       |                                      |                     |
| Capital expenditures and acquisitions                | 0.0           | (35.0)              | 0.0  | (30.0)  | (0.4)                                 | 0.0                                  | (65.4)              |
| Net cash proceeds from divestitures and asset sales  | 0.0           | 0.2                 | 0.0  | 1.7   | 0.1                                   | 0.0                                  | 2.0                 |
| Net cash used in investing activities                | 0.0           | (34.8)              | 0.0  | (28.3)  | (0.3)                                 | 0.0                                  | (63.4)              |
| Cash provided by (used in) financing activities:     |               |                     |  |   |                                       |                                      |                     |
| Repayments of long-term debt                         | 0.0           | (40.2)              | 0.0  | 0.0   | 0.0                                   | 0.0                                  | (40.2)              |
| Deferred financing costs                             | 0.0           | (0.4)               | 0.0  | 0.0   | 0.0                                   | 0.0                                  | (0.4)               |
| Dividends paid                                       | (18.1)        | (4.5)               | 0.0  | 0.0   | (5.0)                                 | 4.5                                  | (23.1)              |
| Stock issued (repurchased)                           | (0.8)         | 0.2                 | 0.0  | 0.0   | 0.0                                   | 0.0                                  | (0.6)               |
| Net cash provided by (used in) financing activities  | (18.9)        | (44.9)              | 0.0  | 0.0   | (5.0)                                 | 4.5                                  | (64.3)              |
| Effect of exchange rates on cash                     | 0.0           | 0.0                 | 0.0  | (0.7)   | 0.0                                   | 0.0                                  | (0.7)               |
| Net increase (decrease) in cash and cash equivalents | (0.2)         | (4.5)               | 0.0  | (19.9)  | 1.5                                   | 0.0                                  | (23.1)              |
| Cash and cash equivalents at beginning of year       | 0.2           | 12.9                | 0.0  | 36.9  | 8.4                                   | 0.0                                  | 58.4                |
| Cash and cash equivalents at end of period           | \$ 0.0        | \$ 8.4              | \$ 0.0   | \$ 17.0                                       | \$ 9.9                                | \$ 0.0                               | \$ 35.3             |

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES***(a) Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures were effective as of the end of the period covered by this report.

*(b) Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

See Management Report on page 39 for management's annual report on internal control over financial reporting. See Report of Independent Registered Public Accounting Firm on page 41 for Ernst & Young LLP's attestation report on internal control over financial reporting.



**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**ITEM 9B. OTHER INFORMATION**

On February 25, 2013, Koppers Inc. entered into an employment agreement (the Agreement) with Walter W. Turner. The Agreement provides that Mr. Turner will serve as President and Chief Executive Officer of Koppers Inc. Mr. Turner has served as President and Chief Executive Officer of Koppers Inc. since February 1998. The term of the Agreement commences with retroactive effect to January 1, 2013 and continues until December 31, 2014. The Agreement establishes an initial minimum base salary of \$757,500, increasing to a minimum base salary of \$807,500 on April 1, 2013, and thereafter is subject to periodic review by the board of directors. The Agreement provides that Mr. Turner is entitled to participate in the Koppers Corporate Senior Management Incentive Plan and the Koppers Holdings Inc. 2005 Long Term Incentive Plan, as amended and restated (LTIP). With respect to awards previously made to Mr. Turner under the 2012 LTIP with a vesting period ending December 31, 2014, the Agreement provides that such awards will be modified so that Mr. Turner will be eligible to receive the full number of shares and options under such awards even if his employment terminates for specified reasons prior to December 31, 2014. The Agreement makes similar provision for awards that were granted in 2013 and may be granted in 2014 under the LTIP. Under the Agreement, the terms of outstanding stock options held by Mr. Turner will be modified to extend the post-termination exercise period from three years to five years, subject to certain limitations. In the event of termination of Mr. Turner's employment by the Company other than for cause, Mr. Turner will be entitled to receive his base salary through December 31, 2014.

The Agreement contains provisions for certain benefits, comparable to those previously provided under the Company's change in control agreement with Mr. Turner as in effect before he reached age 65, that become payable if one of the following events occurs within two years after a change in control has occurred.

Mr. Turner is required to relocate his primary office to a location greater than fifty miles from the then current location of his office; or

Mr. Turner's employment is terminated other than for cause or disability.

The benefits to which Mr. Turner would be entitled in the event of a termination of his employment under the above-specified conditions following a change in control include:

all of Mr. Turner's accrued salary to the date of termination;

a pro-rata bonus for the year in which the termination occurs equal to the average of the of the bonus payments awarded for the previous two years;

a lump sum payment equal to twice the sum of (i) Mr. Turner's base salary and (ii) one half of the amounts awarded to Mr. Turner under applicable incentive plans and bonus for each of the preceding two years;

all reasonable legal fees and expenses incurred by Mr. Turner as a result of his termination, subject to certain specified exceptions;

life, disability, accident and group health benefits (or the monetary equivalent of such benefits) for two years or until Mr. Turner receives comparable benefits from a third party; and

continued indemnification for pre-termination acts and omissions.



## Edgar Filing: Koppers Holdings Inc. - Form 10-K

The payments and benefits to which Mr. Turner would be entitled in the event he is terminated after a change in control will also be reduced as necessary to cause the total payments and parachute payments (as defined in the tax code) to comply with the limitation set forth in Section 280G of the tax code.

## **Table of Contents**

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 401 of Regulation S-K with respect to directors is contained in our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders (the "Proxy Statement") which we will file with the Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after the end of the Company's fiscal year under the caption "Proxy Item 1 Proposal for Election of Directors", and is incorporated herein by reference.

The information required by this item concerning our executive officers is incorporated by reference herein from Part I of this report under "Executive Officers of the Company".

The information required by Item 405 of Regulation S-K is included in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

The information required by Item 407(d)(4) and Item 407(d)(5) of Regulation S-K is included in the Proxy Statement under the caption "Board Meetings and Committees" and is incorporated herein by reference.

The audit committee and our board have approved and adopted a Code of Business Conduct and Ethics for all directors, officers and employees and a Code of Ethics Applicable to Senior Officers, copies of which are available on our website at [www.koppers.com](http://www.koppers.com) and upon written request by our shareholders at no cost. Requests should be sent to Koppers Holdings Inc., Attention: Corporate Secretary's Office, 436 Seventh Avenue, Suite 1550, Pittsburgh, Pennsylvania 15219. We will describe the date and nature of any amendment to our Code of Business Conduct and Ethics or Code of Ethics Applicable to Senior Officers or any waiver (implicit or explicit) from a provision of our Code of Business Conduct and Ethics or Code of Ethics Applicable to Senior Officers within four business days following the date of the amendment or waiver on our Internet website at [www.koppers.com](http://www.koppers.com). We do not intend to incorporate the contents of our website into this report.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is contained in the Proxy Statement under the caption "Executive Compensation" and "Committee Reports to Shareholders Management Development and Compensation Committee Report" and is incorporated herein by reference.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is contained Part II, Item 5 of this report under "Equity Compensation Plans" and in the Proxy Statement under the caption "Common Stock Ownership" and is incorporated herein by reference.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is contained in the Proxy Statement under the caption "Transactions with Related Persons" and "Corporate Governance Matters Director Independence" and is incorporated herein by reference.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 is contained in the Proxy Statement under the caption "Auditors" and is incorporated herein by reference.

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements

Financial statements filed as part of this report are included in Item 8 Financial Statements and Supplementary Data as listed on the index on page 38.

(a) 2. Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts and Reserves is included on page 90. All other schedules are omitted because they are not applicable or the required information is contained in the applicable financial statements of notes thereto.

(a) 3. Exhibits

**Table of Contents**

EXHIBIT INDEX

| <i>Exhibit No.</i> | <i>Exhibit</i>   |
|--------------------|--|
| 2.1                | Joint Venture Contract for the establishment of Koppers (Jiangsu) Carbon Chemical Company Limited between Koppers International B.V. and Yizhou Group Company Limited dated September 10, 2012 (incorporated by reference to exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed November 9, 2012).   |
| 3.1                | Amended and Restated Articles of Incorporation of the Company (incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K filed February 7, 2006).   |
| 3.2                | Amended and Restated Bylaws of the Company (incorporated by reference to exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed August 9, 2007).   |
| 4.1                | Indenture, by and among Koppers Inc., Koppers Holdings Inc., the Subsidiary Guarantors party thereto and Wells Fargo Bank, National Association, dated as of December 1, 2009 (incorporated by reference to exhibit 4.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 19, 2010).  |
| 4.2*               | Subscription Agreement by and between Koppers Inc. and Mr. Walter Turner dated December 1, 2009 (incorporated by reference to exhibit 4.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 19, 2010).  |
| 4.3                | Exchange and Registration Rights Agreement by and among Koppers Inc., Koppers Holdings and the other guarantors party hereto, Goldman, Sachs & Co., Banc of America Securities LLC, RBS Securities Inc. and UBS Securities LLC, dated December 1, 2009 (incorporated by reference to exhibit 4.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 19, 2010). |
| 10.1               | Asset Purchase Agreement by and between Koppers Inc. and Koppers Company, Inc., dated as of December 28, 1988 (incorporated by reference to respective exhibits to the Koppers Inc.'s Prospectus filed February 7, 1994).  |
| 10.2               | Asset Purchase Agreement Guarantee provided by Beazer PLC, dated as of December 28, 1988 (incorporated by reference to respective exhibits to the Koppers Inc.'s Prospectus filed February 7, 1994).   |
| 10.9*              | Employment agreement with Steven R. Lacy dated April 5, 2002 (incorporated by reference to Exhibit 10.35 of the Koppers Inc. Form 10-K filed March 5, 2003).   |
| 10.12*             | Retirement Plan of Koppers Industries, Inc. and Subsidiaries for Salaried Employees (incorporated by reference to Exhibits to the Koppers Inc. Prospectus filed February 7, 1994 pursuant to Rule 424(b) of the Securities Act of 1933, as amended, in connection with the offering of the 8 1/2% Senior Notes due 2004).  |
| 10.13*             | Koppers Industries, Inc. Non-contributory Long Term Disability Plan for Salaried Employees (incorporated by reference to respective exhibits to the Koppers Inc. Prospectus filed February 7, 1994 pursuant to Rule 424(b) of the Securities Act of 1933, as amended, in connection with the offering of the 8 1/2% Senior Notes due 2004).  |
| 10.14*             | Koppers Industries, Inc. Employee Savings Plan (incorporated by reference to respective exhibits to the Koppers Inc. Prospectus filed February 7, 1994 in connection with the offering of the 8 1/2% Senior Notes due 2004).   |
| 10.15*             | Koppers Industries, Inc. Survivor Benefit Plan (incorporated by reference to respective exhibits to the Koppers Inc. Prospectus filed February 7, 1994 pursuant to Rule 424(b) of the Securities Act of 1933, as amended, in connection with the offering of the 8 1/2% Senior Notes due 2004).  |
| 10.22*             | Employment agreement with Brian H. McCurrie dated October 13, 2003 (incorporated by reference to Exhibit 10.15 to the Koppers Inc. Form 10-K for the year ended December 31, 2003).  |
| 10.32              | Amendment and Restatement to Article VII of the Asset Purchase Agreement by and between Koppers Inc. and Beazer East, Inc., dated July 15, 2004 (incorporated by reference to Exhibit 10.33 to the Koppers Inc. Form 10-Q for the quarter ended June 30, 2004).  |
| 10.33*             | 2004 Restricted Stock Unit Plan (incorporated by reference to Exhibit 10.34 to the Koppers Inc. Form 10-Q for the quarter ended September 30, 2004).   |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

| <i>Exhibit No.</i> | <i>Exhibit</i>  |
|--------------------|---|
| 10.34              | Agreement and Plan of Merger dated as of November 18, 2004, by and among Koppers Inc., Merger Sub for KI Inc. and Koppers Holdings Inc. (f/k/a KI Holdings Inc.) (incorporated by reference to Exhibit 10.34 to the Koppers Holdings Inc. (f/k/a KI Holdings Inc.) Registration Statement on Form S-4 filed February 14, 2005).   |
| 10.36*             | Form of Change in Control Agreement entered into as of October 20, 2005 between Koppers Holdings Inc. (f/k/a KI Holdings Inc.) and certain executive officers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 25, 2005).  |
| 10.37*             | Amended and Restated 2005 Long Term Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement for its 2010 Annual Meeting of Shareholders filed on March 31, 2010).   |
| 10.42              | Asset Purchase Agreement dated April 28, 2006 between Reilly Industries, Inc. and Koppers Inc. (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on April 28, 2006).   |
| 10.44*             | Form of Amendment to Change in Control Agreement entered into as of May 25, 2006 between the Company and the named Executive (incorporated by reference to the Company's Current Report on Form 8-K filed on May 26, 2006).   |
| 10.45              | Joint Venture Contract in relation to the establishment of Tangshan Koppers Kailuan Carbon Chemical Co., LTD, among Kailuan Clean Coal Company Limited, Koppers Mauritius, and Tangshan Iron & Steel Co., Ltd. (incorporated by reference to Exhibit 10.45 to the Koppers Holdings Inc. Annual Report on Form 10-K for the year ended December 31, 2006).   |
| 10.48              | Koppers Holdings Inc. Benefit Restoration Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 9, 2007).  |
| 10.49              | Purchase Agreement dated as of August 3, 2008 by and among Koppers Inc., Carbon Investments, Inc., and ArcelorMittal S.A. (incorporated by reference to Exhibit 10.49 to the Company's Quarterly Report on Form 10-Q filed on November 6, 2008).  |
| 10.50              | Amended and Restated Credit Agreement by and among Koppers Inc., the Guarantors party thereto, the Lenders party thereto, PNC Capital Markets LLC and RBS Greenwich Capital as Co-Lead Arrangers; PNC Capital Markets LLC, Banc of America Securities LLC and RBS Greenwich Capital, as Joint Bookrunners; PNC Bank, National Association, as Administrative Agent; Bank of America, N.A., as Documentation Agent; and Citizens Bank of Pennsylvania, First Commonwealth Bank and Wells Fargo Bank, N.A., as Syndication Agents, dated as of October 31, 2008 (incorporated by reference to exhibit 10.50 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 19, 2010). |
| 10.51*             | Koppers Inc. Supplemental Executive Retirement Plan I (incorporated by reference to exhibit 10.51 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 20, 2009).   |
| 10.52*             | Koppers Inc. Supplemental Executive Retirement Plan II (incorporated by reference to exhibit 10.52 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 20, 2009).  |
| 10.53*             | Amendment to Employment Agreement with Steven R. Lacy effective as of January 1, 2009 (incorporated by reference to exhibit 10.53 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 20, 2009).   |
| 10.54*             | Amendment to Employment Agreement with Brian H. McCurrie effective as of January 1, 2009 (incorporated by reference to exhibit 10.54 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 20, 2009).  |
| 10.55*             | Amendment to Koppers Holdings Inc. Benefit Restoration Plan effective as of January 1, 2009 (incorporated by reference to exhibit 10.55 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 20, 2009).   |
| 10.56*             | Amendment to the Employee Savings Plan of Koppers Inc. and Subsidiaries effective as of January 1, 2008 (incorporated by reference to exhibit 10.56 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 20, 2009).   |

**Table of Contents**

| <i>Exhibit No.</i> | <i>Exhibit</i>  |
|--------------------|---|
| 10.57*             | Amendment to the Retirement Plan for Koppers Inc. effective January 1, 2008 (incorporated by reference to exhibit 10.57 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 20, 2009).   |
| 10.58              | Amendment No. 1 to Amended and Restated Credit Agreement by and among Koppers Inc., the Guarantors party thereto, the Lenders party thereto, PNC Capital Markets LLC and RBS Greenwich Capital, as Joint Bookrunners; PNC Bank, National Association, as Administrative Agent; Bank of America, N.A., as Documentation Agent; and Citizens Bank of Pennsylvania, First Commonwealth Bank and Wells Fargo Bank, N.A., as Syndication Agents, dated as of November 18, 2009 (incorporated by reference to exhibit 10.58 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 19, 2010). |
| 10.60*             | Senior Management Corporate Incentive Plan (incorporated by reference to Exhibit 10.60 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2010).  |
| 10.61*             | Management Incentive Plan (incorporated by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2010).   |
| 10.62* ***         | Restricted Stock Unit Issuance Agreement Time Vesting.  |
| 10.63* ***         | Restricted Stock Unit Issuance Agreement Performance Vesting.   |
| 10.64* ***         | Notice of Grant of Stock Option.  |
| 10.65*             | Amendment #2 to Employment Agreement with Brian H. McCurrie effective May 1, 2010. (incorporated by reference to Exhibit 10.65 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed on February 22, 2011).  |
| 10.66*             | Form of Koppers Holdings Inc. Restricted Stock Unit Issuance Agreement Non-Employee Director Time Vesting (incorporated by reference to Exhibit 10.66 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2011).   |
| 10.67*             | Letter Agreement dated October 4, 2006 (incorporated by reference to Exhibit 10.67 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2011).  |
| 10.68*             | Summary of Terms and Conditions of Employment (incorporated by reference to Exhibit 10.68 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2011).   |
| 10.69              | Second Amendment to the Credit Agreement, dated as of February 24, 2010 by and among Koppers Inc., Koppers Holdings Inc., the Guarantors party thereto, the Lenders party thereto, and PNC Bank, National Association, as administrative agent (incorporated by reference to exhibit 10.69 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed on February 27, 2012).  |
| 10.70              | Third Amendment to the Credit Agreement, dated as of March 22, 2011 by and among Koppers Inc., Koppers Holdings Inc., the Guarantors party thereto, the Lenders party thereto, and PNC Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 29, 2011).   |
| 10.71* ***         | Amendment No. 1 to Change in Control Agreement by and between Leroy M. Ball, Jr. and the Company, dated December 19, 2012.  |
| 10.72* ***         | Amendment No. 3 to Change in Control Agreement by and between Thomas D. Loadman and the Company, dated December 19, 2012.   |
| 10.73* ***         | Amendment No. 2 to Employment Agreement with Steven R. Lacy effective December 19, 2012.  |
| 10.74* ***         | Amendment No. 3 to Employment Agreement with Brian McCurrie effective December 19, 2012.  |
| 10.75* ***         | Employment Agreement between Koppers Inc. and Walter W. Turner effective January 1, 2013.   |
| 10.76* ***         | 2013 Restricted Stock Unit Issuance Agreement Time Vesting for Walter W. Turner.  |
| 10.77* ***         | 2013 Restricted Stock Unit Issuance Agreement Performance Vesting for Walter W. Turner.   |
| 10.78* ***         | 2013 Notice of Grant of Stock Option for Walter W. Turner.  |
| 12.1***            | Computation of ratio of earnings to fixed charges.  |
| 21***              | List of subsidiaries of the Company.  |
| 23.1***            | Consent of Independent Registered Public Accounting Firm.   |
| 31.1***            | Certification of Chief Executive Officer pursuant to Rule 13a-14(a).  |
| 31.2***            | Certification of Chief Financial Officer pursuant to Rule 13a-14(a).  |
| 32.1***            | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350.  |

**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

| <i>Exhibit No.</i> | <i>Exhibit</i>   |
|--------------------|--|
| 101.INS            | XBRL Instance Document                                 |
| 101.SCH            | XBRL Taxonomy Extension Schema Document                |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB            | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document |

\* *Management Contract or Compensatory Plan.*

\*\*\**Filed herewith.*

**Table of Contents**

KOPPERS HOLDINGS INC.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2012, 2011 and 2010

|                                  | <i>Balance at</i> | <i>Increase</i>   | <i>Net</i>               |                    | <i>Balance</i> |
|----------------------------------|-------------------|-------------------|--------------------------|--------------------|----------------|
|                                  | <i>Beginning</i>  | <i>(Decrease)</i> | <i>(Write-<br/>Offs)</i> | <i>Currency</i>    | <i>at End</i>  |
|                                  | <i>of Year</i>    | <i>to Expense</i> | <i>Recoveries</i>        | <i>Translation</i> | <i>of Year</i> |
| <i>(Dollars in millions)</i>     |                   |                   |                          |                    |                |
| <b>2012</b>                      |                   |                   |                          |                    |                |
| Allowance for doubtful accounts  | \$ 0.3            | \$ 3.2            | \$ 0.0                   | \$ 0.2             | \$ 3.7         |
| Inventory obsolescence reserves  | \$ 1.4            | \$ 0.5            | \$ (0.8)                 | \$ 0.0             | \$ 1.1         |
| Deferred tax valuation allowance | \$ 10.2           | \$ 8.8            | \$ (1.6)                 | \$ 0.0             | \$ 17.4        |
| <b>2011</b>                      |                   |                   |                          |                    |                |
| Allowance for doubtful accounts  | \$ 0.1            | \$ 0.3            | \$ (0.1)                 | \$ 0.0             | \$ 0.3         |
| Inventory obsolescence reserves  | \$ 2.1            | \$ 4.2            | \$ (4.9)                 | \$ 0.0             | \$ 1.4         |
| Deferred tax valuation allowance | \$ 11.4           | \$ (1.2)          | \$ 0.0                   | \$ 0.0             | \$ 10.2        |
| <b>2010</b>                      |                   |                   |                          |                    |                |
| Allowance for doubtful accounts  | \$ 0.5            | \$ (0.3)          | \$ 0.0                   | \$ (0.1)           | \$ 0.1         |
| Inventory obsolescence reserves  | \$ 3.9            | \$ (1.7)          | \$ 0.0                   | \$ (0.1)           | \$ 2.1         |
| Deferred tax valuation allowance | \$ 11.2           | \$ 0.2            | \$ 0.0                   | \$ 0.0             | \$ 11.4        |



**Table of Contents**

Koppers Holdings Inc. 2012 Annual Report

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Koppers Holdings Inc. has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

KOPPERS HOLDINGS INC.

BY: /s/ LEROY M. BALL

Leroy M. Ball

Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this annual report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| <i>Signature</i>                                 | <i>Capacity</i>   | <i>Date</i>       |
|--|---|-------------------|
| /s/ DAVID M. HILLENBRAND<br>David M. Hillenbrand | Director and Non-Executive Chairman of the Board  | February 25, 2013 |
| /s/ WALTER W. TURNER<br>Walter W. Turner         | Director, President and Chief Executive Officer   | February 25, 2013 |
| /s/ LEROY M. BALL<br>Leroy M. Ball               | Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer) | February 25, 2013 |
| /s/ CYNTHIA A. BALDWIN<br>Cynthia A. Baldwin     | Director  | February 25, 2013 |
| /s/ X. SHARON FENG<br>X. Sharon Feng             | Director  | February 25, 2013 |
| /s/ ALBERT J. NEUPAVER<br>Albert J. Neupaver     | Director  | February 25, 2013 |
| /s/ JAMES C. STALDER<br>James C. Stalder         | Director  | February 25, 2013 |
| /s/ STEPHEN R. TRITCH<br>Stephen R. Tritch       | Director  | February 25, 2013 |

Edgar Filing: Koppers Holdings Inc. - Form 10-K

/s/ T. MICHAEL YOUNG

Director

February 25, 2013

T. Michael Young

91