Koppers Holdings Inc.
Form 10-Q
May 11, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2006

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

For the Transition Period From __________ to __________

Commission file number 1-32737

Koppers Holdings Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**20-1878963**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	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 ¨ Non-accelerated filer x

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 $.01 per share, outstanding at April 30, 2006 amounted to 20,656,383 shares.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Koppers Holdings Inc.

Consolidated Statement of Operations

(In millions except per share amounts)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	(Unaudited)	
Net sales	$ 264.6	$ 232.0
Operating expenses:		
Cost of sales	221.7	193.8
Depreciation and amortization	7.8	8.0
Selling, general and administrative	19.1	15.4
Total operating expenses	248.6	217.2
Operating profit	16.0	14.8
Other income	0.2	0.4
Income before interest expense, income taxes and minority interest	16.2	15.2
Interest expense	26.9	12.5
Income (loss) before income taxes and minority interest	(10.7)	2.7
Income taxes	(4.9)	1.2
Minority interest	0.2	0.9
Net income (loss)	$ (6.0)	$ 0.6
Earnings (loss) per share:		
Net income (loss):		
Basic earnings (loss) per share	$ (0.41)	$ 0.18
Diluted earnings (loss) per share	$ (0.41)	$ 0.04
Weighted average shares outstanding Basic	14.6	3.0

Weighted average shares outstanding Diluted	14.6	12.5
Dividends declared per common share	$ 0.79	$

See accompanying notes.

Koppers Holdings Inc.

Condensed Consolidated Balance Sheet

(In millions)

	March 31, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25.4	$ 26.1
Accounts receivable less allowance for doubtful accounts of $0.6 in 2006 and $0.7 in 2005	124.6	118.7
Inventories:		
Raw materials	79.6	73.7
Work in process	2.7	3.4
Finished goods	61.6	61.8
LIFO reserve	(19.5)	(18.9)
Total inventories	124.4	120.0
Deferred tax benefit	18.4	18.4
Other	7.4	7.7
Total current assets	300.2	290.9
Equity in non-consolidated investments	3.0	3.0
Fixed assets	515.3	512.1
Less: accumulated depreciation	(365.4)	(359.7)
Net fixed assets	149.9	152.4
Goodwill	35.6	35.7
Deferred tax benefit	41.2	38.7
Other assets	25.9	31.1
Total assets	$ 555.8	$ 551.8

See accompanying notes.

Koppers Holdings Inc.

Condensed Consolidated Balance Sheet

(In millions except share amounts)

	March 31, 2006	December 31, 2005
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 79.1	$ 77.5
Dividend payable	2.7	
Accrued liabilities	63.8	71.2
Revolving credit		5.7
Current portion of term loans	4.8	4.8
Total current liabilities	150.4	159.2
Long-term debt:		
Revolving credit	46.4	35.0
Term loans	20.2	14.0
Senior Secured Notes due 2013	218.3	320.0
Senior Discount Notes due 2014	143.3	139.9
Total long-term debt	428.2	508.9
Other long-term liabilities	77.2	78.4
Total liabilities	655.8	746.5
Minority interest	12.2	12.0
Stockholders equity (deficit):		
Senior Convertible Preferred Stock, $.01 par value per share; 10,000,000 shares authorized; 0 shares issued in 2006 and 2,288,481 shares issued in 2005		
Common stock, $.01 par value per share; 40,000,000 shares authorized, 20,736,522 shares issued in 2006 and 2,945,293 shares issued in 2005	0.2	
Capital in excess of par value	121.7	10.4
Receivable from Director for purchase of common stock	(0.6)	(0.6)
Retained (deficit)	(217.1)	(200.7)
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	4.7	5.3
Minimum pension liability, net of tax	(20.1)	(20.1)
Total accumulated other comprehensive loss	(15.4)	(14.8)
Treasury stock, at cost, 80,139 shares in 2006 and 22,331 shares in 2005	(1.0)	(1.0)
Total stockholders (deficit)	(112.2)	(206.7)
Total liabilities and stockholders (deficit)	$ 555.8	$ 551.8

See accompanying notes.

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Koppers Holdings Inc.

Condensed Consolidated Statement of Cash Flows

(In millions)

	Three Months Ended March 31,	
	2006	**2005**
	(Unaudited)	
Cash provided by (used in) operating activities	$ (10.4)	$ 3.8
Cash provided by (used in) investing activities:		
Capital expenditures	(4.6)	(3.7)
Other		0.2
Net cash (used in) investing activities	(4.6)	(3.5)
Cash provided by (used in) financing activities:		
Borrowings from revolving credit	54.0	65.0
Repayments of revolving credit	(48.7)	(66.2)
Borrowings from long-term debt	10.0	
Repayment of long-term debt	(105.1)	(1.2)
Dividends paid	(8.2)	
Payment of deferred financing costs	(0.4)	(0.2)
Issuance of common stock	121.8	
Stock issuance costs	(9.3)	
Net cash provided by (used in) financing activities	14.1	(2.6)
Effect of exchange rates on cash	0.2	(0.5)
Net (decrease) in cash	(0.7)	(2.8)
Cash and cash equivalents at beginning of period	26.1	41.8
Cash and cash equivalents at end of period	$ 25.4	$ 39.0

See accompanying notes.

Koppers Holdings Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Financial Statements

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. 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, 2005 has been summarized from the audited fiscal year 2005 balance sheet.

The financial information included herein should be read in conjunction with the Company s consolidated financial statements and related notes in its 2005 Annual Report on Form 10-K.

(2) Initial Public Offering and Redemption of Senior Secured Notes

The Company completed an initial public offering (IPO) on February 6, 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 in connection with the initial public offering and the related over-allotment option. The Company received approximately $111.4 million of net proceeds (after $10.4 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 Koppers Inc. Senior Secured Notes due 2013 (the Senior Secured Notes) and pay a related call premium of $10.1 million. The Company wrote off $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 of $8.2 million, the consent fees and the Saratoga termination fee were financed through borrowings under the revolving credit agreement.

(3) Dividend Payments

On February 13, 2006 the Company s board of directors declared a dividend totaling $8.2 million ($0.69 per common share and $2.75 per preferred share on a pre-conversion basis) on January 13, 2006 to holders of record as of January 26, 2006 which was paid on or about February 13, 2006. The payment of the dividend was contingent upon the consummation of the initial public offering. On February 13, 2006 the Company received a dividend payment of $7.0 million from Koppers Inc., its wholly-owned subsidiary.

On February 15, 2006 the Company s board of directors declared an initial quarterly dividend of $0.10 per common share, which was paid on or about April 17, 2006 to holders of record as of March 31, 2006. The dividend, totaling approximately $2.1 million, represented a portion of the Company s regular quarterly dividend of $0.17 per common share based on the closing of the

Koppers Holdings Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Company s initial public offering on February 6, 2006. On April 17, 2006 the Company received a dividend of approximately $2.1 million from Koppers Inc.

On May 3, 2006 the Company s board of directors declared a quarterly dividend of $0.17 per common share, totaling approximately $3.5 million, to be paid on July 5, 2006 to holders of record as of May 31, 2006. On May 3, 2006 Koppers Inc. declared a dividend payable to the Company in an amount equivalent to the total gross amount of the Koppers Holdings dividend which was declared on May 3, 2006.

(4) Plant Closures/Dispositions

On April 19, 2006 the Company announced the ceasing of operations at its wood treating facility in Superior, Wisconsin. The closure of the plant, which reported revenues of approximately $9.3 million in 2005, is expected to result in reduced costs and increased operating efficiencies for the Company since the majority of the sales and production will be absorbed by two of the Company s other existing wood treating facilities. The closure is expected to result in severance charges of approximately $0.4 million in the second quarter of 2006 related to the termination of approximately 23 employees; the Company incurred an asset impairment charge of $0.6 million related to this facility in the fourth quarter of 2005.

(5) Acquisitions

On April 28, 2006 Koppers Inc. purchased certain assets of Reilly Industries, Inc. s carbon materials business. The purchased assets consist primarily of inventories, sales and purchase contracts, and a non-compete agreement. The initial purchase price, subject to working capital adjustments, was $40 million. Koppers Inc. obtained financing for the purchase through its existing bank group by amending its Amended and Restated Credit Agreement dated August 15, 2005. The amendment provides, among other things, for a $40 million term loan to facilitate the purchase of assets from Reilly, with quarterly installments due through December 2009. The Company intends to integrate the additional tar distillation production at its existing facilities in the U.S.

In the second quarter of 2005, the Company purchased the specialty chemical business and certain related assets of Lambson Speciality Chemicals Limited (Lambson s). The purchased assets consist primarily of certain assets related to production (excluding land), customer contracts and a non-compete agreement. The purchase price was approximately $10.6 million plus contingent consideration based on earnings of the business over the next two years. The initial purchase price allocation resulted in approximately $6.3 million of property, plant and equipment and $4.9 million of amortizable intangible assets. The purchase was financed by bank loans of $6.4 million and seller financing of $4.5 million.

Operating results of the business acquired from Lambson s are included in the statement of operations from the acquisition date forward. Net sales and net (loss) for the three months ended March 31, 2006 amounted to $4.0 million and ($0.3) million respectively.

(6) Recently Issued Accounting Guidance

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154). SFAS 154 replaces APB Opinion No. 20, *Accounting*

Koppers Holdings Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Changes, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle, and requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date SFAS 154 is issued. SFAS 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of SFAS 154. The adoption of SFAS 154 did not have a material effect on the Company s financial statements.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), *Share-Based Payments* (SFAS 123R). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company was required to adopt the new standard in the fiscal year beginning after December 15, 2005. The adoption of SFAS 123R did not have a material effect on the Company s financial statements.

In December 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4* (SFAS 151). SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The Company was required to adopt the new standard in the fiscal year beginning after June 15, 2005. The adoption of SFAS 151 did not have a material effect on the Company s financial statements.

(7) Debt

	March 31, 2006	**December 31, 2005**
	(In millions)	
Revolving credit	$ 46.4	$ 40.7
Term loans	25.0	18.8
Senior Secured Notes due 2013	218.3	320.0
Senior Discount Notes due 2014	143.3	139.9
	$ 433.0	$ 519.4

Senior Discount Notes due 2014

On November 18, 2004, Koppers Holdings issued and sold $203.0 million aggregate principal amount at maturity 9 $^{7}/_{8}$% Senior Discount Notes due 2014. No cash interest is required to be paid on the Senior Discount Notes prior to November 15, 2009. The gross proceeds from the issuance of the notes was $125.5 million, and the accreted value of each Discount Note will increase from the date of issuance until November 15, 2009, at a rate of 9 $^{7}/_{8}$% per annum compounded semiannually such that on November 19, 2009 the aggregate accreted value of the notes will equal $203.0 million, the principal amount due at maturity. After November 19, 2009 cash interest on the Discount Notes will accrue and be payable semi-annually in arrears on May 15 and November 15 of each year,

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Koppers Holdings Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

commencing on May 15, 2010. The Discount Notes are effectively subordinated to the Company s existing and future secured indebtedness, and are structurally subordinated to all of the existing and future indebtedness and other liabilities and preferred equity of the Company s subsidiaries.

Senior Secured Notes due 2013

In October 2003, the Company s wholly-owned subsidiary, Koppers Inc., issued $320 million of 9 7/8% Senior Secured Notes. Interest is payable semiannually in arrears on April 15 and October 15 of each year. The Senior Secured Notes are guaranteed, jointly and severally, on a senior secured basis by some of the Company s current and future subsidiaries.

The Senior Secured Notes and subsidiary guarantees are senior obligations of Koppers Inc. and its subsidiary guarantors, respectively, and are secured by a second priority lien on and security interest in substantially all of the assets owned by Koppers Inc. and its subsidiary guarantors.

The Senior Secured Notes and related indenture include customary covenants that restrict, among other things, the ability of Koppers Inc. or any of the subsidiary guarantors to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of their assets or enter into various transactions with affiliates.

As disclosed in Note 2, the Company used proceeds from its initial public offering to redeem $101.7 million principal amount of the Senior Secured Notes in March 2006.

Senior Secured Credit Facility

Koppers Inc. is a party to an amended and restated credit agreement dated August 2005, which was amended in connection with the Company s initial public offering in February 2006. The credit agreement, as amended, provides for a revolving credit facility of up to $115 million and term loans of $20.0 million. The senior secured credit facility expires in December 2009, and the loans are secured by a first priority lien on substantially all of Koppers Inc. s assets, including the assets of certain significant subsidiaries. Revolving credit availability is calculated based on receivables and inventory as well as the attainment of certain financial ratios. The credit facilities contain certain covenants that limit capital expenditures by Koppers Inc. and restrict its ability to incur additional indebtedness, create liens on its assets, enter into leases, pay dividends and make investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. to meet certain financial ratios.

As of March 31, 2006, the Company had $59.9 million of unused revolving credit availability for working capital purposes after restrictions by various debt covenants and certain letter of credit commitments. As of March 31, 2006, $18.5 million of commitments were utilized by outstanding letters of credit ($3.9 million of which relates to Australia and does not reduce revolver availability). In addition, as of March 31, 2006, Koppers Inc. had outstanding term loans of $19.0 million under the credit facility.

As described in Note 15, the credit agreement was amended on April 28, 2006 in connection with the purchase by Koppers Inc. of certain assets of the carbon materials business of Reilly Industries, Inc. The amendment provides, among other things, for a $40 million term loan to purchase the assets

Koppers Holdings Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

from Reilly, with quarterly installments due through December 2009, and an increase in the revolving credit facility to $125 million.

Other Credit Facilities

Term loans at March 31, 2006 consisted of $5.2 million for Koppers Europe related to the Lambson s acquisition and related expenditures, and $0.8 million for Koppers Australia under a separate facility. As of March 31, 2006 Koppers Australia had revolver borrowings under a separate facility which amounted to $5.9 million.

(8) Legal Proceedings

The Company and its subsidiaries are involved in litigation and various proceedings relating to environmental laws and regulations and antitrust, toxic tort, product liability and other matters, including the following:

Government Investigations.