Koppers Holdings Inc.
Form 10-Q
August 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007

Commission file number 1-32737

Koppers Holdings Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**20-1878963**
(State of incorporation)	(IRS Employer Identification No.)

436 Seventh Avenue

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 227-2001

(Registrant s telephone number, including area code)

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

Common Stock, par value $0.01 per share, outstanding at July 31, 2007 amounted to 20,747,821 shares.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Koppers Holdings Inc.

Consolidated Statement of Operations

(Dollars in millions, except per share amounts)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six months Ended June 30, 2007	Six months Ended June 30, 2006
	(Unaudited)		*(Unaudited)*	
Net sales	$ 360.0	$ 297.9	$ 681.1	$ 562.5
Cost of sales (excluding items below)	285.9	251.3	553.6	473.0
Depreciation and amortization	8.2	8.2	16.5	16.0
Selling, general and administrative expenses	19.9	16.7	36.9	35.8
Total operating expenses	314.0	276.2	607.0	524.8
Operating profit	46.0	21.7	74.1	37.7
Other income		0.6	0.1	0.8
Income before interest expense, income taxes and minority interest	46.0	22.3	74.2	38.5
Interest expense	12.0	11.6	23.7	38.5
Income before income taxes and minority interest	34.0	10.7	50.5	
Income taxes	10.9	4.9	15.9	
Minority interest	0.8	0.8	1.8	1.0
Net income (loss)	$ 22.3	$ 5.0	$ 32.8	$ (1.0)
Earnings (loss) per common share:				
Basic	$ 1.08	$ 0.24	$ 1.58	$ (0.06)
Diluted	$ 1.07	$ 0.24	$ 1.57	$ (0.06)
Weighted average shares outstanding *(in thousands)*:				
Basic	20,741	20,654	20,736	17,622
Diluted	20,865	20,821	20,854	17,622
Dividends declared per common share	$ 0.17	$ 0.17	$ 0.34	$ 0.96

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

Koppers Holdings Inc.

Condensed Consolidated Balance Sheet

(Dollars in millions, except per share amounts)

	June 30, 2007 *(Unaudited)*	December 31, 2006
Assets		
Cash and cash equivalents	$ 26.2	$ 24.4
Accounts receivable, net of allowance of $0.4 and $0.3	168.6	142.1
Inventories, net	182.7	156.4
Deferred tax benefit	15.1	15.1
Other current assets	9.4	11.5
Total current assets	402.0	349.5
Equity in non-consolidated investments	2.8	2.7
Property, plant and equipment, net	156.6	159.3
Goodwill	64.0	62.6
Deferred tax benefit	45.1	45.6
Other assets	28.7	29.7
Total assets	$ 699.2	$ 649.4
Liabilities		
Accounts payable	$ 110.6	$ 100.5
Dividends payable	3.5	3.5
Accrued liabilities	69.7	63.6
Short-term debt and current portion of long-term debt	22.2	19.6
Total current liabilities	206.0	187.2
Long-term debt	454.8	456.3
Other long-term liabilities	82.7	86.1
Total liabilities	743.5	729.6
Commitments and contingencies (Note 18)		
Minority interest	14.1	12.2
Stockholders Deficit		
Senior Convertible Preferred Stock, $0.01 par value per share; 10,000,000 shares authorized; 0 shares issued		
Common Stock, $0.01 par value per share; 40,000,000 shares authorized; 20,867,979 shares issued	0.2	0.2
Additional paid-in capital	122.9	122.4
Receivable from Director for purchase of Common Stock	(0.6)	(0.6)
Retained deficit	(180.9)	(206.5)
Accumulated other comprehensive income (loss)	1.4	(6.5)
Treasury stock, at cost, 120,158 shares	(1.4)	(1.4)
Total stockholders deficit	(58.4)	(92.4)
Total liabilities and stockholders deficit	$ 699.2	$ 649.4

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

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Koppers Holdings Inc.

Condensed Consolidated Statement of Cash Flows

(Dollars in millions)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(Unaudited)	
Cash provided by (used in) operating activities	$ 28.8	$ (4.4)
Cash provided by (used in) investing activities:		
Capital expenditures	(10.9)	(9.4)
Acquisitions	(3.3)	(40.0)
Net cash proceeds from divestitures and asset sales	0.4	2.1
Net cash used in investing activities	(13.8)	(47.3)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	164.7	147.5
Repayments of revolving credit	(164.6)	(140.3)
Borrowings of long-term debt		53.1
Repayments of long-term debt	(6.4)	(111.9)
Dividends paid	(7.1)	(10.3)
Payment of deferred financing costs	(0.1)	(0.8)
Issuances of Common Stock		121.8
Common Stock issuance costs		(9.4)
Net cash provided by (used in) financing activities	(13.5)	49.7
Effect of exchange rate changes on cash	0.3	(0.2)
Net increase (decrease) in cash and cash equivalents	1.8	(2.2)
Cash and cash equivalents at beginning of year	24.4	26.1
Cash and cash equivalents at end of period	$ 26.2	$ 23.9

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

Koppers Holdings Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of Koppers Holdings Inc. s and its subsidiaries (Koppers , Koppers Holdings or the Company) financial position and interim results as of and for the periods presented have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Because the Company s business is seasonal, results for interim periods are not necessarily indicative of those that may be expected for a full year. The Condensed Consolidated Balance Sheet for December 31, 2006 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2006.

The financial information included herein should be read in conjunction with the Company s audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2006.

2. New Accounting Guidance

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159).* SFAS 159 allows companies to elect to measure many financial assets and financial liabilities at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS 159 specifies that all subsequent changes in fair value for that instrument must be reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating if it will apply the voluntary fair value option to any of its financial assets and financial liabilities.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that will result from the adoption of SFAS 157.

3. Accounting Changes

In October 2006, the FASB issued SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R).* SFAS 158 requires a company to recognize in its balance sheet an asset for a defined benefit postretirement plan s overfunded status or a liability for a plan s underfunded status. The accounting standard also requires that the postretirement projected benefit obligation measurement date be December 31 for all plans. The Company adopted the funded status recognition provisions of SFAS 158 effective December 31, 2006 and recorded a charge to accumulated other comprehensive income of $7.0 million, net of tax. The Company adopted the measurement date provisions of SFAS 158 effective January 1, 2007 for its one pension plan with a measurement date other than December 31.

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Notes to Condensed Consolidated Financial Statements (Continued)

The impact of the adoption of the measurement date provisions resulted in an increase to opening retained deficit of $0.1 million.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The Company adopted FIN 48 effective January 1, 2007 and no impact to opening retained deficit occurred as a result of adoption.

In June 2006, the FASB s Emerging Issues Task Force (the EITF) issued EITF 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43*. EITF 06-2 requires accrual of sabbatical leave or other similar compensated absences over the requisite service period of the employee. The Company adopted EITF 06-2 effective January 1, 2007 and recorded an increase to opening retained deficit of $0.1 million.

4. Initial Public Offering

The Company completed an initial public offering (IPO) in February 2006, resulting in the issuance of 8,700,000 additional common shares at a price of $14.00 per share, and the conversion of 2,288,481 shares of preferred stock into 9,107,926 shares of common stock. Of such converted shares, 2,800,000 were sold by the Company s shareholders in connection with the IPO and the related over-allotment option. The Company received approximately $111.1 million of net proceeds (after $10.7 million of expenses) from the issuance and sale of 8,700,000 shares, which proceeds were used to redeem $101.7 million principal amount of the Senior Secured Notes due 2013 (the Senior Secured Notes) and pay a related call premium of $10.1 million. The Company expensed $3.2 million of deferred financing costs related to the buyback of the notes and incurred $1.1 million of bond consent fees. The call premium, write-off of deferred financing costs, and consent fees were recorded as interest expense. The Company also incurred $3.0 million for the termination of the Saratoga Partners III, L.P. (Saratoga) advisory services contract, which was recorded in selling, general and administrative expense. A post-IPO dividend (declared in February 2006) of $8.2 million, the consent fees and the Saratoga termination fee were financed through borrowings under the revolving credit agreement.

5. Dividends

On August 8, 2007, the Company s board of directors declared a quarterly dividend of 17 cents per common share, payable on October 1, 2007 to shareholders of record as of August 20, 2007.

6. Acquisitions and Disposals

Business Divestiture

On July 5, 2007, the Company sold its 51 percent interest in Koppers Arch Investments Pty Limited and its subsidiaries (Koppers Arch) to Arch Chemicals for net cash proceeds of $14.9 million. Effective as of this date, Koppers Arch will be classified as a discontinued operation in the Company s statement of operations and earnings per share. The Company expects to recognize a gain from the sale, net of tax, of approximately $6.0 million in the third quarter of 2007. During a transition period not to exceed 12 months after the closing date, the Company will provide transition services to the buyer, including payroll and certain information technology services.

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Notes to Condensed Consolidated Financial Statements (Continued)

Prior to its disposal, Koppers Arch was part of the Carbon Materials & Chemicals segment. Total assets as of June 30, 2007 totaled approximately $32.7 million and consisted principally of accounts receivable of $10.5 million, inventory of $9.2 million and net property, plant and equipment of $5.4 million. Total liabilities as of June 30, 2007 totaled approximately $25.0 million and consisted principally of debt of $9.3 million, accounts payable of $7.7 million and minority interest of $4.3 million. The results of Koppers Arch are included in the Company s consolidated statement of operations for the three and six months ended June 30, 2007 and 2006 in the following amounts:

	Three Months Ended June 30,		Six months Ended June 30,	
	2007	2006	2007	2006
	(Dollars in millions)			
Net sales	$ 14.5	$ 12.8	$ 27.1	$ 25.2
Operating profit	0.3	0.6	1.0	1.2
Net income		0.1	0.1	$ 0.1
Impact on earnings per common share:				
Basic	$	$	$ 0.01	$ 0.01
Diluted	$	$	$ 0.01	$ 0.01

Business Combination

On April 28, 2006 the Company acquired certain assets of Reilly Industries, Inc. s (Reilly) carbon materials business for $45.1 million. The purchased assets consist primarily of inventories, customer sales contracts, raw material supply contracts, rail car leases, pitch melting assets and a non-compete agreement. Acquired intangible assets, including goodwill, totaled $32.1 million. The Company has integrated the additional tar distillation production at its existing facilities in the U.S. Net sales related to the acquired Reilly assets totaled $55.8 million from the date of acquisition to December 31, 2006.

7. Comprehensive Income

Total comprehensive income for the three and six months ended June 30, 2007 and 2006 is summarized in the table below:

	Three Months Ended June 30,		Six months Ended June 30,	
	2007	2006	2007	2006
	(Dollars in millions)			
Net income (loss)	$ 22.3	$ 5.0	$ 32.8	$ (1.0)
Other comprehensive income (loss):				
Change in currency translation adjustment	5.3	2.8	7.5	2.2
Change in unrecognized pension transition asset, net of tax			(0.1)	
Change in unrecognized pension net loss, net of tax	0.2		0.5	
Total comprehensive income	$ 27.8	$ 7.8	$ 40.7	$ 1.2

8. Earnings per Common Share

The computation of basic earnings per common share for the periods presented is based upon the weighted average number of common shares outstanding during the periods. The computation of

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Notes to Condensed Consolidated Financial Statements (Continued)

diluted earnings per common share includes the effect of nonvested nonqualified stock options, restricted stock units and performance stock units assuming such options and stock units were outstanding common shares at the beginning of the period. The effect of antidilutive securities is excluded from the computation of diluted earnings per common share. For this reason, the nonqualified stock options were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2007 (totaling 35,062 and 17,726 shares, respectively) and restricted stock units totaling 154,939 shares were not included in the computation of diluted earnings per common share for the six months ended June 30, 2006.

The following tables set forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30,			
	2007		2006	
	Basic	Diluted	Basic	Diluted
	(Dollars in millions, except share amounts, in thousands and per share amounts)			
Net income applicable to common stock	$ 22.3	$ 22.3	$ 5.0	$ 5.0
Shares of common stock outstanding:				
Weighted-average common shares outstanding	20,741	20,741	20,654	20,654
Effect of dilutive securities		124		167
Average common shares	20,741	20,865	20,654	20,821
Earnings per common share	$ 1.08	$ 1.07	$ 0.24	$ 0.24

Six Months Ended June 30,