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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

Commission file number 1-32737

KOPPERS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

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

436 Seventh Avenue

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 227-2001

(Registrant's telephone number, including area code)

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

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

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

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

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

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

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Dollars in millions, except per share amounts)	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$ 16.4	$ 21.8
Accounts receivable, net of allowance of $7.6 and $6.5	174.7	155.0
Income tax receivable	5.4	4.6
Inventories, net	223.3	226.4
Loan to related party	9.5	9.5
Other current assets	32.0	27.0
Total current assets	461.3	444.3
Property, plant and equipment, net	279.2	277.8
Goodwill	187.5	186.6
Intangible assets, net	149.9	156.1
Deferred tax assets	33.4	36.6
Other assets	9.5	11.5
Total assets	$ 1,120.8	$ 1,112.9
Liabilities		
Accounts payable	$ 146.0	$ 140.8
Accrued liabilities	102.2	99.8
Current maturities of long-term debt	40.1	39.9
Total current liabilities	288.3	280.5
Long-term debt	670.6	682.4
Accrued postretirement benefits	52.0	53.6
Deferred tax liabilities	6.0	5.7
Other long-term liabilities	95.9	103.1
Total liabilities	1,112.8	1,125.3
Commitments and contingent liabilities (Note 18)		
Equity		
Senior Convertible Preferred Stock, $0.01 par value per share; 10,000,000 shares authorized; no shares issued	0.0	0.0
Common Stock, $0.01 par value per share; 80,000,000 shares authorized; 22,127,559 and 22,015,994 shares issued	0.2	0.2
Additional paid-in capital	171.2	167.8
Accumulated deficit	(43.2)	(54.0)
Accumulated other comprehensive loss	(71.8)	(79.8)
Treasury stock, at cost, 1,475,170 and 1,459,164 shares	(53.0)	(52.7)
Total Koppers shareholders’ equity (deficit)	3.4	(18.5)
Noncontrolling interests	4.6	6.1
Total equity (deficit)	8.0	(12.4)

Total liabilities and equity (deficit)	$ 1,120.8	$ 1,112.9

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

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

KOPPERS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of Koppers Holdings Inc.'s and its subsidiaries' ("Koppers", "Koppers Holdings" or the "Company") financial position and interim results as of and for the periods presented have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Because the Company's business is seasonal, results for interim periods are not necessarily indicative of those that may be expected for a full year. The Condensed Consolidated Balance Sheet for December 31, 2015 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2015. Certain prior period amounts in the notes to the consolidated financial statements have been reclassified to conform to the current period's presentation.

The financial information included herein should be read in conjunction with the Company's audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2015.

2. New Accounting Pronouncements

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

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

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

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

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

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

3. Plant Closures and Divestitures

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

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

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

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

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

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

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

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

4. Related Party Transactions

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

5. Fair Value Measurements

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

	June 30, 2016	December 31, 2015

(Dollars in millions)	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets:				
Cash and cash equivalents, including restricted cash	$16.4	$ 16.4	$21.8	$ 21.8
Investments and other assets[a]	1.1	1.1	1.1	1.1
Financial liabilities:				
Long-term debt (including current portion)	$721.9	$ 710.7	$724.6	$ 722.3

(a) Excludes equity method investments.

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

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

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

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

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

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

Amounts reclassified from accumulated other comprehensive loss to net income consist of amounts shown for changes in unrecognized pension net loss and unrecognized prior service cost. These components of accumulated other comprehensive income are included in the computation of net periodic pension cost as disclosed in Note 13 – Pensions and Postretirement Benefit Plans. Other amounts reclassified from accumulated other comprehensive income include losses related to derivative financial instruments, net of tax, of $1.7 million and $3.2 million for the three and six months ended June 30, 2016, respectively and $0.9 million and $1.9 million for the three and six months ended June 30, 2015, respectively.

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

(Dollars in millions)	Total Koppers	Noncontrolling	Total Equity

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

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

7. Earnings per Common Share

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

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

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

8. Stock-based Compensation

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

Restricted Stock Units and Performance Stock Units

Under the LTIP, the board of directors granted restricted stock units and performance stock units to certain employee participants (collectively, the “stock units”). For grants to employees prior to 2015, restricted stock units vest on the third anniversary of the grant date, assuming continued employment by the participant. For the March 2015 and 2016 grants to employees, the restricted stock units vest in four equal annual installments. Restricted stock units that have one-year vesting periods are also issued under the LTIP to members of the board of directors in connection with annual director compensation and, from time to time, are issued to members of management in connection with employee compensation.

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

Performance stock units granted prior to 2016 vest based upon a performance condition. These performance stock units generally have three-year performance objectives and all performance stock units have a three-year period for vesting (if the applicable performance objective is achieved). For awards granted prior to 2016, the applicable performance objective is based upon a multi-year cumulative value creation calculation that considers the Company's financial performance commencing on the first day of each grant year. The number of performance stock units granted represents the target award and participants have the ability to earn between zero and 150 percent or 200 percent (depending on the grant date) of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest.

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

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

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

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

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

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

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

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

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

Stock Options

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

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

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

The dividend yield is based on the Company’s current and prospective dividend rate which calculates a continuous dividend yield based upon the market price of the underlying common stock. The Company suspended its dividend in February 2015 and does not expect to declare any dividends for the foreseeable future. The expected life in years for the

March 2016 and 2015 grants is based on historical exercise data of options previously granted by the Company. The expected life in years for grants prior to 2015 are based on the simplified method permitted under Securities and Exchange Commission Staff Accounting Bulletin No. 14d.2 which calculates the average of the weighted vesting term and the contractual term of the option. This method was selected due to the lack of historical exercise data with respect to the Company at the time of those grants. Expected volatility is based on the historical volatility of the Company's common stock and the historical volatility of certain other similar public companies. The risk-free interest rate is based on U.S. Treasury bill rates for the expected life of the option.

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

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

Stock Compensation Expense

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

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

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

9. Segment Information

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

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

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

The Company's Performance Chemicals segment develops, manufactures, and markets wood preservation chemicals and wood treatment technologies and services a diverse range of end-markets including infrastructure, residential and commercial construction, and agriculture.

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

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

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